

The Effect of Foreign Exchange Differences on the Statement of Cash Flow Analytical Study

Kur Farklarının Nakit Akış Tablosuna Etkisi Üzerine Analitik Çalışma

Ferah YILDIZ *

Yusran İSMAİLOĞLU **

Merve TOPTAN ***

Ahmet YANIK ****

Öz

Bu çalışmada kur farklarının nakit akış tablosu üzerindeki etkisi araştırılmakta olup uygulamalı kısmı Suriye'deki bir bankanın 2013 yılına ilişkin gerçek reel verilerine dayanmaktadır. Suriye krizi sonucunda döviz kurlarında önemli dalgalanmalar olmuş, bu dalgalanmalarda özellikle banka işlemleri olmak üzere tüm finansal işlemleri etkilemiştir. Çalışma, nakit akış tablosu ile ilgili olarak daha fazla şeffaflık ve dürüstlük sağlamak için nakit akış tablosu üzerindeki etkiyi uygulamalı olarak incelemeyi amaçlamaktadır. Suriye'de bir İslami bankanın 2013 yılı finansal tablolarına dayanılarak yapılmış olup inceleme sırasında mevduat gibi bazı döviz hesaplarının yıl içerisinde değişmeden sabit bakiyeli olduğu, ancak döviz kurlarındaki dalgalanmalar nedeniyle bu hesapların yerel para birimindeki bakiyesinde ise değişme meydana geldiği biçiminde incelenmiş ve bu durum özellikle nakit akış tablosu olmak üzere finansal tablolara yansımıştır. Bu çalışmadan, sabit bakiyelerin değerini etkileyen döviz kurlarındaki değişikliklerin fiili değişikliklerden ayrı olarak değerlendirilmesi ve finansal tabloların hazırlanmasında ayrı bir şekilde raporlanması gerektiği sonucu tespit edilmiştir. Özellikle nakit akış tablosunda ayrı kalemler olarak gösterilmelidir. Ek olarak bu çalışma, okuyuculara daha fazla şeffaflık, açıklık ve dürüstlük sağlamak için bu etkilerin finansal raporlarda açıklanması ve ortaya çıkarılması gerektiğini önermektedir.

Anahtar Kelimeler: Nakit Akış Tablosu, Kur Farkları, Gerçekleşmemiş Kazanç ve Kayıplar, Finansal Tablolar, Döviz.

Abstract

This study investigates the effect of foreign exchanges differences on the cash flow statement, the applied part of this study depends on the actual real data of one of the banks in Syria related to 2013. There have been significant fluctuations in exchange rates as a result of the Syrian crisis, these fluctuations have affected all financial transactions, especially banks transactions. The study aims to investigate that effect on the cash flow statement practically to provide more transparency and fairness with related to the statement of cash flow. This investigation has been done depending on the financial statements of an Islamic bank located in Syria for the year 2013, during the investigation it has been noticed that some accounts in foreign currency have been fixed balances with no changes during the year such as deposits, but because of the fluctuations in foreign exchange rates those accounts have shown a change in the balance in local currency, which was reflected on the financial statements, especially cash flows statement. The main conclusion of this study is that changes in foreign exchange rates that affect the value of fixed balances should be considered separate from actual changes and should not be included in the preparation of financial statements. Instead, they should be shown as separate items, specifically in the cash flow statement. Additionally, the study recommends that these effects should be disclosed and explained in the financial report to provide more transparency, clarity, and fairness for readers.

Keywords: Statement of Cash Flow, Foreign Exchange Differences, Unrealized Gain and Loss, Financial Statements, Foreign Currency

* Assoc. Prof., Kocaeli University, Dept. of Business, ferah.yildiz@kocaeli.edu.tr, ORCID: 0000-0003-3374-1297

** PhD Student, Kocaeli University, Dept. of Business, e-mail: yusranismailoglu@gmail.com, ORCID: 0000-0002-5333-830X

*** Assist. Prof., Recep Tayyip Erdogan University, Dept. of Business, e-mail: merve.toptan@erdogan.edu.tr, ORCID: 0000-0003-3455-3159 (Corresponding Author)

**** Assoc. Prof., Recep Tayyip Erdogan University, Dept. of Business, e-mail: ahmet.yanik@erdogan.edu.tr, ORCID: 0000-0002-7283-2557

1. Introduction

Cash flow statement has significant importance in financial corporations such as banks and insurance companies because it provides an indicator of how the cash flows between all activities of the company which has led to a more detailed analysis of the matter of liquidity; this matter should take more consideration in the state of inflation.

Information provided by the statement of cash flow are very important not only for liquidity matter but also for other important matters; The study of (Hongxia and Chang, 2021) emphasize the importance of the information reflected in the cash flow statement in relation to the trends of cash generated from basic business activities, financing activities, and investment activities, as business managers are the primary users of the information provided by the cash flow statement, the studies (Sayari and Mugan, 2013) and (Bhandari & Iyer, 2013) shows the possibility of using information related to cash flows according to activities in predicting financial distress and financial failure. While the study (V. Kousenidis, 2006) proposes a new approach to preparing the cash flow statement without financing activities, in order to provide more accurate information about the company's ability to fulfill its obligations and its ability to distribute profits.

