

CASH FLOW STATEMENT ON RUSSIAN AND INTERNATIONAL STANDARDS: WHAT'S THE DIFFERENCE?

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Summary: 1.Introduction; 2.Requirements to report cash flow on Russian and international standards; 3.The indirect method of generating reports on cash flow; 4.Conclusion.

Abstract

Reforming of the Russian accounting system according to the international standards has advanced necessity of transformation of the accounting (financial) reporting of domestic companies. However, lack of uniform methods of transformation and the proper software does not allow preparing the clear and transparent information, which is the cause of ambiguities outwardly of like financial performance with the same name. As a result the transformed reporting practically is not comparable to the original source, its users are deprived possibility of the analysis of the received divergences. Accounting documentation becomes an information component, thus not implemented the basic functions of accounting. in this regard is understanding the economic content of reporting data, generated in accordance with various rules of accounting. In this paper, this issue is addressed by the example of the statement of cash flows.

1. Introduction

Reforming Russia's system of accounting in accordance with international standards identified the need to transform the accounting (financial) statements of our domestic companies. However, due to lack of uni-

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form methods of transformation and the proper software it is not possible to present clear and transparent data, which is the cause of ambiguities in financial indicators externally of the same name. As a result, transformed reporting virtually is in no way comparable to the original source, its users are prevented from analysis of the discrepancies. Accounting documentation loses its information component, thus not implementing the basic functions of accounting. Important in this regard is understanding the economic content of reporting data, generated in accordance with various rules of accounting. In this paper, this issue is addressed by the example of the cash flow statement - the main form of financial (accounting) statements, providing interested users with the information about the company's ability to create cash and cash equivalents, its needs in the consumption of cash flows, its solvency and liquidity and investment attractiveness. Performance report on the cash flow is widely used for planning mergers and acquisitions, for a decision on debt financing in the form of loans, as well as the analysis of other investment and capital transactions. In addition, a report on the cash flow is the only form of financial (accounting) reports, compiled by a cash basis, so its content is less susceptible to the professional judgment of persons responsible for its preparation.

2. Requirements to report cash flow on Russian and international standards

To date, the main international standards governing the content, method of preparation of the statement of cash flows, the order of presentation of indicators of the reporting form is the International Accounting Standard 7 «Statement of Cash Flows».

In the Russian Federation the mentioned issues are regulated by:

- Provision of accounting 4/99 "Accounting organizations", approved by Order of the RF Ministry of Finance from 06.07.99 № 43n;
- Order of the Ministry of Finance of Russia № 67n of 22.07.2003 "On the forms of accounting".

According to International Accounting Standards, cash comprises, cash on hand and demand deposits, cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

In accordance with Russian law, assets such as cash equivalents are included in short-term investments.

To cash in our country belong the value on hand, on the settlement, foreign exchange and special accounts.

At cash flow statement all monetary flows are divided into three groups:

- cash flows from operating activities;
- cash flows from investing activities;
- cash flows from financing activities.

Thus, the statement of cash flows consists of three sections.

Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Cash flows from operating activities are result from the transactions and other events that enter into the determination of profit or loss. Examples of cash flows from operating activities are:

- cash receipts from the sale of goods and the rendering of services;
- cash payments to suppliers for goods and services;
- cash payments to and on behalf of employees;
- cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
- cash payments or refunds of income taxes unless they can be specifically identified with financing and investing activities and others.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Examples of investing activities are:

- acquirement and sales of property, plant and equipment, intangibles and other long-term assets;
- acquirement and sales of equity or debt instruments of other entities;

- making loans to other parties.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Examples of cash flows arising from financing activities are:

- » cash proceeds from issuing shares or other equity instruments;
- cash payments to owners of shares;
- cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
- cash repayments of amounts borrowed;
- cash payments relating to a finance lease and others.

It should be noted that international standards do not provide a rigid classification of certain cash flows, organizations have the right to make independent decisions about their belonging to a particular type of activity depending on the operating features of the company. List of cash flows having alternatives of the cash flow statement is presented in the Table 1.

Cash flow	Standard statement	Alternative statement
Outflow		
Interest paid	Financial	Operational
Dividends paid	Financial	Operational
Inflow		
Dividends received	Investment	Operational
Interest received	Investment	Operational

TABLE 1. Cash flows with alternative statement options

According to the Russian normative documents, the aforesaid international concepts of operating, investing and financing activities are almost entirely consistent with the concepts of current, investing and financing activities (Table 2).

Cash Flow Statement on Russian and International Standards: What's the Difference?

