

Statement of Cash Flows under Ro GAAP

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ABSTRACT

This article focuses on techniques of fulfilling the worksheet necessary for preparing statement of cash flows. There are described types of investing, financing and operating activities by presenting detailed lists. Also there are presented in detail non – cash transactions and adjustments used under the indirect method. It is focused on definition of cash equivalents and restricted cash. The correspondences between working paper and components of financial statements (e.g. income statement) are presented.

Why is Necessary a Statement of Cash Flows?

The users of financial statements need information about the activities of a S.M.E. in generating cash through operations necessary to perform the followings:

- to pay suppliers and taxes;
- to distribute dividends or repay debts or loans to banks or shareholders;
- to maintain the operating capacity at a specific level
- to expand the operating capacity
- to invest the extra cash amounts

Based on above considerations it is obvious that there is important to be drawn up – as distinct item of financial statement- a statement of cash flows that must provide relevant information about the cash inflows or outflows during the period. The purpose of this distinct statement is to help the users (e.g. creditors, investors, suppliers, customers, tax authorities, public, other) to understand the reasons for differences between net profit and associated cash inflows and out flows and to assess:

- the ability of S.M.E. to generate positive net cash flows;
- the ability of S.M.E. to meet its obligations such as paying the dividends or debts, and
- the effects on S.M.E.'s financial position of both its cash and noncash investing and financing transactions during the period.

Generally, all significant G.A.A.P. require that all business enterprise, such as small businesses, financial institutions, investments companies or not-for- profit organizations - to

provide a statement of cash flows as a component of financial statements. Accounting standards which provide detailed guidelines for preparing statement of cash flows:

- a) US G.A.A.P.
- b) ASC 230, Statement of Cash Flow (in force at this moment)

The previous standard was SFAS No. 95, "Statement of Cash Flows" issued in 1987 which has been amended by the following pronouncements:

- SFAS No. 102, "Statement of Cash Flows—Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale"
- SFAS No. 104, "Statement of Cash Flows—Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions"
- SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities"
- SFAS No. 117, "Financial Statements for Not-for-Profit Organizations"
- SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"
- c) IFRS
IFRS 7 Cash Flow Statement
- d) UK G.A.A.P.
FRS 102, Statement of Cash Flows
- e) RO G.A.A.P.

Section no. 4, Statement of cash flows, art. 334 from Order 3055/2009 (about 2 pages of guidelines)

Major Issues to Be Considered

Whatever the accounting standards (e.g. IFRS, US GAAP, UK GAAP) are applied by a S.M.E. for preparing its financial statements there are issues which must be carefully analyzed, such as:

- a) Cash and cash equivalents definition,
- b) Restricted cash,
- c) Gross and net cash flows, and
- d) Classification of inflows and outflows of cash.

Cash and cash equivalents definition

Cash includes - in a common acceptance - currency on hand, demand deposits with banks and other financial institutions, and other accounts that have the general characteristics of demand deposits, which allow deposits and withdrawals at any time and without prior notice or penalty.

It is possible to appear differences when cash equivalents are established. Anyway cash equivalents include short-term and highly liquid investments that are both:

- readily convertible to known amounts of cash
- so near their maturity that they present insignificant risk of changes in value because of changes in interest rates

The definition of cash equivalents presented by RO G.A.A.P. (Order no. 3055/2009, art. 147, alin.3) is similar but there is one different aspect, namely nothing is mentioned about maturity.

In a common acceptance the maturity date should be three months or less in order to qualify under the definition. Anyway the maturity date has to be three months from the date of its acquisition by the S.M.E. Generally, cash equivalents include: treasury bills, commercial paper, money market funds, and government or other authority funds sold (for financial institution).

Some accounting standards (e.g. US GAAP) do not require all cash equivalents to be classified as "cash and cash equivalents." S.M.E. could decide to include cash equivalents as investments, especially where its operation consists of investing in short-term, highly liquid investments. This fact is based on consideration that the items meeting the definition of cash equivalents that are part of a larger pool of investments properly considered investing

activities need not be segregated and treated as cash equivalent. However, the including or excluding from cash and cash equivalents may be influenced also by the activity of enterprise. For example, a financial institution will include treasury bills in its trading and investing accounts.

