EXPOSURE DRAFT
National Accounting Standard for Commercial Organisations (NASCO 5)
CASH FLOW STATEMENT

General Provisions

1. This standard has been prepared in accordance with the Accounting Law of Azerbaijan Republic and is based on International Accounting Standard 7, Cash Flow Statements.
2. This standard should be applied, taking into account additional provisions contained in Rules of Bookkeeping and also in Explanations and Recommendations on the Application of the National Accounting Standarts for Commercial Organizations.
3. In case of contradiction between effective normative and legal acts on accounting and this National Accounting Standard this Standard will be applied**.**

Objective

4. The objective of this standard is to prescribe the requirements regarding the preparation and presentation of the Cash Flow statement in accordance with Paragraph 76 of National Accounting Standard for Commercial Enterprises 1 - Presentation of Financial Statements of Commercial Organizations.

Scope

5. This standard, which is consistent with the National Accounting Standards for Commercial Organizations should be applied in the case of presentation of all Cash Flow Statements as a part of annual financial statements.

6 This standard applies to both the financial statements of the subject of the accounting and to the consolidated financial statements for a group of enterprises in accordance with the appropriate provisions of the Accounting Law of the Republic of Azerbaijan.

DEFINITIONS

7. The following terms are used in this standard with the meanings specified:

Cash represents cash on hand and demand accounts.

Cash equivalents are highly liquid investments with short maturity of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows are inflows and outflows of cash and cash equivalents.

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

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents, including lending and collecting loans and other interest bearing borrowings.

Financing activities are the issuing of the equity capital of the enterprise and distributions to owners and also the borrowings granted by third parties and repayments to them.

Bisness Unit- is the independent structure implementing enterprise's functions as a whole or partly that at the same time is not a separate legal entity.

Bank Overdraft is a short-term liabilities of the enterprise, arising against the credit organization if the special contract is available. Pursuant to thisl contract:

(a) when in the certain moment of time enterprise has no sufficient cash on its settlement account to settle liabilities against third parties, the credit organization will make the payments to settle these liabilities on its own account;

(b) borrowed credits together with the liabilities arising from amounts of interst for credits that enterprise charged in front of the credit organizations shall be repaid by inflow of any cashs into enterprise's settlement account.

Futures contract is the contract , comprising the following terms:

(a) the enterprise takes the responsiblity to purchase or to sell the certain quantity of commodity or financial instruments at the previously agreed prices in the future

(b) Normally, these contracts are not settled through receipt or delivery of the physical commodity, but are settled through full payment or the difference in prices, arising between the dates of concluding and settling this contrac.

Swap Contract is a short-term contract to purchase a commodity or a financial instrument, which hedges the future selling price.

Presentation of a Cash Flow Statement

8. The Cash Flow Statement should report cash flows during the period classified by operating, investing and financing activities.

9. An enterprise presents its cash flows from activities, specified in paragraph 8 of this Standard in a manner which is most appropriate to its business.

Presentation of the information on cash flows from Operating Activities

10. An enterprise should present the information on cash flows from operating activities by adjusting net profit or loss for:

(a) Changes at the beginning and at the end of the period in inventories and operating receivables and payables;

(b) information disclosing the non-cash items (depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, undistributed profits of associates, and minority interests; and

(c) outflows related to the settlement of the reserves.

(ç) Information disclosing all other items related to the cash flows arising from investing and financing activities.

11. As a minimum, the face of the Cash Flow Statement should include the following line items, and adjustments and changes to these lines:

(a) Net profit or loss for the period;

(b) Adjustments for:

(1) Minority interest;

(2) Extraordinary items;

(3) Profits tax;

(4) Non–cash items of income and expenses;

(5) Other items related to investing and financing activities.

(6) Changes in the following items:

(a) Inventories;

(b) Debtors and prepayments;

(c) Creditors and accruals.

(ç) Net cash flow from extraordinary activities.

