

# Investment appraisal and cash flows

## Questions and Answers ( A level )

### Question 1

March 2017

- 6 The main cutting machine of LH Limited needs to be replaced. A replacement machine will cost \$260 000.

The current machine cuts 40 000 units a year. The number of units is expected to be reduced by 10% in year 1 due to the time taken to install the new machine. The number of units is expected to increase to 42 000 units a year for both year 2 and year 3.

The following information is available.

- 1 The cost of capital is 14%.
- 2 It is assumed that revenues are received and costs are paid at the end of the year.
- 3 Each unit of production costs \$26 to manufacture. This will increase to \$27.80 in year 2 and \$28.50 in year 3.
- 4 Each unit is expected to sell for \$30 in years 1 and 2, increasing by 5% in year 3.
- 5 It is assumed that all production is sold.

The following is an extract from the present value table for \$1.

	12%	14%	16%	18%	20%
Year 1	0.893	0.877	0.863	0.847	0.833
Year 2	0.797	0.769	0.743	0.718	0.694
Year 3	0.712	0.675	0.641	0.609	0.579

### REQUIRED

- (a) Distinguish between the net present value method of investment appraisal and the internal rate of return. [4]
- (b) Calculate the expected net present value for the replacement machine. [9]
- (c) Calculate the expected internal rate of return of the replacement machine. [7]
- (d) Analyse the benefits to LH Limited of purchasing the replacement machine. [5]

**[Total: 25]**

Question	Answer	Marks																																																
6(a)	<p>Net present value method of capital investment appraisal uses the present value of the net cash flows less the initial investment. (cash inflows less cash outflows <b>(1)</b>) using today's prices levels <b>(1)</b> at the company's cost of capital <b>(1)</b></p> <p><b>max (2)</b></p> <p>The internal rate of return method of capital investment appraisal also uses the present values of cash flows. <b>(1)</b> However it represents the true interest rate earned by the investment over the course of its economic life <b>(1)</b>. This rate will cause the net present value to be returned to zero. <b>(1)</b></p> <p><b>max (2)</b></p>	4																																																
6(b)	<p>NPV at 14%</p> <table><tr><td></td><td>Net cash flow</td><td>DF</td><td>\$</td><td></td></tr><tr><td>0</td><td>(260 000)</td><td>1</td><td>(260 000)</td><td><b>1</b></td></tr><tr><td>1</td><td>144 000</td><td>0.877</td><td>126 288</td><td><b>1of</b></td></tr><tr><td>2</td><td>92 400</td><td>0.769</td><td>71 055.60</td><td><b>1of</b></td></tr><tr><td>3</td><td>126 000</td><td>0.675</td><td>85 050</td><td><b>1of</b></td></tr><tr><td></td><td></td><td>NPV</td><td><u>22 393.60</u></td><td><b>1of</b></td></tr></table> <p>Working:</p> <p>Units</p> <table><tr><td>1</td><td>36 000</td><td>30</td><td>26</td><td>144 000</td><td><b>(1)</b></td></tr><tr><td>2</td><td>42 000</td><td>30</td><td>27.8</td><td>92 400</td><td><b>(1)</b></td></tr><tr><td>3</td><td>42 000</td><td>31.5</td><td><b>(1)</b> 28.5</td><td>126 000</td><td><b>(1)</b></td></tr></table>		Net cash flow	DF	\$		0	(260 000)	1	(260 000)	<b>1</b>	1	144 000	0.877	126 288	<b>1of</b>	2	92 400	0.769	71 055.60	<b>1of</b>	3	126 000	0.675	85 050	<b>1of</b>			NPV	<u>22 393.60</u>	<b>1of</b>	1	36 000	30	26	144 000	<b>(1)</b>	2	42 000	30	27.8	92 400	<b>(1)</b>	3	42 000	31.5	<b>(1)</b> 28.5	126 000	<b>(1)</b>	9
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Question	Answer	Marks																														
6(c)	<p>lower rate + (different in rate · (low rate npv/low rate npv + high rate npv)</p> <p>14% <b>(1)</b> + (6% <b>(1)</b> × 22 393.60 <b>(1of)</b>/22 393.60 + 2 968.40) = 19.3% <b>(1of)</b></p> <p>at 20% NPV is</p> <table><tr><td></td><td>Net cash flow</td><td>DF</td><td>\$</td><td></td></tr><tr><td>0</td><td>(260 000)</td><td>1</td><td>(260 000)</td><td><b>(1)</b></td></tr><tr><td>1</td><td>144 000</td><td>0.833</td><td>119 952</td><td>*</td></tr><tr><td>2</td><td>92 400</td><td>0.694</td><td>64 125.60</td><td>*<b>(1)*</b></td></tr><tr><td>3</td><td>126 000</td><td>0.579</td><td>72 954</td><td>*</td></tr><tr><td></td><td></td><td>NPV</td><td><u>(2 968.40)</u></td><td><b>(1)of</b></td></tr></table>		Net cash flow	DF	\$		0	(260 000)	1	(260 000)	<b>(1)</b>	1	144 000	0.833	119 952	*	2	92 400	0.694	64 125.60	* <b>(1)*</b>	3	126 000	0.579	72 954	*			NPV	<u>(2 968.40)</u>	<b>(1)of</b>	7
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6(d)	<p>The net cash flow generated over the 3 years is \$102 400 <b>(1)</b>. This cash can be put to other uses within the business <b>(1)</b>.</p> <p>Production levels have increased up to 42 000 from 40 000 <b>(1)</b>. This means that the business can increase its market <b>(1)</b> and potentially its profit <b>(1)</b> max</p> <p>The net present value is positive with a cost of capital at 14%. <b>(1)</b></p> <p>The discounted net cash flows exceed the initial cost of the investment <b>(1)</b></p> <p>The internal rate of return is larger than the cost of capital <b>(1)</b></p> <p>The return of the investment is greater than the cost <b>(1)</b></p> <p><b>Max 5</b></p>	5																														
		25																														

