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Methodology of Reflection of Cash Flows of Capital Investments in Financial Statements According to International Standards

Metodologi Pencermian Arus Kas Investasi Modal dalam Laporan Keuangan Menurut Standar Internasional

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Abstract

In the article, the information covered in the cash flow statement, the actual state of the reflection of items related to capital investments in the form of this report was studied, and recommendations were developed for the reflection of information on capital investments in the statement of cash flows. Also, international experiences reveal the issues of covering long-term assets such as investment property and biological assets in the cash flow statement

Highlights:

- A**nalyzed cash flow statements and capital investment reflections.
- D**eveloped recommendations for reporting capital investments.
- E**xamined international practices on long-term asset reporting.

Keywords: statement of cash flows, capital investments, capital investment accounting, investment property, biological assets, accounting, international standards of financial reporting

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Introduction

In Uzbekistan, the 23rd edition of "Formation of financial statements in reorganization", revised on August 1, 2024, contains data on the reorganization of enterprises in the framework of National Accounting Standards, indicators of financial reporting in reorganization, recommendations on the reflection of results related to the valuation of assets and liabilities of the company. The enterprise, according to this instruction, provides the final financial report, in the volume of forms of annual financial statements, which was previously adopted by the organization, it is prepared for the period from the beginning of the reporting period to the beginning of the reporting period. This shows that, regardless of the form of enterprises, in the forms of financial reporting provided by these economic entities, it is necessary to disclose such elements of accounting as assets, liabilities, sources of own funds of the enterprise, and these tasks are important in the context of the formation of digital and green economy .

In financial, tax and statistical reporting provided by enterprises in the conditions of digital and green economy in the Republic of Uzbekistan, there is no established methodology for reflection of capital investments in accordance with their goals and objectives when implemented at enterprises. In particular, reflection of capital investments made by enterprises in reporting forms is presented taking into account only their qualitative nature. This is the reason for reducing the level of complexity of information displayed today in our country in the forms of regulated reporting. Such shortcomings, which are present in the accounting and financial reporting of enterprises, make the task of improving the forms of financial reporting on capital investments relevant, taking into account the peculiarities of economic processes in the conditions of modern digital and green economy. Therefore, in the course of our research work, we found it necessary to develop scientific and practical recommendations on the forms of financial reporting covering information on capital investments.

According to the data provided by the Committee on Statistics of the Republic of Uzbekistan, the volume of total investments in fixed capital in 2023 in our country increased by 122.1 per cent compared to 2022 and amounted to 352,064.1 billion soms. At that, the share of foreign investments and credits amounted to about half, i.e. 47.4 per cent, and the share of enterprises' investments at the expense of their funds amounted to 24.1 per cent . From these figures, we can conclude that the volume of capital investments in our country is growing increasingly. Such investments are important in the activities of economic entities, and their accounting also has its peculiarities. This is one of the important tasks facing accounting and reporting in the digital economy. Even today, such current tasks as disclosure of information on capital investments made by each economic entity operating in various industries to internal and external users of information, and timely provision of real indicators about them, require in-depth research work on the reflection of capital investments in the statement of funds flow provided by enterprises.

Literature Review.

In the course of our research, we studied the definitions and descriptions developed by academic economists for the statement of cash flows.

In the course of research, the scientists of our country studied the definitions and descriptions of capital investments. K. of the scientists of our country. B. Urazov and M. E. Pulatovov gave the following definition: "Capital investment is a complex of funds spent on the construction of new facilities, expansion, reconstruction and modernization of old ones, as well as the acquisition of new fixed assets" . This definition is similar to the one given to capital investments in the law "On Investments and Investment Activity".

O. I. Ochilov noted that "capital investments are targeted investments aimed at increasing the quantity and quality of private assets that will bring economic and social benefits in the future" . From this definition, which is presented in a brief form, it can be understood that the main goal from the introduction of capital investments by enterprises is focused on profit indicators.

Y. S. Akhmedova believes that "sustainable and effective development of the national economy, achievement of higher labor productivity in production than growth rates, active movement of the real sector will have to be provided first of all by sufficient amount of capital investments that need them. The search for new approaches and methods of increasing investments that ensure the economic development of the Republic in the conditions of modern digital and innovative economy is one of the most urgent problems" . This description reveals the importance of capital investment in today's economy, proving that it is important to conduct scientific research in this direction.