Restricted cash

Generally, the restricted cash are not included in cash and cash equivalents but, instead, it is presented as current or non-current on the statement of financial position and considered a cash equivalent for statement of cash flow purposes. Also the current assets definition from RO G.A.A.P. (Order no. 3055/2009, art. 147, alin.1, mark d) clearly mention that a current asset is represented [...] "by cash and cash equivalents whose utilization is not restricted". Actually restricted amount would be reported as a use of cash and classified as operating, investing, or financing depending on the intended application.

Note: When statement of cash flows is prepared it must be taken into consideration the correspondence with cash amount presented in statement of financial position. The total amount of cash and cash equivalents at the beginning and end of the period in the statement of financial position must be the same amounts as similarly titled line items in the statement of cash flows as of those dates. Unfortunately, under RO G.A.A.P. (Order no. 3055/2009) this correspondence does not always happen. As can be seen in the example described below at point 4" Example of statement of cash flows" when a company borrowed money – as **overdraft** - from a bank than the amount of cash in bank and petty cash is not offset with the amount of the overdraft, in order to be presented on a single line – as cash and cash equivalents - in statement of financial position, instead there are presented distinctly: the amount of cash in bank and petty cash as a current asset and the amount of **overdraft** as a current liability.

"Bank borrowings are normally considered as financing activities. However, in some countries, bank overdrafts play an integral part in the entity's cash management, and as such, overdrafts are to be included as a component of cash equivalents if the following conditions are met:

1. The bank overdraft is repayable on demand, and
2. The bank balance often fluctuates from positive to negative (overdraft)." (Barry J. Epstein & Eva K. Jermakowicz, 2010, page 125).

Gross and net cash flows

As a common acceptance, it is considered that reporting gross cash flows is more informative and relevant than reporting net cash flows. The offset of cash inflows and outflows is not permitted, except in limited circumstances especially for financial institutions. For example, is more relevant the repayment of a loan and the borrowing on a new loan or the purchase and sale of intangible assets, and items of property, plant and equipment to be reported separately as a cash outflow and a cash inflow, rather than being offset and reported on a net cash flow.

The following cash flows of a financial institution may be presented on a net basis:

- Cash receipts and payments for deposits with a fixed maturity dates
- Deposits placed and withdrawn from other financial institutions
- Cash receipts and payments for cash advances and loans

Classification of inflows and outflows of cash

Cash receipts and payments must be classified into investing, financial and operating activities. Operating activities are all the transactions that are not investing and financial activities. A possible classification of cash inflows and outflows for these 3 types of activities are presented in the bellow tables (Order 3055/2009 does not distinctly mentioned such detailed lists):

Type	Cash inflow	Cash outflow
INVESTING ACTIVITIES	Proceeds from the disposal of property, plant, and equipment, as well as other productive assets	Acquisition of property, plant, and equipment or other productive assets
	Proceeds from the sale or collection of loans and debt (not cash equivalents)	Purchase of debt instruments not designated as cash equivalents or entity instruments
	Sale or return of investments on equity instruments	Investments in another company
	Collections on loans	Loans made to another entity
	Note: Depending the accounting standards applied or by the industry in which S.M.E. is part of (e.g. investing company, financial institution, bank or manufacturing company) may appear differences when available – for – sale securities, held – to – maturity or hedge operations are classified as investing or operational activities)	

Type	Cash inflow	Cash outflow
FINANCING ACTIVITIES	Proceeds from the sale or issuance of equity securities	Payment of dividends to shareholders
		Other distributions to owners
	Proceeds from the issuance of bonds, mortgages, notes, and other short- or long-term debt instruments	Outlays for repurchase of equity securities
		Repayment of short- or long-term borrowings

Detailed lists with investing and financing activities are presented below.

