

Cash Flow Statement Disclosures: A Study of Banking Companies in Bangladesh.

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Abstract

Financial statements portray the financial effects of transaction and other events by grouping them into broad classes according to their economic characteristic with a view to messaging the financial information by way of its various parts. The acceptance of International Accounting standard- 7: Cash Flow Statement has added a new dimension to the preparation and presentation of financial statement in Bangladesh. Preparation of cash flow statement is not obligatory as per Companies Act. But if the organizations are public limited company enlisted with stock exchange, they are to prepare these statements as per other statutory laws and regulations. Companies are now preparing this statement as an integral part of their financial statement. This study reveals that the current practices of sample companies is in line with the requirements of International Accounting Standard –7 (BAS 6). It also proposes some suggestion for improving the presentation of the statement]

Key words: Cash flow statements, IAS, Disclosure.

Introduction

The severance of management from ownership in modern business calls for the use of some form of connection between the managers and the owners and other interested parties. Financial reporting is the most effective and widely used medium of communicating the operating results as well as latest financial position of a concern for the management. Stability and success of any business largely depend on its ability to generate sufficient cash. As part of conveying an end result of companies operation managements use financial statement as an important vehicles through which financial information is furnished to the stakeholder. But the three basic financial statement present only fragmentary information about a company's cash flows (cash receipt and cash payments). For example, comparative balance sheet shows the increase in property, plant and equipment during the year. But it doesn't show how the additions were financed or paid for. The income statement showing net income doesn't indicate the amount of cash by operating activities. Similarly, the retained earning statement shows cash dividend declared but not cash dividend paid during the year. In other words, the balance sheet, Income statement of a business concern give a good indication of how healthy the business is financially and how successfully it is

performing. None of these statements reveals a detail summary of the net change in cash as a result of various activities during the period namely, operating, investing, and financing activities.

Cash inflows and outflows are the key elements in the operating cycle of an enterprise and are of most fundamental events upon which accounting measurement are based and upon which investors and creditors bases their decision. (Hendrikson, Eldom.S, 1982: p.236) The cash flow statement reports the cash receipt cash payments and net change in cash resulting from operating, investing, and financing activities during a period. Thus reporting the causes of change in cash helps investors, creditors, and other interested parties understand what is happening. It provides the answer to the following simple, but important, question about an enterprise.

1. Where did cash come from during the period?
2. What was the cash used for during the period?
3. What was the change in the cash balance during the period?

(Keiso and Weygandt, 1998: 1275-76)

According to the paragraph 7 of IAS 1, *Presentation of Financial statement* (revised 1997), ‘ a complete set of financial statements includes balance sheet, income statements, a statements showing either ‘all change in equity’ or ‘change in equity other than those arising from capital transaction with owners and distribution to owners’, cash flow statements and accounting policies and explanatory notes. Thus cash flow statement is an integral part of the financial statements.

Objectives of the study

The study intends to:

- 1) Conceptualizing the relevant terms involving in cash flow reporting.
- 2) Concentrating on the advent of the cash flow statements as an integral part of the financial statements.
- 3) Giving a general idea of the existing regulatory framework regarding this reporting.
- 4) Investigating and presenting current practices of cash flow statements reporting on the basis of information provided in the annual reports of selected banking companies enlisted with stock exchange.
- 5) Studying the format and structure of such statement. and
- 6) Drawing a conclusion line by putting forward some suggestion for the improvement.

Methodology of the study

The study was conducted in accordance with secondary information obtained from various sources. The overview of standardization of financial reporting and the regulatory framework has been based on laws, regulation, and guideline and also on various published sources of information taken from International Accounting standard Committee and International Federation of Accountants. In order to make the study more revealing it also covered some research articles, textbooks, publications and web sites of various accounting bodies. A limited survey has also been made covering a total of 20 banking companies' annual reports enlisted in Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange.(CSE).Those are selected on the basis of convenience sampling procedure.

Limitation of the study

This study consists only twenty listed banking companies due to time and resources constraints. Dealing with more banking companies would have been more representative.

