

# MyStudyBro - Revision Exercise Tool

This Revision Handout includes the Questions and Answers of a total of 5 exercises!

## Chapters:

### **Cash Flow Statement - Unit 2 (Pearson Edexcel)**

Page 1	(WAC02 or WAC12) 2019 Winter
Page 4	(WAC02 or WAC12) 2019 Winter - Answer
Page 8	(WAC02 or WAC12) 2018 Summer
Page 11	(WAC02 or WAC12) 2018 Summer - Answer
Page 15	(WAC02 or WAC12) 2017 Winter
Page 17	(WAC02 or WAC12) 2017 Winter - Answer
Page 19	(WAC02 or WAC12) 2017 Summer
Page 21	(WAC02 or WAC12) 2017 Summer - Answer
Page 24	(WAC02 or WAC12) 2017 Autumn
Page 27	(WAC02 or WAC12) 2017 Autumn - Answer

- 6 The directors of Mombassa Music plc have drawn up a Statement of Cash Flows in accordance with International Accounting Standard (IAS) 7, as shown below.

**Statement of Cash Flows for Mombassa Music plc for the year ended 31 December 2018**

<b>Cash Flows from Operating Activities</b>	<b>£000</b>	
Profit after tax	2 570	
Taxation charge for year on profit	384	
Add Depreciation of non-current assets	246	
Add Loss on sale of intangible asset	31	
Less Profit on sale of property, plant and equipment	(145)	
<b>Operating cash flow before working capital changes</b>	<b>3 086</b>	
Increase in inventories	(52)	
Decrease in trade receivables	43	
Increase in trade payables	17	
<b>Cash generated from operations</b>	<b>3 094</b>	
Add Interest received	12	
Less Interest paid	(38)	
Less Tax paid	(352)	
<b>Net Cash from Operating Activities</b>		<b>2 716</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of intangible non-current asset	280	
Payments to acquire tangible non-current assets	(695)	
Proceeds from sale of tangible non-current asset	220	
Dividends received	32	
<b>Net Cash Used in Investing Activities</b>		<b>(163)</b>
<b>Cash Flows from Financing Activities</b>		
Issue of ordinary shares	96	
Repayment of debenture	(400)	
Dividends paid	(36)	
<b>Net Cash Used in Financing Activities</b>		<b>(340)</b>
<b>Net increase in cash and cash equivalents</b>		<b>2 213</b>
Cash and cash equivalents at the beginning of the year		(2 486)
Cash and cash equivalents at the end of the year		(273)

**Required**

(a) A copyright was sold in March 2018.

- (i) Calculate the book value of the copyright when sold.

(2)

There was only one item of property, plant and equipment sold during the year.  
The property sold had been depreciated by £20 000

- (ii) Calculate the cost price of the property.

(3)

(iii) State:

- **one** advantage of an increase in trade payables
- **one** disadvantage of an increase in trade payables.

(2)

At 31 December 2018, the share capital was 336 000 ordinary shares of £1 each.

The £1 shares issued in October 2018 were not eligible for the 2018 interim dividend.

Details of the ordinary share dividends are:

Final dividend for 2017 of £21 600 – paid February 2018

Interim dividend for 2018 – paid September 2018

Final proposed dividend for 2018 is £24 000

- (iv) Calculate the interim dividend **per share** paid in September 2018.

(4)

The interest paid was both on the bank account and the 8% debenture.  
The debenture was repaid on 31 May and one payment, for 6 months' interest, was made in the year.

- (v) Calculate the interest paid on the bank account during the year.

(3)

At 31 December 2017, Mombassa Music plc had £239 000 cash.

- (vi) Calculate the bank balance at 31 December 2017.

(2)

At 31 December 2018, Mombassa Music plc had £257 000 cash.

- (vii) Calculate the movement on the bank balance in the year ended 31 December 2018.

(4)

(b) Explain **two** differences between a Statement of Cash Flows and a Cash Budget.

(4)

(c) Evaluate the performance relating to liquidity in 2018 and the liquidity position at the year-end of Mombassa Music plc.

(6)

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**(Total for Question 6 = 30 marks)**

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**TOTAL FOR SECTION B = 90 MARKS**

**TOTAL FOR PAPER = 200 MARKS**

Question Number	Answer	Mark
6 (a)(i)	<p><b>AO1 (1), AO2 (1)</b>  <b>AO1: One mark for correct addition to calculate the book value of the copyright.</b>  <b>AO2: One mark for setting out correctly the addition to find the book value of the copyright.</b></p> <p>(£280 000 + £31 000) (1) <b>AO2</b>            = £311 000 (1) <b>AO1</b></p>	(2)

Question Number	Answer	Mark
6 (a)(ii)	<p><b>AO1 (2), AO2 (1)</b>  <b>AO1: Two marks for correctly adding back the depreciation to arrive at the the answer.</b>  <b>AO2: One mark for correctly subtracting the profit on the sale of the property.</b></p> <p>(£220 000 - £145 000) = £75 000 (1) <b>AO2</b></p> <p>£75 000 + £20 000 (1of) <b>AO1</b></p> <p>= £95 000 (1of) <b>AO1</b></p>	(3)