## Question 2

November 2017

Wong Ho owns a small factory. A machine has started to break down regularly and needs to be replaced.

A replacement machine is expected to cost \$55 000. It is expected to last 5 years and will be depreciated using the straight-line method of depreciation. At the end of the period the machine will be scrapped with no residual value.

The following information is available for the replacement machine:

- 1 The selling price for each unit produced by the machine is expected to be \$40 for years 1 and 2.  
This is expected to increase by 25% for year 3.  
There is no expected change for year 4.  
However, the selling price is expected to increase by a further 10% for year 5.
- 2 The cost of production for each unit produced is expected to be \$20 for years 1 and 2. This will increase by 25% for year 3 and then remain unchanged.
- 3 The present value for the net cash flows for the years 1 to 5 have been calculated as follows:

Year	Discount factor 14%	Present value \$
1	0.877	3 683.40
2	0.769	6 536.50
3	0.675	9 483.75
4	0.592	14 977.60
5	0.519	21 019.50

### REQUIRED

- (a) Distinguish between the payback method of investment appraisal and the net present value method. [4]
- (b) Calculate the expected net present value for the replacement machine. [1]
- (c) (i) Calculate the annual net cash flows for years 1 to 5 for the replacement machine. [5]  
(ii) Calculate the payback period for the replacement machine. [2]  
(iii) Calculate the number of units for **each** year that Wong Ho expects to produce with the replacement machine. [8]
- (d) Recommend whether or not Wong Ho should purchase the replacement machine. Justify your answer. [5]

**[Total: 25]**

Question	Answer	Marks
5(d)	<p>The machine has a positive net present value, but it is very small. <b>(1)</b>  The payback is within the life of the machine. However, it is very late by being in the fifth year. <b>(1)</b></p> <p>Wong Ho should purchase the machine as it has a positive net present value <b>(1)</b>, it pays back within the life of the machine <b>(1)</b> and it increases the production level. <b>(1)</b></p> <p>Wong Ho should not purchase the machine as the data is all estimated <b>(1)</b> and could be wrong. If the small positive net present value becomes negative, <b>(1)</b> the payback does not happen in the lifetime and the production does not exceed the current production levels. <b>(1)</b> There may be additional potential costs, <b>(1)</b> such as training. <b>(1)</b></p> <p><b>1 for decision and max 4 for explanation</b></p>	5

### Question 3

May/June 2018

Jason is considering investing in building a property in order to receive rental income.