Types of investing activities list:

Cash inflow	Cash outflow
Proceeds from collection of notes receivable	Purchase of another company
Proceeds from disposition of carried interest	Purchase of patents and other assets
Proceeds from dispositions of unconsolidated subsidiaries	Purchase of tax benefits
Proceeds from sale of property	Investments in joint venture
Proceeds from sale of property, plant, and equipment	Investments in preferred shares
Proceeds from sale of segment	Investments in related parties
Proceeds from insurance claims related to investments	Investments in unconsolidated subsidiaries
Reduction of investments in related companies	Payments on long-term notes receivable
Reduction of restricted investment in marketable securities	Capital contributions to unconsolidated subsidiaries
Dividends received	Capital expenditures
Collections of notes receivable	Distributions to NCI
Cash proceeds from divestiture and restructuring	Acquisition of franchises
Cash proceeds from sale of investments	
Disposals of leased assets	

Types of financing activities list:

Cash inflow	Cash outflow
Proceeds from exercise of shares options	Cost of issuing debentures
Proceeds from issuance of long-term debt	Purchases of treasury shares
Proceeds from issuance of pollution control bonds	Redemption of common shares
Proceeds from revolving bank loans	Redemption of common shares warrants
Proceeds from sale and leaseback under operating lease, less deferred gains	Redemption of preferred shares
Issuance of common shares	Redemption of revolving bank loan
Issuance of preferred shares	Retirement of common shares , purchase of treasury shares, and other equity transactions
	Payments of short-term debt assumed in acquisitions
	Principal payments on capital lease obligations
	Principal payments on loans payable shareholders
	Principal payments on notes payable and installment contracts
	Dividends paid

Operating activities are all the transactions that are not investing and financial activities.

Type	Cash inflow	Cash outflow
OPERATING ACTIVITIES	Receipts from the sale of goods or services, or the collection or sale of receivables arising from those sales	Payments for the acquisition of inventory and services
	Insurance proceeds	Payments to employees for services
	Receipts on other transactions not defined as investing or financing	Payments for taxes
		Insurance payments
	Payments on other transactions not defined as investing or financing	

Cash flows arising from operating activities represent a residual category. This is the reason why in this category is included cash flows that may initially not appear to be 'operating' in nature (e.g. cash inflows from other revenue sources that are not from the sale of goods or rendering of services, such as proceeds from an insurance claim or payments for insurance even if these payments are done to obtain a loan.). Payments for taxes are generally part of operating activities, except in the cases when taxes can be reliably split between all these 3 types of activities.

"The only amounts to be included under this heading are payments and receipts relating to tax on the company's revenue and capital profits. Thus this heading typically comprises payments of corporation tax and similar foreign taxes. Taxes for which the company acts as a collecting agent for the government, such as VAT, would normally be dealt with as part of the operating activities of the company. Cash flows would then be shown **net of any VAT** and an adjustment would be made to reflect the change in the amount payable to or recoverable from the government." (Richard Lewis & David Pendrill, 2004, page 532).

Presentation of Operating Cash Flows Using the Direct or Indirect Method

Cash flows from operating activities may be presented by using either the direct or the indirect method. Also the RO G.A.A.P. (Order 3055/2009, Section no. 4, Statement of cash flows, art. 334) mention these 2 methods using few words and without details. Companies are encouraged to present cash flows from operating activities using the direct method. Anyway, the indirect method is preferred by major of the companies because:

- it is generally less expensive
- it is in fact a link between three statements: statement of cash flows, income statements and statement of financial position

Direct method

Major classes of gross cash receipts and gross cash payments are disclosed. The net cash flow from operating activities is the difference between cash received from operations and cash payments for operations. Companies using the direct method must report separately the following classes of operating cash receipts and payments:

- Cash collected from customers, including lessees and licensees
- Other operating cash receipts, if any
- Cash paid to employees and other supplies of goods and services
- Income taxes paid
- Other operating payments