Question Number	Answer	Mark
6 (a)(iii)	<p><b>AO1 (2)</b>  <b>AO1: One mark for each correct identification of an advantage and a disadvantage of an increase in trade payables.</b></p> <p><u>Advantage</u>            Less cash paid out (1) <b>AO1</b></p> <p><u>Disadvantage</u>            Credit rating may reduce /less favourable credit terms (1) <b>AO1</b></p> <p>Liabilities would be higher. (1) <b>AO1</b></p>	(2)

Question Number	Answer	Mark
6 (a)(iv)	<p><b>AO2 (4)</b>  <b>AO2: Four marks for correct calculation of interim dividend paid.</b></p> <p>Number of shares eligible  <math>= 336\,000 - 96\,000 = 240\,000</math> <b>(1) AO2</b></p> <p>Interim dividend  <math>= (£36\,000 - £21\,600) = £14\,400</math> <b>(1) AO2</b></p> <p>Dividend per share <math>= \frac{£14\,400}{240\,000}</math> <b>(1of) AO2</b></p> <p><math>= £0.06</math> (6 pence) <b>(1of) AO2</b></p>	<b>(4)</b>

Question Number	Answer	Mark
6 (a)(v)	<p><b>AO2 (3)</b>  <b>AO2: Three marks for correct calculation of interest paid on the bank account during the year.</b></p> <p>Interest paid on debenture  <math>= (£400\,000 \times 8\%) / 2</math> <b>(1) AO2</b>  <math>= £16\,000</math> <b>(1) AO2</b></p> <p>Interest on bank account  <math>= (£38\,000 - £16\,000)</math>  <math>= £22\,000</math> <b>(1of) AO2</b></p>	<b>(3)</b>

Question Number	Answer	Mark
6 (a)(vi)	<p><b>AO2 (2)</b>  <b>AO2 : Two marks for correct calculation of bank balance at start of the year.</b></p> <p><math>= (£2\,486\,000 \text{ O/D}) - £239\,000</math> <b>(1) AO2</b></p> <p><math>= £2\,247\,000 \text{ O/D}</math> <b>(1) AO2</b></p>	<b>(2)</b>

Question Number	Answer	Mark
6 (a)(vii)	<p><b>AO2 (4)</b>  <b>AO2: Four marks for correct calculation of movement on bank balance during the year.</b></p> <p>Year end bank balance  = (£273 000) O/D - £257 000 <b>(1) AO2</b>  = £530 000 O/D <b>(1) AO2</b></p> <p>Yearly movement  = (£2 725 000 <b>(of)</b>) O/D - £530 000 O/D <b>(1of) AO2</b>  = £2 195 000 increase <b>(1of) AO2</b></p>	<b>(4)</b>

Question Number	Answer	Mark
6 (b)	<p><b>AO3 (4)</b>  <b>AO3: Four marks for explaining each difference between a statement of cash flows and a cash budget.</b></p> <p>Two differences – answers could include</p> <p>A statement of cash flows is for the past 12 months. <b>(1) AO3</b>  A cash budget is for a future period. <b>(1) AO3</b></p> <p>A statement of cash flows includes mostly exact figures. <b>(1) AO3</b>  A cash budget involves figures that are mostly estimates. <b>(1) AO3</b></p> <p>A statement of cash flows is prepared mainly for external users. <b>(1) AO3</b>  A cash budget is mainly for internal use. <b>(1) AO3</b>  A statement of cash flow is usually for a period of one year.  A cash budget may be for a period of months.  A statement of cash flows is a legal requirement for a company.  A cash budget is not a legal requirement/but maybe required by a bank.</p> <p>Maximum of two differences. Award mark for first statement, then award for second statement only if a difference.</p>	<b>(4)</b>

Question Number	Indicative Content		Mark
6 (c)	<p><b>AO4 (6)</b></p> <p>Possible answers:</p> <p><u>Liquidity performance/position good</u>  Cash inflow from operating activities of £2 716 000  Cash and cash equivalents improved from negative £2 486 000 at year start to negative £273 000 at year end. An improvement of £2 213 000.  Debenture was repaid, which should reduce future interest payments.</p> <p><u>Liquidity performance/position poor</u>  Cash and cash equivalents are negative £273 000 at year end.  Cash flows from investing activities and financing activities are negative.</p> <p><u>Decision</u>  The performance of the company concerning liquidity over the year has been good, as the liquidity position has improved.  However, the position itself is not good, and cash and cash equivalents are negative £273 000</p>		(6)
Level	Mark	Descriptor	
	0	A completely incorrect response.	
Level 1	1-2	Isolated elements of knowledge and understanding which are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.	
Level 2	3-4	Elements of knowledge and understanding, which are applied to the scenario. Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid. An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.	
Level 3	5-6	Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective. A coherent and logical chain of reasoning, showing causes and effects is present. Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.	

## SECTION A

Answer BOTH questions in this section.

