Cash Flow Analysis Based on International Accounting Standards (IAS): A Critical Evaluation

Alexandra Goula
Hellenic Open University, 4 George Str., 106 77 Athens, Greece

Marios Menexiadis
National and Kapodistrian University of Athens, 1 Sophocleous str., 105 59 Athens, Greece

Kanellos Toudas
Agricultural University of Athens, 75 Iera Odos str., 118 55 Athens, Greece and

Paraskevi Boufounou
National and Kapodistrian University of Athens, 1 Sophocleous str., 105 59 Athens, Greece

Abstract
Purpose: The purpose of this article is to investigate the importance of using financial ratio analysis following the adoption of International Accounting Standards.
Design/methodology/approach: The methodology used investigates the theoretical aspects related to the purpose of financial statements analysis and the introduction of IAS. Furthermore, it presents how to prepare the Cash Flow Statement.
Findings: The study of cash flows and their use contributes to the understanding of the ability of an entity to generate cash and cash equivalents through its operating activities and to ensure its smooth operation through its investment and financing activities.
Originality: This is the first Greek study assessing the importance of the IAS financial ratio analysis, studying the contributions of the Cash Flow Statement to different sources of activities, and evaluating the application of the direct and indirect methods.

Keywords: *Financial Statement Analysis, International Accounting Standards, Cash Flow Statement, Equity, Debt*

1. Introduction

The International Accounting Standards were issued by the International Accounting Standards Committee, approved and amended by the International Accounting Standards Board. The introduction of International Accounting Standards (IAS) is linked to the analysis of ratios, which contributes to a better understanding of the financial activities of a company. Analysis using ratios is the most common method of financial analysis to assess the prospects and financial position of a company as it helps interested parties to understand corporate data (Babalola and Abiola, 2013).

The structure of the present paper is as follows: First the concepts of Financial Statement Analysis and of the advantages of using IAS for Financial Statement Analysis, are presented. Then, the differences between Greek Accounting Standards and IAS are highlighted. Focusing on Ratio Analysis, the use of IAS7 in Cash Flow Statement Analysis is critically discussed. Following, a systematic assessment of the valuation of an entity using the Cash Flow Statement as regards to different sources of activities -namely operating activities, investment activities, and financial activities – is performed comparing the direct and the indirect method. Finally, the main general conclusions are evaluated.

2. Materials and Methods

2.1 Financial Statement Analysis

The analysis of financial statements identifies aspects related to investment decisions, systematically measuring the impact of information provided by a firm's accounting statements and determining their ability to predict the firm's future performance and stock returns. In this context, financial analysis is the study of the inherent characteristics of a company, such as its business model, market share of products and services, operating

decisions, investments, and financing, as well as the use of this information to obtain documented business and investment decisions (Wahlen et al. 2014).
Analysts use the expected future performance to measure the value of the company's shares and to compare the company's share value with the market price of the shares, as a basis for making good investment decisions.

The economic analysis evaluates the short- and medium-term factors that influence price evolution, taking into account real activity and economic conditions. The short and long-term evolution of prices is greatly influenced by the interaction of supply and demand in the markets for goods and services. Therefore, the analysis of the economy requires the consideration of factors such as developments in aggregate production, demand and labor market conditions, a wide range of price and cost indicators, fiscal policy, and the balance of payments.

Sector analysis is an assessment of the economic and financial situation and prospects of a particular sector of the economy and serves to provide the investor with an assessment of the prospects of companies operating in an industry. The method is usually used by investors who specialize in a specific field or who use a sector analysis.

One of the most common sectoral analysis methods is the Porter Five Forces model (Goula 2019). Through the analysis of Porter's Five Powers, the management of a company can identify elements that demonstrate the attractiveness of an industry, understand the strengths and weaknesses of the company against the competition, identify any opportunities and threats and make significant strategic decisions. Porter's Five Powers address the threat of new competitors, the bargaining power of buyers, the threat of substitute products, the bargaining power of suppliers, and the level of competition of existing companies in the industry.