Noncash transactions—such as, nonmonetary exchanges, the conversion of debt to equity, the acquisition of a non – current asset by incurring a liability — should be reported in related disclosures. The objective of those disclosures is to clearly relate cash and noncash aspects of transactions involving similar items. If a transaction is part cash and part noncash, only the cash portion is reported in the statement of cash flows. In fact "the cash flow statement should not include any non-cash movements at all but if these are material then users should be made aware of them in their notes, e.g. acquisitions/disposals, creation of new finance leases, etc." (Robert J. Kirk, 2005, page 198)

Types of non – cash transactions which must be considered and disclosed when direct method is used:

Common shares exchanged for treasury shares Fair value of treasury shares issued for businesses acquired Capital lease obligations entered into for new lease Liabilities assumed in business acquisition Note received on sale of business Preferred shares converted into common shares Purchase of property, plant, and equipment for notes Reclassification of current marketable securities to noncurrent shares issued to employees Reclassification of short-term borrowings of commercial paper and bank loans Treasury shares issued on conversion of debentures	Common shares exchanged for treasury shares Acquisition of company by contributing property, investments, and working capital Acquisition of equity interests of minority shareholders in subsidiaries Sale of property, plant, and equipment for notes Sale of secured assets held for sale for assumption of debt Surrender of leases and release from debt and other obligations on discontinuing development activities Transfer of real property, including debt assumed to a real estate trust in exchange for trust shares Treasury shares issued for compensation plans
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Anyway, the non – cash items represented by depreciation of property, plant and equipment, amortization of intangibles assets, amortization of bond discount and premium or increase in investments carried at equity must not be disclosed under the direct method.

Indirect method

Profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

Types of adjustments used under the indirect method may include (the list is not limited):

Gain on discontinued development activities Gain on foreign currency hedge Gain on discontinued operations Gain on partial sale of subsidiary Gain on sale of investments Deferred compensation Gain on extinguishment of debt Deferred contract research and development revenue from related parties Deferred income taxes Deferred investment credit, net Deferred revenue Depletion Depreciation NCI in subsidiaries' earnings Net earnings from discontinued operations Provision for losses on accounts receivable Provision for losses on direct financing leases Provision for losses on short-term investments Accounts payable Accretion of note discount Accrued compensation and employee benefits Accrued income taxes Accrued interest payable Accrued liabilities Accrued retirement benefits Common stock portion of class action settlement Common shares awarded under restricted shares plan Customer advances	Amortization of deferred gains Amortization of goodwill Amortization of restricted award shares Amortization of software products Amount due from affiliate Assets held for resale Increase in deferred items Issuance of common shares in settlement of litigation Issuance of debt in payment of interest on debt Loss from discontinued operations Loss on disposal property and equipment Loss on equity investments Prepaid expenses and other current assets Prepaid income taxes Restructuring costs Share of related-party losses Advanced revenue Allowance for funds used during construction Amortization of deferred gains Amortization of goodwill Amortization of restricted award shares Amortization of software products Amount due from affiliate Assets held for resale Changes in certain noncash, assets and liabilities, net of effects of businesses acquired, and noncash transactions
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Example of Statement of Cash Flows

A small and medium size enterprise named "ABC" is registered in Romania and it's preparing its financial statements under RO G.A.A.P. (Order no. 3055/2009). Below are presented statements for financial position for year 2012 and 2013 and additional information necessary for preparing the statements of cash flows using the **indirect method**:

1. Company "ABC" has signed a borrowing contract for short period as overdraft with a bank. The amounts presented on line Short term bank loans (**overdrafts**) are for this contract. Based on the contract conditions all bank accounts are offsetting with overdrafts amounts and presented in bank statements in accordance with these conditions.
2. Additional information from trial balance and income statements related to interest income, interest expense and income tax.

Description (financial position)	31/12/2012	31/12/2013	Description (Income statement)	2013
Interest receivables	Nil	Nil	Interest income	475
Interest payables	Nil	Nil	Interest expense	408,770
Income tax payable	277,004	491,473	Income tax expense	1,050,438

3. Other long term receivables represent financial assets with nature of receivables (account 2678).
4. The opening amount for 404 accounts is nil/closing amount is 21.673, including VAT (24%).