- 1 The Statements of Financial Position of Kullna Stores plc at 31 March 2017 and 31 March 2018 were as follows:

	31 March 2017	31 March 2018
<b>ASSETS</b>	£	£
<b>Non-current assets</b>		
Intangibles – goodwill	133 000	126 000
Property, plant and equipment at cost	10 856 000	11 414 000
Provision for depreciation	<u>(3 270 000)</u>	<u>(3 652 000)</u>
Property, plant and equipment carry over	<u>7 586 000</u>	<u>7 762 000</u>
	7 719 000	7 888 000
<b>Current assets</b>		
Inventories	2 804 000	2 769 000
Trade receivables	923 000	945 000
Other receivables	57 000	51 000
Cash and cash equivalents	<u>121 000</u>	<u>-</u>
	3 905 000	3 765 000
<b>Total Assets</b>	<u>11 624 000</u>	<u>11 653 000</u>

<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital – Ordinary shares of £1	8 000 000	8 400 000
5.5% Non-redeemable preference shares of £1	600 000	600 000
Share premium	1 000 000	1 050 000
Retained earnings	<u>534 000</u>	<u>308 000</u>
<b>Total Equity</b>	10 134 000	10 358 000
<b>Non-current liabilities</b>		
6% Bank Loan	<u>400 000</u>	<u>500 000</u>
	400 000	500 000
<b>Current liabilities</b>		
Trade payables	742 000	684 000
Other payables	25 000	27 000
Current Tax payable	323 000	67 000
Cash and cash equivalents	<u>-----</u>	<u>17 000</u>
	1 090 000	795 000
<b>Total Equity and Liabilities</b>	<u>11 624 000</u>	<u>11 653 000</u>

**Additional information**

- Goodwill of £140 000 was paid when purchasing another business in the year ended 31 March 2016. The goodwill is being amortised (depreciated) over 20 years.
- On 8 April 2017 a retail property bought for £1 800 000, with depreciation to date of £720 000, was sold for £970 000.
- On 10 May 2017 a retail property was bought.
- On 19 May 2017 ordinary shareholders received a final dividend for the year ended 31 March 2017 of 1.9 pence (£0.019) per share.
- On 30 August 2017 an issue of 400 000 £1 Ordinary shares at a premium of 12.5 pence (£0.125) per share was made.
- On 1 October 2017 the bank loan was increased.
- On 22 October 2017 all Ordinary shareholders received an interim dividend of 0.5 pence (£0.005) per share.
- Preference shareholders received their dividends in full during the year.
- Profit after interest before tax for the year ended 31 March 2018 was £68 000

**Required**

- (a) Prepare a Statement of Cash Flows for the year ended 31 March 2018 for Kullna Stores plc in accordance with International Accounting Standard (IAS) 7 Statement of Cash Flows (revised).

(43)

The financial statements for the year ended 31 March 2018 were presented to the Directors at a Board meeting in April. The Human Resources Director stated "It looks like Kullna Stores plc must concentrate on profitability rather than liquidity in the next year".

- (b) Evaluate the statement made by the Human Resources Director concerning Kullna Stores plc.

(12)

**(Total for Question 1 = 55 marks)**

Question Number	Answer	Mark
1 (a)	AO1 (16), AO2 (21), AO3 (6)	(43)

<b>Statement of Cash Flow for y/e 31 March 2018</b>			
<b>Cash Flows from operating activities</b>			
Profit after interest before tax	68 000	(1) AO1	
Add interest paid	27 000	W1 (3)	
Add Amortisation of goodwill	7 000	W2 (2)	
Add Depreciation	1 102 000	W3 (5)	
Add Loss on Sale of non-current asset	110 000	W4 (2)	
<b>Operating cash flow before working capital changes</b>	<b>1 314 000</b>	<b>(1of) AO1</b>	
Decrease in inventories	35 000	(1) AO1	
Increase in trade receivables	(22 000)	(1) AO1	23
Decrease in other receivables	6 000	(1) AO1	
Decrease in trade payables	(58 000)	(1) AO1	
Increase in other payables	2 000	(1) AO1	
<b>Cash generated from operations</b>	<b>1 277 000</b>	<b>(1of) AO1</b>	
Less Interest Paid on Bank loan	(27 000)	(1of) AO1	
Less Tax Paid	(323 000)	(1) AO1	
<b>Net Cash from Operating Activities</b>	<b>927 000</b>	<b>(1of) AO1</b>	
<b>Cash Flow from Investing Activities</b>			
Payments to acquire tangible non-current assets	(2 358 000)	W5(5)	
Proceeds from sale of tangible non-current assets	970 000	(1) AO2	7
<b>Net Cash Used in Investing Activities</b>	<b>(1 388 000)</b>	<b>(1of) AO1</b>	
<b>Cash Flow from Financing Activities</b>			
Issue of Ordinary shares (400 000 + 50 000) (1) AO2	450 000	(1) AO2	
Receipt of bank loan	100 000	(1) AO2	
Dividends Paid : Final 2017 (8 000 000 x 1.9p) (1) AO2	(152 000)	(1) AO2	10
Interim 2018 (8 400 000 x 0.5p) (1) AO2	(42 000)	(1) AO2	
Preference (600 000 x 5.5p) (1) AO2	(33 000)	(1) AO2	
<b>Net Cash From Financing Activities</b>	<b>323 000</b>	<b>(1of) AO1</b>	
<b>Net decrease in cash and cash equivalents</b>	<b>(138 000)</b>	<b>(1of) AO1</b>	1
Cash and cash equivalents at the beginning of the year	121 000	(1) AO1	
Cash and cash equivalents at the end of the year	(17 000)	(1) AO1	2
<b>Net decrease in cash and cash equivalents</b>	<b>(138 000)</b>	<b>Total</b>	<b>43 Marks</b>