Vertical analysis, or stratified analysis, or aggregate analysis, is the analog analysis of a financial position, where each line item in a financial statement is represented as the ratio of a key component of the financial statement. A vertical analysis is usually performed for a single accounting period to determine the relative proportions of different account balances. However, it is also useful to perform a vertical analysis over several periods to identify changes in the accounts over time and to detect unusual changes in the behavior of the accounts. The main advantage of using vertical analysis of financial statements is that the statements of aggregate results and the financial statements of companies of different sizes can be compared as ratios. Comparing the absolute amounts of companies of different sizes does not provide useful conclusions about their financial performance and their financial position. Vertical analysis also facilitates the analysis of time series, where a comparison of historical data is made on a quarterly, semi-annual, and annual basis in order to determine whether the performance of companies improves or deteriorates.

Horizontal analysis, also known as time analysis or trend analysis, is a technique for analyzing financial statements that reflects changes in the amounts of the corresponding items in the financial statement over a period of time. The one-year index is compared with the measurements of the same index in previous years in order to determine whether the calculated index is unusually high or low compared to previous years and to investigate the causes that cause the observed changes.
In essence, horizontal analysis is a useful tool for assessing trends as it compares financial statements for two or more periods in order to calculate the ratios, as a ratio of the base year amount, which is equal to 100% or 100. The year is used as the base year and the data of the statements for all subsequent periods are compared with the data of the statements of that year.

Depending on the performance steps, the analysis is divided into formal and substantive.
Formal analysis precedes the substantive one and concerns the control of the external structure of the Statement of Financial Position and the Statement of Comprehensive Income. Depending on the performance steps, the analysis is divided into formal and substantive. The formal analysis precedes the substantive one and concerns the control of the external structure of the Statement of Financial Position and the Statement of Comprehensive Income. In essence, it controls items such as current and non-current assets, cash and cash equivalents, equity, foreign capital, etc., and makes any corrections, groupings, roundings, and reclassifications, expressing the absolute numbers in percentages. The substantive analysis follows the classification of the items of the Statement of Financial Position and the Statement of Total Revenue and presumes that the analyst has knowledge of the peculiarities of the industry as well as excellent accounting, financial, and statistical knowledge to rely on the data of standard analysis to expand the analysis. indicators. Substantive analysis provides a true picture of a company's financial position through the analysis and evaluation of its activity, assets, effectiveness, capabilities and future course and the comparison of different sizes to identify any trends and significant deviations.

The accounting statements provide the most important information about the financial activity of a company. In particular, following the scandals of for-profit companies that subsequently went bankrupt, the analysis of published accounting statements is an integral part of investigating the course of a business (Benston et al., 2004). Therefore, one of the main obligations of an accountant is to summarize the financial position of a company with information that accurately reflects its financial condition. The general purpose of financial statements is to provide information about the results of operations, financial position, and cash flows of an organization. This information is used by readers of financial statements to make resource allocation decisions. In addition to being used to measure business value, financial statement analysis tools can be applied to many

different decision-making settings, including the following: a) assignment of credit ratings or extension of credit for a short-term period; b) assessing the operational performance and financial health of a supplier, customer, competitor or potential employer; c) investment decisions; d) tax decisions; e) management of the company's communication with stakeholders; f) providing useful strategic advice; g) valuation of companies for possible acquisitions or mergers or sales; h) evaluation of a company in an initial public offering of its shares; i) evaluating the extent of the audit required for an opinion on a customer's financial statements (Wahlen et. al. 2014).

The Balance Sheet determines the final balances of a company's assets, liabilities, and equity accounts from the date stated in the report and is used in the financial analysis of a company's performance. Some of the most common ratios that include balance sheet information are: a) account collection period, b) current ratio, c) debt / equity ratio, d) inventory cycle, e) fast ratio, f) return on net assets, g) working capital turnover ratio.

The purpose of the balance sheet is to inform the reader about the current state of the business from the date stated on the balance sheet. This information is used to estimate the liquidity, financing and debt position of an entity and is the basis for liquidity ratios.

The Income Statement presents the financial results of an entity for a specific period of time. The time period usually covered is month, quarter or year, although intermediate periods may be used. The Income Statement is a very basic financial statement used to review the management of a business.

