



# RELATE ACCOUNTS PRODUCTION



**GUIDE TO**

**CASH FLOW STATEMENTS**

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## SUPPORT SERVICES

Relate is committed to strong customer service and satisfaction. At all times you will be able to make contact with our company and technical services teams.

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## BACKGROUND TO DOCUMENT

### CUSTOMER SUPPORT

Relate Accounts Production has been built to reduce the amount of time users spend checking and changing standard sets of accounts. We want users to be able to post journals, make database adjustments and print a set of compliant accounts with ease. Most of the time this is the case but there is one area which causes some users great difficulty, the Cash Flow Statement. To help, RAP produces a validation message when it does not agree. Where the posting analysis is split incorrectly between the cash and non-cash postings, then a difference will arise.

Our support team offer as much support as possible in this area and if a user gets frustrated we will take the set of accounts, find the issue and send the information back to the user in order that they can produce the accounts. A review of the following Cash Flow Guide, the Cash Flow Statement Proof Pages within the system and the original source documents should help trace any posting errors.

### IMPORTANT NOTICE

From the 1st December 2014 we will introduce a charge of €95 + VAT for any cash flow query we take in and we resolve through the normal explanation of incorrect postings. There will be a 3-day turnaround on cash flows from now on. This means we will endeavor to resolve your cash flow within 3 days or earlier. Our support staff does not know your clients' accounts or postings so you can appreciate it is difficult for them to jump into a set of your clients' accounts and resolve posting issues.

### HELP

In order to help users, we have produced this detailed guide to cash flow statements which has 25 examples of the most common cash flow issues our support team has encountered. The majority of queries have been around the movements in comparatives. In the next version of Relate Accounts Production we have introduced a validation check specifically for cash flow movements and this will also greatly help with reconciliations.

## CASH FLOW STATEMENT

### OVERVIEW

The Cash Flow Statement is prepared according to the standards laid down in International Accounting Standards - 7 (IAS -7) and in accordance with standard of Cash Flow FRS-102. The standard requires that cash flow be classified and shown in the Cash Flow Statements under three main headings, namely:

- Cash generating from Operating Activities
- Cash generating from Investing Activities
- Cash generating from Financing Activities

There are two methods prescribed for the preparation of Cash Flow Statements and these are as follows:

- Direct method of Cash Flow Statement
- Indirect method of Cash Flow statement

### COMPONENTS OF CASH FLOW STATEMENTS

#### **Operating Activities:**

Operating activities are the revenue producing activities of the enterprise that are not investing or financing activities.

#### **Investing Activities:**

Investing activities are the acquisition and disposal of assets and other investments. This activity includes transactions involving purchase and sale of assets like machinery, Land etc.

#### **Financing Activities:**

Financing activities are the activities that result in a change in the size and composition of owner's capital, preference share capital and borrowings of the enterprise.

### OPERATING ACTIVITIES

#### **Check List of preparation of Operating Cash Flow under Indirect Method:**

After computing the Net profit before tax and extraordinary items. i.e. operating profit, it is further adjusted using the following items to arrive at net Cash Flow from Operating Activities. These adjustments are classified into two categories.

#### 1) Adjustments for Non-Cash Items:

Non – Cash items such as depreciation, interest on long term borrowing, discount on issue of shares or debenture written off, goodwill/ patent amortizations cost, amortization of government grants, loss on sale on assets or investments, premium payable on redemption of debentures or preferential shares etc are to be added back and non-operating incomes and gains such as profit on sale on fixed assets and investments, interest, rent or dividend received etc. are to be deducted.

## 2) Adjustments for changes in the current Assets and Current Liabilities:

A decrease in current assets and increase in current liabilities is added and an increase in current assets and a decrease in current liabilities are deducted from the operating profit.

Effect of Changes in current Assets and current Liabilities to be adjusted with operating profit as follows:

### **Current Assets**

#### *Accounts Receivable:*

Increases—subtract from net income to get operating cash flow

Decreases—add to net income to get operating cash flow

#### *Inventory:*

Increases—subtract from net income to get operating cash flow

Decreases—add to net income to get operating cash flow

#### *Other Current Assets (e.g., prepaid expenses):*

Increases—subtract from net income to get operating cash flow

Decreases—add to net income to get operating cash flow

### Current Liabilities

#### Accounts and Trade Notes Payable:

Increases—add to net income to get operating cash flow

Decreases—subtract from net income to get operating cash flow

#### *Other Liabilities (e.g., accruals), excluding nontrade payables:*

Increases—add to net income to get operating cash flow

Decreases—subtract from net income to get operating cash flow

## EXAMPLE OF OPERATING CASH FLOW

Particulars	Current Year €	Previous Year €
<u>Cash Flow from Operating Activities</u>		
(A) Net profit before Taxation and Extraordinary items	XXX	XXX
Adjustment for Non-cash and Non-operating items		
(B) Add: Items to be added		
· Depreciation	XXX	XXX
· Preliminary expenses/Discount on issue of Shares & Debentures Written off	XXX	XXX
· Goodwill/patents/Trademarks Amortized		
· Amortization of government grants	XXX	XXX
· Interest on borrowings & debentures	XXX	XXX
· Loss on sale of Fixed Assets	XXX	XXX
· Foreign Currency translations and transactions – Net	XXX	XXX
(C) Less: Items to be deducted		
· Interest Income		
· Dividend Income	XXX	XXX
· Rental Income	XXX	XXX
· Profit on sale of Fixed Assets	XXX	XXX
	XXX	XXX
<u>Operating Profit before Working Capital changes (A+B-C)</u>	XXXX	XXXX