In line with those studies, this study aims to provide more accurate information about cash flows by proposing an approach that helps in excluding the effect of exchange rate differences in order to display cash flows generated from various activities fairly and credibly. In addition, this study represents an evaluation which has been made in relation to IAS 21, which shows the effect of the change in exchange rates IAS 29, which determines financial reporting in hyperinflationary economies, and IAS 7 which deals with the cash flow statement.

There are two ways to prepare a cash flow statement; the first one is the direct way of major classes of gross cash receipts and payments. Under IAS 7, dividends received may be reported under operating activities or under investing activities. If taxes paid are directly linked to operating activities, they are reported under operating activities; if the taxes are directly linked to investing activities or financing activities, they are reported under investing or financing activities. Generally Accepted Accounting Principles (GAAP) vary from International Financial Reporting Standards (IFRS), for example, according to GAAP, dividends received from a company's investing activities are reported as an "operating activity," not an "investing activity. The second way is the indirect way uses net-income as a starting point, makes adjustments for all transactions for non-cash items, then adjusts from all cash-based transactions. An increase in an asset account is subtracted from net income, and an increase in a liability account is added back to net income. This method converts accrual-basis net income (or loss) into cash flow by using a series of additions and deductions (IAS 7).

At this point, it's may useful to mention that in Syria with related to financial corporations cash flow statement is prepared according to the indirect method that's obligated by Syrian government authorities (The Syrian Law 419, 2010)

The financial year ended in 2013, has significant changes in the foreign exchange rates, which led to this study. The table below shows the difference in the exchange rate between the 1st of January and the 31st of December:¹

Table 1. Foreign exchange rates

Currency	1/1/2013	31/12/2013
USD	77.4	143.51
EUR	102.12	197.95
DDK	13.69	26.54
JOD	109.20	202.81
KWD	275.26	508.17
SAR	20.64	38.27
CHF	84.60	161.59
AED	21.07	39.07
GBP	125.06	236.55

The Syrian crisis, which began in 2011, had a significant impact on the country's economy, and by 2013, its effects were becoming more pronounced. Economic sanctions, which were imposed on the country by various countries and international organizations, also contributed to the decline in the value of the Syrian pound later. This made the financial year ending in 2013 an appropriate reference point for analyzing the effect of foreign exchanges rates differences on the statement of cash flow separately from the decline in the value of the Syrian pound which happened later.

This study investigates the influence of the foreign exchange differences on the financial liquidity position represented by the cash flow statement. This is an applied study uses actual data and analyzes the effects of certain variables (foreign exchange rate differences) through various analytical procedures using Microsoft Office Excel 365. The data collected and analyzed in the study is related to the financial year ending in 2013 and is used to understand the impact of foreign exchange rates on the preparation of the statement of cash flow.

This applied analytical study is restricted to the financial records of one of the Islamic banks in Syria from one side; on the other side, it's restricted to the accounting records of the year 2013.

2. Previous Studies

Many studies have dealt with topics related to cash flow statements, and other to unrealized gain and loss, but this study connects both of them depending on the foreign exchange rates and suggests an approach that shows and disclose the statement of cash flow fairly and more transparent. The table 2 below shows literature review that are handled with these two topics, and they were classified according to the researched matter.

¹ The table is prepared by researcher according to the foreign exchange rate which is issued by central bank of Syria.

Tablo 2. Literature review table

Studies related to cash flow				
Publishing year	Authers	Title	The results	Methodology
2017	Haber, J., & Wallace, K.	Preparing the statement of cash flows using the direct method: Illustrating a simpler approach	The direct method better achieves the cash flow statement's primary objective and is useful to a wide range of users	Applied study
2017	Nunn, L.	COLI and the statement of cash flows	The article offers information on corporate owned life insurance (COLI) and the statement of cash flows in the U.S. Topics	Analytical study
2017	Savel'eva, M. Y., Alekseev, M. A., & Dudin, S. A.	Evaluating the quality of cash flow statement of Russian companies	This study proved that virtually in all industries included in the sample, companies make gross errors when preparing their cash flow statements, which significantly affect the quality of stakeholders' decisions.	Applied study
2017	Aboselim, K.	The importance of information derived from cash flow statement to predict financial failure for Saudi commercial banks	The findings of the study draw attention to the necessity of focusing on the cash flow statement in addition to the other financial statements due to the fact that these statements include important information that enables the users to predict the financial failure.	Applied study
2017	Karalić, A., & Džakula, M.	Analysis of the statement of cash flows to monitor company business operations	The result of analysis of cash flow is a management decision whether to continue the trend of current cash surpluses or deficits. To be effective, the analysis of cash flow must find true meaning in compiling results from cash.	Analytical study
2016	Jeppson, N. H., Ruddy, J. A., & Salerno, D. F.	The statement of cash flows and the direct method of presentation	The article discusses the use of direct method (DM) of presentation for cash flow management. Topics discussed include the comparison between DM and indirect method (IM), the regulatory requirements from the U.S. Financial Accounting Standards Board (FASB) for the preparation of cash flow statements, and the cash flow preferences from accounting firms	Analytical study
2016	Deo, P.	Evaluating a cash flow statement	The purpose of this study is to derive two cash flow measures, and demonstrate in a meaningful way the linkages between the basic financial statements and the cash-flow measures. The authors derive and recommend two measures of cash flow, identify the underlying critical variables, and develop a set of cash flow-based financial ratios, which in combination with the traditional financial ratios derived from the income statement and balance sheet aid the decision makers in assessing a comprehensive financial performance of a firm.	Analytical study
2014	Tariverdi, Y., Poorzamani, Z., & Ahmadi, M.	The best method of presenting cash flow statement from companies financial managers, financial managers of mutual funds and creditors point of view.	The purpose of this study is to identify the best approach in presenting of cash flow statement from viewpoint of the financial manager of listed companies on Tehran stock exchange, financial management of mutual funds and creditors	Analytical study
2013	Adrian, T. M.	A critical study regarding the	This study support the idea that the direct cash flow reporting format, relative to the	Analytical study