(d) Paid-up taxes on profit

(e) Net cash flow from operartıng actıvıtıes.

12. Where the purchase and sale of long-term assets and short-term investments or the receiving or giving of loans are the principal revenue-generating types of activities of the enterprise it should classify cash flows from these transactions as operating activities .

Reporting Cash Flows from Investing Activities

13. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing activities, except to the extent that cash flows described in paragraphs 20 are reported on a net basis.

14. The face of the Cash Flow Statement should include the following amounts resulting from the investing activities:

(a) Payments for acquisition of long-term non-financial assets (including commission fees and other similar contributions paid), and also payments related to non-capitalized expenses;
(b) Cash receipts from sales of long-term non-financial assets;
(c) Cash payments for acquisition of investments in subsidiaries, associates and joint ventures;
(c) Cash inflows receipts from sales of investments in subsidiaries, associates and joint ventures;
(d) Cash payments as long-term and short-term loans made to other parties;
(e) Cash receipts from the repayment of long*term and short*term loans made to other parties;
(ə) Cash payments to acquire subsidiaries and other business units, net of cash and cash equivalents acquired;
(f) Cash proceeds from the disposal of subsidiaries and other business units, net of cash and cash equivalents realized;
(g) Cash payments for futures contracts, forward contracts, option contracts and swap contracts;
(ğ) Cash receipts from futures contracts, forward contracts, option contracts and swap contracts;
(h) Cash receipts in the form of dividends and other similar types of income;
(x) Cash receipts in the form of interest received;
(i) Extraordinary payments and receipts related to investing activities.

Reporting Cash Flows from Financing Activities

15. An enterprise should report separately major classes of gross cash receipts and gross cash payments arising from financing activities, except to the extent that cash flows described in paragraphs 20 are reported on a net basis.

16. The face of the Cash Flow Statement should include line items relating to financing activities:

(a) Cash proceeds from issuing shares and other similar instruments;
(b) Cash payments to owners to redeem the enterprise's shares and other similar instruments
(b) Cash proceeds of amounts borrowed;
(ç) Cash repayments of amounts borrowed;
(c) Cash proceeds in the form of special-purpose financing;
(d) Cash repayments of amounts received as special-purpose financing;
(ə) Cash repayments of principal amounts under finance lease contracts;
(f) Cash payments in the form of dividends and similar amounts payable;
(g) Cash payments in the form of interest;
(ğ) Extraordinary payments and receipts related to financing activities.

Requirements of the Reporting Format

17. When presenting items in the Cash Flow Statement under the obligatory headings set out in paragraphs 11, 14, and 16 of this standard, enterprises should keep the format stipulated by the appropriate Rules of Bookkeeping.

18. The changes in the titles of the above-mentioned obligatory items, specified in the paragraph 17 of this Standard, are allowed only when required by another National Accounting Standard.

19. Additional line items, headings and sub-totals, specified in the Appendix 2 of this Standard, should be presented on the face of the Cash Flow Statement in the following cases:

(a) if other National Accounting Standards require.

(b) if the fair presentation of the enterprise's cash flows is a necessity

REPORTING CASH FLOWS ON A NET BASIS

20. Cash flows arising from the following operating, investing or financing activities may be reported on a net basis in the following cases:

(a) if the cash receipts and payments are effected on behalf of customers and reflect the activities of the customer;

(b) if the turnover of items is quick and the maturities are short.

Foreign Currency Cash Flows

21. Cash flows arising from transactions in a foreign currency should be recorded in an enterprise's financial statements in manats. İn this case the exchange rate of the National Bank of Republic of Azerbaijan effective at the date of transaction is applied to the cash flows in a foreign currency.

22. Cash flow of the foreign subsidiary should be reported in the financial statements of the group in manats. In this case enterprise presenting consolidated financial statements about transferring cash flows of a foreign subsidiary should report using an exchange rate of the Azerbaijan National Bank for the date of cash flow arising.