He could buy the land now (year 0) for \$100 000. Construction costs of \$180 000 would be paid in year 1.

The building would have ten flats and **each** would have an annual rental of \$5000. Jason thinks that he could rent out flats as follows:

Year	Number of flats rented out
1	Nil
2	7
3	8
4	10

Total annual maintenance and management charges for the flats would cost \$12 000 plus 10% of the rent received.

At the end of the year 4 he would sell the building. Jason has consulted two different property dealers, Alan and Bob. Alan estimates the building could be sold for \$290 000. Bob estimates it could be sold for \$315 000.

Jason's cost of capital is 10%. The discount factors to be used to account for this are as follows.

Year 1	0.909
2	0.826
3	0.751
4	0.683

All cash flows are assumed to take place on the last day of the year.

**Answer the following questions in the Question Paper. Questions are printed here for reference only.**

- (a) (i) Calculate the net present value (NPV) of investing in the building, using Alan's estimation of the sale proceeds. [12]
- (ii) Calculate the net present value (NPV) of investing in the building, using Bob's estimation of the sale proceeds. [3]
- (b) Calculate the sales proceeds at the end of year 4 which would result in a net present value (NPV) of zero. [3]
- (c) Advise Jason whether or not he should proceed with investing in the building. Justify your answer. [5]
- (d) State **two** reasons why the calculation of the payback period is a less useful investment appraisal technique than the calculation of net present value (NPV). [2]

[Total: 25]

Question	Answer									Marks
5(a)(i)	Year	Inflows		Outflows		Net cash flow	Discount factor	Discounted cash flows		<b>12</b>
	0			100 000		(100 000)		(100 000)	<b>(1)</b>	
	1			180 000	<b>(1)</b>	(180 000)	0.909	(163 620)	<b>(1) OF</b>	
	2	35 000	}	15 500	<b>(1)</b>	19 500	0.826	16 107	<b>(1) OF</b>	
	3	40 000	} <b>(1)</b>	16 000	<b>(1)</b>	24 000	0.751	18 024	<b>(1) OF</b>	
	4	50 000		17 000	<b>(1)</b>	33 000	0.683	<u>22 539</u>	<b>(1) OF</b>	
								(206 950)		
	4	290 000					0.683	<u>198 070</u>	<b>(1)</b>	
	NPV							<u>(8 880)</u>	<b>(1) OF</b>	
5(a)(ii)	Year	Inflows		Outflows		Net cash flow	Discount factor	Discounted cash flows		<b>3</b>
	Discounted cash flows before sales proceeds							(206 950)	<b>(1) OF</b>	
	4	315 000					0.683	<u>215 145</u>	<b>(1)</b>	
	NPV							<u>8 195</u>	<b>(1) OF</b>	
5(b)	$\frac{206950}{0.683} \text{ (1) OF } = \$303\,001 \text{ (1) OF }$									<b>3</b>

Question	Answer	Marks
5(c)	<p>Both positive and negative NPVs are small in relation to the outlay.</p> <p>Decision would depend on how risk-averse Jason is.</p> <p>The project pays back even at the lower sales value.</p> <p>There are a lot of assumptions being made even without the final sales proceeds.</p> <p>Jason may get more for the building if he sold the flats individually rather than as a block.</p> <p><b>Accept other valid points.</b></p> <p><b>(1)</b> for decision and <b>(max 4)</b> for comments</p>	<b>5</b>
5(d)	<p>Payback ignores the time value of money</p> <p>Payback ignores the length of a project</p> <p>Payback ignores cash flows arising after the payback period</p> <p>Projects with the same NPVs could have different patterns of cash movements and hence have different payback periods.</p> <p><b>Accept other valid points.</b></p> <p>Any two for <b>(1)</b> mark each</p>	<b>2</b>

## Question 4

March 2018

Daniyar has run a successful manufacturing business for several years.