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		elaboration of the cash flow statement using the direct method in Romania	indirect method, leads to better prediction of future firm performance and has a stronger association with share prices. One important conclusion of the paper is that the decision of the users of accounting information, taking into account the cash flows generated by the economic entity, will not relieve them entirely from the effects of manifestation of the unexpected, but certainly reduces their magnitude	
Studies related to unrealized earnings				
2017	Boyer, B. N., Pannese, D. A., & DelFavero, A. L.	Restatement vs revision: A case study	It examine what are the differences between restatements and revisions. It examine what are the most common mistakes too. Over half of last year's corrections involved debt and equity, cash flows or taxes. Many of these issues are also major differences between US GAAP and IFRS, making comparison with international firms even more difficult.	Case study
2017	Nurunnabi, M.	IFRS and Saudi accounting standards: a critical investigation	The purpose of this study is to investigate the differences between IFRS and Saudi accounting standards (Saudi GAAP) issued by the Saudi Organization for Certified Public Accountants (SOCPA) The findings suggest that urgent training is required for the effective implementation of IFRS in Saudi Arabia	Critical study
2017	Dermawan, E. S., & Indrajati, M.	The quality of operating profit and other comprehensive income: evidence from Indonesia stock exchange	The aim of this study is to investigate the quality of earnings in terms of relevance and reliability of the company's performance and the market performance of the investors' perceptions that trigger reactions on market capitalization of going to public companies in Indonesia Stock Exchange.	Analytical study
2015	Campbell, J. L., Downes, J. F., & Schwartz, W. C.	Do sophisticated investors use the information provided by the fair value of cash flow hedges?	There is three main results: (1) analysts do not correctly incorporate unrealized cash flow hedging gains and losses into their 2- and 3-year-ahead earnings forecasts, (2) analysts correct their errors after the hedges have largely expired and investors correct their mispricing at this time, and (3) analysts and investors can better process cash-flow-hedge information when managers provide forecasts.	Analytical study
2014	A. El Shamy, M., Al-Hajri, M., & Al-Bassam, S.	The value relevance of unrealized gains and losses recognized under IAS 39: Evidence from Kuwait	overall results show that unrealized gains and losses play an important role in explaining stock prices for investment companies in Kuwait, and that including them in the income numbers increases the incremental explanatory power of earnings	Analytical study
2001	Bazaz, M. & Senteney, D. L.	Value relevance of unrealized foreign currency translation gains and losses	The results indicate that, generally, translation gains and losses are valued, but losses have a greater impact than gains and the value seems to change over time in setting the levels of equity share prices of US-based MNCs.	Analytical study
1994	Amrhein, D. G.	Reporting of foreign currency translation	A disclosure model is presented that improves the presentation of foreign currency translation and thereby enables financial statement users to draw more meaningful conclusions. The model employs supplementary disclosures using 3 separate matrices to quantify the impact of the	Analytical study

			translation along with an explanation by management discussing the types of transactions or activities that led to the need for the translation and the probability that this trend will continue.	
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In table 2, it is seen that the studies related to cash flow and unrealized earnings are discussed. In the literature, it can be stated that these studies have been examined on issues such as the analysis and evaluation of the cash flow statement, the preparation of the cash flow statement using the direct method, the reporting of the foreign currency translation, the unrealized gains and losses. It can be stated that this study is important in terms of examining the effect of currency differences on the cash flow statement.

3. The Methodology

The study aims to examine how changes in exchange rates impact cash flow statements in financial companies. It will focus on determining the impact at the level of operational, financing, and investment activities in order to separate real cash flows from those that are resulted from exchange rate changes, to reach the goal which is improving the credibility and transparency of cash flow statements.

Within the scope of the study, the bank's financial statements for the year 2013 were examined at the level of detailed accounts, and the analysis was carried out within the following steps:

1. Sorting all debit and credit accounts based on their relationship to cash flow activities
2. Classification of all accounts based on the changes of the account in foreign currency during the year. Many accounts related to guarantees, deposits, and insurances stay at the same balance in foreign currency with no change
3. Calculating the differences in cash flows resulting from changes in exchange rates by choosing the exchange rate at the beginning and end of 2013
4. Collecting cash flows resulting from exchange rate changes based on operational, financing, and investment activities
5. Excluding the effect of cash flows resulting from changes in the exchange rate, whether by addition or exclusion, according of the cash flow statement
6. Displaying a separate item in the statement of cash flows that shows the change resulting from the exchange rate, with the aim of showing the cash and its equivalent in the actual balance in the local currency at the end of the year
7. Preparing a comparative statement of cash flows that shows cash flows according to activities before and after excluding the effect of the exchange rate.
8. The study relies on the assumption: The differences in foreign exchange rates have a significant effect on the cash flow.

