FINANCIAL REPORTING AND ACCOUNTABILITY

Professional 2
June 2003

MARKING SCHEME

Question 1 (Central Government)

Workings:

		DR	CR	
1	**Buildings**			
(a)	***Cost***	£000	£000	
	Opening balance	9,000		
	Disposal (1000 / 0.4)		2,500	*½*
	Revaluation (1500 – 1000 + 100 backlog)	600		*1*
	Closing balance		8,000	
	Additions in year (balance)	**900**		*½*
		10,500	10,500	
(b)	***Accumulated depreciation***			
	Opening balance		3,000	
	On disposal (2500 x 0.6)	1,500		*½*
	Closing balance	2,000		
	Backlog depreciation		100	*½*
	Depreciation charge for year (balance)		**400**	*½*
		3,500	3,500	
(c)	***Disposal***			
	Cost	2,500		
	Profit on sale	200		
	Accumulated depreciation		1,500	
	Cash received (to balance)		**1,200**	
		2,700	2,700	*1*
2	**Plant and equipment**			
(a)	***Cost***			
	Opening balance	4,000		
	Disposal (200 / 0.4)		500	*½*
	Closing balance		5,000	
	Additions (to balance)	**1,500**		
		5,500	5,500	*1*
	Total additions £1,500,000 plus £100,000 unpaid 2000/01 = **£1,600,000 paid** during 2001/02.			*1*
(b)	***Accumulated depreciation***			
	Opening balance		2,500	
	On disposal (500 x 0.6)	300		*½*
	Closing balance	2,900		
	Depreciation (balance)		**700**	
		3,200	3,200	*1*
(c)	***Disposal***			
	Cost	500		
	Loss on sale		60	
	Accumulated depreciation		300	
	Cash received (to balance)		**140**	
		500	500	*1*

(a) Reconciliation of operating deficit to net cash outflow from operating activities.

	£000	£000	
Deficit		(10,379)	
Non-cash items:			
Buildings depreciation (w1b)	400		½
Plant and equipment depreciation (w2b)	700		½
Profit on sale of buildings (note 2)	(200)		½
Loss on sale of plant (note 2)	60		½
Notional interest (8275+8920)/2 x 6%	516		*1*
Insurance (7500+8100)/2 x 0.1%	8	1,484	*1*
		(8,895)	
Working capital adjustments:			
Stock decrease	500		½
Debtors increase	(100)		½
Trade creditors decrease	(570)	(170)	½
Net cash outflow from operating activities		(9,065)	

Parliamentary grant received reconciled to the appropriation account for the vote

	£000	£000	
Gross Parliamentary Grant		11,200	
Appropriations in aid		(1,000)	
Net Parliamentary Grant voted		10,200	*1*
Excess of Parliamentary Grant over actual expenditure	300		½
Deficit in appropriations in aid (1,000–900)	(100)		½
Surplus to be surrendered		(200)	
Net Parliamentary grant received		10,000	½
Utilised to finance:			
Net cash flow from operating activities		(9,065)	½
Net capital expenditure		(1,160)	½
Decrease in cash		(225)	½

Red Mountain Education Agency
Cash Flow Statement for the Year Ended 31 March 2002

	Working	£000	£000	
Net cash flow from operating activities			(9,065)	
Investing activities				
Payments to acquire buildings	W1a	(900)	}	½
Payments to acquire plant and equipment	W2a	(1,600)	}	
Receipts from sales of buildings	W1c	1,200	}	½
Receipts from sale of fixtures and fittings	W2c	140	}	
Net cash outflow from investing activities			(1,160)	
			(10,225)	
Financing				
Net vote expenditure appropriated in the year			10,000	½
Decrease in cash			(225)	

Cash Flow format and presentation ½ marks

Total for part (a) 21 marks

(b) Performance against target

	£000	
A in A approved	1,000	
Less: shortfall	(100)	
Add: increase in debtors	100	
TURNOVER	1,000	*1*

	£000	
Deficit	10,379	
Add: Turnover	1,000	
Total costs	11,379	*1*

- **Cost recovery = 1000/11,379 = 8.8%;** target has not been achieved – need to increase turnover or reduce costs including notional costs; costs may have been higher because of interest or depreciation as a result of the revaluation on the building. *2*

(Total part (b) 4 marks)

(25)

Question 2 (Further and Higher Education)

Workings:

