CIPFA

FINANCIAL AND PERFORMANCE REPORTING

Diploma stage examination

5 December 2006

MARKING SCHEME

AT THE HEART OF
YOUR CAREER

Question 1

(a) Tolstoy Unitary Authority consolidated revenue account for the year ended 31 March 2004

	£000 Gross exp (W1)	£000 Income	£000 Net exp	
Corporate and democratic core	2,540		2,540	
Environmental and planning	14,054	(5,077)	8,977	
Education	293,180	(143,244)	149,936	
Highways, roads and transport	26,448	(12,064)	14,384	
Social services (W2)	157,208	(73,815)	83,393	½
Libraries and leisure (W3)	17,921	(2,903)	15,018	½
Net cost of General Fund services	511,351	(237,103)	274,248	½
Corporate income and expenditure				
AMRA (W4)			(9,128)	*3*
DSO surplus			(700)	½
Interest received			(650)	
Precepts			2,510	
Net operating expenditure			266,280	
Appropriations				
Contributions to/from Capital Financing Reserve:				
MRP adjustment (W5)			(4,093)	*1*
DRF			4,500	½
Contribution to DSO reserve			700	½
Amount to be met from taxpayers and grants			267,387	
Revenue support grant			(124,400)	
Council tax			(132,500)	
NNDR			(32,810)	
General fund surplus for year			(22,323)	
General fund b/f			1,400	
General fund c/f			(20,923)	

W1: Cost of services - expenditure

	TB exp	Asset rentals	Total	
Corporate and democratic core	2,400	140	2,540	
Environmental and planning	11,940	2,114	14,054	
Education	285,400	7,780	293,180	
Highways, roads and transport	22,900	3,455+93	26,448	½
Social services	152,400	4,808	157,208	
Libraries and leisure	14,400	3,521	17,921	
			511,351	

W2 Social services income

TB Social Services income	73,850
Over accrual (education)	(35)
	73,815

W3 Libraries and leisure income

TB Libraries income	2,856
Grant outstanding	47
	2,903

W4 AMRA

Depreciation	11,200
External interest	1,490
Impairment	93
Asset rentals	(21,818)
Additional AR for impairment	(93)
CRA	9,128

W5 MRP Adjustment

MRP requirement	7,200
Depreciation plus impairment 11,200 + 93	(11,293)
	(4,093)

Tolstoy Unitary Authority consolidated balance sheet as at 31 March 2004

	£000	£000	
Fixed assets			
Tangible fixed assets (W1)		208,512	*1*
Investments		1,100	
		209,612	
Current assets			
Stock	762		
Debtors (W2)	34,038		*1 ½*
Cash	1,404		
	36,204		
Current liabilities			
Creditors less than 1 year	(21,550)	14,654	
Total assets less current liabilities		224,266	
Long term borrowing (W3)		(61,740)	*½*
Total assets less liabilities		162,526	
Fixed asset restatement reserve (W4)		52,078	*1*
Capital financing reserve (W5)		88,200	*2*
Usable capital receipts reserve (W6)		250	*1 ½*
Fund balances and reserves:			
- General Fund		20,923	
- DSO reserve (375 + 700)		1,075	*½*
Total balances and reserves		162,526	

Presentation of statements ½

(16)

W1: Fixed assets

Tangible fixed assets per TB	220,325
Revaluation	80
Disposal NBV	(600)
Depreciation	(11,200)
Impairment	(93)
	208,512

W2 Debtors

Debtors per TB	33,526
Cancellation of Education debtor	(35)
Libraries grant	47
Sale of asset	500
	34,038

Note: candidates should be given credit for treating the sale for assets as cash rather than debtors.

