Source C for Question 3

The directors of KM plc provided the following financial information.

1 Non-current assets:

	At 31 December 2024	At 31 December 2023
	$	$
Cost/valuation:		
Office buildings	670 000	580 000
Office equipment	154 000	124 000
Provision for depreciation:		
Office buildings	70 800	44 000
Office equipment	96 400	82 000

One of the office buildings purchased in 2021 was revalued on 31 December 2023 at $360 000, giving rise to a revaluation surplus of $52 000. It was sold in May 2024 for $375 000. A new office building was purchased in the following month. A full year's depreciation is provided in the year of purchase and none in the year of disposal.

New office equipment was purchased in November 2024 for $30 000. The amount was payable in three equal instalments at an interval of three months. The first payment was made on 1 December 2024.

2 Changes during 2024 in some items were as follows:

	$	
Inventory	9 400	Decreased
Trade receivables	12 700	Increased
Trade payables	12 000	Increased
Loan interest payable	550	Decreased

3 The cash at bank balance at 31 December 2023 was $25 600.
Loan interest charged to the statement of profit or loss for 2024 was $8 900.
Dividends of $114 000 were paid in 2024.

4 Equity and non-current liabilities:

	At 31 December 2024	At 31 December 2023
	$	$
Ordinary share capital ($1 share)	400 000	350 000
Share premium	35 000	25 000
General reserve	41 000	33 000
Revaluation reserve	–	52 000
Retained earnings	223 050	205 900
Total equity	699 050	665 900
Non-current liabilities:		
Bank loan	25 000	40 000

(c) Prepare the statement of cash flows for the year ended 31 December 2024 in accordance with IAS 7.

Workings:

[11]

Additional information

To improve the cash flow, the directors plan to sell one of the office buildings and then rent it from the purchaser.

(d) Advise the directors whether or not they should carry out their plan. Justify your answer.

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.... [5]

[Total: 25]

Question	Answer	Marks
3(c)	**Prepare the statement of cash flows for the year ended 31 December 2024 in accordance with IAS 7.**	**11**

Statement of cash flow for the year ended 31 December 2024

	$		$	
Cash flows from operating activities				
Profit from operations			96 050	
Depreciation charge – Office buildings	26 800	**}**		
– Office equipment	14 400	**}(1)**	41 200	
Profit on disposal of office building ($375 000 – $360 000)			(15 000)	**(1)**
Decrease in inventory			9 400	**}**
Increase in trade receivables			(12 700)	**}**
Increase in trade payables			12 000	**}(1)**
Cash from operations			130 950	
Interest paid ($8 900 + $550)			(9 450)	**(1)**
Net cash from operating activities			121 500	
Cash flows from investing activities				
Purchase of office building ($670 000 + $360 000 – $580 000)	(450 000)	**(1)**		
Proceeds from sale of office building	375 000	**}**		
Purchase of office equipment	(10 000)	**}(1)**		
Net cash used in investing activities			(85 000)	**(1)OF**
Cash flows from financing activities				
Proceeds from issue of share capital	60 000	**(1)**		
Dividend paid	(114 000)	**}**		
Repayment of bank loan	(15 000)	**}(1)**		
Net cash used in financing activities			(69 000)	**(1)OF**
Net decrease in cash and cash equivalents			(32 500)	
Cash and cash equivalents at 1 January 2024			25 600	
Cash and cash equivalents at 31 December 2024			(6 900)	**(1)OF**

Question	Answer	Marks
3(d)	**Advise the directors whether or not they should carry out their plan. Justify your answer.** **For (Max 2)** KM plc gets immediate cash. KM plc retains full use of the office building. There will be no maintenance / depreciation costs. Extra cash can be used to repay the loan to reduce the interest expense. **Against (Max 2)** Profit will be reduced due to rent payments. KM plc will be evicted from the property if the company cannot pay rent. KM plc has little flexibility to deal with the property, for example, permission from the landlord is necessary for any major renovations. KM plc cannot enjoy the increase in value of the property. The purchaser may increase the rent. **Decision supported by a comment (1)** **Accept other valid responses**	**5**