Cash Flow Statement: A Historical surroundings

Cash flow Accounting (CFA) was the main system of accounting up to beginning of the 18th century. Before that accounting allocation and profit measurement was relatively unimportant; the profit and loss account being used to close off ledger accounts at each period end. However, with the advent of concept and practices of business continuity, the need to grow periodic measure and statement of financial position. Thus the basis of cash transaction becomes foundation for the allocation based systems of accounting today. Although there has been a reasonably sustained interest in fund flow statements (based on allocated accounting data) since the beginning of the twenty century CFA appears to have received little or no support from accountants until the early 1960s. At that time there was little concern over the use of 'cash flow' data in the financial analysis- cash flow being interpreted as 'profit plus depreciation. (.Winjum, J.o, 1972). In 1961 AICPA recognized the importance of fund statement by publishing Accounting research Study (ARS) NO 2 "Cash flow analysis and fund statements". Before that, accountants had prepared funds statements primarily as management report. The Accounting Principles Board (APB) responded in October 1963 by issuing *APB Opinion NO. 3* "the statements of and application of funds", which recommended that a statement of sources and application of funds be presented on a supplementary basis. Because of the favorable response of the business community to this pronouncement, The APB issues Opinion No. 198, "Reporting changing in Financial Position" in March 1971. This opinion required that a statement of changing financial position be presented as a basic financial statements and be covered by the auditors reports.

In 1981 the financial Accounting Standard board (FASB) reconsidered fund flow issues as part of the of the conceptual framework project taken in 1976. At this time the FASB decided that cash flow reporting issues should be considered at the standard level. Subsequent deliberation resulted in *Statement of Financial*

Accounting Standard (SFAS) no. 95, 'Statement of cash flows' in November 1987.
(Weygandt, Kieso, Kimmel 1998: 1936)

Fund flow statement Vs Cash Flow Statement

Both fund flow statement and cash flow statement serves as a fundamental parts of the financial statements. In 1961, the AICPA issued ARS No. 2, "*Cash Flow Analysis and the Fund Statements*" which recommended that a fund statement covered by auditor's opinion be included in companies financial reports. According to paragraph 5 of Preface to Statement of International Accounting Standard [approved by the IASC Board in November 1982 for publication in January 1983 and supersedes the preface published in January 1975 (amended March 1978)], "the term 'financial statements'. Covers balance sheets, income statement or profit and loss accounts, *statements of change in financial position*, notes and other statements and explanatory materials which are identified as being part of financial statements" (IASC, 2000:32) As per paragraph 7 of framework for *the Preparation and Presentation of Financial Statements* (approved by IASC board in April 1989 for publication in July 1989), "A complete set of financial statement normally includes a balance sheet, an income statements, a statements of change in financial position (which may be presented in a variety of ways, for example as *a statement of cash flow* or *a statement of fund flows*) and those notes and other statements and explanatory material that are an integral part of the financial statements".(IASC : p. 43-44)

As per paragraph 4 of the previous IAS 7 (October 1977), *statements of change in financial position*, the term '*funds*' referred to cash, cash and cash equivalents or working capital (IFAC, 1992: p.813). Funds provided or used in operation of an enterprise should be presented in the statements of changes in financial statement separately from other sources and uses of fund. Unusual items, which are not part of ordinary activities of the enterprise, should be separately disclosed (IASC: Para 21). But many users of financial statements considers current practices of reporting fund flows as confusing because too much information is compressed in the statements of change in financial position, and because no single definition has been established. (Mosich and Larsen, 1982; p. 935) In order to develop a conceptual framework for financial accounting and reporting the FASB issued in December 1980, a discussion memorandum" reporting Fund flow, Liquidity and Financial Flexibility" which was issued for the following reason. (1) For assessing future cash flow. (2) current practices regarding the reporting of funds flow information are not entirely satisfactory. As a result of deliberation, FASB issued SFAS NO. 95 '*Statements of Cash Flow*' in 1987. The statements requires the inclusion of statements of Cash Flows rather than a statement of Change in Financial position when issuing a complete set of financial statements which was made effective for annual periods ending after July 15, 1988. The major requirements of the statements are of the following two areas.

(a) Basis of Presentation. The statement must focuses on cash receipt and payments and must explain the change in cash plus cash equivalents.

(b) Classification of cash flows: Cash flows are to be classified according to operating, investing and financing activities.