Summary of Statement of financial position:

	31 December 2012	31 December 2013
Assets		
Tangible and intangible assets	299,805	1,613,523
Other long term receivables	115,146	124,402
Non - current assets	414,951	1,737,925
Raw materials and consumables	3,891,107	4,260,070
Goods purchased for resale	12,224,010	8,074,921
Trade receivables	25,313,770	23,831,966
Other receivables	266,748	405,512
Bank accounts and petty cash	257,799	299,865
Current assets	41,953,434	36,872,334
Deferred expenses	330,130	340,817
Total assets	42,698,515	38,951,076
Equity and liabilities		
Short term bank loans (overdrafts)	(5,411,761)	(5,376,466)
Advance payments from customers	-	(2,151)
Trade payables	(20,959,060)	(17,557,902)
Other payables, including taxes and contributions	(2,083,669)	(2,092,692)
Current liabilities	-28,454,490	-25,029,211
Investment subsidies	(33,998)	(18,506)
Deferred income	(1,417,753)	-
Equity		
Subscribed capital paid	(7,493,997)	(7,493,997)
Legal reserve	(124,220)	(232,298)
Other reserves	(14,660)	(14,660)
Retained earnings	(4,685,856)	(5,159,396)
(Profit) or loss for the period	(512,045)	(1,111,085)
Profit appropriation	38,504	108,077
Total equity	-12,792,274	-13,903,359
Total equity and liabilities	-42,698,515	-38,951,076

(Positive numbers are for assets and negative numbers are for liabilities and equity)

Income statement at 31 December 2013

Description	Amount (in lei)
Production sold	4,831,421
Sale of goods purchased for resale	115,521,648
Trade discounts offered	(25,688,284)
Subsidies related to the turnover	2,684,908
Other operating income	5,591,022
Total operating income	102,940,714
Raw material and materials expenses	559,539
Other materials expenses	265,063
Electricity, heating and water	78,841
Goods for resale	69,570,534
Trade discounts received	(1,510,635)
Personnel expenses, from which	7,965,523
Salaries	6,290,826
Social security contributions	1,674,697
Adjustments regarding the value of tangible and intangible assets:	567,168
- Expense	567,168
- Income	0
Adjustments regarding the value of current assets:	2,253,804
- Expense	3,254,489
- Income	1,000,685
Other operating expenses:	19,722,246
- Other third party services	18,577,654
- Tax and other similar amounts expenses	252,015
- Other expenses	892,577
Adjustments regarding provisions	(72,926)
Income	72,926
Total operating expenses	99,399,158
- Profit	3,541,556
Interest income	475
Other financial income	708,961
Total financial income	709,436
Interest expenses	408,770
Other financial expenses	1,680,699
Total financial expenses	2,089,469
Financial profit or loss	
- Loss	1,380,033
Current profit or loss	
- Profit	2,161,523
Total income	103,650,150
Total expenses	101,488,627
Brut profit or loss	
- Profit	2,161,523
Income tax	1,050,438
Net profit or loss	
- Profit	1,111,085

Intangible assets:

Description	Set –up costs	Development costs	Concessions, patents, licenses, trademarks and similar rights and assets	Intangible assets in progress and advances for intangible assets	Total
	(lei)	(lei)	(lei)	(lei)	(lei)
Gross value					
Amount at 01/01/2013	12,447	-	749,219	-	761,666
Increase	-	-	472,629	223,856	696,485
Decrease	-	-	-	223,856	223,856
Amount at 31/12/2013	12,447	-	1,221,848	-	1,234,295
Accumulated depreciation					
Amount at 01/01/2013	12,447	-	707,563	-	720,010
Depreciation during the year	-	-	97,448	-	97,448
Decrease and reversals	-	-	-	-	-
Amount at 31/12/2013	12,447	-	805,011	-	817,458
Net book value at 01/01/2013	-	-	41,656	-	41,656
Net book value at 31/12/2013	-	-	416,836	-	416,836

Movements in provisions:

Description	Opening	DR	CR	Closing
Write-down of goods purchased for resale	(1,443,304)	1,443,304	3,539,629	(3,539,629)
Allowances for doubtful customers	(1,917,983)	125,880	283,359	(2,075,462)

Tangible assets:

Description	Lands and Buildings	Plant and machinery, motor vehicles, animals and plantations	Fixtures and fittings	Tangible assets in progress and advances for tangible assets	Total
	(lei)	(lei)	(lei)	(lei)	(lei)
Gross amount					
Amount at 01/01/2013	26,337	2,783,171	1,617,612	-	4,427,121
Increase	-	327,973	1,080,283	-	1,408,256
Decrease and reductions	-	20,342	782,933	-	803,275
Amount at 31/12/2013	26,337	3,090,802	1,914,962	-	5,032,102
Accumulated depreciation					
Amount at 01/01/2013	15,050	2,691,664	1,462,259	-	4,168,972
Depreciation during the year	11,288	138,537	319,896	-	469,720
Reductions	-	20,342	782,933	-	803,275

Amount at 31/12/2013	26,337	2,809,858	999,222	-	3,835,417
Net book value at 01/01/2013	11,288	91,508	155,353	-	258,149
Net book value at 31/12/2013	-	280,944	915,740	-	1,196,685

Procedural steps

Steps no. 1 Calculate the change in cash and cash equivalents

Cash and cash equivalents	31 December 2012	31 December 2013	Change
Cash in bank and petty cash	257,799	299,865	42,066
Overdraft	-5,411,761	-5,376,466	35,295
Total	-5,153,962	-5,076,601	77,361

Steps no. 2 Calculate additional workings for the following items: interest received, interest paid, and income tax. See additional information from point no. 2

Description	Amount	Description	Amount	Description	Amount
Amount 31/12/2012	Nil	Amount 31/12/2012	Nil	Amount 31/12/2012	277,004
Interest Income 2013	475	Interest Expense 2013	408,770	Income tax expense	1,050,438
Cashed Interest	(475)	Paid Interest	(408,770)	Paid Income tax	(835,970)
Amount 31/12/2013	Nil	Amount 31/12/2013	Nil	Amount 31/12/2013	491,473

Steps no. 3 Calculate the change for each item from statement of financial position

Items from financial position	31 December 2012	31 December 2013	Change
Assets			
Tangible and intangible assets	299,805	1,613,523	1,313,718
Other long term receivables	115,146	124,402	9,256
Non - current assets	414,951	1,737,925	
Raw materials and consumables	3,891,107	4,260,070	368,963
Goods purchased for resale	12,224,010	8,074,921	-4,149,089
Trade receivables	25,313,770	23,831,966	-1,481,804
Other receivables	266,748	405,512	138,764
Bank accounts and petty cash	257,799	299,865	42,066
Current assets	41,953,434	36,872,334	
Deferred expenses	330,130	340,817	10,687
Total assets	42,698,515	38,951,076	
Equity and liabilities			
Short term bank loans (overdrafts)	(5,411,761)	(5,376,466)	35,295
Advance payments from customers	-	(2,151)	-2,151
Trade payables	(20,959,060)	(17,557,902)	3,401,158
Other payables, including taxes and contributions	(2,083,669)	(2,092,692)	-9,023
Current liabilities	-28,454,490	-25,029,211	
Investment subsidies	(33,998)	(18,506)	15,492
Deferred income	(1,417,753)	-	1,417,753
Equity			

Subscribed capital paid	(7,493,997)	(7,493,997)	0
Legal reserve	(124,220)	(232,298)	-108,078
Other reserves	(14,660)	(14,660)	0
Retained earnings	(4,685,856)	(5,159,396)	-473,540
Profit or loss for the period	(512,045)	(1,111,085)	-599,040
Profit appropriation	38,504	108,077	69,573
Total equity	-12,792,274	-13,903,359	
Total equity and liabilities	-42,698,515	-38,951,076	

Note: Sum of all changes is nil. Because during the year there were no other monuments in equity, except the increasing of equity as a result of profit of the year, the sum of changes in equity is equal with the profit of the year 2013 (Profit for 2013 is 1,111,085).