23. In the case when it is economically unjustified to translate cash flows of a foreign subsidiary at the exchange rates of the National bank of Republic of Azerbaijan that existed at the date of the cash flows arising, then cash flows denominated in a foreign currency should be reported in financial statements in manat using a weighted average exchange rate for a period.

24. The weighed average of the exchange rate for the period should be calculated as the division of the sum of the products of exchange rates used in the specific transactions and weight coefficient related them to the coefficient total. The aim of this calculating is appropriated weight basic income in foreign currency for months and for the reporting period. The weighed average exchange rate for the month should be calculated in accordance with the information of the Azerbaijan National Bank.

25. Other income or other expence arising from exchange rate changes (negative and positive rate differences) is not applied to cash flows. However, amount that reflecting an influence of exchange rate changes to cash and cash equivalents embodied in foreign currency is separately presented in Cash Flow Statements in order to reconcile the amounts of cash and cash equivalents arising from operating, investing or financing activities for the beginning and the end of the reporting period. This amount is calculated as differences between amount of opening balance of cash held in foreign currency and amount that calculated as result of appliying a currency rate at the end of year and current currency rate to cash flow arising from per each operation.

Extraordinary Items

26. The cash flows associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed.

Interest and Dividends

27. Cash flows from interest and dividends received and other receipts relating to investment in capital should be classified as cash flows from investing activities.

28. Cash outflows in the form of interest, dividends and other payments, which arise from obtaining financial resources in the form of equity or liabilities should be classified as cash flows from financing activities.

29. The total amount of interest paid during a period is disclosed in the Cash Flow Statement whether it has been recognised as an expense in the income statement or capitalised as an asset in the Balance Sheet in accordance with the appropriate National Accounting Standard.

Future Contracts, Forward Contracts, Option Contracts and Swap Contracts

31. Cash flows arising from futures contracts, forward contracts, option contracts and swap contracts should be classified as cash flows from investing activities unless they are held for dealing or trading purposes or can be specifically identified with financing activities.

32. When future, forward, option and swap contracts are accounted for as a hedge of main contract, the cash flows of the contract are classified in the same manner as the cash flows of the main contract being hedged.

33. The term hedge used in paragraph 31 implies the making of futures, forward, option or swap contracts so that their change in market value is an offset, in whole or in part, to the change in market value of a principal contracts related to operating, investing or financing activities.

Taxes on Profit

34. Cash flows arising from taxes on profit paid or paid back should be separately disclosed and should be classified as cash flows from operating activities.

Value Added Tax and Other Taxes

35. Cash flows should be shown net of any attributable recoverable VAT (Value Added Tax) on any assets acquired, including VAT or other taxes related to sales. The net movement on the amounts payable to, or receivable from, the taxing authority should be allocated to cash flows from operating activities. If the material amounts payable to, or receivable from, the taxing authority may be specifically identified with investing or financing activities these amounts should be disclosed as the cash flows from relevant types of activity.

36. Where restrictions apply to the recoverability of Value Added Tax or other sales taxes, the irrecoverable amount should be allocated to cash flows on the same basis as the type of activities, to which the restrictions relate.

37. Taxation cash flows other than those in respect of the enterprise's profit and Value Added Tax, or other sales tax, should be allocated to cash flows from same types of activity as the cash flow that gave rise to the taxation cash flow.

Investments in Subsidiaries, Associates and Joint Ventures

38. When accounting for an investment in an associate or a subsidiary accounted for by use of the equity or cost method (as defined in other National Accounting Standards for Commercial Enterprises), an investor restricts its reporting in the Cash Flow Statement to the cash flows between itself and the investee.

39. An enterprise-investor which reports its interest in equity in a jointly controlled entity using proportionate consolidation includes in its consolidated Cash Flow Statement its proportionate share of the jointly controlled entity's cash flows.

40. An enterprise which reports such an interest using the equity method includes in its Cash Flow Statement the cash flows in respect of its investments in the jointly controlled entity, and distributions and other payments or receipts between it and the jointly controlled entity.