He currently has \$140 000 in the business bank account.

Daniyar is considering replacing one of his current machines with either Machine A or Machine B.

The following information is available:

	Machine A	Machine B
Cost	\$210 000	\$161 500
Expected life	5 years	4 years
Annual net cash inflows	?	\$51 000
Payback period	2 years and 11 months	?
Net present value	?	\$7412
Average rate of return	?	?

All revenue and expenditure is expected to accrue evenly throughout the life of each machine.

Annual net cash flows for each machine stay the same every year.

The cost of capital is 8%.

The discount factors are:

Year 1	0.926
Year 2	0.857
Year 3	0.794
Year 4	0.735
Year 5	0.681

The company policy is to depreciate all non-current assets over their expected life using the straight-line method. Neither machine will have any residual value.

**Answer the following questions in the Question Paper. Questions are printed here for reference only.**

- (a) Explain the difference between the net present value and payback methods of investment appraisal. [4]
- (b) Calculate:
- (i) the payback period for Machine B [2]
  - (ii) the net present value for Machine A [8]
  - (iii) the average rate of return for both machines. [6]
- (c) Advise Daniyar which machine he should purchase. Justify your decision. [5]

[Total: 25]

Question	Answer	Marks																																				
6(a)	Net present value uses discounted rates to calculate the present value of future money <b>(1)</b> whereas the payback method does not. <b>(1)</b> The net present value method considers all <b>(1)</b> the cash flows of a capital investment whereas the payback method just considers those cash flows up to the date of payback. <b>(1)</b>	4																																				
6(b)(i)	Payback is 3 years <b>(1)</b> and 2 months <b>(1)</b>	2																																				
6(b)(ii)	<table><tr><td>year</td><td>net cash flow</td><td>discount rate</td><td>present value</td></tr><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>0</td><td>(210 000)</td><td>1</td><td>(210 000)</td></tr><tr><td>1</td><td>72 000 <b>(W1)</b></td><td>0.926</td><td>66 672 <b>(1) OF</b></td></tr><tr><td>2</td><td>72 000</td><td>0.857</td><td>61 704 <b>(1) OF</b></td></tr><tr><td>3</td><td>72 000</td><td>0.794</td><td>57 168 <b>(1) OF</b></td></tr><tr><td>4</td><td>72 000</td><td>0.735</td><td>52 920 <b>(1) OF</b></td></tr><tr><td>5</td><td>72 000</td><td>0.681</td><td>49 032 <b>(1) OF</b></td></tr><tr><td></td><td></td><td>Net present value</td><td><u>77 496</u> <b>(1) OF</b></td></tr></table> <p><b>W1</b> 210 000 / 35 = 6000 <b>(1)</b> per month · 12 = 72 000 <b>(1)</b> per year</p>	year	net cash flow	discount rate	present value		\$		\$	0	(210 000)	1	(210 000)	1	72 000 <b>(W1)</b>	0.926	66 672 <b>(1) OF</b>	2	72 000	0.857	61 704 <b>(1) OF</b>	3	72 000	0.794	57 168 <b>(1) OF</b>	4	72 000	0.735	52 920 <b>(1) OF</b>	5	72 000	0.681	49 032 <b>(1) OF</b>			Net present value	<u>77 496</u> <b>(1) OF</b>	8
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		Net present value	<u>77 496</u> <b>(1) OF</b>																																			