Steps no. 4 Preparing the worksheet for Statement of cash flows - indirect method

Description	Amount	Changes	Depreciation & Provisions for Intangible and Tangible assets	Current assets Provision	Provision expense risk & charges	Income tax expense /paid	Interest Income / cashed	Interest expense / paid	Fin assets with nature of receivables (2678)	Account 404 Suppliers of non-current assets	Checking
Profit net /(Loss)	1,111,085										IS
Adjustments for reconciliation of net cash flows from operating activities to net income:											
1. Adjustments of value of tangible and intangible assets	567,168		567,168								PPE + Intangible
2. Adjustments regarding provision for current assets	2,253,804			2,253,804							IS
2. Adjustments regarding other provision for risks	(72,926)				(72,926)						IS
Income tax expense	1,050,438					1,050,438					IS
Interest income	(475)						(475)				IS
Interest expense	408,770							408,770			IS
Working capital changes:											
1.(Increase)/ Decrease of trade receivables and other receivables	1,165,617	1,332,353		(157,479)					(9,256)		
2.(Increase)/ Decrease of inventory	1,683,800	3,780,125		(2,096,325)							MOV_PRO V
3. Increase/(Decrease) of trade payables and other payables	(4,982,249)	(4,823,228)			72,926	(214,469)				(17,478)	IS
Interest paid	(408,770)							(408,770)			Working
Income tax paid	(835,970)					(835,970)					Working
Cash flow from operating activities	1,940,294										
Payments for acquisitions of tangible and	(1,863,408)	(1,313,718)	(567,168)							17,478	PPE + Intangible +Acc 404

<i>intangible assets</i>											
<i>Interest cashed</i>	475						475				<i>Working</i>
<i>Cash flow used by investing activities</i>	(1,862,933)										
<i>Net increase in cash and cash equivalents</i>	(77,361)										
<i>Cash and cash equivalents at begging of the year</i>	(5,153,962)										
<i>Cash and cash equivalents at the end of the year</i>	(5,076,601)										

Note: Because the bank borrowings are included as part of cash and cash equivalents, the utilization of the credit line is not presented as financing operations. In fact it can be has no financing transactions at all.

Statement of cash flows at 31/12/2013

Description	Amount
Cash flow from Operating Activities	
Profit net /(Loss)	1,111,085
Adjustments for reconciliation of net cash flows from operating activities to net income:	
1. Adjustments of value of tangible and intangible assets	567,168
2. Adjustments regarding provision for current assets	2,253,804
2. Adjustments regarding other provision for risks	(72,926)
Income tax expense	1,050,438
Interest income	(475)
Interest expense	408,770
Working capital changes:	(2,132,831)
Interest paid	(408,770)
Income tax paid	(835,970)
Net cash provided by operating activities	1,940,294
Cash flow from investing activities	
Payments for acquisitions of tangible and intangible assets	(1,863,408)
Interest cashed	475
Cash flow used by investing activities	(1,862,933)
Net increase in cash and cash equivalents	(77,361)
Cash and cash equivalents at begging of the year	(5,153,962)
Cash and cash equivalents at the end of the year	(5,076,601)

Conclusions

The direct method is recommended but indirect method is preferred by SMEs. This statement is important for investors because they want to know the ability of company to generate cash flows in order to support payments to shareholders (e.g. dividends, return of loans). In fact it serves as an indicator of the amount, timing, and certainty of future cash flows. The statement of cash flows is useful in comparing past assessments of future cash flows against current year's cash flow information.

The important accounting standards pay a special attention to this statement. In our opinion the guidelines from RO G.A.A.P. are insufficient. It would be better if RO G.A.A.P. will offer more examples and details regarding of preparing this statement. In fact, this statement is drawn based on information included all other components of financial statements, such as statement of financial position, income statements, notes about tangible and intangible assets. Of course, for more complex combinations of events – such as the acquisition of another entity – additional information is required.

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