		DR	CR	
1	**Buildings**			
(a)		£000	£000	
	Opening balance	8,000		
	Disposal (1000 / 0.4)		2,500	½
	Revaluation (900 – 500 – 300 Land)	100		*1*
	Closing balance		6,700	
	Additions in year (balance)	**1,100**		
		9,200	9,200	*1*
(b)	***Accumulated depreciation***			
	Opening balance		3,000	
	On disposal (2500 x 0.6)	1,500		½
	Closing balance	2,000		
	Depreciation charge for year (balance)		**500**	
		3,500	3,500	½
(c)	***Disposal***			
	Cost	2,500		
	Profit on sale	200		
	Accumulated depreciation		1,500	
	Cash received (to balance)		**1,200**	
		2,700	2,700	½
2	**Plant and equipment**			
(a)	***Cost***			
	Opening balance	4,000		
	Disposal (200 / 0.4)		500	½
	Closing balance		5,000	
	Additions (to balance)	**1,500**		
		5,500	5,500	*1*
(b)	***Accumulated depreciation***			
	Opening balance		2,500	
	On disposal (500 x 0.6)	300		½
	Closing balance	2,900		
	Depreciation (balance)		**700**	
		3,200	3,200	½
(c)	***Disposal***			
	Cost	500		
	Loss on sale		60	
	Accumulated depreciation		300	
	Cash received (to balance)		**140**	
		500	500	½

Reconciliation of operating surplus to net cash flow from operating activities

Workings	£000	£000	
Surplus (7,420 – 7,275)		*145*	½
Add: Tax		*60*	½
Less: Interest (see CFS)		*(15)*	½
Surplus on ordinary activities		190	
Non-cash items:			
Buildings depreciation (w1b)	500	}	½
Plant and equipment depreciation (w2b)	700	}	
Profit on sale of buildings (note 3)	(200)		½
Loss on sale of plant (note 3)	60	1,060	½
		1,250	
Working capital adjustments:			
Stock decrease	500		½
Debtors increase	(100)		½
Trade creditors decrease	(570)	(170)	½
Net cash inflow from operating activities		1,080	

Red Mountain College
Cash Flow Statement for the Year Ended 31 July 2002

	Working	£000	£000	
Net cash inflow from operating activities			1,080	
Returns on investment and servicing of finance				
Interest received [(50+200)/2] x 3%		4		½
Interest paid [(600+500)/2] x 6%		(33)		½
Interest on Endowment investments [(650+1100)/2] x 5%		44		½
Net cash outflow from returns on investment and servicing of finance			15	
Taxation			(100)	½
Capital expenditure and financial investment				
Payments to acquire buildings	W1a	(1,100) }		½
Payments to acquire plant and equipment	W2a	(1,500) }		
Receipts from sales of buildings	W1c	1,200 }		½
Receipts from sale of fixtures and fittings	W2c	140 }		
Endowments received (1100-650)		450		½
Endowment investments sold		100		½
Endowment investments purchased		(550)		½
Net cash outflow from capital expenditure and financial investment			(1,260)	
			(265)	
Management of liquid resources			(150)	½
Financing				
Loan raised			100	½
Decrease in cash			(315)	

Presentation ½

Analysis of changes in net debt

	At 1/8/01 £000	Cash Flows £000	At 31/7/02 £000
Cash in hand and at bank	75	(75)	0
Overdrafts	0	(240)	(240)
	75	(315)	(240)
Current asset investment	50	150	200
Debt due > 1 year	(500)	(100)	(600)
Total	(375)	(265)	(640)

1½

Reconciliation of net cash flow to movements in net debt

	£000
Decrease in cash	(315)
Change in endowment cash	0
Increase in short term investments	150
	(165)
Debt due > 1 year	(100)
Change in net debt	(265)
Net debt at beginning	(375)
Closing net debt	(640)

1

(20)

(b) Observations

- Made a surplus yet net cash outflow.
- Generated over £1 million through operations.
- Raised further £1.3 million through asset sales however spent £2.6 million acquiring both plant and buildings.
- Overall cash position significantly worse this year given that £0.5 million needs to be repaid in 2004.