W3 LT Loans

TB	61,540
Loans raised	15,400
Loans repaid	(15,200)
	61,740

W4 FARR

TB	52,598
Revaluation	80
Disposal	(600)
	52,078

W5 CFR

TB	81,543
Direct revenue financing	4,500
Usable capital receipts applied	6,000
Usable capital receipts reserved	250
MRP adjustment	(4,093)
	88,200

W6 UCR

TB	6,000
Applied in year	(6,000)
Sale of asset	500
CFR – reserved 50%	(250)
	250

(b) Statement of movement on reserves for year ended 31 March 2004

	£000	£000	
Revenue reserves:			
General Fund surplus for the year	22,323		½
DSO surplus for the year	700		½
Total increase in revenue reserves		23,023	
Decrease in usable capital receipts		(5,750)	½
Increase in unrealised value of fixed assets		80	½
Value of assets sold		(600)	½
Capital receipts set aside	6,250		½
Revenue resources set aside (4,500-4,093)	407		½
Total increase in amounts set aside to finance capital investment		6,657	
Total recognised gains and losses		23,410	
			Presentation ½

(4)

(20)

Question 2

(a) Department of Specialised Construction
Cash Flow Statement for the Year Ended 31 March 2004

	£'000	***Marks***
Net cash flow from operating activities (note 1)	-19,955	½
Capital Expenditure (note 2)	-420	½
Payments to the consolidated fund	0	
Financing (note 3)	21,500	½
Net cash decrease for the year	1,125	
		Presentation ½

Note 1 – Reconciliation of Net Operating Cost to Net Cash Flow on Operating Activities

		£'000	
Net operating cost for the year		-21,146	
Adjust for items not involving the movement of cash			
Add: Depreciation		640	½
Add: Write off of Computer revaluation		10	½
Add: loss on disposal of fixed asset		45	½
Add: Notional costs		326	½
Add: Increase in provisions		15	½
Adjustment for movement in working capital			
Add: Decrease in debtors		118	½
Add: Increase in creditors	(200-138) - 25	37	*1*
Net cash outflow from operating activities		-19,955	

Note 2 – Capital Expenditure

	£'000	
Payments to acquire fixed assets (w2)	-475	½
Proceeds on disposal of fixed assets	55	½
	-420	

Note 3 – Analysis of financing and reconciliation to the cash requirement

	£'000	
Gross vote	25,000	
A-in-A Approved	-4,500	
Net supply granted by Parliament	20,500	*1*
Add: Deficiency in A-in-A	1,000	*½*
Net financing	**21,500**	
Less: net increase in cash	-1,125	*1*
Net cash requirement	20,375	

Presentation of notes ½

Full credit to be given for Note 3 beginning with Net supply granted by Parliament

Working 1 – Calculation of Net operating cost

General Fund

	£'000		**£'000**	
		b/f	3,791	
Net Operating Cost	***21,146***			*1*
		Parliamentary funding (Note 2)	21,500	*½*
		Notional charges (Note 1)	326	*½*
		Disposal transfer (Note 3)	15	*½*
c/f	4,486			
	25,632		25,632	

Working 2 – Fixed Asset Additions

Fixed asset NBV

	£'000		**£'000**	
b/f	4,950			
		Depreciation	640	*½*
Net Indexation	1,115			*½*
(1,100 + 25 – 10)		Disposal	100	*½*
		Backlog Depn.	200	*½*
Purchases	*500*			*1*
		c/f	5,625	
	6,565		6,565	

Working 3 – Payments to acquire fixed assets

	£'000	
Purchases (W2)	500	
Less: creditor outstanding	-25	
Cash paid	475	½

Working 4 – Revaluation Reserve

Fixed asset NBV

	£'000		£'000
		b/f	1,381
Disposal transfer	15	Indexation:	
Backlog depreciation	200	- Land & bldgs	1,100
		- Vehicles	25
c/f	2,291		
	2,506		2,506

Note: students do not need to produce the revaluation reserve in order to work out the necessary figures for producing the statement and notes, but it is shown her for completeness.