4. The Analytical Study

The Central Bank of Syria issues a bulletin of foreign exchange rates, and it is circulated to all private and public banks so that they all evaluate all assets and liabilities and present them in the local currency (Syrian pound) daily.

The accounting program performs the evaluation process automatically, where the differences resulting from the evaluation process are calculated and accumulated in an account called unrealized profits and losses, and the corresponding account is the account in foreign currency, whether it is a debit or a credit.

Unrealized profits and losses appear in the income statement, and this is explained in the financial report disclosures

As for the statement of cash flows, the original accounts must be reviewed to determine the real cash flow, because the unrealized profit and loss account is a compilation account that reflects various transactions, including daily evaluation transactions.

The base of this analytical study relies on reviewing all accounts in their original currency and evaluating them at the beginning and end of the year as follows:

Table 3. Original currency and evaluating them at the beginning and end of the year

Balance 1-1	Balance 31-12	Balance 1-1	Balance 31-12	The difference
\$1000	\$1000	\$1000	\$1000	143000
		* <u>77</u>	* <u>143</u>	- <u>77000</u>
		SYR 77000	SYR 143000	66000

The amount 66000 SYR as mentioned above considered as cash flow while the balance in the original currency has not changed it remains 1000\$.

The analytical study is performed in three stages: the first one: reviewing all bank accounts considering the following characteristics:

1. If the balance in foreign currency in 1st of January has been closed during the year, then the amount of unrealized gain and loss related to it turns into realized; it's also shown as cash flow,
2. If the account is opened during the year the unrealized gain and loss related to this account are not processed because it's not affected at the beginning of the year,
3. If the balance at the end of the year remains the same to the beginning of the year, or there were transactions on it but it has not been closed, in this state, the unrealized gain and loss related to it should be calculated and removed from the cash flow because it's not a real cash flow it's just a result of evaluating the foreign currency and reflexing its value in the local currency. At this point there are two cases: 1. The stable balance it's considered for the balance itself; 2. The balance which is changed it's calculated for the opening amount or final amount which is the least.

The second stage is to calculate the difference for every account that affects the cash flow statement,

The third stage is to show the effect of all calculated differences on the cash flow statement by preparing a comparable cash flow statement.

The tables below have been created using data obtained from the financial statements published by İslamic Bank located in Syria for 2013. In addition, those tables below show the value of every account separately which should be excluded from the cash flow statements whether by adding or excluding depending on the initial preparation of the cash flow statement, during the study there are eleven accounts which are re-evaluated as the tables show below:

Table 4. Deposits with banks and financial institutions

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
121201	T. Deposit Share	USD	6,830,684.29	6,830,684.29	528,694,964.05	980,271,502.46	451,576,538.41
			6,269,719.03	6,269,719.03	485,276,252.92	899,767,378.00	414,491,125.08
The amount which should be considered in the cash flow							866,067,663.49

The table 4 shows the balance of an assets account related to interbank deposits, represented by account number 121201 in the general ledger. The amount of deposits in USD has not changed, but the value in SYR (Syrian pounds) has changed due to fluctuations in the exchange rate, the amount **866,067,663.49** will use to modify the statement of cash flow.

Table 5. Receivables and balances from financing activities

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
126102	Corporate-Murabaha	USD	1,383,598.87	1,294,958.52	107,090,552.54	185,839,497.21	85,609,707.76
			559,597.74	414,487.74	43,312,865.08	59,483,135.57	27,401,784.49
			17,408.78	17,408.78	1,347,439.57	2,498,334.02	1,150,894.45
			162,865.44	134,124.48	12,605,785.06	19,248,204.12	8,866,969.36
130202	Retail past due	USD	125,803.84	125,803.84	9,737,217.22	18,054,109.08	8,316,891.86
			1,339.00	1,339.00	103,638.60	192,159.89	88,521.29
222112	Deff profit Corporate	USD	(57,642.17)	(13,492.81)	(4,461,503.96)	(1,936,353.16)	(892,009.67)
			(7,648.40)	(2,028.87)	(591,986.16)	(291,163.13)	(134,128.59)
The amount which should be considered in the cash flow							130,408,630.96

The table 5 shows the balance of an assets account related to receivables, represented by account number (126102, 130202, 222112) in the general ledger, these accounts were stable during the year in USD, but the value in SYR (Syrian pounds) has changed due to fluctuations in the exchange rate, the amount **130,408,630.96** will use to modify the statement of cash flow.