The basis of such classification is derived from the financial theory, which state that enterprise derives the cash used for investing activities and settlement of outstanding financial obligation in an accounting period from internal and external sources. Internal cash sources emanate from the net cash generated from current operation and perhaps disinvesting and depletion of cash resources at start of the period. External cash sources come from financing activities such as borrowing, and receiving cash from the sale of equity shares to existing and new shareholders' (Wallace et,al)

Objective and Scope of IAS 7, Cash flow statements

Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilize those cash flows. The economic decision are taken by users require an evaluation of the ability of an enterprise to generate cash and cash equivalents and timing and certainty of their generation. The objective of IAS 7 is to require the provision of information about the historical change in cash and cash equivalents of an enterprise by means of a cash flow statement that classifies cash flows during the period from operating, investing and financing activities. An enterprise should prepare a cash flow statement in accordance with the requirements of IAS 7 and should present it as an integral parts of its financial statements for each period for which financial statements are prepared, Users of an enterprise's financial statements are interested in how the enterprise generate and uses cash and cash equivalents. This is the case regardless of the nature of the enterprise activities and irrespective of whether cash can be viewed as the product of the enterprise, as may be the case with a financial institution. Enterprises need cash for the same reason s however different their principal revenue- producing activities might be. They need cash to conduct their operations, to pay their obligation s, to provide return to the investors. Accordingly this standard requires all enterprise to present a cash flow. (Para 1 & 3)

Benefits of Cash Flow Information

The information in a cash flow statement statements help investors, creditors, and other to assess the following aspects of the firm's financial position.

- (a) Such statements serve as a mechanism for predicting the ability to generate future cash flows for the investors, creditors and others.
- (b) This enables managers or management to plan coordinate and control financial operation in an effective manner.
- (c) It gives an indication of the relationship between profitability and cash-generating ability thus of the quality of the profit earned.
- (d) It furnishes information to the management regarding the entities ability to pay dividend and meet obligations.
- (e) Analyst and other users of financial information often, formally or informally, develop models to assess and compare the present value of the

future cash flow of entities. Historical cash flow statements could be useful to check the accuracy of past assessment. (ACCA Text book part 2. P.324).

- (f) It is free from manipulation and is not affected by subjective judgments or by accounting policies.
- (g) Such a statements dictates situations when a business has made huge profit but has run out money or it has sustained loss but has enough cash availability.
- (h) The extent of cash generated from operational activity and external finance in order to meet capital, tax, and dividend requirements can be obtained from such statements.⁸. (Lee, T.A: 1972:27-36)
- (i) It aids in the evaluation of risk, which includes both the expected variability of future return and probability of insolvency or bankruptcy. (Hendrickson, Eldom.S, 1982: 237)
- (j) Such statements reveal the capability of an enterprise to pay its short obligation as and when due to the lenders.
- (k) A cash flow statement in conjunction with a balance sheet provides information on liquidity, viability, and adaptability. The balance sheet is often used to obtain information on liquidity, but the information is rather incomplete for this purpose as the balance sheet is prepared at a particular point in time.
- (l) It may assists users of financial statements in making judgments on the amounts, timing and degree of certainty of future cash flows.
- (m) This statement provides information that is useful in checking the accuracy of past assessment of future cash flows and in examining the relationship between profitability and net cash flow and the impact of changing price. (IAS 7: Para 3 & 4).
- (n) Information on cash flows classified by three groups of activities (Operating, investing and financing) that allows users to assess the impact of those activities on the financial position of the enterprise and the amount of its cash and cash equivalents. This information may also be to evaluate the relationship among those activities. (IAS 7: Para 11).
- (o) This statement is of special importance in assessing future cash flows, quality of income operating capability, financial flexibility and liquidity, and information on financing and investing activities. Using cash flows from operating activities from the cash flow statements, different ratios such as liquidity, ratio, solvency ratio, and profitability ratios can also be calculated to evaluate an enterprise liquidity, solvency, and profitability. (Aziz uddin and Bala, 2001: p. 14)

Presentation of Cash flow statement under IAS 7

Cash and cash equivalent:

The definition of cash and cash equivalent are central to the preparation and interpretation of cash flow statements. Cash consists of cash on hand and demand deposits, coins and notes of an organization. In our country deposits in postal accounts may be termed as cash (Cooper and Ijiri, 1984: 88; Ghosh, 2001). Cash

equivalent are short-term, highly liquid investments that are readily convertible into known amount of and which are subject to an insignificant risk of change in value. According to the definitions of paragraph 6, of IAS 7 cash comprises cash on hand and demand deposits; usually 'cash on hand' includes currency, notes, and coin in the cash box of the enterprise. It also includes prize bond, negotiable money orders, postal orders, and undeposited checks, bank drafts or pay- order. Demand deposits refer to deposits in checking accounts in banks and other financial institution that may be withdrawn without notice usually subject to deduction of outstanding check. Thus cash equivalent –