Now let us study the given definitions of capital investment in different sources of information:

"Capital Investment (Capital Investment) is funds invested in a company to achieve its business objectives. Also, individuals or companies can earn income or return the invested capital from the income earned by the company over the years" .

"Capital investments-considered investments lasting a year or more, play a key role in establishing the profitability of the company and value for its shareholders" .

“Capital investments are the amount of money used to achieve business goals or to purchase long-term assets for a business” .

“Capital investments-the amount invested in production, which is spent on the creation of basic funds related to production and non-production, updating them and increasing funds in action, building facilities” .

“Capital investments refers to the process of putting money into a business to make a profit in the future. This is a long-term investment, which is carried out with the expectation of earning for a certain period. This long-term investment can take various forms, such as buying assets, upgrading technologies, expanding production, or building new infrastructure”

“Capital investments refers to the funds invested in a company to realize its business goals. These investments are usually made in the form of financial assets, but they can also involve spending time and effort to develop a company or project” .

B. from scientists of our country. F.Boronov's research work on the improvement of accounting of oil and oil refining enterprises, scientific and practical recommendations on reflection of information on finished products in the cash flow statement was developed based on practical examples of oil and oil refining enterprises. Also in the research work of the scientists were recommended annexes to the form of cash flow statements in business entities engaged in oil and petroleum products production activities .

In research work conducted by Nurmanov on the analysis of current assets, “separates the cash flows of an economic entity from the following elements: current (ordinary) activities, investments and financial operations. However, it is not always clear which costs and receipts are classified as operating, investment or financial. It depends on the purpose of buying or selling an asset, depending on the nature of the activity ,” he is quoted as saying.

Joining the scholar's opinion in this regard, we can further say that today in the statement of cash flows, the result expected from the construction of these facilities is considered important in reporting the cash flows associated with capital investments in construction works performed by the enterprise with its own forces. Because such processes are considered as operating activities in an enterprise when capital investment in real estate properties is made for the purpose of long-term storage of the properties and their resale as a result of increasing value.

Another scientist-economist A.B.Akramov, on the other hand, states that in his research work on improving the cash flow statement on the basis of international financial reporting standards “it is advisable to cancel the section of the cash flow statement, which is used in Uzbek practice, and divide it between management, investment and financial activities in accordance with international principles”. In our opinion, we believe that the abolition of the section “taxation ”, which expands the information coverage of the statement of cash flows, reduces the needs of external and internal users of information and the transparency of this report.

SH. Rakhmonov also conducted research work on improving cash accounting at enterprises. The scientist has developed scientific and practical recommendations for the preparation and presentation of the cash flow statement by direct and indirect methods “forecasting of cash flow indicators in operating, investment and financial activities up to 2026 under the influence of factors such as inventory, accounts receivable and accounts payable to business entities in construction ” and was introduced into practice by enterprises.

N.N.In his research paper Mavlonov gives the following description: “when assessing the creditworthiness of business entities, cash flow analysis is important, and cash flows indicate the real capabilities of the business entity ”.

In addition, D.M.In Matkarimov's research paper, “the current form of the statement of cash flows has separate columns to reflect the entry and withdrawal of funds. Based on the International Financial Reporting Standards, inputs and withdrawals on the proposed form are taxed as rows rather than in separate columns ”. We believe that while these academic recommendations serve to systematize the cash flow reporting form, they somewhat complicate the structure of the cash flow reporting form.

In international accounting doctrine, the financial reporting form called “cash flow statement” is recognized in the national accounting doctrine, the Accounting Act as “cash flow statement” and the National Accounting Standard as “cash flow statement”. This type of statement is designed to reflect the receipt and expenditure of cash from transactions carried out in enterprises during the reporting period, disclosing to users of accounting information the financial position of the enterprise during the reporting period, as well as important information on their valuation.

This type of statement, which is considered the 4th form of financial statement No. 7 (IAS) “statement of cash flows”, is described in International Accounting Standards as “cash flows - inflow and outflow of cash and cash equivalents ”, from this definition it can be known that this statement is a type of financial statement designed to highlight cash flow information.

The statement of cash flows is designed to highlight information about cash inflows and outflows in the following areas:

- a. operating activities;
- b. investing activities;
- c. financing activities;
- d. taxation;
- e. foreign currency cash flow information.