Table 6. Assets under investments

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
154102	Good in transit other	USD	440,903.73	26.00	34,125,948.70	3,731.26	1,718.86
			10.63	10.63	822.76	1,525.51	702.75
			0.58	0.58	44.89	83.24	38.35
			0.10	0.10	7.74	14.35	6.61
			0.23	0.23	17.57	32.58	15.01
			507.20	507.20	39,257.28	72,788.27	33,530.99
			3.16	3.16	244.58	453.49	208.91
		0.01	0.01	0.77	1.44	0.67	
		EUR	340.72	340.72	34,794.33	67,445.52	32,651.19
The amount which should be considered in the cash flow							68,873.34

The table 6 shows the balance of an assets account related to short term investments (Good in transit), represented by account number (154102) in the general ledger, these accounts were not changed during the year in foreign currency, but the value in SYR (Syrian pounds) has changed due to fluctuations in the exchange rate, the amount **68,873.34** will use to modify the statement of cash flow.

Table 7. Statutory reserve with Central Bank

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
102201	Statutory reserve with Central Bank	USD	682,092.56	578,777.19	52,793,964.14	83,060,314.54	38,262,960.04
		EUR	134,905.06	267,747.98	13,776,504.73	53,000,712.64	12,927,951.90
The amount which should be considered in the cash flow							51,190,911.93

The table 7 shows the balance of an assets account related to statutory reserve with Central Bank of Syria, represented by account number (102201) in the general ledger, these accounts were not changed during the year in foreign currency, but the value in SYR (Syrian pounds) has changed due to fluctuations in the exchange rate, the amount **51,190,911.93** will use to modify the statement of cash flow.

Table 8. Other assets

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
152602	Other Debit A/Cs	USD	534.00	534.00	41,331.60	76,634.34	35,302.74
The amount which should be considered in the cash flow							35,302.74

The table 8 shows the balance of an assets account related to other assets, represented by account number (152602) in the general ledger, these accounts were not changed during the year in foreign currency, but the value in SYR (Syrian pounds) has changed due to fluctuations in the exchange rate, the amount **35,302.74** will use to modify the statement of cash flow.

Table 9. Cash margins

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
205 101	Margin deposits credit	CHF	(11,993,747.00)	(50,069.81)	(1,014,670,996.20)	(8,090,780.60)	(3,854,874.67)
		EUR	(12,550,023.06)	(24,486,406.71)	(1,281,608,354.88)	(4,847,084,208.24)	(1,202,668,709.84)
205 102	Margin deposits	EUR	(8,000.00)	(8,000.00)	(816,960.00)	(1,583,600.00)	(766,640.00)
			(9,915.00)	(9,915.00)	(1,012,519.80)	(1,962,674.25)	(950,154.45)
205 104	Margin fix deposits LG	USD	(44,471.00)	(44,471.00)	(3,442,055.40)	(6,382,033.21)	(2,939,977.81)
		EUR	(9,500.00)	(9,500.00)	(970,140.00)	(1,880,525.00)	(910,385.00)
205 105	Margin deposits BC	EUR	(175,813.71)	(1.28)	(17,954,095.92)	(253.38)	(122.67)
The amount which should be considered in the cash flow							(1,212,090,864.45)

The table 9 shows the balance of a liability account related to margin accounts, represented by account numbers (205) in the general ledger, these accounts were not changed during the year in foreign currency, but the value in SYR (Syrian pounds) has changed due to fluctuations in the exchange rate, the amount **(1,212,090,864.45)** will use to modify the statement of cash flow.

Table10. Other liabilities

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
211 601	Vendors	USD	(1,112.49)	(2,935.49)	(86,106.73)	(421,272.17)	(73,546.71)

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			0.01	0.01	0.39	0.72	0.33
			(41,694.32)	(41,694.32)	(3,227,140.37)	(5,983,551.86)	(2,756,411.49)
The amount which should be considered in the cash flow							(2,829,957.87)

The table 10 shows the balance of a liability account related to vendors (other liability), represented by account numbers (211601) in the general ledger, these accounts in foreign currency has been changed so the value which is considered in SYR (Syrian pounds) is the least amount, in this case the amount which is took for calculating the foreign exchange differences is (1,112.49), the resulting amount **(2,829,957.87)** will use to modify the statement of cash flow.

Table 11. Net change in Blocked deposit with Central Bank of Syria

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
102 401	Blocked deposit with CB	USD	7,234,632.46	4,315,956.46	559,960,552.40	619,382,911.57	285,327,881.57
The amount which should be considered in the cash flow							285,327,881.57

The table 11 shows the balance of asset account related to blocked deposit in the Central Bank of Syria, represented by account number (102401) in the General ledger, the amount of the account in USD has changed, so the value which is considered in SYR (Syrian pounds) is the least amount, in this case the amount which is took for calculating the foreign exchange differences is 4,315,956.46, the resulting amount **285,327,881.57** will use to modify the statement of cash flow.