- (1) are short-term investments but the 'term' 'short' not clearly specified, although a period of three month and less is suggested to take as short-term period.
- (2) are highly liquid investments. Here 'liquid' means having in a situation where cash equivalent are available in sufficient amount to meet obligation due for payments.
- (3) are investments that are both: (a) readily convertible, to known amounts of cash and (b) subject to an insignificant risk of change in value. According to SFAC No. 95, the risk categorically refers to risk of change interest rate. The short-term investment is so near their maturity that they represent insignificant risk of changes in interest rate. Examples included treasury bills, commercial papers, and money market funds purchased with cash that is in excess of immediate needs.

However although by definition, *cash equivalents* refers to short term highly liquid investments, they are usually held for the purpose of meeting short term cash commitments rather than or other purpose. For an investment to qualify as a cash equivalent it must be ready convertible to a known amount of cash and be subject to insignificant risk of change in value. Therefore an investment normally qualifies as a cash equivalent only when it has a short maturity of, say three month and less from the date of acquisition. Equity investments are excluded from the cash equivalents unless they are, in substance, cash equivalents, for examples in the case of preferred share acquired within a short period of their maturity and with a specified redemption date (Para 7).

Preparation of cash flow statements

IAS 7 requires cash flows to be classified into operating, investing, and financing activities.

Cash flows from operating activities

Cash flows from operating activities are in general the cash effects of transactions and other events relating to operating or trading activities. Net cash flow from operating activities represents net increase or decrease in cash resulting from operations shown in the income statements in calculating profit from operation. IAS 7 permits a choice between two possible methods for reporting net cash flow from operating activities.

- The **direct method** whereby major sources of gross cash receipt and gross

Cash payments are shown.

- The **indirect method** starts with profit before tax and adjusts it for non-cash charges and credits to reconcile it to the net cash flow from operating activities. The above methods are described in Table 1.

Table 1: Direct vs. indirect methods of determining cash flow from operating activities

Direct method (Para 19)	Indirect method (Para 20)
<p>Gross cash flows from operating activities may be obtained either</p> <ul style="list-style-type: none"> (a) From the accounting records of the enterprise; (b) By adjusting sales, cost of sales (interest and similar income and interest expense and similar charge for a financial institution) and other items in the income statements for. <ul style="list-style-type: none"> (1) Charges during the period in inventories and operating receivable and payables. (2) Other non cash items; (3) Other items for which the cash effect are investing and financing cash flows. 	<p><i>Method -1:</i> Net cash flow from operating activities is determined by adjusting net profit or loss for the effect of:</p> <ul style="list-style-type: none"> (a) changes during the period in inventories and operating receivable and payables; (b) Non-cash items such as depreciation, provision deferred taxes, unrealized foreign currency gain and loss, undistributable profit of associates, and minority interest (c) All other items for which the cash effect are investing and financing cash. Flows. <p><i>Method 2:</i> Net cash flow from operating activities may be presented by showing the revenue and expenses disclosed in the income statements and the change during the period in inventories and operating receivable and payable.</p> <p>Under paragraph 22, following cash flows arising from operating activities are to be reported on net basis:</p> <ul style="list-style-type: none"> (1) Cash receipt and payments on behalf of customer when the cash flow reflects the activities of the customer rather than those of enterprise; and (2) Cash receipt and payments

	for items in which the turnover is quick, the amounts are large, and the maturity is in short.
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Sources: IAS 7

Cash flows from Investments Activities:

Investing activities are the acquisition and disposal of long-term assets and other investment not included in cash equivalent (Para 6). (For details see Table –2 for examples of cash flows from investment activities)

Cash Flow from Financing Activities:

Financing activities are activities that result in changes in the size in the size and composition equity capital and borrowing of the enterprise. Details examples of cash flow from financing activities are given in Table 2.