Acquisitions and Disposals of Subsidiaries and Other Business Units

41. The enterprise should present in its Cash Flow Statement the aggregate cash flows, resulting from the acquisition and disposal of subsidiaries and classify them as the cash from the investing activity Cash flows arising from acquisitions or disposals of subsidiaries or other business units are those related to the acquisition or disposal of any business unit or of an investment in an legal entity that as a result of the transaction, becomes or ceases to be a subsidiary

42. The aggregate cash flows arising from acquisitions and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities.

43. An enterprise should disclose, in aggregate, in respect of both acquisitions and disposals of subsidiaries or other business units during the period each of the following:
    (a) the total purchase or disposal consideration;
    (b) the portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;
    (c) the amount of cash and cash equivalents in the subsidiary or business unit acquired or disposed of;
    (ç) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiary or business unit acquired or disposed of, summarised by each major category.

44. The aggregate amount of the cash paid for acquisition or received from disposal of subsidiaries or other business units is reported in the Cash Flow Statement in net amounts less cash and cash equivalents acquired or disposed of in these subsidiaries or other business units.

45. The net amount of the cash and cash equivalents received from disposal of subsidiaries or other business units are not offset in the Cash Flow Statement.

Non-cash Transactions

46. Operating, investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from a Cash Flow Statement. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

Components of Cash and Cash Equivlents

47. An enterprise should disclose the components of cash and cash equivalents and should present reconciliation of the amounts in its Cash Flow Statement with the equivalent items reported in the Balance Sheet.

48. For the purposes of preparation of the Cash Flow Statement bank overdraft should be classified as a component of cash and cash equivalents and therefore should be deducted from amount of cash and cash equivalents disclosed on the face of the Balance Sheet.

49. In presenting the reconciliation of the amounts in its Cash Flow Statement with the equivalent items reported in the balance sheet an enterprise, according to Amendment 2 to this Standard should disclose on the face of the Cash Flow Statement the following items:
    (a) cash and cash equivalents, net of bank overdrafts at start of the year;
    (b) increase (decrease) in cash and cash equivalents during year
    (c) effects of exchange rate changes

(ç) cash and cash equivalents, net of bank overdrafts at end of the year.

50. An enterprise should disclose the policy which it adopts in determining the composition of cash and cash equivalents as part of the disclosure of accounting policies as required by National Accounting Standard for Commercial Enterprises 1 – Presentation of Financial Statements.

Other Disclosures

51. An enterprise should disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the enterprise that are not available for use by the enterprise or group.

52. An enterprise also should disclose, together with a commentary by management the following information:
- (a) the amount of undrawn credit lines that may be allocated to settle capital commitments related to the future operating and investing activities, indicating any restrictions on the use of these facilities;
- (b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation;
- (c) the aggregate amount of cash flows that represent increases in operating capacity separately from those cash flows that are required to maintain operating capacity; and
- (ç) the amount of the cash flows arising from the operating, investing and financing activities of each reported industry and geographical segment.

First Time Application

52. At the first time of applying this standard the comparative information of the previous reporting period need not be presented.

Transitional Provisions

53. The following paragraphs of this Standard becomes effective only after the introduction of the relevant National Accounting Standards for Commercial Organizations:

- (a) paragraph 6 (concerning the consolidated financial statements) after the introduction of the National Accounting Standard for Commercial Organizations based on IAS 27 - Consolidated Financial Statements and Accounting of Investments in Subsidiaries;
- (b) paragraph 51(b)after the introduction of the National Accounting Standard for Commercial Organizations based on IAS 27, Consolidated Financial Statements and Accounting of Investments in Subsidiaries;
- (c) paragraph 51(ç) after the introduction of the National Accounting Standard for Commercial Organizations based on IAS 14 - Segment Reporting.