The primary objective in preparing the Income Statement is to obtain a performance measure that corresponds to the financial resources used or consumed by the business as an expense, with the associated financial resources generated as revenue. When the accountant cannot directly match the financial resources generated as income and consumed as expenses, he uses accrual accounting to reconcile the financial resources consumed during the period in which they are consumed. Accrued accounting ignores the cash flow schedule when recognizing income and profits as well as the cash expenditure schedule when recognizing expenses and losses. However, cash is a necessary component for the operation, investment and financing of the company's activities, and therefore, companies are required to prepare the Cash Flow Statement (Wahlen et.al. 2014).

The Cash Flow Statement provides at least three key pieces of information that are not available from either the Balance Sheet or the Income Statement. First, it is organized into three divisions, which correspond to the main requirements for profit generation and include cash flows from operating activities, cash flows from investment activities, and cash flows from financing activities (Wahlen et.al. 2014). Operating activities are activities that generate revenue for a business, such as cash received and disbursed for product sales, royalties, commissions, fines, lawsuits, supplier invoices, and lender and payroll. Investment activities are payments made for the acquisition of long-term assets, as well as for cash received from their sale, such as the purchase of fixed assets and the purchase or sale of securities issued by other entities. Financing activities are activities that change the equity or loans of a business, such as the sale of company shares, repurchase of shares and payment of dividends. Second, the Cash Flow Statement provides information on cash flows to and from the entities with which the business operates, such as customers, suppliers, creditors, and investors. Third, an analyst can combine information from the cash flow statement, balance sheet and income statement to evaluate the overall quality of the financial statements, and in particular the quality of earnings (Wahlen et.al. 2014).

Many investors consider the Cash Flow Statement to be the most transparent of the financial statements and tend to rely on it more than any other financial statement to discern the true performance of a business. In general, the cash flow model from operating, investing, and financing activities differs between different types of businesses as well as within a business at different stages of the business life cycle. Also, the Cash Flow Statement should reflect the overall strategy of a business and, in particular, the course of growth.

Various surveys examine the relationship between cash flows and stock returns. For example, Campbell et.al. (2009) deal with the cash flows of growth stocks and find that they are particularly sensitive to the temporary movements of all stock prices due to the movements of the share capital risk premium, while the cash flows of equity stocks are particularly sensitive to total stock prices due to market disturbances. Research on a sample of quarterly cash flows from 1984 to 2010 finds a strong positive correlation between net cash flows and stock valuation, while cash flows are particularly affected by debt market conditions (Robinson and Sensoy, 2011). Research by Martani et.al. (2009) examines the value of accounting information on stock performance using a number of indicators in a sample of manufacturing companies for the period 2003-2006 and finds that profitability, turnover, and market index have significant effects on stock performance. This is because financial analysts predict the future course of business, influencing the investment decisions of shareholders. Empirical research from the telecommunications industry in Australia reveals that there are differences between liquidity ratios and cash flow ratios, which should be taken into account when assessing liquidity of a business.

The Statement of Equity is a financial statement that presents a summary of changes in equity during the reporting period and reconciles the initial balances of the equity accounts with their final balances. There are two types of equity changes: a) changes in equity transactions, such as the issuance of new shares, dividend payments, etc., and b) changes resulting from changes in total comprehensive income, such as net income for the year. period, the revaluation of fixed assets, changes in the fair value of available-for-sale investments, etc.

2.2 International Accounting Standards

International Accounting Standards (IAS) set common rules for the financial statements of companies to be consistent, transparent and comparable around the world. They specify how entities should maintain and report their accounts, specifying the types of transactions and other events that have a financial impact. In essence, International Accounting Standards were introduced with the aim of creating a common accounting language, so that companies and their financial statements are consistent and reliable from company to company, but also from country to country (Palmer, 2019).

The financial statements of companies do not seem to differ significantly from each other, while drawing conclusions is a standard procedure that is usually based on the analysis of financial ratios. However, in reality there are big differences and if the same principles of writing and presentation are not followed, wrong conclusions can be drawn (Alifantis, 2008).

International Accounting Standards have as their ultimate goal the protection of investors. In order to improve the functioning of the internal market, it became mandatory for listed companies to adopt and apply IAS / IFRS in the preparation and presentation of their consolidated financial statements. The adaptation of financial information standards to those applied by companies in the European Union has led to an increase in the convergence of accounting standards used internationally (Tourna-Germanou, 2015).