Particulars	Current Year €	Previous Year €
D) <u>Operating Profit before Working Capital changes</u>	XXX	XXX
(E) Add: Decrease in Current Assets and Increase in Current Liabilities		
· Decrease in Stock/Inventories	XXX	XXX
· Decrease in Debtors/Bills Receivables	XXX	XXX
· Decrease in Accrued Incomes	XXX	XXX
· Decrease in prepaid expenses	XXX	XXX
· Increase in creditors/Bills payables	XXX	XXX
· Increase in outstanding expenses	XXX	XXX
· Increase in Advance incomes	XXX	XXX
· Increase in Provision for Doubtful Debts Decrease in Current Liabilities	XXX	XXX
(F) Less: Increase in Current Assets and		
· Increase in Stocks/Inventories	XXX	XXX
· Increase in Debtors/Bills Receivables	XXX	XXX
· Increase in Accrued Incomes	XXX	XXX
· Increase in Prepaid expenses	XXX	XXX
· Decrease in creditors/Bills payables	XXX	XXX
· Decrease in outstanding expenses	XXX	XXX
· Decrease in Advance Incomes	XXX	XXX
· Decrease in Provision for Doubtful Debts	XXX	XXX
(G) Cash Generated from Operations (D+E-F)		
Less: Income Tax paid (Net of Tax Refund received)	XXXX	XXXX
Cash Flow before Extraordinary items Extraordinary items (+/-)	XXX	XXX
Net cash generated from/ (used in) Operating Activities	XXXX	(XXXX)

## TAXATION

After the tax paid is to be deducted from cash generated from operations to arrive at the cash flow from operating activities before extraordinary items. After that we add or subtract the proceeds of extraordinary items to get Net Cash generated from operating activities.

We need to note that only tax paid during the year to be deducted from operating cash flow as the provision for tax represents the amount of tax provided for the current year. So it's added back to the current year's profit to calculate net profit before tax and extraordinary items. It is merely a book entry and does not involve outflow of cash and cash flow would not be affected if the provisions for tax entry pass in the accounts.

### TAXATION ISSUE - NUMBER 1

XYZ Limited has made a tax provision during the current financial year amounting to €35 and the last year tax liability was €1,650. During the current year the company paid €1,620 out of a total tax liability of €1,685. So the company needs to post the following journal during the year as follows.

Code	Description	Type	Group	2015	
				Debit €	Credit €
501	Corporation tax current year	P/L	AdminCost	1,650.00	
831	Corporation tax payable	B/S	CurrCr		1,650.00
Code	Description	Type	Group	2016	
501	Corporation tax current year	P/L	Tax	35.00	
831	Corporation tax payable	B/S	CurrCr		35.00
<b>Payment Entry As Follows</b>					
832	Corporation tax paid	B/S	CurrCr	1,620.00	
771	Bank Current Account	B/S	BankCash		1,620.00

So in this case the tax paid during the year will reflect in the cash flow statement and the provision for taxation will be added back with the operating profit being the non cash transaction.

## TAXATION ISSUE - NUMBER 2

XYX during the last financial year (i.e. year 2015) made a tax provision of €35 and has a total tax liability in that financial year of €75. On the basis of tax analysis, the company needs to make a provision for tax of €27.50 during the last financial year (i.e. year 2015) and during the current financial year (i.e. year 2016) the company made a further provision of €37.50 and the tax paid during the year was €62.50. Following journals are required to be posted in this case.

Code	Description	Type	Group	2016	
				Debit €	Credit €
831	Corporation tax payable	B/S	CurrCr	7.50	
501.01	Corporation tax adjustment re: previous year	P/L	Tax		7.50
501	Corporation tax current year	P/L	Tax	37.50	
831	Corporation tax payable	B/S	CurrCr		37.50
<b>Payment Entry As Follows</b>					
832	Corporation tax paid	B/S	CurrCr	62.50	
771	Bank Current Account	B/S	BankCash		62.50

## TAXATION ISSUE - NUMBER 3

Suppose XYZ had a tax liability in the last three years of €12,500, €25,000, €10,000 i.e. for the year of 2016, 2015 and 2016 and the company had shown the tax liability under the nominal code 831 for such three years as €0, €26,000, €10,000. The company had paid the tax liability of those years as €12,500, €26,000, €9,000.

In the above case the cash flow statement will not match as the company had erroneously passed the tax liability of the current year as €0 instead of €12,500. The company had off set the tax payment amount with the tax liability and as a result, the tax payment amount had not been reporting in the operating Cash Flow statement. The company needs to pass the following journal entry in the current year.

Code	Description	Type	Group	2016	
				Debit €	Credit €
832	Corporation tax paid	B/S	CurrCr	12,500	
831	Corporation tax payable	B/S	CurrCr		12,500
832	Corporation tax paid	B/S	CurrCr	12,500	
771	Bank Current Account	B/S	BankCash		12,500

On analysis of the tax liability of XYX Ltd during the current financial year (i.e. 2016), it has been observed that the company was required to carry forward the balance of tax liability under code 831 amounting to € 12,501 but the company had carried forward opening balance of € 12,500, so the under mentioned rectification journal entry needs to be passed during the year.

Code	Description	Type	Group	2016	
				Debit €	Credit €
991	Profit and loss reserve retained profit b/fwd.	B/S	RetPrBFwdMvt	1	
831	Corporation tax payable	B/S	CurrCr		1

## INVESTING ACTIVITIES

1. Investing activities of an enterprise are the acquisition and disposal of the assets and other investments.

Accordingly:

- Cash inflow and outflow relating to the fixed assets
- Shares and debt instruments of other enterprises
- Interests in joint ventures
- Advances and loans to third parties
- Repayments

are all shown under investing activities in the cash flow statement.

2. Cash flow from investing activities is ascertained by analyzing the changes in fixed assets and long term investments in the beginning and at the end of the year.