In order to know exactly the different aspects of these activities, let us look at the definitions provided in the international standards:

“Operating activities are the principal revenue-generating activities of the organization and other activities in addition to investing and financing activities. Investing activities are purchases and write-downs of long-lived assets and other investments that are not part of cash equivalents. Financing activities - activities that result in changes in the amount and mix of capital and borrowing inputs to the organization”. The results of these activities should be considered significant indicators at entities and reported in the statement of cash flows at entities

Methods

The research work on the methodology of reflection of cash flows from capital investments in financial statements based on international standards used such research methods as scientific abstraction, economic analysis, monographic observation, comparison, induction and deduction

Result and Discussion

In the context of the digital and green economy, one of the current challenges is the disclosure of capital expenditures in the financial statement, cash flow statement, which is considered the fourth form of private financial statement. Such capital investment information can be categorized into two groups.

Cash received when making capital investments in enterprises:

1. Cash received on bank loans, which are considered external sources of financing when making capital investments;
2. Cash received on long-term debts, which are considered external sources of financing when making capital investments;
3. Cash received on short-term debts, which are considered as external sources of financing when making capital investments;
4. Funds received under grants, which are considered as sources of internal financing when making capital investments;
5. Cash received under subsidies, which are considered to be sources of internal financing when making capital investments;
6. Cash received under other earmarked receipts, which are considered as sources of internal financing for capital investments;
7. Funds on debts received from legal entities and individuals for capital investments;
8. Funds from donations from legal entities and individuals for capital investments;
9. Funds from founding contributions of legal entities and individuals for capital investments;
10. Other national and foreign funds received by the enterprise for capital investments.

Cash spent on capital investments in enterprises:

- * Cash spent on the acquisition and construction of digital production facilities;

- a. Cash spent on acquisition and construction of environmentally friendly facilities;
- b. Cash expenditures for expansion and reconstruction of existing enterprise facilities;
- c. Cash expenditures for the purchase of digital innovation technologies;
- d. Cash expenditures for the purchase of environmentally friendly technologies;
- e. Expenditure on licensing of innovative activities;
- f. Cash expenditure on acquisition of biological assets;
- g. Cash expenditure on acquisition of investment property;
- h. Expenditure of funds for landscaping of land plots;
- i. Expenditure of other funds for capital investments

In the context of the digital and green economy, reflecting such information in reporting forms is one of the important challenges facing today's accountants. Therefore, as part of our research work, we conducted an academic study on the reflection of this information in the statement of cash flows.

The research study analyzed the statement of cash flows, which is considered the fourth form of financial statement, to shed light on capital investment information. The statement of current cash flows provided by enterprises contains the following information on capital expenditures:

			(in thousand som)
Name of specification	Line code	income	outgoing
Investment activity			
Purchase and sale of fixed assets	060		574 022
Purchase and sale of intangible assets	070		10 970
Total: net cash inflow/outflow from investing activities (line 060 +/- 070 +/- 080 +/- 090)	100		584 992
Financing activities			
Cash receipts and payments on long-term and short-term loans and debts	150	480 650	41 993
Other cash receipts and payments related to financing activities	170	35 491	14 610

Table 1. Analysis of materials aimed at identifying information on capital expenditures in the enterprise's statement of cash flows[1] [1] Author's development based on research.

These tabular data show that the statement of cash flows presents information on capital expenditures, which has several specific features, as summarized below. In particular, to date, in the statement of cash flows provided by enterprises, information on capital investments is reflected in the sections of the report "investing activities" and "financing activities". The statement of current cash flows includes lines 060 and 070 designed to disclose information on the investment activity of the enterprise, and lines 150 and 170 designed to reflect information on the financial activity of the enterprise, which directly reflect the flow of funds on capital investments made at the enterprise.

In our opinion, the lines presented in this form of financial statements, in themselves do not reflect enough the movement of funds on capital investments made by the enterprise. Hossatan, in the second and third parts of the cash flow statement, the lines intended to reflect the information on the sources of their financing are not provided in the development of the cash flow statement. Even now, in today's digital and green economy, the flow of funds for capital investment transactions in enterprises is important for users of external and internal financial information.

Also, information about "investment property", which the doctrine of international accounting prescribes to be reflected in a separate account, is not reflected in the financial statement in force in our country. The international

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financial reporting standards for these assets, which to this day are not used in our national accounting system, have developed a separate item 40 (IAS) "Investment Property" International Accounting Standards, and these aspects should be taken into account in the financial statement, in the statement of private cash flows when reflecting information on investment property. Also, by the rule contained in National Accounting Standards No. 1, the standard states that the manager of an enterprise, in developing accounting policies, shall take note of the information that serves to evaluate cash flows in the future operations of the enterprise and cover them in the accounting policies, within this information, "96.8. Investment Property" is also included in the list.