The fundamental assumptions of IAS / IFRS are the following (Dimitras & Vrentzou, (2015): a) reliability, b) timeliness information, c) understanding, d) comparability, e) going concern, f) independence of financial years, g) prudence, h) relevance.

One of the key features is fair value measurement. According to article 24 of L.4308 / 2014 "as a fair value of an asset or a liability is defined the exchange or settlement price, respectively between willing and informed parties operating under normal market conditions, at the measurement date".

There are objections regarding the measurement at fair value. In particular, with the onset of the global crisis in 2008, critics of the method argued that a fair value-based reporting system could increase the risk of financial system failure as a whole. This may be because companies are gaining an additional incentive to sell their assets after a reduction in asset prices. In essence, businesses recognize the gains or losses arising from changes in the balance sheet to the amount of debt recognized. Therefore, if the debt is recognized at fair value, companies will recognize gains or losses when the fair value of the debt decreases or increases, respectively. However, such a methodology contradicts the fundamental analysis of financial statements according to which debt worsens the return on assets, which in turn reduces, respectively, the return on equity (Magnan et.al., 2016).

2.3 Differences between Greek Accounting Standards and IAS

The ability to measure assets and liabilities at fair value is realized between willing and informed parties operating under normal market conditions at the measurement date. This leads to improved provision of reliable information.

The presentation of the financial statements in a more transparent way is closer to reality with changes concerning the abolition of the first installation expenses, the correct presentation of the leasing, the presentation of the income tax in the Income Statement, etc. These changes, in the context of the adoption of a common accounting framework at European Union level, contribute to the comparability of information and its more reliable evaluation.

Reducing the cost of information within the Groups (between the parent company and the subsidiaries) increases the efficiency and reduces the need for double preparation of the financial statements of the subsidiaries.

The harmonization of financial data with international accounting practices may facilitate the attraction of foreign investment.

2.4 Ratio analysis

Ratio analysis is a quantitative method for understanding a company's liquidity, operating efficiency and profitability by comparing the information contained in its financial statements. When investors and analysts talk about fundamental or quantitative analysis, they usually refer to the analysis of indicators in order to assess the performance and financial health of a company, using data from current and historical financial statements. The figures recovered from the financial statements are used to compare the performance of a business over time, in order to assess whether the financial situation of the business is improving or deteriorating. In this way, potential weaknesses of the company are identified in various areas, helping the management to take the appropriate measures in a timely manner to address them. Also, the most important issue in the analysis of

indicators is the interpretation of indicators and the drawing of conclusions. Based on the conclusions drawn, the management of a company undertakes actions that affect the future trend and fluctuation of indicators.

The ratios facilitate the description of the financial situation of a company, the efficiency of its activities and its profitability, as well as the perception of investors as expressed by their behavior in the financial markets. In addition, they allow an analyst or decision maker to quantify the information contained in a firm's financial statements by evaluating various aspects of operating and financial performance, such as profitability, liquidity, profitability and solvency in relation to structure. of its capital and its viability. Essentially, ratios are a great way to quickly assess a company's health at management or even regulatory levels, as well as to compare it with the averages of the industry or industry in which it operates.
The advantages of numerical analysis can be summarized as follows:

- The analyst is allowed to assess the financial condition of a business without taking into account the size of the business.
- They provide the possibility for easy adjustment of the data used in the calculation of each index without taking into account the historical cost.
- The correlation of the sizes allows the production of indicators that are directly related to the result - higher ratios provide an indication of good financial situation, while lower ratios provide an indication of unfavorable financial situation.
- Any monetary fluctuations are not taken into account.