### EXAMPLE OF INVESTING ACTIVITIES

Particulars	Current Year €	Previous Year €
Cash Flow from Investing Activities		
· Add: Proceeds from Sale of Fixed Assets	XXX	XXX
· Add: Proceeds from Sale of Investments	XXX	XXX
· Add: Proceeds from Sale of Intangible Assets	XXX	XXX
· Add: Interest and Dividend Received	XXX	XXX
· Add: Rent Income	XXX	XXX
· Less: Purchase of Fixed Asset	XXX	XXX
· Less: Purchase of Investment	XXX	XXX
· Less: Purchase of Intangible Assets like Goodwill	XXX	XXX
Net Cash generated from/ (used in) Investing Activities	XXXX	(XXXX)

XYZ.Co had purchased a motor vehicle 5 years ago with a price of €1,500 and the company charged the depreciation @ 10 % on the straight line method. The asset has a total life of 10 years with residual value of €100. As per the last annual accounts, the carried forward balance of the asset was €800 and the accumulated depreciation account was €700 and the company also purchased an additional motor vehicle amounting of €2,000 with a total life of the asset 10 years. The depreciation charged during the financial year amounted to €340. The following journal entry needs to be made during the year as follows.

Code	Description	Type	Group	2016	
				Debit €	Credit €
671.01	Motor Vehicle Addition Cost	B/S	TanFa	2,000.00	
813	Trade Creditors - posting account	B/S	CurrCr		2,000.00
813	Trade Creditors - posting account	B/S	CurrCr	2,000.00	
771	Bank Current Account	B/S	BankCash		2,000.00
397	Depreciation on Motor Vehicle	P/L	Tanfa	340.00	
672.01	Motor Vehicle Depreciation charge for the period	B/S	Tanfa		340.00

In the above case the depreciation amount of €340 should be added back with net operating profit after tax, being non cash transaction and addition amount of new motor vehicle i.e. €2,000 would be treated as cash out flow from investing activities.

XYZ Ltd during the current financial year sold Furniture from their asset list at a price of €2,700 and the asset was purchased 5 years ago at a price of €5,200. The total accumulated depreciation charged up until the last financial year was €1,976 and the depreciation charged for the current financial year was €494. So the under mentioned journal entries are needed in the accounts in the current financial year.

Code	Description	Type	Group	2016	
				Debit €	Credit €
771	Bank Current Account	B/S	BankCash	2,7000.00	
661.02	Fixtures, fittings and equipment cost of disposals	B/S	TanFA		2,700.00
396	Depreciation on fixtures, fittings and equipment	P/L	AdminCost	494.00	
662.01	Fixtures, fittings and equipment depreciation charge for period	B/S	TanFA		494.00
399.01	Profits/losses on disposal of intangibles	P/L	AdminCost	30.00	
662.02	Fixtures, fittings and equipment cost of disposals	B/S	TanFA		30.00

In this case the accumulated depreciation of €1,976 in the last financial year would be carried forward under code 672 (i.e. Fixtures, fittings and equipment accumulated depreciation b/fwd.) in the current financial year. Out flow of €2,700 would show as cash inflow from investing activities and the depreciation and loss on sale of furniture of €494 and €30 would be added back with the operating profit being non cash transactions.

### OPERATING & INVESTING ACTIVITIES ISSUE - NUMBER 3

XYZ. Co on the basis of their own verification, established that Furniture and Fixtures has the WDV value of €2,500 and has carrying value more than its recoverable amount. On the basis of testing of impairments, the company wanted to make provision for diminution of said asset amounting to €125 and during the same year the company also charged the depreciation €250 as per the straight line method. So the under mentioned journal entries are needed in the accounts in the current financial year.

Code	Description	Type	Group	2016	
				Debit €	Credit €
366	Provision for diminution in value of fixed assets	P/L	AdminCost	125.00	
663.01	Fixtures, fittings and equipment cost impairment losses	B/S	TanFA		125.00
396	Depreciation on fixtures, fittings and equipment	P/L	AdminCost	250.00	
662.01	Fixtures, fittings and equipment depreciation charge for period	B/S	TanFA		250.00

In this case transaction showing provision for diminution in value of fixed assets and deprecation on fixtures, fittings and equipment would be added back with the operating profit since this is a non cash transaction.

### OPERATING & INVESTING ACTIVITIES ISSUE - NUMBER 4

XYZ. Co during the current year (i.e. 2016) signed an agreement with ABC. Co to acquire one of the multi brand products and according to the agreement; XYZ.Co can only sell the product in the UK. According to the brand valuation, XYZ.Co considered € 12,500 as goodwill of that product. XYZ.Co wanted to write off the same goodwill over the terms of 5 years. So in this case the journal entries which need to be passed during the year are as follows.

Code	Description	Type	Group	2016	
				Debit €	Credit €
611.01	Goodwill additions	B/S	IntanFA	12,500.00	
813	Trade Creditors - posting account	B/S	CurrCr		12,500.00
813	Trade Creditors - posting account	B/S	CurrCr	12,500.00	
771	Bank current account	B/S	BankCash		12,500.00
391.03	Amortisation of goodwill	P/L	AdminCost	2,500.00	
612.01	Goodwill depreciation charge for period	B/S	IntanfA		2,500.00

In this case the funds of €12,500 will be an outflow in the current financial year (i.e. 2016) and would be treated as investing activity. The goodwill depreciation charge of €2,500 would be added back to operating profit in the year 2016 being the non cash transaction.

#### OPERATING & INVESTING ACTIVITIES ISSUE - NUMBER 5

XYZ.Co acquired plant and machinery valued at €550 under the Hire purchase agreement and according to the agreement, the company would acquire the same asset over a period of 8 years with the simple interest of 12 % p\ā. During the current year the company paid interest of €57 out of a total EMI payment of €216. The Company also charged depreciation @ 10 % straight line method as the asset has a total life of 10 years with the residual value of €50. So in this case the journal entries to be posted are as follows.

Code	Description	Type	Group	2016	
				Debit €	Credit €
651.01	Plant and machinery additions at cost	B/S	TanFA	550.00	
813	Trade creditors - posting account	B/S	CurrCr		550.00
481	Hire purchase interest	P/L	IntPay	57.00	
921.01	Long term HP Liability increase	B/S	LtCred		57.00
813	Trade creditors - posting account	B/S	CurrCr	159.00	
921.02	Long term HP repayments	B/S	BankCash	57.00	
771	Bank current account 1	B/S	BankCash		216.00
395	Depreciation of plant and machinery	P/L	Admincost	50.00	
652.01	Plant and machinery depreciation charge for the period	B/S	TanFA		50.00

In this case plant and machinery additions at cost would be the cash outflow from investing activities and the depreciation charged on the asset and Hire purchase interest amount would be added back with the operating profit. The cash outflow from HP liability would be treated as financing activity.