In addition, in "Accounting Policies and Financial Statements" No. 1 National Accounting Standards has developed item 72 on the composition of non-current (non-current) assets, the composition of these assets is given in items 72.1 and 72.2. These items list the property, buildings, and intangible assets of the enterprise intended for use in the enterprise's operations, as well as other fixed and intangible assets, and investment property is classified separately and reported in a separate item. This shows that investment property is not a long-term asset like fixed assets, but an operating asset that brings profit to the enterprise as a result of a future increase in value. So, based on the above research, we believe that investment property information should be reported in the statement of cash flows in the operating activities column rather than in the investing activities column. Gains or losses incurred in operating activities are already reported in the statement of operations.

Today we believe that information about biological assets should be reported in the form of financial statements, and information about them should be presented in the statement of cash flows in private enterprises. Issue No. 7 (IFRS) "Statement of Cash Flows" International Accounting Standards" can only be classified as investing activities if the expenditure that results in active recognition in the statement of financial position" the following procedure is now the basis for the scientific recommendations we have developed for their recognition in the statement of cash flows of "investment property" and "biological assets", which are recognized as assets in the international experiments.

Although the "financing activities" section of the current statement of cash flows includes lines such as "cash receipts and payments on long-term and short-term borrowings and debts" and "other cash receipts and payments related to financing activities," it is not possible to identify information such as resulting loans and debts from capital expenditures and grants, subsidies from these lines. This limits the receipt of information on cash flows from external and internal investors on the sources of financing of capital investments.

By the results of the above research, to address these pressing issues before accounting and financial reporting, scientific and practical recommendations on the reflection of information on capital investments in the statement of cash flows provided by enterprises were developed:

Name of specification	Line code	Income	Outgoing
Operating Activities			
Other cash receipts and fees for operating activities, of which:	040		
Cash receipts and fees for investment properties	041		
Investing activities			
Purchase and sale of fixed assets	060		489 092
Purchase and sale of intangible assets	070		10 970
Purchase and sale of biological assets	080		84 930
Total: net cash inflow/outflow from investing activities (line 060 +/- 070 +/- 080 +/- 090)	100		584 992
Financing activities			
Cash receipts and payments on long-term and short-term borrowings and debt, including:	150	480 650	41 993
Cash receipts and payments on long-term borrowings and debt obtained for capital investments	151	480 650	41 993

Cash receipts and payments on short-term borrowings and debt obtained for capital expenditures	152		
Other cash receipts and payments from financing activities, including:	170	35 491	14 610
Grants received for realization of capital investments	171		
Subsidies received for capital investments realization	172		
Other receipts received for capital expenditures	173	35 491	14 610

Table 2. *Scientific Recommendations on Reflecting Information on Capital Investments in the Enterprise's Cash Flow Statement[1] [1] Author's design based on scientific research*

Based on the results of the above study of the information reflected in the cash flow statement of capital expenditures, it was concluded that in the context of the digital and green economy, the revision of the content of capital expenditures contained in the cash flow statement by the requirements of users of financial information, coordination and improvement based on the

Conclusion

The cash flow statement recommended by our research has several aspects. In particular, the cash flow statement developed by NAMI provides detailed information on capital investments made at the enterprise. For example, the recommended reporting items for investing activities separately report cash flows for investment property and biological assets of the enterprise. This serves to meet the needs of creditors interested in information on financial statements, which allows to determine the timeliness of payments to creditors and interest provided for in the instruction "On Approval of the Conceptual Framework for the Preparation and Presentation of Financial Statements ", developed by order of the Minister of Economy and Finance. Republic of Uzbekistan. In addition, in this form of current financial statements, lines on cash flows on fixed assets, and intangible assets are listed in the "investing activities" section of the report, while lines on information support, such as biological assets and investment assets, are not developed at all. To eliminate these shortcomings, our research work developed scientific and practical recommendations on the inclusion of information on investment property and biological assets in the statement of cash flows, as well as the reflection of cash flows arising in the enterprise on investment property in the section "operating activities".

It should also be noted that, since information on the sources of financing of capital expenditures made at the enterprise is considered important, lines were recommended in the financial part of the statement of cash flows to reflect information on the sources of internal and external financing of capital expenditures made. As noted in the International Financial Reporting Standards, this information provides effective results to legal entities and individuals making capital investments of the enterprise to forecast their cash flow needs for the forthcoming period

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