



FINANCIAL AND PERFORMANCE REPORTING REPUBLIC OF IRELAND

Diploma stage examination

5 June 2007

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 in Section A carry, in total, **40** marks
The questions in Section B 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.

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.

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

SECTION A (Compulsory – answer both question)

1

The following is the trial balance from Fairfield Local Authority.

	€	€
Land @ 1/1/06	551,017	
Buildings @ 1/1/06	1,448,517	
Housing @ 1/1/06	4,783,586	
Plant and machinery @ 1/1/06	1,981,738	
Long term debtors	421,935	
Stock	115,000	
Debtors	615,450	
Capitalisation account		8,764,858
General revenue reserve		585,315
Prepayments	11,938	
Cash on hand	1,438	
Creditors and accruals		165,994
Bank overdraft		2,100
Long term loans payable		118,900
Provision for bad and doubtful debts		16,000
Goods and services		32,548
Grants and subsidies		149,284
Local Government Fund – general purpose grant		156,325
Lease payment	35,000	
Rates		77,311
Non-mortgage loan payment	120,000	
Other balances	64,500	
Payroll expenses	16,490	
Operational expenses	6,393	
Establishment expenses	10,715	
Administration expenses	2,938	
Suspense account		120,000
Financial expenses	645	
Miscellaneous expenses	1,335	
	10,188,635	10,188,635

Additional information:

1. During the year a building was purchased with a finance lease. The fair value of the building was €300,000 and the lease is to be paid off over 10 years with an annual payment of €35,000. The lease payment of €35,000 for this year was credited to the bank correctly. It was discovered, when trying to post the other side of the entry that the purchase of this building had yet to be accounted for. Finance charges are allocated on the actuarial basis.
2. During the year, buildings with a Net Book Value of €120,000 was disposed of. The suspense account represents the cash proceeds, which have been lodged to the bank, but the corresponding entry has not yet been recorded.

3. Fairfield Local Authority is involved in a legal action regarding faulty street lighting, which caused a street fire in a residential area. It is believed that the insurance fund is insufficient to cover the claim of €635,000. Legal advice suggests that it is possible that the claim will be successful.
 4. Depreciation is to be charged as follows:
 - Land – nil
 - Buildings – 2% reducing balance
 - Housing – 2% reducing balance
 - Plant & machinery – 15% reducing balance
 5. A provision for bad debts of 3% is to be made for debtors.
 6. The non-mortgage loan payment of €120,000 is broken down into €100,000 principal and €20,000 interest.
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- **Requirement for question 1**

Prepare the Income and Expenditure and Balance Sheet for Fairfield Local Authority on the basis of the Code of Practice and Accounting Regulations issued by the Department of Environment, Heritage and Local Government, for the year ending 31/12/06.

Note: Use pro-formas provided and round to the nearest €000.

(20)

2

As the only professionally qualified accountant in Ganlystown Development, an Enterprise Development Agency, you are charged, from time to time, with the task of explaining issues to do with Financial Accounting. Ganlystown has a number of subsidiary companies that act as agencies for Ganlystown in specific commercial development areas. Historically, each subsidiary published its own financial statements and submitted them to Head Office who in turn used them as a basis for their estimates process. The CEO of Ganlystown has been informed that it will be necessary to prepare consolidated accounts from 2008 onwards in line with Government reporting requirements. The CEO has asked you to prepare a report to him on the area of preparation of group accounts so that he can develop an awareness of what is involved.

As part of his research, the CEO bought an accounting textbook in which the topic of group accounting is covered. There are some worked examples in the text but no solutions are provided. One example is:

On the 30th June 2002, Barry Limited acquired 80% of the share capital of Tea Limited. Extracts from the balance sheets of Tea Limited are shown below.

Tea Limited Balance Sheets

	30/6/02	30/6/06
	€	€
Ordinary Share Capital	1,000,000	1,000,000
Share premium account	400,000	400,000
Retained earnings	4,700,000	5,600,000

- **Requirement for question 2**

Write a report to the CEO in which you address the following:

- (a) A solution for the question above which calculates the Minority Interest. 5
- (b) An brief explanation of the accounting regulations surrounding group accounting and definitions of key terms 8
- (c) An update on the UK Whole of Government Accounting programme. 7

(20)

SECTION B (Answer three from four questions)

3

Corporate Governance is defined as “..A set of relationships between a company’s board, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and the monitoring of performance” (OECD).

In response to the developments in establishing corporate governance in the public sector, CIPFA published a discussion paper “Corporate Governance in the Public Services”. The report concluded that the Cadbury principles were equally relevant to the public services but identifies a number of distinctive characteristics, which have to be taken into account when considering corporate governance issues.

• **Requirement for question 3**

- (a) What are the distinctive characteristics identified in the report that must be taken into account when considering Corporate Governance in the Public Services? 10
- (b) The report of the working group on the accountability of Secretaries General and Accounting Officers was released in July 2002. Outline the specific recommendations of this report. 10

(20)

4

Barrettstown Housing Association (BHA) was set up in 1989 to provide social housing in an extremely deprived area of Dublin. During the 2006 financial year, it has experienced many problems due to the resignation of the finance director and most of the key finance and credit control personnel. Its financial statements for the past two years are as follows:

	31 Dec 2006 €'000	31 Dec 2005 €'000
Income and Expenditure Account		
Income		
Social housing lettings	2,647	2,667
Donations	301	354
	<u>2,948</u>	<u>3,021</u>
Expenditure		
Staff costs	(1,102)	(984)
Maintenance expenditure	(273)	(234)
Depreciation	(980)	(901)
Rent losses from bad debts	(701)	(152)
Other operating expenses	(735)	(351)
	<u>(3,791)</u>	<u>(2,622)</u>
Operating surplus / (deficit)	(843)	399
Interest receivable	0	3
Interest payable	(58)	0
Surplus / (deficit) for the year	<u>(901)</u>	<u>402</u>
Balance Sheet		
Fixed assets		
Housing properties - NBV	8,501	8,465
Less social housing grant	(3,730)	(3,730)
	<u>4,771</u>	<u>4,735</u>
Other fixed assets	438	466
	<u>5,209</u>	<u>5,201</u>
Current assets		
Stocks	96	82
Debtors	883	431
Cash at bank and in hand	0	72
	<u>979</u>	<u>585</u>
Creditors amounts due within 1 year		
Trade creditors	(397)	(57)
Overdraft	(355)	0
	<u>(752)</u>	<u>(57)</u>
Total assets less current liabilities	<u>5,436</u>	<u>5,729</u>
Funded by:		
Long term bank loan	250	0
Revenue reserve	1,082	1,983
Revaluation reserve	4,104	3,746
	<u>5,436</u>	<u>5,729</u>

You have recently been appointed as finance assistant to fill one of the staff vacancies and the new director of finance has sent you the following email:

To: Moira Shannon, Finance Assistant
From: Adele Golding, Finance Director
Subject: Analysis of 2006 Financial Statements for Barrettstown Housing Agency

Moira,

The board of governors wants me to present this year's accounts to them at the board meeting next week. I need you to write me a memo that I can use to prepare for the meeting, which analyses BHA's financial performance.

I know this will be difficult as you and I have only recently joined BHA, so make sure that the memo includes a list of areas where we need further information in order to be able to draw conclusions.

Please focus your analysis on how BHA has performed against its 4 key financial targets, which are:

- 1) Earn a return on capital employed of at least 5%
- 2) Maintain revenue reserves at a minimum level of 50% of the year's cash operating expenditure (defined as all operating expenses except depreciation)
- 3) Minimise bad debt write-offs by collecting 95% of rental income invoiced to tenants.
- 4) Pay trade suppliers within 30 days of invoice

The governors are also keen to assess whether BHA should apply for a €3.2m bank loan in order to build some new flats for key workers on the Dun Lane Estate so please include any comments that you may have on whether this is a good idea at the present time.

Finally, could you also include any recommendations for improvements that we can make from 2007 onwards as I'm keen to show the board that the new finance team has lots of ideas on how to turn around BHA's financial performance.

Please send me the memo by the end of today. Many thanks,

Adele

- **Requirement for question 4**

Prepare the memo requested by the Finance Director; ensuring that you address all the issues raised in her e-mail.

(20)

5

You work in the finance department of Crumlin Dogs Home, a registered charity. Mrs. Mary Jordan, a retired veterinary surgeon who was recently appointed trustee of the charity, has left you a long telephone message with some queries on the Charity's draft accounts for the year-ended 31 December 2006.

- (a) I seem to remember reading years ago that the government uses cash based accounting. I don't understand why the charity doesn't use this as it seems to be a lot easier to do and a lot simpler for people to understand when they read the accounts. What is this accruals based accounting that the accounting policies note talks about and how does it differ from cash accounting? Why are we wasting time with this complicated system?
- (b) The charity's 100% owned trading arm, Crumlin Canine Trading Ltd, has been included within the charity's consolidated accounts. Why is this? What rules are we following? Surely the reason that we set this up as a separate company was that they were to be run by different management as an arms length organisation, so it doesn't make sense to me to be showing their results as part of the charity.
- (c) The accounting policies note talks about fund accounting – what is this? Private sector companies don't have different funds so I don't understand why a charity needs to complicate matters by having several funds.
- (d) I was reading a very interesting article in the paper all about international accounting standards and how private companies are now using them instead of the ROI GAAP (generally accepted accounting practice). I'd like to know whether the public sector in the ROI is also using international standards, and what impact this may have on the accounting function of the charity.
- (e) I've also been reading recently about the increasing amounts of corporate governance guidance and codes that private companies have to follow. Has all of this affected the public sector much? And do charities have lots of corporate governance rules to follow?

• **Requirement for question 5**

Write a letter to Mrs Jordan in reply to her phone message. Ensure that you include explanations for all the questions that she has asked you.

Marks will be allocated as follows:

- | | |
|---|-----|
| (a) Cash and accruals accounting | 4 |
| (b) Consolidation of Crumlin Canine Trading Limited | 4 |
| (c) Fund accounting | 3 |
| (d) International Accounting Standards | 4 |
| (e) Corporate Governance | 4 ½ |

Presentation ½

(20)

6

You are the financial accountant with St. Columbus' Hospital and you have been approached by the training officer to assist in providing training for recently recruited part-qualified accountants for the HSE. The difficulties arising seem to be related to the private sector background of the new recruits – particularly in the application of the Accounting Code of Practice for the Health Service. The training officer has asked you to prepare a report for the trainees addressing the following issues.

- **Requirement for question 6**

You are required to explain the accounting treatment as outlined in the relevant Accounting Standards, and also the accounting treatment as outlined in the Accounting Code of Practice for the Health Service, for each item listed below.

- | | |
|---|---|
| (a) Leased Fixed Assets. | 4 |
| (b) Disposals and depreciation of Fixed Assets. | 4 |
| (c) Post balance sheet events. | 3 |
| (d) Revaluation and impairment reviews of Fixed Assets. | 4 |
| (e) Contingencies and Provisions. | 3 |
| (f) Subsidiaries. | 2 |

(20)