(b) Purposes of note 3 to cashflow statement - Analysis of financing

- Shows how much Parliamentary funding has been drawn down to meet expenditure
- Reconciles the amount drawn down to the net cash requirement
- Demonstrates how cash has been applied to expenditure
- Used by government in order to manage borrowing requirements/net debt levels

1 mark per point made and explained to a maximum of (4)

Other valid points to attract credit

(20)

Question 3

(a) Marlin NHS Trust: revised income and expenditure account for the year ended 31 March 2004

		£'000	
Income from activities	(130,500 – 250)	130,250	½
Other income	(7,500 + 316)	7,816	½
		138,066	
Operating expenses	Working 1	(133,774)	
Operating surplus		4,292	
Profit on the sale of fixed assets		75	
Surplus before interest		4,367	
Interest receivable		0	
Interest payable		0	
Interest payable: unwinding the discount	Working 2	(2)	
Surplus before dividends		4,365	
Public Dividend Capital Dividends Payable		(4,100)	
Surplus for the year		265	

Working 1: recalculation of operating expenses

		£'000	
Per draft I&E account		136,727	
Less notional charges	(value from n1 to the cash flow)	(3,297)	½
Add depreciation on donated assets	(14,198/ 45)	316	½
Add in new provision	(from N2)	28	½
		133,774	

Working 2: Charge for unwinding the discount

Discount rate for 2 years' time: $(1/1.035)^2$ = 93% ½

Discount rate for 3 years' time: $(1/1.035)^3$ = 90% ½

Therefore unwinding the discount charge needs to be:

£50K / 90 x 93 - £50K = £2K *1*

Presentation of income and expenditure account ½

(5)

(b) Marlin NHS Trust: revised balance sheet as at 31 March 2004

		£'000	£'000	
Land			11,664	
Buildings	Working 3		89,552	
Other fixed assets			5,105	
Assets under construction			3,500	½
			109,821	
Current assets				
Stock		50		
Debtors	(16,750 – 250)	16,500		½
Cash		7,970		
		24,520		
Creditors		(15,300)		
Net current assets			9,220	
Total assets less current liabilities			119,041	
Provisions	(50 + 28 + 2)		(80)	1
Total net assets			118,961	
Taxpayers' Equity				
Public Dividend Capital			75,500	
Income and expenditure reserve	Working 4		633	
Revaluation reserve			28,945	
Donation reserve	(14,199 – 316)		13,883	½
			118,961	

Working 3: Buildings

		£'000	
Per draft balance sheet		89,868	
Less: depreciation on donated assets	(14,198 / 45)	(316)	½
		89,552	

Working 4: income and expenditure reserve

	£'000	
Income and expenditure reserve per draft balance sheet	913	
Add back deficit from draft income and expenditure account	2,752	½
	3,665	
Add back notional charges	(3,297)	½
Add: surplus from revised income and expenditure account	265	½
	633	

Presentation of balance sheet ½

(5)

(c) Marlin NHS Trust: revised note 1 to the cash flow statement

		£'000	
Operating surplus before profit on sale of fixed assets		4,292	½
Depreciation	(6,929 + 316)	7,245	½
Donation reserve transfer		(316)	½
Decrease in stock		100	
Increase in debtors	(2,250 -250)	(2,000)	*1*
Increase in creditors		800	
Increase in provisions	(28, from information in N2)	28	*1*
		10,149	

Most of the changes will have no impact on the cash flow statement itself as they don't impact on the Trust's cash balance for the year (ie they are accruals based adjustments or non cash based items that have required adjustment). As the movement in creditors adjustment in the draft note 1 was shown as a positive figure rather than as negative, the net cash inflow from operating activities was £1,600 more than it should have been. The corrected cash flow statement will start with the figure of £8,549, rather than £10,149. *1*

Note 1 - presentation ½

(5)

(d)

Disclosure of assets under construction

Assets under construction should be included in the top half of the balance sheet within tangible fixed assets. This complies with the requirements of the capital accounting manual and FRS 15. *1*

Provisions

Provisions are discounted in the NHS per FRS 12 which requires an increase in their value to be recognised annually as an interest charge. The new case should be recognised on the balance sheet and charged to operating expenses in the year. *1*

Notional cost of capital

NHS Trusts do not pay a notional cost of capital but pay dividends instead. The charges have been reversed out of the accounts *1*

NHS Debtors

NHS debtors are not considered to go "bad" and no bad debt expense is created. Instead they are written down by reducing income. *1*

Donated assets

Donated assets should still attract a depreciation charge despite being "free". A transfer from the donation reserve to other income is made to ensure that at the bottom line there is an overall nil effect on expenditure for the year. *1*

(5)

(20)

Question 4

(a) Explanation of benchmarking

Answer to be written in a report format *1*

Benchmarking is a tool for performance assessment that compares in a systematic way a service or organisation. It should lead to continuous improvement in service delivery as each organisation within the benchmarking group strives to meet or better the benchmark. It can result in best practice being identified and shared. *2*

Comparisons should be made over time and with similar bodies for benchmarking to be effective. *1*

The development of performance indicators will be part of benchmarking to aid comparison of the service or organisation. *1*

Other valid points should attract credit. A maximum of 5 marks to be awarded for this section.