Table 12. Returns paid to unrestricted investment accounts holders

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
218 801	Payable saving profit	USD	(32.06)	(30.07)	(2,481.43)	(4,315.35)	(1,987.95)
			(0.98)	(0.98)	(75.87)	(140.63)	(64.76)
			(4.90)	(4.90)	(379.25)	(703.16)	(323.91)
			(6.07)	(9.84)	(469.83)	(1,412.14)	(401.28)
218 802	Payable Month 1 profit	USD	(104.02)	(32.33)	(8,051.14)	(4,639.68)	(2,137.34)
			(5.25)	(2.19)	(406.36)	(314.29)	(144.78)
		EUR	(22.45)	(25.55)	(2,292.58)	(5,057.63)	(2,151.40)
218 803	Payable Months 3 profit	USD	(409.23)	(46.21)	(31,674.40)	(6,631.59)	(3,054.94)
			(21.39)	(5.82)	(1,655.59)	(835.23)	(384.76)
			(10.36)	(6.00)	(801.87)	(861.06)	(396.66)

			(37.91)	(28.40)	(2,934.23)	(4,075.68)	(1,877.52)
218 806	Payable Mounts 6 profit	USD	(3,043.73)	(2,811.17)	(235,584.67)	(403,431.01)	(185,846.48)
			(100.38)	(13.56)	(7,769.41)	(1,945.99)	(896.45)
			(6.32)	(126.54)	(489.16)	(18,159.76)	(417.82)
			(6.70)	(17.13)	(518.58)	(2,458.33)	(442.94)
			(54.36)	(45.05)	(4,207.46)	(6,465.12)	(2,978.25)
			(71.24)	(17.58)	(5,513.98)	(2,522.91)	(1,162.22)
		(115.08)	(6.20)	(8,907.20)	(889.76)	(409.88)	
		EUR	(241.83)	(331.61)	(24,695.65)	(65,642.19)	(23,174.59)
			(60.50)	(42.30)	(6,178.26)	(8,373.28)	(4,053.60)
218 809	Payable Months 9 profit	USD	(74.88)	(90.05)	(5,795.71)	(12,923.08)	(4,950.32)
			(41.79)	(41.79)	(3,234.55)	(5,997.28)	(2,762.73)
			(5.71)	(5.71)	(441.95)	(819.44)	(377.49)
			(44.89)	(44.89)	(3,474.49)	(6,442.16)	(2,967.67)
		EUR	(0.27)	(5.95)	(27.57)	(1,177.80)	(25.88)
218 812	Payable Months 12 profit	USD	(4,282.03)	(5,000.86)	(331,429.13)	(717,673.43)	(283,085.01)
			(112.64)	(41.56)	(8,718.34)	(5,964.27)	(2,747.52)
			(81.70)	(101.66)	(6,323.58)	(14,589.22)	(5,401.18)
			(14.57)	(30.20)	(1,127.72)	(4,334.00)	(963.22)
		(2.17)	(3.93)	(167.95)	(563.99)	(143.46)	
		EUR	(228.65)	(346.93)	(23,349.73)	(68,674.79)	(21,911.54)
		(12.65)	(29.41)	(1,291.81)	(5,821.70)	(1,212.25)	
(44.34)	(101.01)	(4,528.00)	(19,994.93)	(4,249.10)			
The amount which should be considered in the cash flow							(563,104.90)

The table 12 shows the balances of liability accounts related to accrued payable related to returns paid to unrestricted investment accounts holders, for balances that are fixed the evaluation is done for balance itself, for amounts that have changed in foreign currency, the balance that reevaluate is the least one, in this case the resulting amounts which consider for modifying the statement of cash flow is **(563,104.90)**.

Table 13. Customers' current accounts

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
201 101	Current accounts	EUR	(42,540.00)	(42,532.05)	(878,025.60)	(1,627,701.55)	(749,840.04)
201 102	C/A Cash FC	KWD	(10.00)	(9.40)	(2,752.60)	(4,775.78)	(2,188.89)
		SAR	(577,134.06)	(447,819.99)	(11,912,046.95)	(17,138,070.84)	(6,288,372.30)
		CHF	(477.95)	(476.02)	(40,434.57)	(76,920.07)	(36,648.78)
		AER	(124,674.96)	(129,716.57)	(2,626,901.41)	(5,068,026.37)	(2,242,003.11)
		GBP	(23,275.93)	(1,226.67)	(2,910,887.79)	(290,168.78)	(129,151.13)
		USD	(4,618,370.52)	(4,377,883.19)	(357,461,878.71)	(628,270,020.96)	(136,503,904.39)

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		EUR	(396,231.42)	(349,109.39)	(40,463,152.01)	(69,106,209.47)	(16,481,494.65)
201103	Current Account Transit	DDK	(6,858.62)	(6,858.62)	(93,894.51)	(182,027.77)	(88,133.26)
		KWD	(133.20)	(133.20)	(36,665.45)	(67,689.76)	(31,024.31)
		SAR	(50,940.21)	(50,938.31)	(1,051,405.94)	(1,949,409.13)	(898,042.41)
		SAR	(43,954.43)	(41,281.59)	(926,119.74)	(1,612,871.53)	(729,698.12)
		GBP	(3,003.85)	(3,003.85)	(375,661.48)	(710,560.72)	(320,530.41)
		USD	(2,591,755.04)	(2,825,683.57)	(200,601,840.48)	(405,513,848.84)	(108,657,166.27)
		EUR	(1,828,237.94)	(5,285,977.62)	(186,699,658.22)	(1,046,359,269.49)	(63,122,409.12)
201104	Export Current Account	USD	(7,260.00)	(7,260.00)	(561,924.00)	(1,041,882.60)	(479,958.60)
The amount which should be considered in the cash flow							(336,760,565.78)

The table 13 shows a liability accounts related to investment activities represents customers current account, as previous tables show fixed balances consider the same, changed balances consider the least amount when calculating the value in SYR (Syrian Pound), so the resulting amount that will be used to modify the statement of cash flow is **(336,760,565.78)**.