½ per comment to max of 2 marks

Solutions

- Short term investments increased at same time as loans but interest on loans is 3% higher – perhaps reduce short term investments.
- Need to address by:
  - Improving working capital management (eg reducing debtors)
  - Increasing cash generation by increasing funding and/or numbers of students and/or cutting costs
  - Renegotiate terms of loans or refinancing/remortgaging
  - Grant funding could be sought

1 mark per comment well explained to max of 3 marks
(5)

(25)

Question 3 (Health Service)

Workings:

		DR	CR	
1	**Buildings**			
(a)		£000	£000	
	Opening balance	8,000		
	Disposal (1000 / 0.4)		2,500	½
	Indexation (8,000 x 3%)	240		½
	Closing balance		7,000	
	Additions in year (balance)	**1,260**		
		9,500	9,500	½
(b)	***Accumulated depreciation***			
	Opening balance		3,000	
	On disposal (2500 x 0.6)	1,500		½
	Indexation (3,000 x 3%)		90	½
	Closing balance	2,000		
	Depreciation charge for year (balance)		**410**	
		3,500	3,500	½
(c)	***Disposal***			
	Cost	2,500		
	Profit on sale	200		
	Accumulated depreciation		1,500	
	Cash received (to balance)		**1,200**	
		2,700	2,700	½
2	**Plant and equipment**			
(a)				
	Opening balance	4,000		
	Disposal (200 / 0.4)		500	½
	Indexation (4,000 x 3%)	120		½
	Closing balance		5,000	
	Donated asset	100		½
	Additions (to balance)	**1,280**		
		5,500	5,500	½

Total additions £1,280,000 plus £100,000 unpaid 2000/01 = **£1,380,000** ½
paid during 2001/2.

(b)	***Accumulated depreciation***			
	Opening balance		2,500	
	On disposal (500 x 0.6)	300		½
	Indexation (2,500 x 3%)		75	½
	Closing balance	2,900		
	Donated asset depreciation (100/5 * ¼)		5	½
	NHS depreciation (balance)		**620**	
		3,200	3,200	½
	Total depreciation = 620 + 5 = 625			
(c)	***Disposal***			
	Cost	500		
	Loss on sale		60	
	Accumulated depreciation		300	
	Cash received (to balance)		**140**	
		500	500	½

(a) Reconciliation of operating surplus to net cash flow from operating activities

Working	£000	£000	
Deficit (430-525)		*(95)*	½
Less: Interest		*(80)*	½
Add: PDC dividends		*468*	½
Profit on sale of buildings (note 3)		*(200)*	½
Loss on sale of plant (note 3)		*60*	½
Operating surplus		153	
Non-cash items:			
Buildings depreciation (w1b)	410	}	½
Plant and equipment depreciation (w2b)	625	}	
Transfer from donations reserve (695 – [750+100])	(155)		*1*
Increase in provisions	100		½
		980	
		1,133	
Working capital adjustments:			
Stock decrease	500		½
Debtors increase	(250)		½
Creditors decrease	(570)	(320)	½
Net cash inflow from operating activities		813	
Note: cash donation is included in net cash from operations NOT the donations reserve			½

Red Mountain NHS Trust
Cash Flow Statement for the Year Ended 31 March 2002

	Working	£000	£000	
Net cash inflow from operating activities			813	
Returns on investment and servicing of finance				
Interest received			80	½
Capital expenditure and financial investment				
Payments to acquire buildings	W1a	(1,260)	}	½
Payments to acquire plant and equipment	W2a	(1,380)	}	
Receipts from sales of buildings	W1c	1,200	}	½
Receipts from sale of fixtures and fittings	W2c	140	}	
Net cash outflow from capital expenditure and financial investment			(1,300)	
			(407)	
Dividends paid			(468)	½
Financing				
PDC repaid		(50)		½
New PDC raised		550	500	½
Decrease in cash			(375)	

Analysis of changes in net debt

	At 1/4/01 £000	Cash flows £000	At 31/3/02 £000
Cash in hand and at bank	75	(75)	0
Overdrafts	0	(300)	(300)
Total	75	(375)	(300)

1

Reconciliation of net cash flow to movements in net debt

	£000
Decrease in cash	(75)
Increase in overdrafts	(300)
Increase in short term investments	0
	(375)
Debt due > 1 year	0
Change in net debt	(375)
Net funds at beginning	75
Closing net debt	(300)

1

(20)

(b) Observations

- Made a deficit after PDC dividend and net cash outflow.
- Generated over £0.8m through operations but had to pay ODC dividends of almost £500,000.
- Raised further £1.3 million through asset sales however spent £2.6 million acquiring both plant and buildings.
- Additional PDC only amounted to £500,000 therefore capital has overspent.
- Did have spare cash at times – earned £80,000 of interest.
- Overall cash position significantly worse this year.

½ per comment to max of 2 marks

Solutions.

