

FINANCIAL AND PERFORMANCE REPORTING

Diploma stage examination

5 December 2006

From 2.00pm to 5.00pm
plus ten minutes reading time from 1.50pm to 2.00pm

Instructions to candidates

Answer five questions in total

Both compulsory questions from **Section A**

Three of the four questions from **Section B**

The questions each carry a total of 20 marks

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examination room.

Formula sheets, Proforma booklets, graph paper and cash analysis paper are available from the invigilator, where applicable.

Candidates may use the proforma sheets provided and submit them as part of their answer.

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

Comment [CW1]: Need to have the standard wording re accounting standards book to be added here

SECTION A (Compulsory - answer both questions in this section)

1

The following balances have been extracted from the trial balance of Tolstoy Unitary Authority as at 31 March 2004:

	£000	£000
Corporate and democratic core	2,400	
Environmental and planning	11,940	5,077
Education	285,400	143,244
Highways, roads and transport	22,900	12,064
Social services	152,400	73,850
Libraries and leisure	14,400	2,856
DSOs	37,500	38,200
Tangible fixed assets	220,325	
Long term investments	1,100	
Stock	762	
Debtors	33,526	
Cash	1,404	
Creditors (all due within 1 year)		21,550
Long term borrowing as at 31 March 2003		61,540
Fixed asset restatement reserve		52,598
Capital financing reserve		81,543
Useable capital receipts		6,000
Interest payable	1,490	
Interest receivable		650
Precepts payable	2,510	
Revenue support grant		124,400
Council tax		132,500
National non domestic rates		32,810
General fund as at 31 March 2003	1,400	
DSO balance as at 31 March 2003		375
Loan transactions	15,200	15,400
	<u>804,657</u>	<u>804,657</u>

Additional information

1. During the year to 31 March 2004, the capital programme for Tolstoy Unitary Authority was financed as follows:

	£000
Revenue contributions	4,500
Capital receipts	6,000
Prudential borrowing	5,000

The additions have been included in the trial balance above but the only financing transactions recorded so far have been to recognise the loans received.

2. An office being used by Education has been revalued to £200,000. Its net book value was previously £120,000. Highways construction vehicles have been valued at £157,000, and they are included in the trial balance at a value of £250,000. The fall in value is considered to be permanent.

3. Surplus schools equipment was disposed off towards the end of the year for £500,000. The equipment had a net book value of £600,000. No entries have been made in respect of this sale. The authority has a policy of reserving 50% of all capital receipts.
4. Asset rentals for the year for General Fund services have been calculated, amounting to £11,200,000 for depreciation and £10,618,000 for notional interest (after adjusting for additions and disposals during the year). The asset rentals are to be charged to services as follows:

	£000
Corporate and democratic core	140
Environment and planning	2,114
Education	7,780
Highways, roads and transport	3,455
Social services	4,808
Libraries and leisure	<u>3,521</u>
	<u>21,818</u>

5. The minimum revenue provision requirement for the year has been calculated as £7,200,000.
6. The Social Services income figure in the trial balance includes £120,000 income for services provided to Education. It has been agreed between the two departments that the total charge for the year should only be £85,000, and this is what has been charged to Education expenditure. Associated assets and liabilities relating to this £85,000 have already been adjusted for on the trial balance.
7. A libraries revenue grant of £47,000 was outstanding at the end of the year. No accounting entries have been made for this grant.

Requirement for question 1

- (a) Prepare the consolidated revenue account and consolidated balance sheet for Tolstoy Unitary Authority for the year ended 31 March 2004. 16
- (b) Prepare the statement of movement on reserves for Tolstoy Unitary Authority for the year ended 31 March 2004. 4

(20)

2

The following information relates to the Department of Specialised Construction, a central government department responsible for oversight and commissioning of specialised buildings for use by other Government departments. Assets in the course of construction are held on the balance sheets of the relevant department.