<b><u>W1 Calculation of interest paid</u></b>		
$(400\,000 \times 6\% \times 0.5) = \text{£}12\,000$ (1) <b>AO2</b>		
$(500\,000 \times 6\% \times 0.5) = \text{£}15\,000$ (1) <b>AO2</b> Total =	£27 000	(1) <b>AO2</b>
<b><u>W2 Calculation of Goodwill Amortisation</u></b>		
$(\text{£}133\,000 - \text{£}126\,000)$ (1) <b>AO2</b> = $\text{£}7\,000$ (1) <b>AO2</b>		
<b><u>W3 Depreciation calculation</u></b>		
Depreciation at 31 March 2018	3 652 000	(1) <b>AO3</b>
Less depreciation at 31 March 2017	-3 270 000	(1) <b>AO3</b>
	382 000	(1) <b>AO2</b>
Plus depreciation on assets sold	720 000	(1) <b>AO3</b>
Total depreciation for year	1 102 000	(1of) <b>AO2</b>
<b><u>W4 Calculation of Loss on non-current asset</u></b>		
$(\text{£}1\,800\,000 - \text{£}720\,000) - \text{£}970\,000$ (1) <b>AO2</b> =	£110 000	(1) <b>AO2</b>
<b><u>W5 Calculation of Purchase price of property</u></b>		
PPE at cost 31 March 2018	11 414 000	(1) <b>AO3</b>
Less PPE at cost 31 March 2017	10 856 000	(1) <b>AO3</b>
	558 000	(1) <b>AO2</b>
Plus cost of asset sold	1 800 000	(1) <b>AO3</b>
Purchase price of property	2 358 000	(1of) <b>AO2</b>

Question Number	Indicative Content	Mark
1 (b)	<p><b>AO1 (1), AO2 (1), AO3 (4), AO4 (6)</b></p> <p>Answers may include:</p> <p><u>Profitability</u></p> <p>Profit after interest is very low at only £68 000. The return on capital employed is only 0.67% which is poor. However, over £1.2 million of cash has been generated from operations.</p> <p><u>Liquidity</u></p> <p>Cash and cash equivalents have worsened by £138 000 in the year, which is worrying. The overdraft / cash and cash equivalents is £17 000. This is worrying, given that there was a £0.97 million inflow from the sale of a retail property. Also, the bank loan increased by £100 000, and there was a share issue that raise £0.45 million. However, £2.358 million was spent on purchasing another retail property – this sees a large outflow, but should be used to generate future profits. The dividend policy looks generous, given the profit after interest of only £68 000 – ordinary shareholders received £194 000 in the financial year.</p> <p>Working capital:</p> <p>Increasing</p> <p>2017 - £2 815                      2018 - £2 970</p> <p>Current ratio:</p> <p>2017 - <math>\frac{3\,905}{1\,090} = 3.58:1</math>              2018 - <math>\frac{3\,765}{795} = 4.74:1</math></p> <p>Increasing</p> <p>Acid ratio:</p> <p>2017 - <math>\frac{1\,101}{1\,090} = 1.01:1</math>              2018 - <math>\frac{996}{795} = 1.25:1</math></p> <p>Increasing</p> <p><u>Decision</u></p> <p>The company should probably concentrate on both profitability and liquidity.</p>	(12)

Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-3	Isolated elements of knowledge and understanding recall based. Weak or no relevant application to the scenario set. Generic assertions may be present.
Level 2	4 - 6	Elements of knowledge and understanding, which are applied to the scenario. Chains of reasoning are present, but may be incomplete or invalid. A generic or superficial assessment is present.
Level 3	7 - 9	Accurate and thorough understanding, supported throughout by relevant application to the scenario. Some analytical perspectives are present, with developed chains of reasoning, showing causes and/or effects. An attempt at an assessment is presented, using financial and non-financial information, in an appropriate format and communicates reasoned explanations.
Level 4	10 - 12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective application to the scenario. A coherent and logical chain of reasoning, showing causes and effects. Assessment is balanced, wide ranging and well contextualised using financial and non-financial information and makes informed recommendations and decisions.

## SOURCE MATERIAL FOR USE WITH QUESTION 6

6 You are the Financial Accountant for Panadura Spice Traders plc.

Extracts from the Statements of Financial Position for the last two years are shown below.