Table 2: Examples of cash flows from operating investing and financing activities

Activities	Cash flows	
	Cash inflows from	Cash outflows to
Operating activities (Para 14& 15)	(1) Sale of goods and rendering of services. (2) Royalties fee, commission and other revenues; (3) Premium and claim, annuities and other policy benefits. (In case of an insurance enterprise.); (4) Contract held for dealing and or trading purpose; (5) Sale of dealing or trading securities or loan; (6) Refunds of income tax unless they can be specifically identified with financing and investing activities.	(1) to supplier for goods and services; (2) To and on behalf on employees; to lender for interest, (3) For premium and claim, annuities and other policy benefits. (In case of an insurance enterprise); (4) Of income tax unless they can be specifically identified with financing and investing activities; (5) from contract held for dealing and or trading purpose; (6) For the purchase of

	(7) Cash advance and loans made by financial institutions.	dealing or trading securities.
Investing activities (Para 16)	<p>(1) Sale of property, plant and equipment, intangible, and other long-term assets.</p> <p>(2) Sale of equity and debt instruments of other enterprise and interest in joint venture. (Other than receipt for those instruments considered to be cash equivalent those held for dealing or trading purpose.)</p> <p>(3) Repayment of advances and loans made to other parties (other than loans and advances of a financial institution);</p> <p>(4) Future contract, forward contract, option contract's and swap contracts except when the contract are held for dealing or trading purpose; or the receipt are classified as financing activities</p>	<p>(1) To acquire property, plant and equipment and other long term assets. This payment includes those relating to capitalized development costs and self constructed property, plant and equipment.</p> <p>(2) To acquire of equity and debt instruments of other enterprise and interest in joint venture. (Other than receipt for those instruments considered to be cash equivalent those held for dealing or trading purpose.)</p> <p>(3) As cash advances and loans made to other parties (other than loans and advances of a financial institution);</p> <p>(4) For future contract, forward contract, option contract's and swap contracts except when the contract are held for dealing or trading purpose; or the payments are classified as financing activities; and -:</p>
Financing activities	<p>(a) From issuing of equity securities and shares;</p> <p>(b) From issuing debenture, loans, notes, bonds,</p>	<p>(a) To stockholder as dividend;</p> <p>(b) To redeem long-term debt or reacquire capital stock.</p>

	mortgage and other short and long term borrowing.	
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Some confusing issues in identifying activities for cash flows:

A. Operating or financing activities

Transactions with different categories included in cash flows are classified in a different manner. According to IAS 7, Para # 12 “A single transaction may include cash flows that are classified differently. For example, when the cash repayment of a loan includes both interest and capital the interest element may be classified as operating activities and the capital amount is classified as financing activities”.

B. Operating or investing and financing Activity

Some cash flows may be classified as arising any activities such as ‘interest’ ‘dividend’ ‘income tax’. The detailed provisions of these types are as follows.

(1) Interest:

- (a) For a financial institution, interest paid and interest received are usually classified as *operating* cash flows (Para 33).
- (b) For other enterprise, interest paid and interest received may be classified as *operating* cash flows because they enter into the determination of net profit or loss. Alternatively, interest paid may be classified as *financing* cash flows, because they are costs of obtaining financial resources. Interest received may be classified as *investing* cash flows, because they are returns on investments. (Para 33).

(2) Dividend:

- (a) For a financial institution, dividends received are usually classified as *operating* cash flows (Para 33).
- (b) For other enterprise, dividends received may be classified as *operating* cash flows because they enter into the determination of net profit or loss. Alternatively dividend received may be classified as *investing* cash flows, because they are returns on investments. (Para 33).
- (c) Dividend paid may be classified as *financing* cash flows, because they are costs of obtaining financial resources. Alternatively dividend paid may be classified as *component of* cash flows from *operating* activities in order to assist users to determine the ability of an enterprise to pay dividend out of operating cash flows. (Para 34).

(3) Income tax:

- (a) Taxes on income arise on a transaction that gives to the cash flows cash flows that are classified as operating, investing, and financing activities in cash flow statement. While tax expense may be readily identifiable with investing or financing activities, the related tax cash

flows are often impracticable to identify and may arise in a different period from the cash flows of the underlying transactions. Therefore taxes paid are usually classified as cash flows from operating activities. However, when it is practicable to identify the tax cash flow within individual transaction that gives rise to cash flows that are classified as investing or financing activity as appropriate. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed. (Para 36.)