(5)

(b) Analysis of performance and identification of areas of concern/ good performance

Note: The question clearly identifies three areas where concerns have been raised for the libraries service: the overall cost of the service and whether savings can be made, the use of stock and whether any stock can be sold and staffing levels. Students may not frame their answer in the same way as indicated below but should be expected to complete analysis that focuses on the issues identified in the question. Credit to be given for appropriate analysis and comments where made.

Consideration of costs

Indicators:

		GU		**Nat.**
Net cost per issue	(20,000,000 -1,500,000 – 1,750) / (350,000 + 25,000)	£49.33	(5,700,000 – 250,000 – 1,380) / (45,000 + 12,500)	£94.76
Net cost per reader	(20,000,000 -1,500,000 – 1,750) / 8,750,000	£2.11	(5,700,000 – 250,000 – 1,380) / 500,000	£10.90
Net cost per stock item	(20,000,000 -1,500,000 – 1,750) / 30,000,000	£0.62	(5,700,000 – 250,000 – 1,380) / 9,000,000	£0.61

½ mark per set of indicators calculated to a maximum of 1 ½ marks

Comments:

Gateshire University is cheaper when looking at the net cost per reader and per issue. This does not suggest that there is scope for further savings to be made based on this data alone. *1*

The net cost per stock item held is almost identical indicating that the University is not incurring significant extra costs from holding high levels of stock. *1*

The financial contribution to the university could be improved by increasing the average fine value as this is significantly lower than the national position (38% lower) *½*

Other valid comments to attract credit. Students need to look at the implications of their analysis however and not simply state what their indicators show to gain a full mark.

Use / holding of stock

Indicators

		GU		**Nat.**
Percentage of printed matter items issued from stock	(350,000 / 30,000,000)	1.17%	(45,000 / 9,000,000)	0.50%
Percentage of new media items issued	(25,000 / 200,000)	12.50%	(12,500 / 125,000)	10.00%
Requests made as % of total stock	(404,500 / (30,000,000 + 200,000)	1.34%	(58,000 / (9,000,000 + 125,000)	0.64%
% Requests fulfilled	(350,000 + 25,000) / 404,500)	92.71%		99.14%

½ mark for calculation of a set of indicators to a maximum of 2

Comments

Stock doesn't appear to be being held unnecessarily. The higher % of issues and requests suggests that stock is currently in demand and therefore that it should not be sold. *1*

Lower levels of requests fulfilled implies that the university could need to increase stocks of some copies to meet demand (although not meeting demand may be due to the nature of the library having specialist/ out of date publications/ being of national importance that in some cases demand cannot be met as other readers are using the books) *1*

Stock is also generating a higher level of income per stock item than the national position so to reduce stock levels could result in a financial loss rather than a financial gain. *1*

		GU		**Nat.**
Income generated per stock item	(1,500,000 + 1,750) / 30,000,000	£0.05	(250,000 + 1,380) / 9,000,000	£0.03

1

Staffing

Indicators

		GU		Nat.
Requests for issues per staff	(404,500 / 50)	8,090	(58,000 / 40)	1,450
Reader: staff ratio	(875,000 / 50)	175,000	(500,000 / 40)	12,500

½ mark per indicator set calculated to a maximum of 1

Comments

There does not appear to be any scope to reduce staff as the university currently performs above the national average. ½

There may be a case for increasing staff levels to decrease waiting times for requests to be issued (although this could be due to the very high levels of stock that the university library holds compared to the national average) . ½

Is it offering a good service?

Overall from the data provided Gateshire Library seems to be offering a good service on balance *1*

Students to be marked on their overall analysis here

Recommendations/ areas for further investigation

Note: comments/ recommendations made above not to cut staff/ sell stock included above.