	31 December 2015 £	31 December 2016 £
<b>Non-current assets</b>		
Property, plant and equipment	8 542 000	5 869 000
Provision for depreciation	(3 679 000)	(3 137 000)
Property, plant and equipment carrying value	4 863 000	2 732 000
Intangible assets	<u>2 800 000</u>	<u>2 600 000</u>
	7 663 000	5 332 000
<b>Current assets</b>		
Inventories	4 387 000	4 653 000
Trade receivables	321 000	375 000
Other receivables	23 000	17 000
Cash and cash equivalents	<u>143 000</u>	<u>-----</u>
	4 874 000	5 045 000
<b>Total assets</b>	12 537 000	10 377 000
<b>Current liabilities</b>		
Bank overdraft	<u>-----</u>	72 000
Trade payables	2 793 000	3 018 000
Other payables	57 000	51 000
Current tax payable	<u>315 000</u>	<u>217 000</u>
	3 165 000	3 358 000

**Additional information**

- (1) On 3 March 2016 property that cost £2 450 000 with depreciation to date of £645 000 was sold for £1 925 000
- (2) On 4 September 2016 plant that cost £387 000 with a carrying value of £193 000 was sold for £167 000
- (3) All plant, property and equipment are kept in the Plant, Property and Equipment Account at cost. All sales of non-current assets are recorded in a Disposals of Non-Current Assets Account.
- (4) On 5 November 2016 equipment was bought for £164 000
- (5) No intangible assets were bought or sold in 2016.
- (6) Interest on the bank overdraft was £5 000 for the year.
- (7) On 1 July 2011 a 10-year debenture for £5 000 000, at a fixed interest rate of 9%, was issued.
- (8) Profit after interest for the year ended 31 December 2016 was £2 038 000

**Required:**

- (a) Prepare, for the year ended 31 December 2016, the:
  - (i) Property, Plant and Equipment Account (4)
  - (ii) Cash Flows from Operating Activities section of the Statement of Cash Flows, in accordance with International Accounting Standard (IAS) 7. (20)

The Managing Director stated, 'We had to sell the property we owned, to improve cash flow.'

- (b) Evaluate whether a company should sell non-current assets to improve cash flow. (8)

**(Total for Question 6 = 32 marks)**

**Answer space for Question 6 is on pages 29 to 31 of the question paper.**

## 6(a)(i)

**Property, plant and equipment Account**

Date	Details	£		Date	Details	£	
Jan 1	Bal b/d	8 542	✓	March 3	Disposals	2 450	
Nov 5	Bank	164	✓	Sept 4	Disposals	387	✓ both
				Dec 31	Bal c/d	5 869	✓
		<u>8 706</u>				<u>8 706</u>	
Jan 1	Bal b/d	5 869					

(4)

## 6(a)(ii)

<b>Statement of Cash Flows for year ending 31 December 2016</b>		
<b><u>Cash Flows from operating activities</u></b>		
Profit from operations (2 038 ✓ + 5 ✓ + 450 ✓)	2 493 000	✓✓✓
Add Depreciation	297 000	✓✓✓✓✓
Add amortisation of intangible assets	200 000	✓
Less Profit on Sale of non-current Asset	(120 000)	✓✓
Add Loss on Sale of non-current Asset	<u>26 000</u>	✓
Operating cash flow before working capital changes	2 896 000	✓ o/f
Less increase in Inventories	(266 000)	
Less increase in Trade receivables	(54 000)	✓ both
Add decrease in Other receivables	6 000	✓
Add increase in Trade payables	225 000	
Less decrease in Other payables	<u>(6 000)</u>	✓ both
Cash generated from operations	2 801 000	✓ o/f
Less Interest Paid (5 + 450)	(455 000)	✓
Less Tax Paid	<u>(315 000)</u>	✓
Net Cash from Operating Activities	2 031 000	✓ o/f

(20)

**Working for depreciation:****Depreciation Account**

Date	Details	£		Date	Details	£	
Mar 3	Disposals	645	✓	Jan 1	Balance b/d	3 679	✓
Sept 4	Disposals	194	✓	Dec31	Statement of Comprehensive Income	297	✓
Dec31	Balance c/d	<u>3 137</u>	✓				
		<u>3 976</u>				<u>3 976</u>	
				Jan1	Balance b/d	3 137	

**6(b)**For statement

The company may be experiencing cash flow problems. ✓

Company may be able to find premises to rent ✓ or company may be able to lease back the same building ✓

Property prices may be falling, ✓ so now is the time to sell. ✓

Company may not need property of this size to function/surplus asset. ✓

Company may be able to buy another property for a lower price. ✓

No alternative funding is available ✓

Sale may reduce interest payments on mortgage/loan ✓

Against statement

It is taking a short term view. ✓

Property prices may be rising, ✓ so good business would be to hold onto the asset. ✓

Years of rental may eventually be greater ✓ than the price for which the property was sold. ✓

There will be other costs associated with finding another location ✓ eg staff time, legal fees ✓

Alternative funding may be available eg bank loan ✓

Sale may reduce collateral available ✓ if requesting to take out a new loan. ✓

Maximum for arguing for one side - 4 marks

Conclusion

Company may be better not selling off the property to improve cash flow

– 2 marks

**(8)**

**Total for Question 6 = 32 marks**

## SECTION B

Answer THREE questions from this section.