Department of Specialised Construction: Balance sheets

Balance Sheet	31 March 2003 (£'000)	31 March 2004 (£'000)
Tangible Fixed Assets (NBV)	4,950	5,625
Current Assets:		
Debtors	360	242
Cash (Paymaster)	275	1,400
	<u>635</u>	<u>1,642</u>
Current Liabilities: creditors	(138)	(200)
Provisions for early retirement costs	(275)	(290)
Net assets	<u><u>5,172</u></u>	<u><u>6,777</u></u>
Taxpayers Equity:		
General Fund	3,791	4,486
Revaluation Reserve	1,381	2,291
Total taxpayers' equity	<u><u>5,172</u></u>	<u><u>6,777</u></u>

Additional information:

- The net cost of operations for the year was arrived at after charging the following:

Cost of capital	£176,000
Audit fee	£150,000

- The net supply voted by Parliament for the year was £20,500,000. Appropriations-in-aid of £3,500,000 were realised against authorised Appropriations-in-aid of £4,500,000.
- Depreciation charged for the year was £640,000. During the year a fixed asset with a NBV of £100,000 (which had previously been revalued) was disposed of for £55,000. There was a balance of £15,000 in the revaluation reserve in respect of this asset at 31 March 2003. Backlog depreciation for the year was £200,000.
- During the year indexation was applied to land and buildings and vehicles as follows:

Land and buildings	£1,100,000
Vehicles	£25,000

Computers suffered a diminution in value due to falling indexation rates. The overall impact of this has been to reduce the net book value of computers by £10,000. There was no balance held on the revaluation reserve in respect of computers.

5. Creditors at 31 March 2004 include £25,000 in respect of the purchase of vehicles during the year.

• **Requirement for question 2**

- (a) Prepare the cash flow statement and all supporting notes for the Department for the year ended 31 March 2004. 16
- (b) Explain briefly the purpose of note 3 to the cash flow statement in central government departments. 4

(20)

SECTION B (Answer three questions from this section)

3

You are the financial accountant for Marlin NHS Trust. Draft accounts have been prepared for you by a trainee accountant:

Comment [CW2]: Optional section needs to start here. Students need to answer 3 questions

Marlin NHS Trust: Draft income and expenditure account for the year ending 31 March 2004

	£'000
Income from activities	130,500
Other income	<u>7,500</u>
	138,000
Operating expenses	<u>(136,727)</u>
Operating surplus	1,273
Profit on the sale of fixed assets	<u>75</u>
Surplus before interest	1,348
Interest receivable	0
Interest payable	0
Interest payable: unwinding the discount	<u>0</u>
Surplus before dividends	1,348
Public Dividend Capital Dividends Payable	<u>(4,100)</u>
Deficit for the year	<u><u>(2,752)</u></u>

Marlin NHS Trust: Draft Balance Sheet as at 31 March 2004

	£'000	£'000
Land		11,664
Buildings		89,868
Other fixed assets		<u>5,105</u>
		106,637
Stock	50	
Debtors	16,750	
Cash	<u>7,970</u>	
	24,770	
Creditors	<u>(15,300)</u>	
Net current assets		<u>9,470</u>
Total assets less current liabilities		116,107
Provisions		<u>(50)</u>
		<u>116,057</u>
Taxpayers' Equity		
Public Dividend Capital		75,500
Income and expenditure reserve		913
Revaluation reserve		28,945
Donation reserve (relates to buildings)		14,199
Other reserve (see note 1 below)		<u>(3,500)</u>
		<u>116,057</u>

**Marlin NHS Trust: Draft Cash flow statement for the year ending
31 March 2004**

	£'000	£'000
Net cash flow from operating activities		10,149
Capital activities		
Payments to acquire fixed assets	(1,250)	
Receipts from the sale of fixed assets	<u>175</u>	
		(1,075)
Dividends paid		(4,100)
Financing		
PDC received		<u>500</u>
		<u><u>5,474</u></u>

**Marlin NHS Trust: Draft Note 1 to the cash flow statement for the year ending
31 March 2004**

	£'000
Operating deficit before profit on sale of fixed assets	1,273
Depreciation	6,929
Notional costs	3,297
Decrease in stock	100
Increase in debtors	(2,250)
Decrease in creditors	800
Movement in provisions	<u>0</u>
Net cash inflow from operating activities	<u><u>10,149</u></u>

The following notes have been left for you by the trainee accountant, explaining some of the work they have completed and identifying some areas for your attention.