Indicators, on the other hand, are not very useful on a stand-alone basis, but should be compared to industry averages, i.e. similar companies belonging to the same industry. In any case, it is very important to consider companies that operate in exactly the same industry and with the same intensity of capital use. Otherwise, comparisons of companies based on indicators alone can lead to erroneous conclusions due to the diversity of available accounting practices and principles. Therefore, full attention is required to the underlying differences in the basic accounting methods used in the financial statements, in order to briefly examine some common financial indicators. Moreover:

- Many large companies operate different divisions in different industries. It is difficult for these companies to find a significant set of industrial instruments.
- Inflation may have severely distorted a company's balance sheet with a direct impact on its profitability. Thus, the analysis of indicators of a company over time or a comparative analysis of companies of different ages must be interpreted with judgment.
- The seasonality of a business can also distort the analysis of indicators. Understanding seasonal factors that affect a business can reduce the likelihood of misinterpretation. For example, a retailer's inventory will be higher at Christmas, resulting in higher company bills and a lower return on assets.
- It is difficult to generalize whether an indicator is good or not. For example, a high cash flow ratio in a growing company can be interpreted as a good sign of liquidity, but it could also be seen as a sign that the company is no longer growing and needs to produce lower valuations.

In general, numerical performance measures are valuable tools, but their use must be done with perspective. This means that the management of a company should adopt a broader, more qualitative view of the evaluation process, in order to take into account the complexity of a company and to draw reliable conclusions from the quantitative and qualitative approach of the analysis of relevant indicators (Lesakova, 2007).

2.5 IAS 7

Cash Flow Statement requires an entity to present a cash flow statement as an integral part of its main financial statements. Cash flows are classified and presented in operating activities (either direct or indirect), investment activities or financing activities, with the latter two categories generally presented on a gross basis. Cash flows arising from dividends and interest and payment income are classified on a consistent basis and are presented separately in the context of the activity that is appropriate to their nature. Income tax-related cash flows are classified and presented separately in operating activities unless they can be attributed specifically to investment or financing activities.

The purpose of IAS 7 is to require the presentation of information about the historical changes in cash and cash equivalents of an entity through the Statement of Cash Flows, which classifies cash flows during the period according to operating, investing and financing interests and activities of the entity. In this way, the Cash Flow Statement contributes to the information of stakeholders from all the required financial statements published by an entity, while assessing the comparability of available data. In essence, all entities that prepare financial statements in accordance with International Accounting Standards are required to present a Cash Flow Statement, which analyzes changes in cash and cash equivalents over a period of time.
Specifically:

- Cash and cash equivalents include cash, demand deposits, and short-term, highly liquid investments that are converted directly to cash and are subject to a negligible risk of changes in value.
- Cash equivalents are short-term, highly liquid investments that are readily convertible into specific amounts of cash and are subject to an insignificant risk of a change in their value. Cash equivalents are available only to meet the short-term cash needs of the entity and not for investment or other purposes. It is noted that participations in the capital of other companies are not considered cash equivalents, unless they are preferred shares purchased before their expiration and with a specific redemption date. Instead, mutual accounts or overdraft accounts are included in the cash equivalents of the enterprise.
- Cash flows are the inflows and outflows of cash and cash equivalents. An entity has the discretion to classify receipts and payments of interest and dividends in cash flows as long as the given classification is applied consistently. In general, dividends payable to shareholders are classified as either operating activities or financial activities, while income tax payments are classified as operating activities.
- Operating activities include activities that generate revenue for the entity as well as activities that are not classified as investment or financial.
- Investment activities include activities related to the acquisition and disposal of long-term assets as well as investments that are not included in cash equivalents.
- Financial activities include activities that bring about changes in the size and structure of equity and lending to the entity.

2.6 Valuation of an entity with the Cash Flow Statement

Users of financial statements (executives, employees, financial analysts, creditors, investors, customers, etc.) are interested in assessing the entity's ability to generate cash and cash equivalents as well as how they are used. Through this process, they determine whether a company is viable and able to repay its obligations on time, to liquidate its profits, to finance investments to increase its cash flows, to pay dividends, to continue its activity smoothly, and to satisfies its shareholders (Karavelaki and Drimi, 2016).

A second important element is that the Cash Flow Statement reveals the quality of profits and the sources from which they originate. The quality of accounting profits depends on at least two factors: the high quality of accounting standards and the broader framework of investor protection in a country (Soderstrom and Sun, 2007). Jeanjean and Stolowy (2008) point out that the high quality of accounting standards reduces profit management and improves the quality of financial reporting, while Iatridis (2010) finds that the adoption of International Accounting Standards reduces the margin of profit management, related to more timely recognition of losses and leads to more accurate accounting measures related to value. Christensen et.al. (2015) emphasize that the voluntary adoption of IAS / IFRS leads to reduced profit management, increased early recognition of losses, and increased value relevance.