#### OPERATING & INVESTING ACTIVITIES ISSUE - NUMBER 6

XYZ had a balance of Freehold Properties at the beginning of the year (2016) of €50,000. Accumulated depreciation at the beginning of the year was €20,000 and depreciation charged during the year was €5,000. Furthermore, impairment losses incurred for the same period was €2,000. In this case the journal entry would be as follows:

Code	Description	Type	Group	2016	
				Debit €	Credit €
392.01	Impairment of freehold property	P/L	AdminCost	2,000.00	
623.01	Freehold costs impairment losses	B/S	TanFA		2,000.00

Since the impairment loss of €2000 incurred during the year was a non-cash item, it needs to be added back with the net income in the operating activities to tally the cash flow statement.

## OPERATING & INVESTING ACTIVITIES ISSUE - NUMBER 7

Errors in the cash flow statement may also result in a mismatch. Suppose ABC Ltd. had the following balances in Fixed Assets in the previous years:

Code	Description	2016	2015	2014
671	Motor Vehicles cost b/fwd	14,912.00	14,912.60	12,556.40
671.01	Motor Vehicles additions at cost	6,358.40	0.00	2,356.20
672	Motor Vehicles accumulated depreciation b/fwd	-12,667.42	-9,684.97	-7,225.32
672.01	Motor Vehicles depreciation charge for the year	-4,500.25	-2,982.45	-2,459.65

In the above scenario, the balance of code 671 is wrongly brought forward in the year 2015. It must be €14,912.60 instead of €14,912.00 This will result in a mismatch in the cash flow statement. In order to rectify this, the following entry needs to be passed:

Code	Description	Type	Group	2015	
				Debit	Credit
				€	€
671	Motor Vehicles cost b/fwd	B/S	TanFA	0.60	
991	Net resources b/fwd	B/S	Funds		0.60

## FINANCING ACTIVITIES

The Financing Activities of an enterprise are those activities that result in change in the size and composition of owner's capital and borrowings of the enterprise. It includes proceeds such as:

- Issue of shares or other similar instruments
- Issue of debentures
- Loans
- Bonds
- Other short-term loans or long term borrowings
- Repayments of amounts borrowed;

accordingly, receipts and payments on account of the above are disclosed in the cash flow statement as the cash flow from financing activities

When shares are issued at a premium, the cash flow statement reflects the total cash generated by the issue (i.e., Face Value of shares + Premium). The cash flow from financing activities is ascertained by analyzing the change in Equity and Preference share capital, Debentures and other borrowings.

### EXAMPLE OF FINANCING ACTIVITIES

Particulars	Current Year €	Previous Year €
Cash Flow from Financing Activities		
· Add: Proceeds from issue of shares and Debentures	XXX	XXX
· Add: Proceeds from Other Long term Borrowings	XXX	XXX
· Less: Final Dividend Paid	XXX	XXX
· Less: Interim Dividend Paid	XXX	XXX
· Less: Interest on Debentures and Loans paid	XXX	XXX
· Less: Repayment of Loans	XXX	XXX
· Less: Redemption of Debentures/Preference shares	XXX	XXX
Net Cash (used in) / generated from Financing Activities	(XXXX)	XXXX

## FINANCING ACTIVITIES ISSUE - NUMBER 1

Suppose X Ltd borrowed a short term loan of €100 million @ 12 % on reducing interest rate from the bank one year ago and current year B/Fwd loan balance is €76.5 million and the company, during the current year again, borrowed €50 million. The company has the interest element on that loan amounting to €15.18 million and the company repaid €15 million during the year. they also want to transfer €25 million of a loan under long term payment. In such case cash generated from financing activities is as follows.

Code	Description	Type	Group	2016	2015
				€	€
807	Bank Loans short term b/fwd	B/S	CurrCr	76,500,000.00	
807.01	Bank Loans short increase	B/S	CurrCr	65,180,000.00	100,000,000.00
807.02	Bank Loans short term repayments	B/S	CurrCr	-15,000,000.00	-23,500,000.00
807.05	Bank Loans movement from long term	B/S	CurrCr	-25,000,000.00	
				101,680,000.00	76,500,000.00

The short term loan transfer to long term payment would have no effect in the cash flow statement as this is a movement of a loan amount from short term to long term accounts. The amount would reflect in other charges segment in the notes to the accounts of Analysis of changes in Net Debt Account.

## FINANCING ACTIVITIES ISSUE - NUMBER 2

XYZ Ltd during the current financial year (i.e. year 2016) has paid a dividend of €1,250 to its shareholders and such dividend was proposed by the board of directors through the Annual General Meeting in last financial year (i.e. 2015) Accounting entries would be passed in both of the years as follows.

Code	Description	Type	Group	2015	
				Debit	Credit
				€	€
881.02	Dividend accruals	B/S	CurrCr	1,250.00	
981.04	Capital contribution reserve other movement	B/S	OthRes		1,250.00

Code	Description	Type	Group	2016	
991	Retained Profit	B/S	RetPrBFwdMvt	1,250.00	
981	Capital contribution reserve b/fwd	B/S	OthRes		1,250.00
981.03	Capital contribution reserve dividend paid	B/S	OthRes	1,250.00	
771	Bank current account	B/S	BankCash		1,250.00

The proposed dividend for the last year becomes due and is also paid in current year. It is an outflow of cash and cash equivalents in the current year. So in this case the proposed dividend of €1,250 of last year would be added back with operating profit and the current year dividend paid amount would be the cash out flow from financing activities.