- Need to address by:
  - Improving working capital management (eg reducing debtors)
  - Increasing cash generation and/or cutting costs
  - Renegotiate capital funding with department
  - Tighter control of capital spending in future years.

1 mark per comment well explained to max 3 marks

(5)

(25)

Question 4 (Housing Associations)

Workings:

		DR	CR	
1	**Buildings**			
(a)	***Cost***	£000	£000	
	Opening balance	16,000		
	Disposal (1000 / 0.4)		2,500	½
	Closing balance		16,500	
	Additions in year (balance)	**3,000**		
		19,000	19,000	*1*
(b)	***Accumulated depreciation***			
	Opening balance		6,500	
	On disposal (2500 x 0.6)	1,500		½
	Closing balance	6,800		
	Depreciation charge for year (balance)		**1,800**	
		8,300	8,300	*1*
(c)	***Disposal***			
	Cost	2,500		
	Profit on sale	200		
	Accumulated depreciation		1,500	
	Cash received (to balance)		**1,200**	
		2,700	2,700	*1*
2	**Plant and equipment**			
(a)	***Cost***			
	Opening balance	4,000		
	Disposal (200 / 0.4)		500	½
	Closing balance		5,000	
	Additions (to balance)	**1,500**		
		5,500	5,500	*1*
(b)	***Accumulated depreciation***			
	Opening balance		2,500	
	On disposal (500 x 0.6)	300		½
	Closing balance	2,900		
	Depreciation (balance)		**700**	
		3,200	3,200	*1*
(c)	***Disposal***			
	Cost	500		
	Loss on sale		60	
	Accumulated depreciation		300	
	Cash received (to balance)		**140**	
		500	500	*1*
(d)	***SHG***			
	Opening		4,500	
	Repaid on sale	600		
	Closing SHG	4,700		
	Cash received (to balance)		**800**	
		5,300	5,300	*1*

(a) Reconciliation of operating surplus to net cash flow from operating activities

Working	**£000**	**£000**	
Deficit (5,119 –5,274)		*(155)*	½
Transfer to designated reserves		*200*	½
Transfer to restricted reserves		*100*	½
Add: Interest (see CFS)		*371*	½
Surplus		**516**	
Non-cash items:			
Buildings depreciation (w1b)	1,800	}	½
Plant and equipment depreciation (w2b)	700	}	
Profit on sale of buildings (note 2)	(200)		½
Loss on sale of plant (note 2)	60	2,360	½
		2,876	
Working capital adjustments:			
Stock decrease	500		½
Debtors increase	(100)		½
Trade creditors decrease	(670)	(270)	½
Net cash inflow from operating activities		2,606	

Red Mountain Housing Association
Cash Flow Statement for the Year Ended 31 March 2003

	Working	**£000**	**£000**	
Net cash inflow from operating activities			2,606	
Returns on investment and servicing of finance				
Interest received [(50+200)/2] x 3%		4		½
Interest paid [(6,000+6,500)/2] x 6%		(375)		½
			(371)	
Capital expenditure and financial investment				
Payments to acquire buildings	W1a	(3,000)	}	½
Payments to acquire plant and equipment	W2a	(1,500)	}	
Receipts from sales of buildings	W1c	1,200	}	½
Receipts from sale of plant	W2c	140	}	
SHG received	W2d	800		½
SHG repaid (note 2)		(600)		½
			(2,960)	
			(725)	
Management of liquid resources				
Acquisition of Short-term investments			(150)	½
Financing				
Loan raised			500	½
Decrease in cash			(375)	

Analysis of changes in net debt

	At 1/4/01 £000	Cash flows £000	At 31/3/02 £000
Cash in hand and at bank	75	(75)	0
Overdrafts	0	(300)	(300)
	75	(375)	(300)
Current asset investment	50	150	200
Debt due > 1 year	(6,000)	(500)	(6,500)
Total	(5,875)	(725)	(6,600)

1

Reconciliation of net cash flow to movements in net debt

	£000
Decrease in cash	(75)
Increase in overdrafts	(300)
Increase in short term investments	150
	(225)
Debt due > 1 year	(500)
Change in net debt	(725)
Net debt at beginning	(5,875)
Closing net debt	(6,600)

1

(20)

(b) Observations

- Made an operating surplus yet net cash outflow.
- Generated over £2.6 million through operations.
- Raised further £0.7 million (net of SHG) through asset sales however spent £4.5 million acquiring both plant and properties ; partly funded by SHG of £800,000.
- Overall cash position significantly worse this year given that a large tranche of loan finance is due to be to be repaid in 2004.

