1 The following balances were extracted from the books of K Limited at 30 September 2018.

	Debit $000	Credit $000
8% Debentures (2022-2024)		75
Administrative expenses	42	
Cash and cash equivalents		11
Cost of sales	587	
Debenture interest	3	
Distribution costs	46	
Dividends paid	60	
Equipment		
cost	90	
provision for depreciation at 1 October 2017		30
Land and buildings		
cost	980	
provision for depreciation at 1 October 2017		135
Inventory at 30 September 2018	19	
Issued share capital: ordinary shares of $0.50 each		450
Retained earnings at 1 October 2017		106
Revenue		936
Share premium		90
Trade payables		35
Trade receivables	41	

The following information is also available.

1 Administrative expenses includes a payment, $9000, for insurance for the three months ended 30 November 2018.

2 Carriage inwards of $3000 had been included in distribution costs.

3 Land and buildings includes land at a cost of $260 000.

4 The company's depreciation policy is as follows:

Equipment	20% per annum using the reducing balance method	Charged to distribution costs
Buildings	2½% per annum using the straight-line method	Charged to administrative expenses
Land	No depreciation	

REQUIRED

(a) Prepare the income statement for the year ended 30 September 2018.

K Limited
Income statement for the year ended 30 September 2018

	$000

Workings:

[10]

Additional information

During the year ended 30 September 2018 the directors had made a rights issue of 1 ordinary share for every 2 shares held at a price of $0.70 per share. The issue was fully subscribed and had been recorded in the books of account.

REQUIRED

(b) Prepare the statement of changes in equity for the year ended 30 September 2018.

	Share capital $000	Share premium $000	Retained earnings $000	Total $000

Workings:

[6]

Additional information

The directors wish to raise additional finance. They are considering making either a further rights issue of ordinary shares or issue another debenture.

REQUIRED

(c) Advise the directors which option they should choose. Justify your answer.

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Additional information

The directors have provided the following information:

	Year ended 30 September 2018	Year ended 30 September 2017	Industry average for both years
Trade payables turnover	29 days	35 days	34 days
Trade receivables turnover	39 days	31 days	32 days

REQUIRED

(d) Analyse the effect that the changes in **each** of these ratios had on the company's liquidity using all the available information.

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(e) State **three** ways in which a business could reduce trade receivables turnover.

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2 ....

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.... [3]

(f) State **three** drawbacks of increasing trade payables turnover.

1 ....

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2 ....

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3 ....

.... [3]