Given the university's library holds a collection of national importance and there are only 3 other universities in the UK with the same type of stock held, it may be that performance here is an outlier when compared with the national average. Data should be collected comparing Gateshire to these other libraries to make a fairer comparison. *1*

Consideration cannot be given to the impact that the investment in IT has had since we have not got any data that relates to the period before the new IT investment has taken place. This would need to be considered in light of the need to generate efficiency savings across the university *1*

(15)

(20)

Question 5

(a)

Differences in format of statement:

- 7 headings in FRS1, 4 in PCT (no taxation, management of liquid resources or equity dividends paid). Also 'returns on investment' omitted, leaving only 'service of finance' *2*

Differences in notes:

- Note 1 effectively the same in both sectors, but PCT starts with cost not profit/loss, and some different adjustments (eg notional cost of capital, transfer from donation reserve)
- Notes 2 and 3 serve similar purpose in PCTs, but composition of net debt unlikely to include loans and may be net funds rather than net debt. *2*

Differences in types of cash flow:

- Parliamentary funding, brokerage, etc
- No entries for dividend payments, taxation payments, etc *1*

(5)
Other valid points should attract credit

(b)

- Depreciation – depreciation charge is an accounting entry, not a cash flow (DR AMRA, CR net FA)
- Direct revenue financing – this is not a cash flow, but is merely accounting for the financing (not the actual purchase) of new capital expenditure (DR CRA, CR CFR)
- MRP adjustment – represents funds set aside for repayment of debt over and above charge already made to CRA for depreciation (DR CRA, CR CFR – or vice versa if depreciation is great than MRP requirement)
- NB – asset rentals should not be included in this list as they do not affect the surplus/deficit for the year so do not need to be adjusted for.
- Movements in working capital – these involve cash flows but do not affect the operating costs for the year so have not been taken into account in the net operating costs figure
- Movements in provisions – not a cash flow, but charged against operating costs
- Interest paid/received

1.5 marks per adjustment, including explanation up to a maximum of (6)
Other valid points to attract credit.

(c)

Receipts or payments of principal from or to external providers of finance *1*

CG supply – Separate headings for payments to and financing from the consolidated fund. Receipts in form of parliamentary grant. Payments in respect of excess appropriations in aid, surplus amounts drawn down but not spent by department

CG non supply – loans raised, loans repaid, new PDC, PDC repaid, repayment of finance lease principal.

NHS Trust – PDC paid, PDC received, loans paid, loans received, brokerage paid/received, capital receipts, finance lease principal, cash transfers to other NHS bodies.

PCT – parliamentary funding, capital receipts surrendered, capital grants received, finance lease principal, brokerage paid/received, cash transfers to other NHS bodies.

LA – loans raised, loans repaid, finance lease principal

Charities, FHE, HA – loans raised and repaid, finance lease principal,

Contrasts should be drawn out such as inability of PCT to raise loans means this is not a relevant cash flow, and treatment of RSG in operating activities contrasts with inclusion of parliamentary funding under financing for PCT.

2 marks per organisation, provided students have provided contrasting examples (as implied in question) – ie if they state loans raised/repaid, finance lease principal for two organisations this should score maximum of 2 marks.
Other valid comments should attract credit.

(5)

(d)

Application of UK GAAP in public sector usually requires some modification in terms of terminology, format, etc due to differing objectives, users and activities of public sector compares with private sector.

Other aspects of public sector funding and accounting might have to change before greater consistency with private sector is possible. Foundation hospitals may be an example of this type of change.

Additional information may be provided by the existing arrangements – eg split of payments to and financing from consolidated fund is highlighted in CG supply CFS, notes, and note giving analysis of financing and reconciliation to the net cash requirement shows how capital and revenue expenditure have been financed through supply system and organisation's working capital balances.

Format of notes in NHS organisations (excluding PDC and brokerage) facilitates consolidation of NHS accounts.

1 mark per point up to a maximum of (4)
Other valid comments should attract credit.

(20)

Question 6

Notes for meeting with Madeleine Bassett regarding year-end accounts.