1. The other reserve relates to the work outstanding on the new hospital wing. As this isn't operational yet I've not included it within fixed assets.
2. The Trust's solicitor left me some information about legal claims outstanding and I wasn't sure why I needed this. They say that the existing case for unfair dismissal is continuing as planned and is expected to be completed in two years time. There is also a new case pending that they recommend we provide for a further £28,000 as it's probable that we'll have to pay something towards the case.
3. I've included a notional 3.5% cost of capital charge in the operating expenses and credited the income and expenditure reserve. Is this the correct treatment for an NHS trust?
4. The debtors section tells me that £250,000 of debtors due from Primary Care Trusts are disputed. I've not adjusted for this in the accounts at all as NHS debtors can't really be considered bad or doubtful can they?
5. I've not included any depreciation expense for the donated buildings even though the capital accountant highlighted them as having a remaining useful economic life of 45 years. After all, they were given to us so I don't see why we should have a depreciation expense included in the accounts!

• **Requirement for question 3**

- (a) Prepare a revised income and expenditure account for Marlin NHS Trust. 5
- (b) Prepare a revised balance sheet for Marlin NHS Trust. 5
- (c) Prepare a revised note 1 to the cash flow statement for Marlin NHS Trust and explain any impact that the adjustments above may have on the cash flow statement. 5
- (d) Briefly explain for the trainee accountant the reasons for any adjustments you have included in your revised set of accounts. 5

(20)

4

You are the recently appointed financial and performance manager for the libraries service of Gateshire University. Gateshire University has a library collection of national importance and it includes many rare and out of print books. There are a further three such libraries in the UK providing such a collection so in addition to providing a service to its own students and academic staff it also loans books to other academic libraries for a small fee to cover administration costs. The library holds both books and journals (printed matter items) and new media items (such as CD Roms, access to on line journals and other multi-media items) for use and loan.

The Director of Finance and Performance is keen to make use of your knowledge of benchmarking and performance measurement from your previous employment as the financial and performance accountant of Gateshire County Council's library service. The following data has been made available to you on the library's service provision for the year and you are asked to prepare a report for the University's performance committee and library committee assessing performance for the year. This will be the first time such an exercise has been undertaken for the libraries service and whilst it is recognised that you may not be able to draw clear conclusions as to whether the service is operating well, it is expected that you can identify some key messages in relation to the service's performance.

Performance data for Gateshire University and the national average for the year ending 31 July 2004

	Gateshire University	National average
Number of printed matter items stocked	30,000,000	9,000,000
Number of new media items stocked	200,000	125,000
Printed matter items issued on request *	350,000	45,000
New media items issued on request *	25,000	12,500
Requests made for items	404,500	58,000
Waiting time for requests to be issued (average)	90 minutes	20 minutes
Staff numbers (Whole time equivalent)	50	40
Cost of providing the library service (includes all overheads)	£20,000,000	£5,700,000
Income received from fee generating activity	£1,500,000	£250,000
Income received from fines on late returns	£1,750	£1,380
Average fine per late item per day	£0.25	£0.40
Readers per annum	8,750,000	500,000

* Excludes "free standing stock" issues which can be accessed for use without issuing a request

The libraries service has recently invested significantly in IT to help provide an improved service to users and reduce costs. Other departments and faculties are lobbying for further savings to be made in support functions, such as the library, to improve the financial outlook of the university overall whilst avoiding the need to reduce teaching budgets. There is some concern that the library is holding stock that is excess to requirements and should be looking to refine its collection where possible to realise one off sales income and other on-going savings. Critics of the service have also suggested that cuts in staffing levels may be necessary to reduce costs and that the service is currently over-staffed compared with other universities.

- **Requirement for question 4**

Draft a report for the University's performance committee and library committee in which you:

- (a) Briefly explain how benchmarking could be used to assess the performance of Gateshire University's library service. 5
- (b) Using the data available, identify any areas of key concern or good performance. Your report should include recommendations where appropriate, including highlighting areas where further work or better information is needed to investigate areas more thoroughly. 15

(20)

5

FRS 1, Cash Flow Statements (Revised 1996), requires a limited company to prepare a cash flow statement in the manner set out in the standard. Many public sector organisations in the UK also prepare and publish cash flow statements, but in some respects these are different from those prepared by limited companies.