Table 14. Equity of unrestricted investment accounts holders

GL	Account name	Currency	Balance in original currency 1-1	Balance in original currency 31-12	Balance in SYR 1-1	Balance in SYR 31-12	Differences
201204	FC Saving Account	USD	(876,396.74)	(402,882.82)	(67,833,104.80)	(57,817,741.53)	(12,128,996.72)
		EUR	(46,231.66)	(24,312.80)	(4,721,177.51)	(4,812,730.10)	(503,897.46)
201331	TD- 6 Months Transit	USD	(243,087.00)	(85,177.00)	(18,814,933.80)	(12,223,751.27)	(5,631,051.47)
		EUR	(36,617.13)	(36,617.13)	(3,739,341.32)	(7,248,360.88)	(3,509,019.56)
201333	TD- 12 Months Transit	USD	(67,951.22)	(38,901.22)	(5,259,424.43)	(5,582,714.08)	(2,178,405.15)
201334	TD - 1 Month transit	USD	(22,891.98)	(22,891.98)	(1,771,839.25)	(3,285,228.05)	(1,513,388.80)
201335	TD 3 Months transit	USD	(199,350.00)	(125,350.00)	(15,429,690.00)	(17,988,978.50)	(8,286,888.50)
201431	TD - 6 Months Cash	USD	(1,446,114.34)	(1,406,278.84)	(111,929,249.92)	(201,815,076.33)	(66,378,891.84)
		EUR	(155,018.00)	(167,843.50)	(15,830,438.16)	(33,224,620.83)	(11,864,233.15)
201432		USD	(6,020.00)	(6,020.00)	(465,948.00)	(863,930.20)	(397,982.00)

	TD - 9 Months Cash						20)
		EUR	(4,000.00)	(4,000.00)	(408,480. 00)	(791,800. 00)	(383,320. 00)
201433	TD - 12 Months Cash	USD	(1,123,092. 34)	(1,113,473. 84)	(86,927,347. 11)	(159,794,630. 79)	(65,314,058. 09)
		EUR	(97,142.78)	(97,142.78)	(10,839,300. 69)	(19,229,413. 30)	(9,309,192. 61)
201434	TD - 1 Month Cash	USD	(19,164.80)	(19,164.80)	(4,285,319. 52)	(2,750,340. 45)	(1,266,984. 93)
201436	Time Deposit FC 3 Month	USD	(52,600.00)	(52,600.00)	(4,071,240. 00)	(7,548,626. 00)	(3,477,386. 00)
The amount which should be considered in the cash flow							(192,143,696. 48)

The table 14 also shows a liability account related to Equity of unrestricted investment accounts holders, as illustrated previously the same method has been applied for calculating the amount in local currency (Syrian Pound), the resulting amount that will be used to modify the statement of cash flow is **(192,143,696.48)**.

Table 15. Clarifications for the statement of cash flow

Tables	Conclusion clarifications	The statement of cash flow	Before exchange differences 2013/ SYR	After exchange differences 2013/ SYR
		Operating activities		
		Net profit before taxes	2,354,113,226	2,354,113,226
		Adjustments for:		
		Depreciation and amortization	40,340,085	40,340,085
		Return on unrestricted investment accounts	156,758,709	156,758,709
		Accrued revenues	(40,254,271)	(40,254,271)
		Accrued expenses	(2,176,053)	(2,176,053)
		Impairment provision for financing receivables	461,569,665	461,569,665
		Contingencies provision	25,000,000	25,000,000
		Impairment provision losses on wakalah for investments	641,057,030	641,057,030
		Changes in operating assets and liabilities:	3,636,408,390	3,636,408,390
Table 4	1	Deposits with banks and financial institutions	700,812,843	866,067,663.49
Table 5	2	Receivables and balances from financing activities	528,326,603	130,408,630.96
Table 6	2	Assets under investments	74,490,294	68,873.34
Table 7	3	Statutory reserve with Central Bank	(116,840,496)	51,190,911.93