Question	Answer	Marks
6(b)(iii)	<p>ARR</p> <p>Machine A                      <math>72\,000 - 210\,000 / 5 = 30\,000</math> profit <b>(1) OF</b></p> <p>Cost of investment              <math>210\,000 / 2 = 105\,000</math> <b>(1)</b></p> <p>ARR = <math>30\,000 / 105\,000 \cdot 100 = 28.57\%</math> <b>(1) OF</b></p> <p>Machine B                      <math>51\,000 - 161\,500 / 4 = 10\,625</math> <b>(1)</b></p> <p>Cost of investment              <math>161\,500 / 2 = 80\,750</math> <b>(1)</b></p> <p>ARR                              <math>10\,625 / 80\,750 \cdot 100 = 13.16\%</math> <b>(1) OF</b></p>	6
6(c)	<p><b>Decision (1) plus (4) for justification</b></p> <p>Machine A has a greater annual cash flow of \$72 000 compared to \$51 000. <b>(1)OF</b></p> <p>Machine A has the greater cash flows and expected life <b>(1)OF</b>, NPV <b>(1)OF</b>, ARR <b>(1)OF</b> and quicker payback. <b>(1)OF</b></p> <p>Daniyar should choose machine A <b>(1)</b> provided that it can be financed <b>(1)</b>.</p> <p><b>Max 5</b></p>	5



## Question 5

May June 2019

Gerry manufactures a product using Machine B. The following budgeted information is available in respect of this for the year ending 31 December 2019.

	\$
Total annual cash inflows from sales	800 000
Total annual cash outflows for cost of sales	416 000

Gerry has decided to purchase a new machine, Machine X, at a cost of \$600 000, to replace Machine B on 1 January 2020. The new machine will have a useful life of 3 years with no residual value. It is expected that Machine X will produce the following results:

- 1 Each year sales will be 5% more than the sales in the previous year.
- 2 Gross margin will increase by 2% in 2020 and this gross margin will then remain constant.
- 3 Machine maintenance costs will be:

	\$
2020	10 000
2021	20 000
2022	30 000

- 4 Other operating costs (excluding depreciation) will be \$120 000 per year.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

(a) Calculate for Machine X:

- (i) the net cash flow for each year [5]
- (ii) the payback period [3]
- (iii) the accounting rate of return to **two** decimal places. [5]

(b) State **two** advantages and **two** disadvantages of using the payback method of investment appraisal. [4]

### Additional information

Gerry's cost of capital is 10%. The relevant discount factors are:

Year 1	0.909
Year 2	0.826
Year 3	0.751

(c) Calculate the net present value (NPV) of Machine X. [3]

(d) Advise Gerry whether or not he should purchase Machine X. Justify your answer using **two** financial and **two** non-financial factors. [5]

[Total: 25]

Question	Answer				Marks
5(a)(i)		2020	2021	2022	5
		\$	\$	\$	
	Cash inflows from sales	840 000	882 000	926 100	(1) for all
	Cash outflows for cost of sales	420 000	441 000	463 050	(1) for all
	Machine maintenance cost	10 000	20 000	30 000	(1) for all
	Other operating costs	120 000	120 000	120 000	(1) for all
	Net cash flow	<u>290 000</u>	<u>301 000</u>	<u>313 050</u>	(1) OF for all
5(a)(ii)	2 years + [(\$600 000 – \$591 000) / \$313 050 × 365] = 2 years (1) OF 11 days (2) OF				3
5(a)(iii)					5
	\$				
	2020	290 000			
	2021	301 000			
	2022	313 050			
		<u>904 050</u>			
	Total depreciation	600 000	(1)		
	Total profit	<u>304 050</u>	(1) OF		
	Average profit	101 350	(1) OF		
	(\$101 350 / \$300 000*) (1) OF = 33.78% (1) OF				
	* = \$600 000 / 2				