- 3 The summarised Statements of Financial Position of Kericho Builders plc at 31 March 2016 and 31 March 2017 were as follows:

	31 March 2016	31 March 2017
<b>ASSETS</b>	£ 000	£ 000
<b>Non-current assets</b>		
Non-current assets at cost	525	417
Provision for depreciation	(218)	(209)
Carrying value	307	208
<b>Current assets</b>		
Inventories	46	52
Trade and other receivables	37	34
Cash and cash equivalents	11	—
	94	86
<b>Total assets</b>	<u>401</u>	<u>294</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital - £1 ordinary shares	250	250
Retained earnings	49	(2)
<b>Total equity</b>	299	248
<b>Non-current liabilities</b>		
6% debenture 2017	50	-----
<b>Current liabilities</b>		
Trade and other payables	36	43
Tax payable	16	2
Cash and cash equivalents	—	1
	52	46
<b>Total equity and liabilities</b>	<u>401</u>	<u>294</u>

**Additional information**

- On 1 April 2016 property bought for £156 000 was sold for £228 000. The carrying value of this property was £126 000
- On 1 April 2016 machinery was bought for £48 000 and is expected to last for six years, with no residual value.
- On 18 May 2016 a final dividend of 1.5 pence (£0.015) per share was paid to shareholders.
- On 30 September 2016 the debenture matured and was repaid in full.
- On 30 November 2016 an interim dividend of 0.7 pence (£0.007) per share was paid to shareholders.
- For the year ended 31 March 2017 the operating loss was £43 500

**Required**

- (a) Prepare a Statement of Cash Flows for the year ended 31 March 2017 in accordance with International Accounting Standard (IAS) 7. (24)
- (b) Evaluate how well Kericho Builders plc has managed liquidity in the year ended 31 March 2017. (6)

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**(Total for Question 3 = 30 marks)**

Question Number	Answer	Mark
<b>3 (a)</b>	<b>[5 AO1] [12 AO2] [7 AO3]</b> <b>AO1: Five marks for totals and sub-totals</b> <b>AO2: Twelve marks for profit on sale of non-current asset, working capital changes, investing activities entries, financing activity entries, and cash and cash equivalents entries</b> <b>AO3: Seven marks for profit from operations, depreciation calculation, interest paid and tax paid</b>	<b>(24)</b>

**Statement of Cash Flows for Kericho Builders plc for y/e 31 March 2017****Cash Flows from operating activities**

Profit from operations (-43500 AO3 + 1500 AO3)	(42 000)	(2)	
Add depreciation	21 000	(3)	
Less profit on sale of non-current asset	(102 000)	AO2	
Operating cash flow before working capital changes	(123 000)	AO1 o/f	
Increase in inventories	(6 000)	AO2	
Decrease in trade receivables	3 000	AO2	
Increase in trade payables	7 000	AO2	
Cash generated from operations	(119 000)	AO1 o/f	
Less interest paid: debenture	(1 500)	AO3	
Less tax paid	(16 000)	AO3	
Net cash used in operating activities	(136 500)	AO1 o/f	14

**Cash flow from investing activities**

Payments to acquire tangible non-current assets	(48 000)	AO2	
Proceeds from sale of tangible non-current assets	228 000	AO2	
Net cash from investing activities	180 000	AO1 o/f	3

**Cash flow from financing activities**

Repayment of debenture	(50 000)	AO2	
Dividends paid : final 2016	(3 750)	AO2	
interim 2017	(1 750)	AO2	
Net cash used in financing activities	(55 500)	AO1 o/f	4

**Net decrease in cash and cash equivalents**

Cash and cash equivalents at the beginning of the year	11000	AO2	
Cash and cash equivalents at the end of the year	(1000)	AO2	
Net decrease in cash and cash equivalents	(12000)	AO2	3

Depreciation calculation:

(218000 - 209000) AO3 - 30000 AO3 = 21000 AO3

Question Number	Indicative Content	Mark
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3 (b)	<p><b>AO4 (6)</b></p> <p><u>Case for handled well</u></p> <ul style="list-style-type: none"> <li>• Current ratio has improved from 1.8:1 to 1.87:1</li> <li>• Been able to have the funds to redeem the debenture</li> <li>• Raised £228 000 from sale of a property – this was £72 000 more than was paid for the property</li> <li>• Have had the funds to be able to pay a final and interim dividend to shareholders, and purchase machinery for the business, and pay the tax bill due.</li> </ul> <p><u>Case for handled poorly</u></p> <ul style="list-style-type: none"> <li>• Acid test ratio has reduced from 0.92:1 to 0.74:1</li> <li>• Were unable to generate an inflow from operating activities</li> <li>• Sold property – was this to raise funds? How important was the property to the business? Has the company now had to rent premises? Raising cash by selling off assets is not “quality” cash unless the assets are surplus.</li> </ul> <p><u>Conclusion</u></p> <p>Overall, cash and cash equivalents have reduced by £12 000, so it could be said that liquidity has not been handled well.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	<p>Isolated elements of knowledge and understanding that are recall based.</p> <p>Generic assertions may be present.</p> <p>Weak or no relevant application to the scenario set.</p>
Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information, with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>

- 6 The Statement of Cash Flows for Kontire Digital plc has been prepared according to International Accounting Standard 7 (IAS 7) and is shown below.