### FINANCING ACTIVITIES ISSUE - NUMBER 3

XX Ltd has brought forward a credit card balance in the current year from the last year amounting to €1,250.23. During the current year the company paid €375.50 and the closing balance carried forward amounted to €874.73. The company used code 771.05 under the group of Current Creditor (i.e. CurrCr) to show all the credit card transactions.

In this case the cash flow statement would not be matched as the company showed all the transaction of credit card under the group of Current Creditor. Credit card transactions need to be shown under the group of Bank Cash (BankCash) so the company needs to use the codes from 771 to 771.03 instead of 771.05.

### FINANCING ACTIVITIES ISSUE - NUMBER 4

Suppose XYZ Ltd has created the special reserve account of €3,000 under the code 987.01 in the last financial year (i.e. 2015) by debiting the code 381 (i.e. General Expenses A/C). The company carried forward the special reserve balance in the current year (i.e. 2016) amounting of €3,000 under the code 987. The Financing activities of the cash flow would not be matched due to the following reason.

In this case cash generated from the financing activities would not be matched in the last financial year as the special reserve account can be created only out of the profit of the company and the same cannot be created by charging to expense account (i.e. general expense account in this case). The movement of the special reserve account needs to be shown under 987.03 (i.e. Special reserve movement to/from cash-based operating profit account). The following journal needs to be passed last year in order to rectify the cash flow statements.

Code	Description	Type	Group	2015	
				Debit	Credit
				€	€
991.09	Profit and loss reserve other movement	B/S	RetPrBFwdMvt	3,000.00	
381	General Expenses	P/L	AdminCosts		3,000.00

### FINANCING ACTIVITIES ISSUE - NUMBER 5

Suppose XYZ Ltd during the last financial year generated the fund through the issue of preference Share capital amounting to €100,000.00 and the company used the code 961.01. A balance of €100,000.00 was carried forward during the current financial year under code 961. In this case the cash flow statement would not be matched due to the following and can be rectified as under.

Since funds raised from the issue of preference Share capital is a financial liability of the company the company needs to use the code 928.01 instead of code 961.01. To rectify the cash flow statement, the following journal needs to be passed.

Code	Description	Type	Group	2016	
				Debit	Credit
				€	€
961.01	Preference equity share capital class 1 b/fwd	B/S	ShCap	100,000.00	
928.01	Shares classified as financial liabilities > 1 year b/fwd	B/S	LTCred		100,000.00

The company needs to carry forward the balance of €100,000.00 under the code 928 during the current financial year.

#### FINANCING ACTIVITIES ISSUE - NUMBER 6

XYZ has, during the current year (i.e. 2016) carried forward a balance of Ordinary equity share capital class 1 under code 951, amounting to € 20,000.00 and such shares were issued to the shareholders in the last financial year (i.e.) 2015. However in the last financial year the company had shown the share capital amount under the nominal code 951. So the under mentioned adjustment needs to be made in the comparative year (i.e.) in order to rectify the cash flow statement.

In this case the cash flow statement would not be matched as the increase in the share capital account had been shown under the nominal code 951 instead of 951.01. The rectification entry of the above illustration is as under.

Code	Description	Type	Group	2016	
				Debit	Credit
				€	€
951	Ordinary equity shares capital class 1 b/fwd	B/S	ShCap	20,000.00	
951.01	Ordinary equity shares capital class 1 cash issue	B/S	ShCap		20,000.00

#### FINANCING ACTIVITIES ISSUE - NUMBER 7

XYZ has carried forward a balance of Deferred Income government grants cost under the code 944, from the financial year 2015 amounting to €800 and during the same year a new fund was received amounting to €3,500 under the code 944.01. However the company carried forward the balances during the financial year under code 944 and 944.01 as €700 and €3,000. During the current financial year the company received €1,000 as towards the contribution of fund and this has been shown under code 944.01.

In this case the cash flow statement would have an error in financing activities amounting to €3,500 as the carried forward balance from the last year (i.e. 2015) should be €4,300 and the new government grant received amount would be €1,000. So the following journal entries need to pass in order to rectify the cash flow statement.

Code	Description	Type	Group	2016	
				Debit	Credit
				€	€
944.01	Deferred income government grant increase	B/S	AccDefInc	3,500.00	
944	Deferred income government grant cost b/fwd	B/S	AccDefInc		3,500.00
777.01	Current Account	B/S	Bank Cash	1,000.00	
944.01	Deferred income government grant increase	B/S	AccDefInc		1,000.00

## FINANCING ACTIVITIES ISSUE - NUMBER 8

XYZ has carried forward the Long term HP balance and Long term HP repayment balance under the code no 921 and 921.02 as follows.

Code	Description	2016	2015	2016
		€	€	€
921	Long term HP liability balance b/fwd	0.00	-2,250.00	-6,350.00
921.01	Long term HP Liability increase	0.00	2,250.00	0.00

In this case brought forward net fund would differ from the comparative net debt -4099.50 and this can be rectified in the following manner.

In the above case the company has carried forward the closing balance of long term HP Liability from the pre comparative year i.e. 2016 amounting to €2,250.50 under the code 921 but the company did not show the Long term HP payment amount in the code no 921.01, So the following journal needs to be passed in the pre comparative year in order to rectify the cash flow statement.

Code	Description	Type	Group	2016	
				Debit	Credit
				€	€
921.01	Long term HP liability balance b/fwd	B/S	LTCred	4,099.50	
771	Bank current Account	B/S	BankCash		4,099.50

## FINANCING ACTIVITIES ISSUE - NUMBER 9

XYZ has a total long term loan balance at the beginning of the current financial Year (i.e. 2016) amounting to €75,000 out of which the company wants to transfer €15,000 to short term loan accounts. During the current year a new short term loan was raised amounting to €10,000. The journal entries to be posted in this case as under.