Krishnan, and Zhang (2019) report that global accounting convergence and the adoption of International Accounting Standards have more to do with the cash flows of businesses and a higher degree of correlation with fair value. The findings strongly support the notion that higher earnings quality is associated with IAS / IFRSs while differences with national standards for accounting for financial instruments and investments significantly reduce earnings quality. On the other hand, an empirical study on a sample of private Italian companies that adopted IAS / IFRS in 2005-2008 compares the quality of financial information with companies that use generally accepted accounting principles (GAAP). Overall, the results show that the adoption of IAS / IFRS did not improve the quality of reporting among private companies, but rather reduced it. In addition, as businesses can leverage the level of flexibility embedded in International Accounting Standards to pursue their own reporting interests, separate analyses have been performed taking into account business incentives. Based on the assumption that entities controlled by listed companies may adopt IAS / IFRS primarily to comply with parent company requirements and / or to simplify the financial reporting process, the findings reveal signs of deteriorating earnings quality, mainly for subsidiaries of listed companies (Cameran et.al., 2014). He states that an entity has a set of financial characteristics of its capital flow that leads to different measurements of income and cash flows. The financial characteristics of income and cash flows are a useful measure of the return and the way in which an entity manages its cash flow.

In general, when an entity focuses on sound and efficient management of its cash flows, it can achieve improved results through lower borrowing costs. Also, that free cash flows are used as an indicator of net profit before interest, taxes, depreciation and amortization in international markets as investors are able to calculate the cash flows of a business on an annual basis. Furthermore, the information provided by the Cash Flow Statement helps to more accurately assess the ability of the firm to generate cash and cash equivalents, to increase the comparability of a firm's results with similar companies in the industry, and to estimate its future cash flows.

2.7 Cash flows from operating activities

Cash flows from operating activities provide stakeholders with a clear picture of the entity's ability to generate cash to maintain its productive capacity, finance its operations, and create value for shareholders by paying dividends. Usually, cash flows from operating activities come from the basic activities that generate revenue, i.e transactions that determine the net profit or loss of the business.

While considering cash flows from operating activities, stakeholders should consider the size of the entity, the industry in which it operates, the policies it pursues, and the wider economic environment in which it operates. What is desirable for a healthy business is to have positive cash flows. However, in case this does not happen, it should be possible, based on the above criteria, to assess the reasons why the company does not have positive cash flows and to ensure that its smooth operation is not endangered.
Indicatively, cash flows from operating activities include the following transactions:

- Receipts of receivables from sales of goods or provision of services.
- Repayment of liabilities for the supply of goods or raw materials and the provision of services for the exercise of the activities of the entity.
- Receipts from fees, commissions, exploitation rights, etc.
- Receipts and cash payments for insurance benefits (eg insurance premiums, allowances, pensions, etc.).
- Receipts and payments from contracts for foreign exchange or commercial purposes.
- Staff fees.
- Rent payments for administration buildings, machinery, cars etc.
- Payments of taxes (VAT, income tax, etc.) and insurance contributions in favor of employees.

Direct method
The direct presentation method of operating activities lists all cash receipts and payments associated with operating activities.

According to the direct method, the only part of the Cash Flow Statement that differs in presentation is the cash flows of operating activities. The direct method lists the cash receipts and payments made during a period of the entity. Cash outflows are deducted from cash inflows to calculate net cash flow from operating activities, before including cash from investing and financing activities to increase or decrease net liquidity in the company. For this reason, many companies prefer the direct presentation method in order to help estimate future cash flows that are not available with the indirect method (Tourna-Germanou, 2015).
The data for the presentation of cash flows from operating activities are calculated from changes in accounts receivable, accounts payable, and inventories in combination with items from the Statement of Comprehensive Income, such as sales and cost of goods sold.

Indirect method
In the indirect method of presenting operating activities, net income is adjusted for cash flows from operating activities.