Serial no.	International accounting and reporting system		The Russian accounting and reporting system	
	Type of cash flow	Source	Type of cash flow	Source
1	2	3	4	5
1	<i>Operating activities</i> are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities	[IAS 7, p.6]	<i>Current activities</i> - the organization's activity that seeks to profit as the main purpose or not having profit as a goal in accordance with the object and purpose of the activity, i.e. industrial production, agricultural products, construction works, the sale of goods, provision of catering services, procurement of agricultural products, the lease of property, etc	[Ministry of Finance Order № 67n, p. 15]
2	<i>Investing activities</i> are the acquisition and disposal of long-term assets and other investments not included in cash equivalents	[IAS 7, p.6]	<i>Investment activity</i> - the organization's activities related to the acquisition of land, buildings and other real estate, equipment, intangible assets and other non-current assets, as well as their sale; the implementation of its own construction, the cost of research, experimental design and technological developments; with implementation of financial investments (purchase of securities of other organizations, including debt, contributions to authorized (reserve) capital of other organizations, providing loans to other organizations, etc.).	[Ministry of Finance Order № 67n, P-15]

Source

[Ministry of Finance Order № 67n, p. 15]

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity

[IAS 7, p.6]

Financial activities - the organization's activity, which results in changing the quantity and composition of shareholders' equity of the organization, loans (proceeds from issuance of shares, bonds, other organizations providing loans, the repayment of borrowed funds, etc.).

[Ministry of Finance Order № 67n, p. 15]

TABLE 2. The classification of cash flows in accordance with international and Russian standards

With regard to the possibility of using alternatives to the indicators of the cash statement national legislation does not contain specific provisions, but Provision of accounting 4/99 "Accounting Organizations" says about tentative nature of the proposed financial reporting forms, which suggests the similarity of Russian and international standards on the issue. However, the practice of accounting in our country shows that Russian companies rarely use the possibility of modifying the standard forms of financial (accounting) reports, faced with a lack of understanding and various kinds of obstacles by controlling government.

In forming the first section of cash flows statement (flows from operating activities), international standards offer companies a choice of two methods:

- *Direct method* - more informative method for revealing the main types of receipts and disbursements of funds through various activities and organizations under cash flow. As sources of information necessary for the formation of the statement of cash flows this method uses accounting registers data.
- *Indirect method* - method based on the data statement of financial position (balance sheet), statement of comprehensive income and accounting registers, providing an adjustment of profit (loss) before tax for the reporting period for revenues and expenditures from:
 - non-monetary transactions;
 - operations on investment and financing activities;

[Ministry of Finance Order № 67n, p. 15]

- operations, as reflected in the current period on the principle of "charging" and not leading in this period to the movement of funds.

Note that the indirect method of forming the statement of cash flows can only be used when providing information that characterizes the cash flows from operating activities, information on investing and financing activities are subject to disclosure only by the direct method.

Provision of accounting 4 / 99 "Accounting Organizations" does not provide alternatives for creating a report on cash flows. The basis of the report under consideration in the Russian Federation constitutes the direct method stipulated by international standards.

The list of indicators of the cash flow statement drawn in accordance with the direct method of international and Russian standards, is presented in the Table 3.

Performance report on the cash flow	
International accounting and reporting system	The Russian accounting and reporting system
1	2
<i>Cash and cash equivalents at the beginning of the period</i>	<i>Cash at the beginning of the year</i>
<i>Section 1. Cash flows from operating activities</i>	<i>Section 1. Cash flows from operating activities</i>
Cash received from the sale of goods	Cash received from buyers and costumers
Other cash revenues	Other revenue
Cash paid to suppliers	Funds to pay for purchased goods, works and services, raw materials and other current assets
Cash paid to employees	Funds directed to employee's payment
Cash interest and dividends paid	Cash to pay dividends, interest
Cash paid taxes	The funds to the calculation of taxes and duties
Other cash expenses	The funds to other expenses

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Net cash inflow (outflow) from operating activities	Net cash from operating activities
Section 2. Cash flows from investing activities	Section 2. Cash flows from investing activities
Cash income from fixed assets & intangibles sale	Proceeds from sale of fixed assets and other non-current assets
Net change in long-term loan receivables available for sale	Proceeds from the sale of securities and other financial investments
Received dividends	Acquisition of securities and other financial investments
Received interest	Received dividends
Net change in loan receivables	Received interest
	Proceeds from repayment of loans to other organizations
	Loans to other entities
Cash paid for capital expenditure	Acquisition of fixed assets, profitable investments in tangible and intangible assets
Acquisition of subsidiaries	Acquisition of subsidiaries
Net inflows (outflow) from investing activities	Net cash from investing activities
Section 3. Cash flows from financing activities	Section 3. Cash flows from financing activities
Proceeds from issuance of share capital	Proceeds from issue of shares or other equity securities
Proceeds from borrowings	Proceeds from loans and loans to other organizations
Payment of loan	Repayment of loans and credits (without interest)
Payment of finance lease liabilities	Repayment of finance lease liabilities
Net cash inflow (outflow) from financing activities	Net cash from financing activities
Net cash inflow (outflow) of cash and cash equivalents	Net increase (decrease) in cash and cash equivalents