Code	Description	Type	Group	2016	
				Debit	Credit
				€	€
904.02	Long term bank loan movement to under 1 year	B/S	LTCred	15,000.00	
807.05	Bank loan movement from long term	B/S	LTCred		15,000.00
771	Bank Current Account	B/S	Bank Cash	10,000.00	
807.01	Bank loan short term increase	B/S	CurrCr		10,000.00

## ILLUSTRATION OF FINANCING ACTIVITIES ISSUE - NUMBER 10

Suppose YZX had a foreign exchange movement on debt of €25,000 and the company had posted the same as a liability under the nominal code 910.04. The company had posted the carried forward balance under the nominal code 910 of last year as €30,000. During the current financial year (i.e.) the company had paid €25,000. So the company needs to pass the following journal and the rectification entries in the accounts.

Code	Description	Type	Group	2016	
				Debit €	Credit €
910.04	Foreign Exchange Movement on Debt	B/S	LTCred	25,000.00	
910.01	Foreign Exchange Movement on Debt	B/S	LTCred		25,000.00
910.02	Other long term loans movement to under 1 year	B/S	LTCred	25,000.00	
807.05	Bank loan movement from long term	B/S	CurrCr		25,000.00
<b>Payment</b>					
807.04	Bank Loan Short term repayment of long term	B/S	CurrCr	25,000.00	
807.00	Bank loan short term b/fwd	B/S	CurrCr		25,000.00

Note: Since the nominal code of 910.04 was reporting under 910.02 i.e. (Other long term loans movement to under 1 year), the cash flow would not be matched and any increase in the other long term loan account would require to be shown under 910.01.

## FINANCING ACTIVITIES ISSUE - NUMBER 11

XYZ Ltd. has a total other long term loan balance at the beginning of the current financial Year (i.e. 2016) amounting to €203,500. During the year, it transferred the full amount to other short term loans by debiting 910.02 (Other long term loans movement to under 1 year) and crediting 809.03 (Other loans short term receipt of long term). In this case the cash flow statement would not be matched due to the following reason and can be rectified as under. Since it is the movement of long term funds to short term funds, the company needs to use the code 809.05 (Other loans movement from long term). To rectify the cash flow statement, the following journal needs to be passed.

Code	Description	Type	Group	2016	
				Debit €	Credit €
809.03	Other loans short term receipt of long term	B/S	CurrCr	203,500.00	
809.05	Other loans movement from long term	B/S	CurrCr		203,500.00

XYZ Ltd. has carried forward the Long term lease obligations balance and Long term lease obligations increase balance under code 922 and 922.01 as follows.

Code	Description	2016	2015	2014
922	Long term lease obligations b/fwd	0.00	-8,000.00	-5,000.00
922.01	Long term lease obligations increase	0.00	-1,000.00	0.00
922.02	Long term lease obligations increase	0.00	9,000.00	0.00

In this case the brought forward net funds would differ from the comparative net debt by €-3000.00 and the same can be rectified in the following manner.

In the above case the company has carried forward the closing balance of long term lease obligations from the pre-comparative year i.e. 2014 amounting to €8,000 under the code 922 but the company did not show the Long term lease increase amount in code 922.01. The following journal needs to be passed in the pre-comparative year in order to rectify the cash flow statement.

Code	Description	Type	Group	2014	
				Debit	Credit
				€	€
922	Long term lease obligations b/fwd	B/S	LTCred	3,000.00	
922.01	Long term lease obligations increase	B/S	LTCred		3,000.00

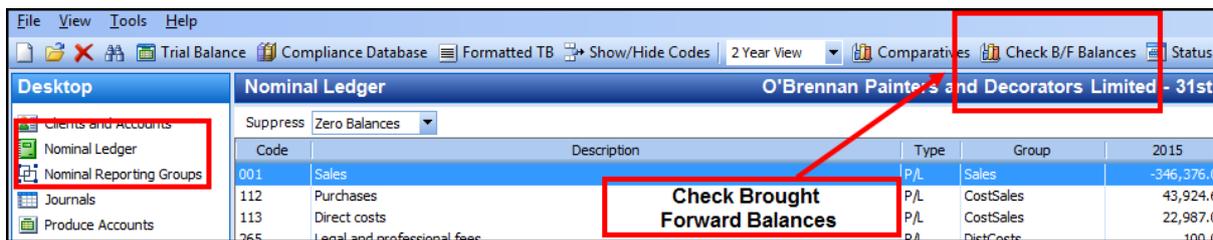
## GUIDE LINE FOR CASH FLOW STATEMENT WHEN CASH FLOW IS OUT BY €1

One of the very common scenarios encountered with Cash flows is where it is out by €1. The following couple of simple steps can resolve these kinds of cash flow issues.

### CHECK BROUGHT FORWARD BALANCES

The Check Brought Forward Balances utility will enable you to view a report of all brought forward figures. This will help in analyzing your postings for the purposes of resolving any cash flow issues you may encounter. This tool is accessed from the toolbar of the Nominal Ledger Screen.

Simply choose this option and the system will show the results in a report view.



From here you can then determine what postings are incorrect, and where you should make the necessary adjustments.

The screenshot shows the 'Check brought forward balances' report window. The report title is 'Check brought forward balances'. The client is 'OBR01 O'Brennan Painters and Decorators Limited' and the accounting year is '31st December 2015'. The table below shows the results of the check.

Code	Description	Year	Actual	Expected	Difference
662	Fixtures, fittings and equipment accumulated depreciation b/fwd	2015	-4,716.00	-3,144.00	-1,572.00
904	Long term bank loan balance b/fwd	2015	-39,200.00	-25,000.00	-14,200.00
991	Profit and loss reserve retained profit b/fwd	2015	55,881.94	55,882.97	-1.03
			11,965.94	27,738.97	-15,773.03

In the above screen shot the system has recognised differences in the brought forward amounts posted to 662, 904 and 991. These figures are calculated by looking at the figures posted in the prior year, determining what balances should roll forward and then checking if those match. In code 904 Long term bank loan balance b/fwd an amount of €25,000 was posted in 2014. In 2015 €39,200 was posted resulting in a difference of €14,200. By then looking at the amounts in the nominal ledger we can see the difference.