**Statement of Cash Flows - Kontire Digital plc for the year ended 30 September 2017**

	£ 000's	£ 000's
<b>Cash flows from operating activities</b>		
Profit from operations	1 260	
Add depreciation on non-current assets	324	
Add loss on sale of non-current asset	11	
<b>Operating cash flow before working capital changes</b>	<b>1 595</b>	
Decrease in inventories	79	
Increase in trade receivables	(38)	
Decrease in trade payables	(26)	
<b>Cash generated from operations</b>	<b>1 610</b>	
Less interest paid: Bank overdraft	(2)	
Bank loan	(22)	
Less tax paid	<u>(270)</u>	
<b>Net cash from operating activities</b>		<b>1 316</b>
<b>Cash flows from investing activities</b>		
Payments to purchase non-current assets	(103)	
Proceeds from sale of non-current assets	51	
Payments to purchase shares in other companies	(28)	
Dividends received from shares in other companies	<u>7</u>	
<b>Net cash used in investing activities</b>		<b>(73)</b>

<b>Cash flows from financing activities</b>		
Redemption of ordinary shares	(110)	
Dividends paid: Final 2016	(29)	
Interim 2017	(12)	
Preference	(8)	
<b>Net cash used in financing activities</b>		<b>(159)</b>
<b>Net increase in cash and cash equivalents</b>		<b>1 084</b>
Cash and cash equivalents at the beginning of the year		<b>119</b>
Cash and cash equivalents at the end of the year		<b>1 203</b>

**Required**

(a) Prepare answers to the following:

(i) Inventories decreased during the year.

State:

- **one** advantage of a decrease in inventories
- **one** disadvantage of a decrease in inventories

(2)

(ii) Customers owed £45 000 at the start of the year. Calculate the amount customers owed at the end of the year.

(2)

(iii) Suppliers were owed £33 000 at the end of the year. Calculate the amount suppliers were owed at the start of the year.

(2)

(iv) The 6% bank loan for £400 000 was taken out in 2014. Calculate the amount of interest accrued on the loan for the year ended 30 September 2017.

(3)

- (v) Calculate the profit or loss after interest payments for the year ended 30 September 2017. (2)
- (vi) The non-current asset which was sold during the year consisted of one item. State the book value of the plant when sold. (3)
- (vii) State **two** reasons why Kontire Digital plc would purchase shares in other companies. (2)
- (viii) The preference shares have a dividend rate of 4% per year, which was paid in full. Calculate the value of the preference shares. (2)
- (ix) At 1 October 2016, Kontire Digital plc had an overdraft of £27 000. Calculate the cash balance the company had at this date. (2)
- (x) At 30 September 2017, Kontire Digital plc had £609 000 in cash. Calculate the movement on the bank balance during the year. (4)

At the Annual General Meeting, a shareholder stated, "All the figures in the cash flows from financing activities section are negative. This is very worrying."

- (b) Evaluate the statement made by the shareholder. (6)

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**(Total for Question 6 = 30 marks)**

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**TOTAL FOR SECTION B = 90 MARKS**  
**TOTAL FOR PAPER = 200 MARKS**

Question Number	Answer	Mark
6 (a) (i)	<p><b>AO1 (2)</b>  <b>AO1: Two marks, one for an advantage one for a disadvantage.</b></p> <p><u>Advantage</u>  Lower costs of storing / holding inventories e.g. rent, insurance, security (1) <b>AO1</b></p> <p><u>Disadvantage</u>  Less / decrease in range in inventories which means customers may be disappointed and buy from other suppliers (1) <b>AO1</b></p>	<b>(2)</b>

Question Number	Answer	Mark
6 (a) (ii)	<p><b>AO1 (1), AO2 (1)</b>  <b>AO1: One mark for correct calculation of amount owed by customers at year end.</b>  <b>AO2: One mark for correct application of figures to arrive at amount owed by customers at year end.</b></p> <p>(£45 000 + £38 000) (1) <b>AO2</b> = £83 000 (1) <b>AO1</b></p>	<b>(2)</b>

Question Number	Answer	Mark
6 (a) (iii)	<p><b>AO1 (1), AO2 (1)</b>  <b>AO1: One mark for correct calculation of amount owed to suppliers at year end.</b>  <b>AO2: One mark for correct application of figures to arrive at amount owed to suppliers at year end.</b></p> <p>(£33 000 + £26 000) (1) <b>AO2</b> = £59 000 (1) <b>AO1</b></p>	<b>(2)</b>