The indirect method of calculating operating cash flows uses accrual-based accounting data and always starts with net income. Net income is then adjusted for changes in the assets and liabilities account of the balance sheet by adding or subtracting from net income to derive operating cash flows. Therefore, net profit or loss is restructured according to the effect of accrued operating receipts or payments and income or expense data from investment or financial activities (Tourna-Germanou, 2015).
In the indirect method, the net cash flows from operating activities take into account the income and expenses reflected in the Statement of Comprehensive Income and changes in inventories, organic receivables and accounts payable. According to this indirect method, the calculation of cash flows from operating activities starts from pre-tax profits and then the adjustments are made with the opposite sign from the result of the adjustment - the income is deducted and the expenses are added.

The calculation of working capital changes takes into account changes in inventories, receivables from customers, suppliers, taxes and liabilities other than those relating to financial institutions. The increase in current assets and the decrease in current liabilities are deducted, while the decrease in current assets and the increase in short-term liabilities are added to the net profit. Finally, the effect of cash flows from operating activities must agree regardless of the method chosen.

2.8 Cash flows from investment activities

Cash flow from investing activities is an item in the cash flow statement that indicates the total change in a company's cash position as a result of gains or losses on investments and changes resulting from amounts spent on capital investments, such as plant and equipment.
When analyzing an entity's Cash Flow Statement, it is important to consider each of the three instruments that form the ultimate cash position of the business. For example, negative cash flows do not necessarily mean a poor return on business, as they can be explained by a large investment activity during the period under review.

2.9 Cash flows from financial activities

Cash flows from financial activities are the part of the Cash Flow Statement that presents the net cash flows used to finance the company. Financing activities include transactions involving debt, equity and dividends. Financial activities bring about changes in the size and structure of an entity's equity and lending capital. The separate presentation of financial activities is important because it helps to highlight the way in which an entity is financed, while it also contributes to the ability to estimate creditors' claims on future cash flows.

2.10 Comparison of direct and indirect method

The main difference between the direct method and the indirect method is in the presentation of cash flows from operating activities as there are no differences in cash flows from investment and financial activities.
When using the straightforward method of presenting a business's cash flows from operating activities, net income is not the starting point. Instead, the direct method lists the entity's operating receipts and payments on a group basis. Proponents of the direct method believe that this particular way of presenting provides a reliable picture of the company's ability to generate cash flow from its operation, which will allow it to meet its obligations and create value for shareholders (Arnold et. al, 2018).

Proponents of the direct method argue that the simple, understandable, and categorical representation of cash inflows and outflows enables the development of a reliable model of an entity's profitability through expected and realized cash flows. It also provides the ability to compare dissimilar business activities according to the ability to create operating cash flows.

Critics of the direct method, on the other hand, point out that the difficulty and time it takes to record all cash disbursements and receipts make the indirect method a more commonly used method.

3. Conclusions

The Cash Flow Statement is one of the mandatory disclosures in accordance with IAS / IFRS and is an important tool for the financial and accounting study of stakeholders inside and outside the entity. The Cash Flow Statement informs the interested parties about items that do not appear in the other financial statements such as the Financial Statement or the Income Statement, although it relies on them to calculate the changes in the amounts reflected in the Cash Flow Statement. Essentially, the Cash Flow Statement captures the relationship between the accounting profit and the cash position of the enterprise, analyzing the cash flows from operating activities, investment activities, and financial activities. In this way it contributes to the better and more accurate assessment of the quality of profits, but also other quantities such as the liquidity and profitability of an entity.

The application of the direct method is more time consuming in terms of collecting the necessary information for the cash inflows that come from the sales of the company or for the outflows that concern payments to suppliers. In addition, cash or bank payments must be separated for the business operations. The application of the indirect method does not require all of the above, but requires the analysis of two consecutive Statements of Financial Position and the changes in their data in order to understand the effect of each change on the cash flows of the company. The end result for the operating cash flows of the company is the same regardless of the choice of method, while there is no difference between direct and indirect methods for the funds related to investment and financial activities.

The study of the sources of cash flows and the analysis of their use contribute to the understanding of the ability of an entity to create cash and cash equivalents through its main operating activities and to ensure its smooth operation through its investment and financial activities.

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