Desktop		Nominal Ledger					O'Brennan Painters and Decorators Limited - 31st December 2015	
Clients and Accounts		Suppress: None						
Nominal Ledger		Code	Description	Type	Group	2015	2014	
Nominal Reporting Groups		901	Debentures b/fwd	B/S	LTCred	0.00	0.00	
Journals		901.01	Debentures issued in year	B/S	LTCred	0.00	0.00	
Produce Accounts		901.02	Debentures movement to within 1 year	B/S	LTCred	0.00	0.00	
Reports		901.03	Debentures amortisation using effective rate of return	B/S	LTCred	0.00	0.00	
Client Analysis		904	Long term bank loan balance b/fwd	B/S	LTCred	-39,200.00	-25,000.00	
Staff		904.01	Long term bank loan increase	B/S	LTCred	0.00	0.00	
		904.02	Long term bank loan movement to under 1 year	B/S	LTCred	0.00	0.00	
		904.03	Long term bank loan amortisation using effective rate of return	B/S	LTCred	0.00	0.00	
		907	Long term pension fund loan b/fwd	B/S	LTCred	0.00	0.00	

To resolve this issue, the posting to 904 needs to be adjusted, in this case the €14,200 was an increase and was incorrectly posted to 904. The correct nominal code to use is 904.01 Long term bank loan increase. When the amount is posted as an increase the brought forward balance will be correct at €25,000.

901.03	Debentures amortisation using effective rate of return	B/S	LTCred	0.00	0.00
904	Long term bank loan balance b/fwd	B/S	LTCred	-25,000.00	-25,000.00
904.01	Long term bank loan increase	B/S	LTCred	-14,200.00	0.00
904.02	Long term bank loan movement to under 1 year	B/S	LTCred	0.00	0.00
904.03	Long term bank loan amortisation using effective rate of return	B/S	LTCred	0.00	0.00

## RESOLVING €1 DIFFERENCES - TAXATION

Incorrect postings in tax payable and paid nominal code accounts for 70% of queries raised to the support team. €1 differences on the Cash Flow Statement are often caused by difference in taxation.

In the below example the Company had tax payable in the Comparative year of €13,484.50, posted to code 831, in the current year the Corporation tax is €6,525, posted to 501. Then in the current year the company has posted Tax Payable to code 831 of €20,009.

In this case this results in a €1 difference in the cash flow because the amount which should have been posted in the current year is incorrect by 0.50cent. The correct calculation would be as follows,

Comparative year **Corporation Tax Payable (831, -€13,485)** + Current Year **Corporation Tax (501, €6,525)** = Current Year **Corporation Tax Payable (831, €20,010.)**

**-€13,485** (we show this as €13,485 because the 50cent will cause the amount to round up to the nearest euro. When adding amounts in Relate Accounts Production, always round the individual figure first) + **€6,525 = €20,010.**

Normally the adjustment journal would then be to debit code 831 and credit code 832 by the amount of the difference. The reason we suggest this correction is because nominal code 831 does not hit the cash flow (being a non cash movement) and 832 will hit the cash flow as this is the amount actually paid.

## CASH FLOW STATEMENT SUMMARY

Particulars	Current Year €	Previous Year €
Net cash inflow from operating activities	XXXX	XXXX
Taxation	XXXX	XXXX
Returns on investments and servicing of finance	XXXX	XXXX
Capital expenditure and financial investment	XXXX	XXXX
Less :		
Financing		
( A) Movement in cash in the year	XXXX	XXXX
Reconciliation of net cash flow to movement in net debt		
Movement in cash in the year ( A)	XXXX	XXXX
Cash inflow from increase in debts and lease financing	XXXX	XXXX
Change in net debt resulting from cash flow	XXXX	XXXX
Net fund at the beginning of the year	XXXX	XXXX
Net fund at the end of the year	XXXX	XXXX

## SPECIAL ITEMS TREATED ON THE CASH FLOW STATEMENT

### INTERESTS AND DIVIDENDS

The treatment of interest and dividends received as well as paid depends on the nature of the business i.e., whether the business is of financial or non-financial nature. In case of a financial company, interest paid and dividend received is treated as operating activities and the dividend paid would be financing activities and in case of other enterprises interest and dividend paid would be financing activities in nature.

### PROPOSED DIVIDENDS

The proposed dividend for the current year becomes due and is also paid in next year. It is an outflow of cash and cash equivalents in the next year.

The proposed dividend of the previous year becomes due and is also paid in the current year. It is an outflow of cash and cash equivalents in the current year.

### ACCOUNTING TREATMENT OF THE PROPOSED DIVIDEND

- a) Proposed Dividend (current year): Add back to the current year's profits to find out cash from operating activities.
- b) Proposed Dividend (Previous year): Net dividend paid (proposed dividend – dividend still payable) is cash used in financing

### COMPARATIVE ANALYSIS

Comparative analysis is one of main factors proving whether the company is able to carry forward the debt properly from the last accounts. If the comparative balances are not correct, the company needs to check these from the cash flow statement proof and do the necessary rectification entries to make sure that comparative balances are correct.

### ANALYSIS OF CHANGES IN NET DEBT

The company needs to reconcile the movement of cash in the period with the movement of debt as it would suggest whether the debt movement is correct with last year. If the company wants to transfer any Short/ Long term debt to Long/Short term nominal codes, such would be shown under the other charges section as this movement would not have any effect on cash flow statement. The following example shows how it needs to reconcile.

## EXAMPLE: ANALYSIS OF CHANGES IN NET DEBT

Particulars	Opening Balance €	Cash Flow €	Other Charges €	Closing Balance €
Cash at bank and in hand	642,934	471,877	--	1,114,811
Overdrafts	(222,705)	(187,331)	--	(410,036)
	<u>420,229</u>	<u>284,546</u>	<u>--</u>	<u>704,775</u>
Debt due within one year	(91,281)	1,582	(232,969)	(322,668)
Debt due after one year	(138,043)	(712,299)	232,969	(617,373)
	<u>(229,324)</u>	<u>(710,717)</u>	<u>--</u>	<u>(940,041)</u>
Net debt	190,905	(426,171)	--	(940,041)

## CASH FLOW STATEMENT PROOF

The cash flow statement proof is a major tool available in the software to analyze the movement of the cash and cash equivalent of each activity.

