

Notes to the consolidated annual financial continued

21. Prior year restatement

The Group provides financing to customers to acquire handsets at an additional contractual charge in both the direct and indirect distribution channel.

In the direct distribution channel, the Group recognises revenue from device financing arrangements as equipment revenue on the date that risks and rewards of ownership of the devices are transferred to the end customer. This is because the Group is acting as principal in the supply of the handset and the provision of services

In the indirect channel, the Group applied similar accounting, and recognised equipment revenue from finance deals in the indirect distribution channel on a gross basis with the corresponding cost indirect expenses. This accounting treatment has been revisited since, in the indirect channel, the Group is not responsible for transferring the handset to the customer and is therefore financing the acquisition of the handset by the customer. As a result, the Group has restated its consolidated income statement to reflect only the finance income on these transactions as revenue. This resulted in a decrease in equipment revenue and a corresponding decrease in direct expenses in the current and previous financial years. There was no impact on earnings or earnings per share. The amount of the correction for the 2015 financial year was as follows:

Rm	Before restatement	After restatement	Total restatement
Revenue	77 333	74 500	(2 833)
Direct expenses	(33 422)	(30 589)	2 833

In both the direct and indirect channel, the Group has a contractual right to cash in respect of device financing that is not contingent on the delivery of future services, and the Group therefore continues to present such amounts as 'finance receivables' in the consolidated statement of financial position. The restatement has no impact on the consolidated statement of financial position.

22. Cash generated from operations

Rm	2016	2015
Profit before tax	18 844	17 851
Adjusted for:		
Finance income	(716)	(346)
Finance costs	2 196	1 737
Net loss/(gain) on remeasurement and disposal of financial instruments	735	(7)
Operating profit	21 059	19 235
Adjusted for:		
Depreciation and amortisation (Notes 9 and 10)	8 735	7 581
Net loss/(profit) on disposal of property, plant and equipment and intangible assets (Note 3)	50	(110)
Impairment losses (Note 2)	14	–
Bad debt (Note 3)	479	697
Share-based payment	299	96
Other non-cash flow items	233	181
Cash flows from operations before working capital changes	30 869	27 680
Increase in inventory	(478)	(113)
Increase in trade and other receivables	(2 429)	(466)
Increase/(decrease) in trade and other payables and provisions	1 838	(903)
Cash generated from operations	29 800	26 198