(a) FRS *2 Accounting for Subsidiary Undertakings* defines subsidiaries and sets out the accounting treatment for consolidating subsidiaries. ½

A subsidiary is an organisation controlled by another, and as we own 100% of Chuffnell's share capital, it is a subsidiary of Twinghall. ½

FRS 2 requires us to prepare group accounts which consolidate the accounts of Twinghall and Chuffnell. To simply show the Chuffnell accounts separately as you suggest would not give a true and fair view of the whole group – we need to present the results that reflect the performance of the group as a whole. *1*

Individual accounts for Twinghall and Chuffnell will need to be prepared, and then we will need to prepare consolidated accounts which bring Chuffnell's income, expenditure, assets and liabilities in on a line by line basis. *1*

Unfortunately, consolidation is not just a matter of adding up the balance sheet and income and expenditure account of Twinghall and Chuffnell. FRS 2 requires several adjustments including elimination of any intra-group transactions so that we are only reporting transactions between the group and the outside world. *1*

The £186,786 invoiced to us by Chuffnell during the year is currently included in their income and our expenditure. This is not an external transaction so it needs to be eliminated in the consolidated income and expenditure account by debiting income and crediting expenditure. The overall consolidated result for the year is unaffected by this adjustment. *1*

The £38,946 owed to Chuffnell at year-end is currently included in their debtors and our creditors. This needs to be eliminated in the consolidated balance sheet by debiting creditors and crediting debtors. The overall consolidated net assets are unaffected by this adjustment. 1

(6)

(b) As we own 50% of the share capital and control 50% of the board, the company meets the FRS 9 definition of a joint venture as it appears to be controlled jointly by ourselves and Totleigh Insurance Plc. *1*

The limited company would be consolidated into the group accounts in accordance with FRS *9 Associates and Joint Ventures*. *1*

The treatment is not the same as for Chuffnell. FRS 9 requires us to consolidate only our share (i.e. 50%) of the company net assets and net result for the year. *1*

(3)

(c) The Crime Reduction Project sounds like a joint arrangement that is not an entity (JANE), as defined by FRS 9. *1*

We are participating in a joint project with the Constabulary, but it appears that no separate legal entity has been set up to conduct this work (such as a limited company), and the work we are performing, i.e. upgrading locks, is simply part of our normal activities of maintaining our housing stock. *1*

According to FRS 9, no consolidation should take place. We simply include our share of the project's income, expenditure, assets and liabilities within Twinghall's own accounts. *1*

(3)

(d) The treatment that we follow comes from the *Statement of Recommended Practice (SORP) Accounting by Registered Social Landlord* *1*

The SORP requires that rather than releasing the SHG over the life of the asset in accordance *with SSAP 4 Accounting for Government Grants**, we net the SHG off housing property in the balance sheet and it stays there until the property to which it relates is sold. *1*

* This is how the topic is treated in the OLM, but SSAP 4 refers to netting off as being 'acceptable', but the text of the standard points out that this is contrary to the Companies Act 1985. Students were given full credit for following the OLM explanation.

The annual depreciation charge is calculated based on the value of housing property net of the SHG, a departure from the *FRS 15 Tangible Fixed Assets* requirement to depreciate the full cost of fixed assets. *1*

These departures from SSAP 4 and FRS 15 are outlined in the SORP and are required in order to give a true and fair view of the operations of a housing association. *1*

This year's depreciation charge would therefore be calculated as follows:

Housing properties – gross cost	2,678	
Less opening accumulated depreciation	(578)	
Less SHG	(935)	
Net housing properties	1,165	
Depreciation charge (1,165 / 36)	32	*1*

(5)

(e) The SORP requires that the SHG remains on the balance sheet until the properties to which it relates are disposed of. ½

The accounting treatment for the £96,000 SHG will depend on whether we are required to repay the SHG to the Housing Corporation once the properties are sold or whether we can keep it to apply to new properties (i.e. recycle it). ½

If we are to repay the grant, the journal entry will be:

Dr	SHG	£96,000		
Cr	Creditors < 1 year		£96,000	*1*

If we are allowed to recycle the grant, the accounting entry will be:

Dr	SHG	£96,000		
Cr	Recycled capital grant		£96,000	*1*

(3)

(20)