You can use the Cash Flow Statement proof to review and drill down onto the various amounts for both the current and comparative years to see the make-up of the balances by nominal code. By comparing this analysis with the source documents from the client, you should be able to find the reason for the difference.

**To view the Proof Pages, go to Produce Accounts, then click the Pages Cash Flow Statement Proof.**

Produce Accounts	
Description	Last Run
Accounts	19/01/2015 17:21:08
Abridged Accounts	19/01/2015 16:29:54
Cash Flow Statement Proof	19/01/2015 16:29:54
Overall Certificate – Republic of Ireland	19/01/2015 16:29:54

There are two reconciliation statements available in the software in order to test the net fund to be carried forward for the comparative year as well as the current year and these are as under.

- a) **Reconciliation of net funds/debt in comparative to opening in current year**
- b) **Reconciliation of current net funds/debt to closing balance in analysis of changes to net funds/debt note**

Some of the points are to be tested and these are.

- 1) Movement of the operating activity
- 2) Movement of Debtors and Creditors Cash Flow
- 3) Return on Investment and Servicing finance
- 4) Cash flow from taxation
- 5) Capital Expenditure investments

- 6) Cash flow from acquisition and disposal
- 7) Cash movement from the financing activities
- 8) Need to check the comparative and pre-comparative carried forward balances.

All the above movements to be reconciled with previous year net fund in order to compute the net fund to be carried for the next financial year and in case any irregularities are found in the movement of any of the above then there would be an error notes with the following descriptions for both the year.

- a) **The brought forward net funds/debt differ from the comparative net funds/debt by € XXX.**
- b) **The current net funds/debt differ from the closing balance in analysis of changes to net funds/debt note by € XXX**

The under mentioned illustrations will show the movement of cash and reconciliation statement of fund with that movement and the company needs to test this cash flow statement proof in order to rectify the cash flow statement.

**XYZ LTD**

**Cash flow Statement Proof for the year ended 31 December 2016**

<b>Cash Flow Heading Group</b>	<b>Description</b>	<b>2015</b>	<b>2014</b>	<b>Cash flow for 2015</b>
Operating Surplus	Operating profit	6,600		6,600
	Creditors cash flow	900	-	
	Interest Payable accrued	(10,500)	(620)	
Movement in creditors				(8,980)
Movement in debtors				--
<b>Net cash inflow from operating activities</b>				<u>(2,380)</u>
	Lee: Interest receivable and payable accrued		620	
<b>Returns on investments and servicing of finance</b>				(620)
<b>Capital Expenditure</b>	Cash flow capital expenditure and financial investment	(47,877)		(47,877)
				<u>(50,877)</u>
	Cash flow finance (excluding change in hire purchase interest prepaid)	60,980		
<b>Finance</b>				<u>60,980</u>
<b>Movement in cash</b>				<u>10,103</u>
	Cash flow finance (excluding change in hire purchase interest prepaid)	(60,980)		
Cash inflow from increase in debts and lease financing				(60,980)
Change in net debt resulting from cash flows				<u>(50,877)</u>
	Cash flow net debt b/fwd	(131,150)		
	Less: cash flow bank		(4,398)	
<b>Net debt at 1 January 2015</b>				<u>(126,752)</u>
<b>Net debt at 31 December 2015</b>				<u><u>(177,629)</u></u>
<b>Cash Flow Note Heading</b>	<b>Group Description</b>	<b>2015</b>	<b>2014</b>	<b>B/Fwd net funds for 2016</b>
Cash at bank and in hand	Bank and Cash		15,540	15,540
	Cash flow debt over one year	(193,169)		
Debt due after one year				(193,169)
<b>Net funds at 31 December 2015</b>				<u><u>(177,629)</u></u>

**XYZ LTD**

<b>Cash Flow Heading Group</b>	<b>Description</b>	<b>2016</b>	<b>2015</b>	<b>Cash flow for 2016</b>
Operating Surplus	Operating profit	75,000		75,000
Depreciation				962
Creditors cash flow		1,707	900	
Interest payable accrued		(9,067)	(10,461)	
Movement in creditors				2,201
Movement in debtors				--
<b>Net cash inflow from operating activates</b>				<u>78,163</u>
	Less: Interest receivable and payable accrued		10,461	
<b>Returns on investments and servicing of finance</b>				<u>(10,461)</u>
<b>Capital Expenditure</b>	Cash flow capital expenditure and financial investment	(18,155)		<u>(18,155)</u>
				49,547
	Cash flow finance (excluding change in hire purchase interest prepaid)	(60,000)		
<b>Finance</b>				<u>(60,000)</u>
<b>Movement in cash</b>				<u>(10,453)</u>
	Cash flow finance (excluding change in hire purchase interest prepaid)	(60,000)		
Cash inflow from increase in debts and lease financing				(60,980)
Change in net debt resulting from cash flows				(50,877)
	Cash flow net debt b/fwd	(193,169)		
	Less: cash flow bank		(15,540)	
<b>Net debt at 1 January 2016</b>				<u>(177,629)</u>
<b>Net debt at 31 December 2016</b>				<u><u>(128,082)</u></u>
<b>Cash Flow Note Heading</b>	<b>Group Description</b>	<b>2016</b>	<b>2015</b>	<b>Closing net funds for 2015</b>
Cash at bank and in hand	Bank and cash	5,087	15,540	<u>(177,629)</u>
				<u>(10,453)</u>
				<u>(187,341)</u>
Debt due after one year	Cash flow debt over one year	60,000		<u>60,000</u>
<b>Net funds at 31 December 2016</b>				<u><u>(128,082)</u></u>