Question	Answer	Marks																												
5(b)	<p><i>Advantages:</i></p> <p>Easy to compute <b>(1)</b></p> <p>Easy to understand <b>(1)</b></p> <p>Good for initial screening <b>(1)</b></p> <p>Good for business which requires short time to recover its investment <b>(1)</b></p> <p><i>Disadvantages:</i></p> <p>Does not consider time value of money <b>(1)</b></p> <p>Does not consider cash flows after the payback period <b>(1)</b></p> <p>Projects may have different patterns of cash inflows <b>(1)</b></p> <p><b>Max 2 for advantages max 2 for disadvantages.</b> <b>Accept other valid points.</b></p>	4																												
5(c)	<table><tr><td></td><td>Inflows</td><td>PV</td><td></td></tr><tr><td></td><td>\$</td><td></td><td></td></tr><tr><td>Year 0</td><td>1 (600 000)</td><td>(600 000)</td><td><b>(1)</b></td></tr><tr><td>Year 1</td><td>0.909 290 000</td><td>263 610</td><td>)</td></tr><tr><td>Year 2</td><td>0.826 301 000</td><td>248 626</td><td>) <b>(1) OF</b></td></tr><tr><td>Year 3</td><td>0.751 313 050</td><td>235 101</td><td>)</td></tr><tr><td></td><td>NPV</td><td><u>147 337</u></td><td><b>(1) OF</b></td></tr></table>		Inflows	PV			\$			Year 0	1 (600 000)	(600 000)	<b>(1)</b>	Year 1	0.909 290 000	263 610	)	Year 2	0.826 301 000	248 626	) <b>(1) OF</b>	Year 3	0.751 313 050	235 101	)		NPV	<u>147 337</u>	<b>(1) OF</b>	3
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	NPV	<u>147 337</u>	<b>(1) OF</b>																											

Question	Answer	Marks
5(d)	<p>Machine X should be purchased (1) because it has a positive NPV (1) OF</p> <p>The payback is less than the useful life of the machine (1) OF</p> <p>The ARR is more than the cost of capital (1) OF</p> <p>The quality of the product is better (1)</p> <p>The maintenance costs should be lower than Machine B (1)</p> <p>Machine X may have a positive environmental impact (1)</p> <p>There may be additional training costs incurred with machine X (1)</p> <p><b>1 mark for decision</b>  <b>Max 2 for financial factors</b>  <b>Max 2 for non-financial factors</b>  <b>Accept other valid points.</b></p>	5

## Question 6

**October 2019**

R Limited does not hold any inventory.

The non-current assets schedule of R Limited for the year ended 31 December 2018 was as follows.

	Equipment	Motor vehicles	Total
	\$000	\$000	\$000
Cost			
At 1 January 2018	190	220	410
Additions	80	-	80
Disposals	-	(40)	(40)
At 31 December 2018	<u>270</u>	<u>180</u>	<u>450</u>
Accumulated depreciation			
At 1 January 2018	47	96	143
Charge for the year	27	21	48
Eliminated on disposals	-	(17)	(17)
At 31 December 2018	<u>74</u>	<u>100</u>	<u>174</u>
Net book value			
At 31 December 2018	<u>196</u>	<u>80</u>	<u>276</u>
At 1 January 2018	<u>143</u>	<u>124</u>	<u>267</u>

The statement of changes in equity of R Limited for the year ended 31 December 2018 was as follows.

	Ordinary share capital (\$1 shares)	Share premium	General reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2018	1000	100	25	150	1275
Issue of shares	120	24			144
Transfer			50	(50)	-
Ordinary dividend paid				(80)	(80)
Profit for the year				135	135
At 31 December 2018	1120	124	75	155	1474

The following information is also available.

- 1 Finance charges for the year amounted to \$16 000. All had been paid by the year-end.
- 2 Proceeds from the sale of the motor vehicle were \$30 000.
- 3 During the year trade receivables increased by \$22 000 and trade payables decreased by \$18 000.
- 4 The net increase in cash and cash equivalents during the year was three times the amount of the overdraft at the start of the year.

Answer the following questions in the Question Paper. Questions are printed here for reference only.

- (a) Identify the type of business which keeps no inventory of goods for resale. [1]
- (b) Prepare the statement of cash flows for R Limited for the year ended 31 December 2018 in accordance with IAS 7. (Ignore taxation.) [18]
- (c) State why the revaluation of a non-current asset is not disclosed in a statement of cash flows. [1]

### Additional information

The finance director of R Limited has produced the cash budget for the year ending 31 December 2019. This shows at that date the company will again have an overdraft.