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Table 8	3	Other assets	(2,697,130)	35,302.74	(2,661,827)
Table 9	4	Cash margins	2,528,238,418	(1,212,090,864.45)	1,316,147,554
Table 10	4	Other liabilities	2,383,729	(2,829,957.87)	(446,229)
		Net cash flows from operating activities	7,351,122,654		7,183,973,214
		Investing activities			
		Net change in property and equipment	(24,407,563)		(24,407,563)
		Net change in intangible assets	(555,500)		(555,500)
		Net change in Investment in real estate	(2,154,327)		(2,154,327)
Table 11	5	Net change in Blocked deposit with Central Bank of Syria	(259,089,062)	285,327,881.57	26,238,819
		Net cash flows used in investing activities	(286,206,452)		(878,570)
		Financing activities			
Table 12	6	Returns paid to unrestricted investment accounts holders	(187,002,088)	(563,104.90)	(187,565,193)
Table 13	6	Customers' current accounts	3,101,133,695	(336,760,565.78)	2,764,373,129
Table 14	6	Equity of unrestricted investment accounts holders	(446,311,904)	(192,143,696.48)	(638,455,600)
		Net cash flows (used in) from financing activities	2,467,819,703		1,938,352,336
		difference in the provisions	(169,364,858)		(169,364,858)
Explanation	7	Foreign exchange differences	-		411,288,925
		Net increase (decrease) in cash and cash equivalents	9,363,371,046		9,363,371,046
		Cash and cash equivalents at 1 January	4,325,903,580		4,325,903,580
		Cash and cash equivalents at 31 December	13,689,274,626		13,689,274,626

Clarifications for the statement of cash flow:

The statement of cash flow is prepared depending on the indirect method which requires modifying the net income with cash and non-cash items to reach the cash balance at the end of the financial year. Preparation of the statement relies on the comparable balance sheet to indicate the changes that should be considered in the statement of cash flow.

This study starts with amounts that have been provided from the initial table of the cash flow statement after that revising all items and accounts and calculating the exchange differences as previous tables show, the next step is modifying the items as follows:

1. Deposits with banks and financial institutions is an asset accounts, while the decrease in an asset account should be added depending on the indirect method, the modification is done

to reflect the real change represents by adding the unreal amount that results from exchanges differences to show the real decrease, that is the explanation for adding the amount 866,067,663.49 which is calculated as the table (4) shows. The resulting amount of 1,566,880,507 is the actual decrease for this item.

2. The same thing is for clarification (5), (6), there is also a decrease in assets accounts which should be added according to the indirect method however the study modified the amount which reflects the actual flow.
3. For the Statutory reserve with the Central Bank there is an increase which should be excluded, the study modified the amount depending on table (7), other assets which are modified by table (8) represent the same case.
4. Table (9) and table (10) shows the modification related to liability accounts which have decreased compared with 2012, the real amount of decrease is less than the one which is shown in the statement, so the study modified the amount depending on the calculating items in table (9), (10).
5. For the account Blocked deposit with the Central Bank of Syria which represents an asset account, the statement shows an increase that is excluded while the reality there is no increase at all as table (11) shows so the study reflects that by adding the resulting amount.
6. Items of Returns paid to unrestricted investment accounts holders, Customers' current accounts, and Equity of unrestricted investment accounts holders represent liability accounts also modified to reflect the real amount of cash flow related to financing activities.

Clarifications table (15) shows the total of foreign exchange differences related to other accounts that have not appeared in the statement of cash flow.

5. Conclusion

The table 15 shows the statement of cash flow before and after modifying the items due to foreign exchange differences, the process of modifying the statement was tiring because it needs to review every account however, its reflection in the statement of cash flow is clear and significant, the importance of the statement of cash flow statement relies on the importance of the necessary information that provides which help all parties to take the right decision, so this study agrees with the study of (Савельева, Алексеев and Дудин, 2017), (Aboselim, 2017), (Deo, 2016) from the side of providing clear and fair information, while this study conduct an approach to make adjustments that enable reflection the real cash flow among all activities.

Although other studies discussed the direct method for the statement of cash flow unfortunately this study didn't apply the direct method due to available financial data.

The study has been performed at the level of detailed accounts; nevertheless, the tables which have been shown in this study are the accumulative result at the level of general ledger accounts, because it's very hard to show the tables at the level of detailed accounts.

This study concludes to make a clarification in the annual report about the cash flow and the adjustments that have been done and explain the significant differences due to foreign exchanges to obtain more fairness, transparency, and clarity.

The results that could be understood by reading the final comparable statement of cash flow give us insights into the following points:

The amount of cash and its equivalents have not changed either on the 1st of January or on the 31st of December;

All accounts which are held in Syrian Pounds have not changed;

The essential effect is represented in the accounts which are held in foreign currency;

The study concluded that these effects or changes should not be recognized as a cash flow since it's just representing the difference in value due to exchange rates;

Although the local currency (Syrian Pound) shows that there is a cash flow generated related to those accounts, actually this is not a real cash flow because the original amount in the foreign currency has not changed as well;

As mentioned in the cash flow statement explanation shows disclosing the foreign exchange changes (effects) separately for other accounts to adjust the cash balance as it appears at the end of the financial year in the local currency and should make a note in the financial report; this study suggests showing the real cash flow after excluding the effect of differences in foreign exchanges as well as provides an approach completing the financial statements as fair as it's possible.

This approach is the outset of the financial analysis otherwise the analyses of liquidity could not be accurate and realistic.

All previous studies suggested considering the direct method of cash flow statements, this study also recommends a direct method in preparing cash flow statements, but due to the limitation of data, the study didn't follow the direct method.

It should make a note in the disclosures of the financial statements related to the unrealized gain and loss resources and note the amount of unreal cash flow resulting from unrealized gain and loss.

The study also recommends making similar studies taking into account other factors related to currency depreciation, especially the inflation state.

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