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ACCOUNT OF CASH FLOWS IN ECONOMIC ENTITIES AND THEORETICAL AND METHODOLOGICAL BASIS OF AUDITING: SPECIFIC ASPECTS OF THE ELECTRICAL NETWORK

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Abstract

The theoretical and methodological basis of cash flow accounting and auditing in economic entities, in particular in the enterprises of the electric power industry, is researched in the article.

Keywords: cash flows, accounting and auditing, IAS 7, IFRS No. 9, natural monopoly, tariff regulation, electric power industry, regional electric networks, methodological foundations, IFRS.

Introduction

Accounting and auditing of cash flows in business entities is one of the fundamental elements of the financial reporting system. The liquidity, solvency and financial stability of the enterprise are directly related to the quality of correct accounting and auditing of cash flows. In the current conditions - at the stage of transition of the Republic of Uzbekistan to International Financial Reporting Standards (IFRS) (PP-282, 2025) - this issue is becoming particularly relevant for enterprises in the sector.

The electric power industry is one of the leading strategic sectors of the economy of Uzbekistan. According to the Presidential Decree No. PP-39 of February 3, 2025 (PP-39, 2025), the financial recovery of the Regional Electric Networks JSC and increasing its transparency are a priority direction of state policy. At the same time, the Law of the Republic of Uzbekistan No. 939 (2024) "On Electric Power Industry" determines the issues of reforming the industry.

Largay and Stickney (1980), the founders of the world scientific school of cash flow accounting, were among the first to substantiate the importance of cash flow ratios in predicting enterprise bankruptcy in their work "Cash Flows, Ratio Analysis and the WTGrant Company Bankruptcy".

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In a later study, Bowen et al. (1987) analyzed the difference between cash flows and accruals.

In the world scientific school of the electric power industry, Joskow (2007) in his work “Regulation of Natural Monopoly” sheds light on the theoretical foundations of the regulation of natural monopoly and its impact on accounting.

Pollitt (2021) analyzed the challenges of tariff regulation in low-carbon policies in his work “The Future of Electricity Regulation”.

Stoft (2002) wrote a seminal monograph on the economics and pricing models of electricity markets.

The following methodological approaches were used in the research: systematic analysis, comparative analysis, historical analysis, case study methods were widely used.

The study identified three economic dimensions of cash flow statements in business entities: (1) liquidity - the ability to meet short-term obligations; (2) interest - a derivative suitable for investment; (3) organization - as a tool for financial management. These three dimensions are reflected in the categories of operating, investing and financing cash flows in accordance with the requirements of IAS 7 (IFRS, 2023).

Eight unique accounting aspects of electric power industry enterprises were identified—they are presented systematically in Table 1.

Table 1 8 Distinctive Aspects of Electric Power Companies' Cash Flow Statements¹

No.	Unique feature	Description (in HET AJ practice)	Appropriate standard
1	Natural monopoly status	Monopoly position in the electricity distribution market; no competition; tariffs set by the state	ORQ No. 398-I "Natural monopolies"
2	Tariff regulation	The tariff of HET JSC is determined by the Ministry of Energy; economic sense is lower than the tariff	IAS 20, IAS 9
3	Cross-subsidization	Industry + commercial → population + q/x; a total of 2,200 / 2,040 billion soums difference flow	IFRS 7, IAS 24

¹Compiled by the author based on systematic analysis



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No.	Unique feature	Description (in HET AJ practice)	Appropriate standard
4	Social orientation	Preferential tariff for residents; demand for continuous supply; ESG factors	IFRS S1, S2
5	IFRIC 12 Concessions	6 concession projects (Nur Navoi, Zarafshan, etc.) — \$313 million, 262 MW	IFRIC 12, SIC-29
6	Structure of regional branches	14 structural divisions (2 JSCs + 12 branches); segment reporting requirement	IFRS 8, IFRS 10, IAS 27
7	Currency risk	Concession PPA contracts in US\$; annual payment of 142.3 million USD	IAS 21, IFRS 7
8	Smart meter infrastructure	4.2 million meters; 15-minute interval; real-time revenue data	PF-6019; CAATs

The above eight specific features sharply distinguish the cash flow statement of electric power enterprises from other sectors and require a separate methodological approach. For example: in the practice of HET JSC, line 095 “Cash flow related to tariff regulation” is not reflected in a separate line — this contradicts the requirements of IAS 20 and IFRS No. 9. Also, there is no methodology for IFRIC 12 concession arrangements. Segment reporting in accordance with the requirements of IFRS 8 is also not prepared.

The study identified eight important methodological differences in the practice of HET JSC: (1) tariff differential subsidies are not reflected in a separate line; (2) cross-subsidization is not visible; (3) IFRIC 12 concession methodology is missing; (4) IAS 21 currency matching is incomplete; (5) IFRS 8 segment reporting is missing; (6) IFRS 9 ECL model is not fully implemented; (7) internal flows are not eliminated; (8) smart-meter data is not integrated into the accounting system. These differences will be addressed in subsequent research (Chapters II and III) through methodological and practical approaches.

As a result of the research conducted, the following conclusions were drawn: A methodical approach was formed on three economic essences of cash flow (liquidity, interest, organization) and three categories (operational, investment, financial).

For the first time, eight specific aspects of electric power industry enterprises have been scientifically substantiated in a systematic way.

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Eight significant methodological differences were identified in the practice of HET JSC - they indicate non-compliance with the requirements of IAS 7, IAS 20, IAS 21, IFRS 8, IFRS 9 and IFRIC 12. Eliminating these differences is the main condition for improving IAS 9 and thereby increasing its investment attractiveness.

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