In the light of SFAS 95, “Transaction that enter into the determination of net income” are defined as operating activities and hence, interest received or paid, dividend received and taxes on income are rigidly treated to arise from operating activities. Dividend stakeholders are treated as cash outflows classified as financing activities. (Keiso and Weygandt, 1998: 1275-76)

Format for reporting cash flows from operating activities:

An enterprise should report cash flow from operating activities using either:

- (a) The direct method. (Para 19.)
- (b) The indirect method. (Para 20)

Format for reporting cash flows from Investing and financing activities:

- (a) Gross basis (Para 21)
- (b) Net basis. (Para 22, 24)

Disclosure

An organization should report the following disclosure in addition to operating, investing and financing Activities.

- (a) Effect of exchange rate change. (Para28)
- (b) Extraordinary items. . (Para 30)
- (c) Acquisition and disposal of subsidiaries or other business units.(Para 40-42)
- (d) Non-cash transaction. . (Para 44)

Cash flow statements practices in Bangladesh: Regulatory Framework

In the eyes of the companies Act 1994, (Act no. 18 of 1994)

According to the section no 183 of the Companies’ Act 1994 (which came into effect from 1January 1995), a company is required to present balance sheet, profit and loss account. (Income and expenditure account, in case of non profit companies). Under section 185, the balance sheet and income statement have to be prepared according to the forms set out in Part –1 and Part –2 of Schedule XI respectively. Under which information on consecutive two years (concerned year and preceding year.) are to be provided. However according to note (g) of the general instruction for preparation of balance sheet (given in part –1 of schedule XI after the horizontal format of the balance sheet), “a statement of change in financial position shall be included as an integral part of the financial statements,

and shall be presented for each period for which the profit and loss account is prepared”. No *Cash Flow Statement* is being prescribed by the Companies Act 1994.

In the light of the Security and Exchange Rule 1987 (S.R.O No. 237-I/87 dated on 28 September 1987).

Under the provision of rule 12 (1) of the Securities and Exchanges Rules (SER) 1987(amended by the section notification No. SEC/ Section 7/SER/03/132 dated 22 october1997 published in the official gazette on 29 December 1997), the annual report to be furnished by an issuer of listed security shall include “a balance sheet, profit and loss account, *cash flow statement* and notes to the accounts collectively hereinafter referred to as the financial statement’.

In *the* part III of the Schedule of the SER 1987, issues relating to interest paid on short-term borrowing, interest and dividend received income taxes are clearly guide lined. For example, interest paid on short-term borrowing, shall be a cash outflow under *operating activities*; ‘interest and dividend received’ shall be a cash inflow under *investing activities*. and ‘interest paid on long term borrowing’ and ‘dividend paid’ shall be a cash outflow under *financing activities*. Under paragraph 35-36, ‘taxes on income’ should be treated as operating cash outflow unless they can be identified in financing and investing activities.

According to the Bank Companies Act 1991 (Act 14 of 1991)

As per the requirements of under section 38 (1) of Banking companies Act 1991. , every banking company shall prepare two financial statements- balance sheet and profit and loss account- in the forms set out in the First Schedule, or as near there to there to as circumstances admit. In accordance with the provision of section of section 38 (4), the Bangladesh Bank amends the form set out in the first schedule. Under this authority, the bank regulation the Bank Regulation and Policy Division (BRPD) of the Bangladesh Bank has made a circular title ‘Amendment of First Schedule Forms of the Bank Companies Act 1991’. (BRPD Circular NO. 03) on 18 April amending the forms set out in the First Schedule with effect from 30 march 2000. According to the revised forms of First Schedule, the existing two forms for balance sheet and profit and loss account have also been revised to adopt IAS 30, *Disclosure in the financial statements of Bank and similar financial institution*. And two additional financial statement is are to be compulsorily prepared by banking companies- *cash flow statements* and statement of change in equity. Each of the financial statement has to show the corresponding figure of the preceding year. The contents of the Cash Flow Statement (CFS) will include the cash flows as follows:

Table 3: The contents of the Cash Flow Statement (CFS) as per Banking Companies Act.