Question Number	Answer	Mark
6 (a) (iv)	<p><b>AO2 (1), AO3 (2)</b>  <b>AO1: One mark for correct identification of amount paid in the year.</b>  <b>AO2: Two marks for correct calculation of interest and accrued amount.</b></p> <p>£400 000 x 6% = £24 000 (1) <b>AO3</b>  Paid in year £22 000 (1) <b>AO2</b> so  £2 000 accrued (1) <b>AO3</b></p>	<b>(3)</b>

Question Number	Answer	Mark
6 (a) (v)	<b>AO3 (2)</b> <b>AO3: Two marks for correct calculation of profit after interest payments.</b>  $\text{£1 260 000} - (\text{£24 000} + \text{£2 000})(1) \text{ AO3}$ $= \text{£1 234 000} (1) \text{ AO3}$	(2)

Question Number	Answer	Mark
6 (a) (vi)	<b>AO1 (1), AO2 (1), AO3 (1)</b> <b>AO1: One mark for correct identification of amount received from sale.</b> <b>AO2: One mark for correct identification of LOSS from sale.</b> <b>AO3: One mark for calculation of book value of plant when sold.</b>  $\text{£51 000} (1) \text{ AO2} + \text{£11 000} (1) \text{ AO3}$ $= \text{£62 000} (1) \text{ AO1}$	(3)

Question Number	Answer	Mark
6 (a) (vii)	<b>AO2 (2)</b> <b>AO2: Two marks, one for each reason.</b> Answers may include – maximum of 2 marks <b>AO2</b> (2) <ul style="list-style-type: none"> <li>• Kontire Digital plc have surplus liquid funds (which they wish to utilise to earn a return).</li> <li>• Shares will pay future dividends</li> <li>• Share price may rise in the future</li> </ul> Show company name	(2)

Question Number	Answer	Mark
6 (a) (viii)	<b>AO3 (2)</b> <b>AO3: Two marks for correct calculation of value of preference shares.</b>  $4\% \text{ of } X = \text{£8 000}$ $\text{so } X = \frac{8\,000}{4} \times 100 (1) \text{ AO3} = \text{£200 000} (1) \text{ AO3}$	(2)

Question Number	Answer	Mark
<b>6 (a) (ix)</b>	<b>AO2 (2)</b> <b>AO2: Two marks for correct calculation of cash balance at start of year.</b>  (£119 000 + £27 000) (1) <b>AO2</b> = £146 000 (1) <b>AO2</b>	<b>(2)</b>

Question Number	Answer	Mark
<b>6 (a) (x)</b>	<b>AO3 (4)</b> <b>AO3: Four marks for correct calculation of movement on bank balance.</b>  Year end bank balance = (£1 203 000 - £609 000) (1) <b>AO2</b> = £594 000 (1) <b>AO2</b> Yearly movement = (£594 000 + £27 000) (1) <b>AO2</b> = £621 000 increase (1) <b>AO2</b>	<b>(4)</b>

Question Number	Answer	Mark
6 (b)	<p><b>AO4 (6)</b></p> <p>Possible answers:</p> <p><b><u>For the statement</u></b></p> <p><u>Disadvantages of outflow due to share redemption or paying dividends</u></p> <ul style="list-style-type: none"> <li>• Liquid funds leave the company, which has a negative effect on cash flow and liquidity.</li> <li>• Net worth (book value) of the company decreases.</li> <li>• Company has less liquid funds to invest in possible profitable areas.</li> </ul> <p><b><u>Against the statement</u></b></p> <p><u>Advantage of outflow due to share redemption</u></p> <ul style="list-style-type: none"> <li>• Company does not require the funds.</li> <li>• Redeeming shares would improve some ratios eg return on capital employed.</li> <li>• Shareholders are not happy or have a problem with the company, so buying them out will benefit company.</li> <li>• Share price will rise if less shares in circulation.</li> <li>• Less dividends to pay in future.</li> </ul> <p><u>Advantages of paying dividends</u></p> <ul style="list-style-type: none"> <li>• Shareholders kept happy and therefore quiet.</li> <li>• May support share price.</li> <li>• Sends out positive message and confidence in company may be maintained.</li> </ul> <p><u>Decision</u></p> <p>Should relate to points made above i.e. negative cash flow from financing activities is not always worrying. The decision should be supported by reference to key points of their argument.</p>	(6)
Level	Mark	Descriptor
	0	A completely incorrect response.
Level 1	1-2	Isolated elements of knowledge and understanding that are recall based. Generic assertions may be present. Weak or no relevant application to the scenario set.

Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the scenario.</p> <p>Some analysis is present, with developed chains of reasoning, showing causes and/or effects applied to the scenario, although these may be incomplete or invalid.</p> <p>An attempt at an evaluation is presented, using financial and perhaps non-financial information with a decision.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding. Application to the scenario is relevant and effective.</p> <p>A coherent and logical chain of reasoning, showing causes and effects is present.</p> <p>Evaluation is balanced and wide-ranging, using financial and perhaps non-financial information and an appropriate decision is made.</p>