- (d) Discuss the possible reasons for this. [5]

[Total: 25]

Question	Answer	Marks																																																															
4(a)	Service / tertiary business (1)	1																																																															
4(b)	<p style="text-align: center;">R Limited Statement of cash flows for the year ended 31 December 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th><th style="text-align: right;">\$000</th><th style="text-align: right;">\$000</th></tr> </thead> <tbody> <tr> <td>Profit from operations (135 + 16)</td><td></td><td style="text-align: right;">151 (1)</td></tr> <tr> <td>Depreciation – equipment</td><td style="text-align: right;">27 (1)</td><td></td></tr> <tr> <td>– motor vehicles</td><td style="text-align: right;">21 (1)</td><td style="text-align: right;">48</td></tr> <tr> <td>Profit on disposal</td><td></td><td style="text-align: right;">(7) (1)</td></tr> <tr> <td>Increase in trade receivables</td><td></td><td style="text-align: right;">(22) (1)</td></tr> <tr> <td>Decrease in trade payables</td><td></td><td style="text-align: right;">(18) (1)</td></tr> <tr> <td>Cash from operations</td><td></td><td style="text-align: right;">152 (1) OF</td></tr> <tr> <td>Interest paid</td><td></td><td style="text-align: right;">(16) (1)</td></tr> <tr> <td><b>Net cash from operating activities</b></td><td></td><td style="text-align: right;">136 (1) OF</td></tr> <tr> <td>Cash flow from investing activities</td><td></td><td></td></tr> <tr> <td>Purchase of non-current assets</td><td style="text-align: right;">(80) (1)</td><td></td></tr> <tr> <td>Proceeds of sale of non-current assets</td><td style="text-align: right;">30 (1)</td><td></td></tr> <tr> <td><b>Net cash used in investing activities</b></td><td></td><td style="text-align: right;">(50) (1) OF</td></tr> <tr> <td>Cash from financing activities</td><td></td><td></td></tr> <tr> <td>Proceeds of issue of shares</td><td style="text-align: right;">144 (1)</td><td></td></tr> <tr> <td>Dividend paid</td><td style="text-align: right;">(80) (1)</td><td></td></tr> <tr> <td><b>Net cash from financing activities</b></td><td></td><td style="text-align: right;">64 (1) OF</td></tr> <tr> <td>Net increase in cash and cash equivalents</td><td></td><td style="text-align: right;">150 (1) OF</td></tr> <tr> <td>Cash and cash equivalents 1 Jan 2018</td><td></td><td style="text-align: right;">(50) (1) OF</td></tr> <tr> <td>Cash and cash equivalents 31 Dec 2018</td><td></td><td style="text-align: right;">100 (1) OF</td></tr> </tbody> </table>		\$000	\$000	Profit from operations (135 + 16)		151 (1)	Depreciation – equipment	27 (1)		– motor vehicles	21 (1)	48	Profit on disposal		(7) (1)	Increase in trade receivables		(22) (1)	Decrease in trade payables		(18) (1)	Cash from operations		152 (1) OF	Interest paid		(16) (1)	<b>Net cash from operating activities</b>		136 (1) OF	Cash flow from investing activities			Purchase of non-current assets	(80) (1)		Proceeds of sale of non-current assets	30 (1)		<b>Net cash used in investing activities</b>		(50) (1) OF	Cash from financing activities			Proceeds of issue of shares	144 (1)		Dividend paid	(80) (1)		<b>Net cash from financing activities</b>		64 (1) OF	Net increase in cash and cash equivalents		150 (1) OF	Cash and cash equivalents 1 Jan 2018		(50) (1) OF	Cash and cash equivalents 31 Dec 2018		100 (1) OF	18
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Question	Answer	Marks
4(c)	Because the revaluation of a non-current asset does not involve any movement of funds (1)	1
4(d)	<p>Possible answers:</p> <p>Reduced profit / increased expenses for the year (1)</p> <p>Decrease in trade payables / paying payables more quickly (1)</p> <p>Increase in trade receivables / receivables paying more slowly (1)</p> <p>Purchase of non-current assets (1)</p> <p>Payment of dividend (1)</p> <p>Repayment of loans / debentures (1)</p> <p><b>Accept other valid points.</b></p> <p><b>Max 5</b></p>	5