Operating Activities	Investing Activities	Financing Activities
<ul style="list-style-type: none"> • Interest and commission receipt. • Interest payments; • Receipts from other operating activities; • Cash payment to supplier. • Cash payment to employees. <p>Operating profit before changes in operating assets and liabilities.</p> <p style="text-align: center;">Increase /Decrease in operating assets:</p> <ul style="list-style-type: none"> • Treasury bills; • Deposits held for regulatory or monetary control purpose. • Funds advances to customers; • Other short term deposits <p style="text-align: center;">Increase /Decrease in operating liabilities.</p> <ul style="list-style-type: none"> • Deposits from customers • Certificate of deposits 	<ul style="list-style-type: none"> • Dividend received; • Interest received; • Proceed from sale of securities. • Purchase of securities. • Purchase of Property and plant and equipment. • Proceed from the sale of Property and plant and equipment 	<ul style="list-style-type: none"> • Increase / decrease of long-term borrowing. • Net increase in other borrowing • Dividends paid.

Net cash from operating activities before income tax.		
•Income taxes paid.		
Net cash from operating activities.		

Empirical study

To know the extent of cash flows statements reporting practices by our banking companies, a concentrated survey has been conducted covering 20 reports. (For detailed the name of the banks see Appendices). This study covered year 2004 of surveyed companies. The majors finding of the study are:

- All the sample banking companies prepare cash flow statement as required by international accounting standard adopted by the Institute of Chartered accountant of Bangladesh and complying with the Banking Companies Act 1991, the rules and regulation issued by the Bangladesh Bank.
- Each of the company's financial statements includes balance sheet, profit and loss account, and Cash flow statement seven companies have also provided "Value added statement".
- Cash flows statements of the sample company's shows figure of cash flows from operating, financing and investment activities of the current year and previous year.
- In the auditors' reports of the sample banking companies it is mentioned Cash Flow Statements coming under the preview of audit.
- The sample companies prepare Cash Flow Statements in vertical form.
- The sample companies didn't illustrate the policy adopted in determining the formulation of cash and cash equivalents although this is required by paragraph 36 of IAS 7.
- The sample companies followed the direct method in reporting operating cash flows and shown 'interest paid on short borrowing 'and 'taxes on income paid and /or deducted at sources' under the operating activities in their Cash Flow Statements.
- All the companies studied have shown 'interest and dividend received' under investing activities and 'interest paid on long term borrowing' and 'dividend paid' under financing activities.
- The management of the samples companies authenticated the cash flow statements.

Conclusion and Recommendation.

Investors, creditors and other stakeholders' key area of concern are the liquidity and solvency of an enterprise that in turn depend on the smooth flows of cash within an enterprise. Although having some inherent limitation, through cash flows statement those groups can feel the relief and try to build further relationship with the company. That's why this financial statement is of significant importance, which assists in assessing operating capability, income quality, strong financial flexibility, or at least allows creditors for being "tension free" for recovering their money. Companies practicing in the economy will prepare this statement in accordance with the provision prescribed by International Accounting Standard (IAS) -7 other local and international acts and rules imposed by regulatory bodies in a consistent manner keeping these rules, acts in their mind in general, the investors, creditors demand requirement in particular. Our sample companies prepare cash flow statement according to Banking Act 1991, and BSA No. 6. On the basis of our finding the following suggestions can be put forward for the perfection of this reporting.

- (a) Items consisting of cash flows from investing and financing activities should be clarified in the notes of the accounted section and related number can be included in the statement for cross references.
- (b) Increase / Decrease in current assets liability should be rightfully labeled.
- (c) In case of preparing cash flow from operating activities sample companies following direct method should reveal collection from various and payment for various expenses in a distinct manner and should mention the related no. of the Notes to Accounts for prepared references.

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Appendices:

List of the 20 banks studied.

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|------------------------------|------------------------------|
| *AB Bank Ltd (2004) | * National Bank Ltd (2004) |
| * Uttara Bank Ltd (2004) | * Islamic Bank Bd Ltd (2004) |
| * Dhaka Bank Ltd (2004) | * South East Bank Ltd (2004) |
| * Prime Bank Ltd (2004). | * NCC Bank Ltd (2004) |
| * Mercantile Bank Ltd (2004) | * Exim Bank Ltd (2004). |
| * Bank Asia Ltd (2004) | * One Bank Ltd (2004) |
| * Dutch Bangla Bank ltd | * Pubali Bank Ltd (2004) |
| * IFIC Bank Ltd (2004). | * Mutual trust Bank Ltd |

*** Eastern Bank Ltd (2004)** *** The Oriental Bank Ltd (2004)**
*** Standard Bank Ltd (2004)** *** Al Arafa Islami Bank Ltd (**
2004)