54. The following paragraphs of the standard give the proper meaning after the introduction of the National Accounting Standards for Commercial Organizations;
- (a) paragraph 29, after the introduction of the National Accounting Standard for Commercial Organizations based on IAS 23, Borrowing Costs
- (b) paragraph 37 after the introduction of the National Accounting Standard for Commercial Organizations based on IAS 28, Accounting for Investments in Associates;
- (c) paragraphs 38 and 39, after the introduction of the National Accounting Standard for Commercial Organizations based on IFRS 3, Business Combination.

55. The Standard becomes effective by the appropriate order of the Ministry of Finance of Republic of Azerbaijan.

Appendix 1

Comparison of National Accounting Standard for Commercial Organisations No.5 Cash Flow Statement with International Accounting Standard No. 7 Cash Flow Statements

The National Accounting Standard for Commercial Organizations No.5, Cash Flow Statement is based on on International Accounting Standard No.7, Cash Flow Statements. The main differences between Nationak Accounting Standard for Commercial Organizations No.5 and International Accounting Standard No.7 are as follows:

- Unlike the International Accounting Standard No.7, National Accounting Standard for Commercial organizations No.5 gives more detailed definition of the financial activity.
- National Accounting Standard No.5, (para .8) defines specifically "bank overdraft"
- IAS 7 allows the treatment of bank overdrafts as a component of cash and cash equivalents or as a short-term liability (para. 8). National Acconting Standard for Commercial Organizations No. 5NASCO 5 requires the treatment of bank overdrafts for the purposes of the Cash Flow Statement as a component of cash and cash equivalents only (para. 43);
- IAS 7 allows the presentation of the cash flows from the operating activity using either the direct or indirect methods (para. 18). National Accounting Standard for Commercial Organizations No.5 the use of the indirect method of presentation only (para. 10)
- IAS 7 does not prescribe any requirements towards a format of the Cash Flow Statement (para. 11). National Accounting Standard for Commercial Organizations No.5 (para, 17) requires to disclose the minimum obligatory information, using the presentation format prescribed in Attachment 2.;
- When representation of exchange rates differences between reporting currency and foreign currency of foreign enterprise at the date of cash flows arising is economically unprofitable, reference to IAS 21 should be made, which suggests some allowable treatments on accounting rules (paragraph 27). NASCO 5 requires the use of weighted average exchange rates for a period in any circumstances (para. 24) and gives specific explanations of how to calculate it (para. 25);
- IAS 7 requires the classification of cash flows from interest and dividends received or paid in a consistent manner from period to period as either operating, investing or financing activities (para. 31). NASCO 5 requires the classification of cash inflows in the form of interest, dividends and other kinds of income from participation in the capital of other parties as cash flows from investing activities and cash outflows in the form of the interest, dividends and other payments, which arise in the course of raising finance in the form of equity or liabilities as cash flows from financing activities (paras. 28, 29);
- IAS 7 requires enterprises to present a reconciliation of the amounts in its Cash Flow Statement with the equivalent items reported in the Balance Sheet either on the face of the Cash Flow Statement or in the notes (para. 45). NASCO 5 requires enterprises to present a reconciliation of the amounts in its Cash Flow Statement with the equivalent items reported in the Balance Sheet on the face of the Cash Flow Statement, using prescribed format of this presentation (paras 46 and 48);
- IAS 7 encourages enterprises to disclose some additional information (para. 50) with a commentary by management. National Accounting Standard for Commercial Organizations No.5 obliges enterprises to disclose this additional information (para.51).
- National Accounting Standard for Commercial Organiztions No.5 ncorporates additional sections on the first time application of the standard. Pursuant to these sections the presentation of comparative information on previous reporting periods is not required.
- National Accounting Standard for Commercial Organizations No. 5 incorporates additional sections (para. 54 and para.55) on transitional provisions. Pursuant to these sections it is intended that some provisions of the standard will come into effect and some other provisions will obtain the proper meaning only after the introduction of appropriate National Accounting Standard for commercial organizations .