• **Requirement for question 5**

- (a) What are the main differences between the cash flow statement and the supporting notes of a limited company and that of a Primary Care Trust? 5
- (b) Identify four adjustments required to the surplus/deficit for the year for a local authority to derive the cash inflow/outflow from operating activities in Note 1. Explain briefly in each case why the adjustment is necessary. 6
- (c) Explain what is meant by the section 'Financing' in the cash flow statement as per FRS 1. Compare and contrast examples of items that would be shown in this section (or its nearest equivalent) for two public sector organisations of your choice. 5
- (d) Discuss whether it is necessary to have cash flow statements for public sector organisations that differ from FRS 1 in terms of the format of the main statement and the notes that accompany it. 4

(20)

6

You are the financial accountant at Twinghall Housing Association. You have been working on the year end procedures for preparing the financial statements with the help of a finance assistant who has recently been recruited as a part qualified member of staff. Her previous experience has been based in the private sector. She has sent you the following e-mail with questions that she needs to have answered to allow her to complete the first draft of the financial statements for your review:

To: B. Wooster, Financial Accountant
From: M. Bassett, Finance Assistant
Subject: Preparation of Twinghall's financial statements

Hi Bertie

As this is my first year of involvement with Twinghall's accounts, I need some assistance from you. Please can you explain the following to me:

- (a) Chuffnell Engineers Ltd performs the electrical and gas repairs on our properties. This company is 100% owned by us and in last year's accounts, it looks like we had to do some kind of consolidation. Can you explain why we need to do this? Surely it would be much easier just to include the Chuffnell accounts separately in an appendix to the main Twinghall report? By the way, it looks like Chuffnell invoiced us £186,786 for repairs this year and that we owe them £38,946 at the year-end – do we need to do anything with these amounts in the accounts?
- (b) The Director of Operations mentioned to me yesterday that we have set up a limited company with Totleigh Insurance Plc in order to sell affordable insurance policies to our tenants. Totleigh and ourselves each own 50% of the share capital and appoint 3 of the 6 directors. Presumably this company would be treated the same way as Chuffnell in our accounts?
- (c) Do we also need to consolidate the Crime Reduction Project? We are working together with Twing Constabulary to reduce crime on the Deverill Estate, and we have agreed with the Constabulary that we will upgrade door and window locks on all our properties in the area as part of an initiative to reduce burglaries.
- (d) I am totally confused about the treatment of the social housing grant (SHG). I had thought from my college studies that buildings are supposed to be depreciated over their useful economic lives, but in last year's accounts it looks like we are only depreciating part of the housing property as the rest is covered by the SHG. Does this treatment comply with UK accounting standards? The draft trial balance currently includes the following and I need you explain to me how to calculate the depreciation charge for housing property. The remaining life of the housing property is 36 years.

Trial balance extracts

	<i>£'000</i>	<i>£'000</i>
<i>Housing property – gross cost</i>	<i>2,678</i>	
<i>Housing property – accumulated depreciation</i>		<i>578</i>
<i>Social housing grant</i>		<i>935</i>

- (e) What are we supposed to do with the SHG once we have sold the properties to which it relates? We will probably be disposing of 20 homes next year which are funded by £96,000 SHG and I'm wondering what journals I'll need to post for the SHG once the homes are sold.

Are you free at 3pm this afternoon to discuss?

Many thanks,

Madeleine.

• **Requirement for question 6**

Prepare notes for your meeting with the Finance Assistant which answer all of her queries. You should refer to relevant accounting standards or other appropriate regulation in your answer. The mark allocation is as follows:

- | | |
|--|---|
| (a) Treatment of Chuffnell Engineers Ltd. | 6 |
| (b) Treatment of the company set up with Totleigh Insurance Plc. | 3 |
| (c) Treatment of the Crime Reduction Project. | 3 |
| (d) Treatment of the Social Housing Grant (SHG) in this year's accounts. | 5 |
| (e) Treatment of the SHG on disposal of properties next year. | 3 |

(20)