<i>Cash and cash equivalents at the end of the period</i>	<i>Cash at the end of the period</i>
	The magnitude of the impact of changes in foreign exchange rates against the ruble

TABLE 3. The list of indicators of the cash flow statement drawn in accordance with the direct method of international and Russian standards

As can be seen from the content table 3, record cash flow, based on Russian standards, is a more detailed one. There are types of indicators, such as "Proceeds from the sale of securities and other financial investments" and "Purchase of securities and other financial investments", "Proceeds from repayment of loans to other organizations" and "Loans to other entities" allocated to individual articles. According to international standards of accounting and reporting these articles are united and recorded into the enlarged lines "Changing the long-term investments available for sale" and "Net decrease / increase in loans granted", respectively. In addition, in the Russian report appears the line of "The magnitude of the impact of changes in foreign exchange rates against the ruble", which reflects the amount of exchange differences arising during the reporting period. This string is not regulated in IAS 7, but we should not forget that international standards provide an illustrative list of indicators of financial (accounting) reports, and the company has the right to modify it depending on the requests of internal and external users. The list of indicators of financial statements applied by the organization should be recorded in the accounting policy. Above all, we must not forget that the cash flows arising from transactions in foreign currency, according to international standards should be reflected in the "national currency" of the company by converting amounts in foreign currency at the applicable rate on the date of the cash flows. According to IAS 21 "The Effects of Changes in Foreign Exchange Rates" the kind of "national currency" the company chooses on its own. In the interest of business it may be the currency of the country in which the company is registered, or the currency, applied by the parent company. This choice can be made and based on any other economic considerations. According to the requirements of Russian legislation all financial (accounting) statements prepared in Rus-

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sian rabies, transactions in foreign currencies are translated at the rate of the Central Bank at the date of the financial statements. Otherwise, we can conclude on the similarity of list of indicators of the international report on the cash flow statement, drawn up by the direct method, with the Russian report.

3. The indirect method of generating reports on cash flow

The main difference between Russian and international version of cash flow statement is the possibility to form it by the indirect method. The essence of the indirect method of forming the statement of cash funds is to adjust earnings (loss) of the company before taxation during the reporting period for revenues and expenses not related to the movement of cash or non-operating activities. Accordingly, the sequence of formation of the cash flow statement by this method reduces to the following actions:

Step 1. Income (loss) before taxation is transferred from the statement of comprehensive income;

Step 2. Adjustments of three types are implemented to:

- non-monetary income and expenditure, for example, in the amount of depreciation accrued over the period, the amount of reserves established in the current period due to income, the value of donated property received in the amount of costs associated with depreciation of long-term and current assets on the magnitude of exchange rate changes, etc.;
- the financial results from investing and financing activities, such as income (loss) from sale of fixed assets and other non-current assets, investment income, income from changes in fair value of financial instruments for interest expense, etc.;
- the value of working capital changes, including changes in the amount of payables and receivables arising as a result of operating activities, as well as the amount of change in the balance of inventory at the end of the reporting period, compared with an initial balance

Step 3. Alternative outflows (inflows) of cash and income tax paid are reflected by the direct method

Step 4. Calculate the net inflow (outflow) from operating activities.

In the implementation of adjustments in the use of indirect method of forming the statement of cash flows should be guided by the following rules (see the Table 4).

Type of adjustment	Impact on cash flows
Revenue not connected with the movement of funds	Deducted
Non-cash flow	Added
Revenue related to investing and financing activities	Deducted
Costs related to investing and financing activities	Added
Increase in receivables generated from operating activities during the reporting period	Deducted
Decrease of receivables generated from operating activities during the reporting period	Added
Increase in the balance of stocks at the end of the reporting period, compared with the beginning of the period	Deducted
Reducing inventory balance at the end of the reporting period, compared with the beginning of the period	Added

TABLE 4. Procedure for adjustments when creating a report of cash flows in the indirect method

The list of indicators of the statement of cash assets, in the indirect method, is presented in the Table 5.

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Narrative	value
<i>Cash and cash equivalents at beginning of the period</i>	<i>X</i>
<i>Section 1. Cash flows from operating activities</i>	
Net profit (loss) before taxation	X
Adjustments for non-cash income (expenses):	
- Depreciation	X
- The amount of reserves established by the profit during the reporting period	X
- Income in the form of the value of property without compensation received	(X)
- Other	X / (X)
Adjustments to income (loss) from investing and financing activities:	
- Gain on sale of fixed assets and other noncurrent assets	(X)
- Loss on sale of fixed assets and other noncurrent assets	X
- Foreign exchange loss	X
- Investment income	(X)
- Interest expense	X
- Other	X / (X)
Adjustments to the value of working capital changes	
- Increase in receivables generated from operating activities	(X)
- Decrease of receivables generated from operating activities	X
- Increase in inventories	(X)
- Decrease in inventories	X
- Increase in accounts payable resulting from operating activities	X
- Decrease in accounts payable resulting from operating activities	(X)
Income taxes paid	(X)
Income taxes paid	(X)
Cash inflows reflected in an alternative way	X
Cash outflows reflected in an alternative way	(X)
<i>Cash flows from investing activities</i>	<i>X/(X)</i>
<i>Section 2. Cash flows from investing activities</i>	
Cash income from fixed assets & intangibles sale	X

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Net change in long-term loan receivables available for sale	X/(X)
Received dividends	X
Received interest	X
Net change in loan receivables	X/(X)
Cash paid for capital expenditure	(X)
Acquisition of subsidiaries	(X)
<i>Net cash inflow (outflow) fi-om investing activities</i>	<i>X/(X)</i>
<i>Section 3. Cash flows from financing activities</i>	
Proceeds from issuance of share capital	X
Proceeds from borrowings	X
Payment of loans	(X)
Payment of finance lease liabilities	(X)
<i>Net cash inflow (outflow) from financing activities</i>	<i>X/(X)</i>
<i>Net cash inflow (outflow) of cash and cash equivalents</i>	<i>X/(X)</i>
<i>Cash and cash equivalents at end of period)</i>	<i>X</i>

TABLE 5. The composition of indicators of the cash flows statement (indirect method)

Choosing a method of forming the cash flow statement depends on the willingness of economic entities management. Each of the proposed international standards of accounting and financial reporting methods has its advantages and disadvantages. Thus, the main advantage of the indirect method is its simplicity. Due to the fact that most organizations perform each day a huge number of transactions, timely analysis and classification of cash inflows and outflows are often difficult. Not solved in practice is a similar problem in the formation of the consolidated statement of cash flows. It is much easier, using information readily available, as reflected in the statements of financial position and comprehensive income, to make the necessary adjustments. The main disadvantages of the indirect method of forming the statement of cash flows include:

- the lack of information on the magnitude of the absolute values of

cash inflows and outflows, which does not provide internal and external users of financial statements to see the true picture of cash flow, and does not allow forecasting cash inflows and outflows;

- impossibility of preparation of the report during an accounting period (for example, month) as the indirect method is based on adjustment of profit of the company for the period which value isn't known before its termination;
- difficulty in understanding the report for the users who do not possess professional knowledge in the field of finance;
- lack of comparability of the report with the data, prepared in accordance with the requirements of Russian legislation.

Thus, the main difference in the reports of cash flow composed by direct and indirect methods it is their informative value for the end users.

4. Conclusion

In conclusion, we want to summarize the main differences in the records of cash flow, composed of Russian and international standards:

- a. According to IAS 7 «Statement of Cash Flows» cash comprises of organizations include demand accounts. Russian standards as an alternative method of accounting allow to account demand deposits as a short-term investments.
- b. In the statement of cash flows, prepared by international standards, along with the cash flows reflect flows cash equivalents. The Russian legislation does not exist a similar concept, assets such as cash equivalents are included in short-term investments.
- c. According to international standards the first report on the cash flow statement can be made one of two methods: direct or indirect. Provision of accounting 4/99 'Accounting organizations" does not provide alternative methods of preparing the statement of cash flows. Statement of cash flows in the Russian Federation prepared by the direct method provided for by international standards.
- d. Cash flows arising from transactions in foreign currency, according to international standards, should be reflected in the «national currency» of the company. As the " national currency" the company

- selects the currency of the country in which the company is registered or currency which applies the parent company. According to the requirements of Russian legislation, the financial statements of the company is prepared in the currency of the Russian Federation,
- e. By international standards cash flow from operations in foreign currencies are translated at the prevailing rate on the date of the cash flows. Under Russian accounting rules cash flows in foreign currency should be translated at the rate of the Central Bank on the date of the financial statements.

Otherwise, the content and purpose of performance of the statement of cash flows, the method of its formation, according to Russian and international standards, are the same.

REFERENCE

Accounting Regulations 4/99 "Accounting organization". Approved by Order of the RF Ministry of Finance from 06.07.99 № 43n;
Accounting Regulations 19/02 "Accounting of investments". Approved by Order of the RF Ministry of Finance from 10.12.02 r. N 126n;
Ministry of Finance Order № 67n of 07.22.2003 "On the forms of accounting";
IAS 7 «Statement of Cash Flows»;
IAS 21 «The Effects of Changes in Foreign Exchange Rates».