½ per comment to max of 2 marks

Solutions

- Short term investments increased at same time as loans but interest on loans is 3% higher – perhaps reduce short term investments.
- Need to address by:
  - Improving working capital management (eg reducing debtors)
  - Increasing cash generation by increasing the utilisation of properties and reducing relet times
  - Renegotiate terms of loans
  - Other grant funding could also be sought – particularly to fund capital spending.

1 mark per well explained to max of 3 marks

(5)

(25)

Question 5 (Local Government)

Reconciliation of net surplus to cash inflow

	£000	£000	
General fund surplus (900-725)		(175)	½
Add items not resulting in cash flow			
Depreciation (Working 1)	(130)		½
Additional MRP (150-130)	(20)		½
Direct revenue financing	(250)		½
		(400)	
Movements in working capital			
Less decrease in creditors (580-950)	370		½
Less increase in debtors (900-800)	100		½
Add decrease in stock (300-800)	(500)		½
		(30)	
Add revenue costs of financing			
Net interest (see CFS)		(222)	½
Cash inflow from revenue		**(827)**	

Cash flow statement for the year ended 31 March 2002

	£000	£000	
Revenue activities			
Cash outflows			
Cash paid to employees		5,692	½
Other operating cash payments		3,481	½
Cash inflows			
Precepts	(5,000)		½
Grants	(4,000)		½
Fees	(1,000)		½
		(10,000)	
Net cash inflow from revenue activities		**(827)**	
Returns on investments and servicing of finance			
Interest paid [(3850+3670)/2]x6%	226		*1*
Interest received [(50+200)/2]x3%	(4)		*1*
		222	
Capital activities			
Purchase of assets (working 2)	830		½
Sale of fixed assets (working 3 & 4)	(480)		½
		350	
Management of liquid resources			
Net increase/decrease in short term deposits		150	½
Financing			
Loans raised (830-50 UCR – 250 DRF)		(530)	*1*
Loans repaid (3850 + 530 – 3670)		710	½
Net decrease in cash		**75**	

Working 1
AMRA

	£000		£000
Interest	226	Asset rentals	2,000
Depreciation (to balance)	**130**		
Transfer to CRA	1,644		
	2,000		2,000

1

Working 2
Fixed Assets

	£000		£000
Opening balance	7,500	Depreciation	130
		FARR - disposal	100
Additions (balance)	**830**	Closing balance	8,100
	8,330		8,330

1½

Working 3
Capital Financing Reserve

	£000		£000
		Opening balance	1,400
		DRF	250
		UCR	50
		MRP adjustment (150-130)	20
Closing balance	1,950	**Cash received (balance)**	**230**
	1,950		1,950

2

Working 4
Usable Capital Receipts

	£000		£000
Used capital receipts – CFR	50	Opening balance	400
Reserved capital receipts - CFR	230		
Closing balance	600	**Cash received (balance)**	**480**
	880		880

1

Total cash received = £230,000 + £250,000 = **£480,000**

Analysis of changes in net debt

	At 1/4/01	Cash flows	At 31/3/02
	£000	£000	£000
Cash in hand and at bank	75	(75)	0
Current asset investment	50	150	200
Debt due > 1 year	(3,850)	180	(3,670)
Total	(3,725)	255	(3,470)

2

Reconciliation of net cash flow to movements in net debt

	£000	
Decrease in cash	(75)	
Increase in short term investments	150	
	75	
Debt due > 1 year	180	
Change in net debt	255	
Net debt at beginning	(3,725)	
Closing net debt	(3,470)	*1*

(20)

(b) Observations

- Made a surplus yet net cash outflow.
- Generated £800,000 through operations.
- Cash reduced to zero but £150,000 held on deposit.
- Loans repaid overall reducing net debt.
- Creditors falling while debtors rising.
- Overall cash position is not of major concern.

½ mark per comment to a max of 3 marks

Solutions

- Short term investments must be effectively managed to avoid overdraft costs – current cash balance is zero.
- Working capital management needs to be monitored to ensure that day to day cash flow is maintained.

1 mark per comment well explained to max of 2 marks
(5)

(25)

Question 6 (Central Government)

Capital funding

- Capital funding should not be netted off against cost of asset but reflected in reserves.
- The asset should be depreciated (£120,000/6 = £20,000).
- The operating account needs to reflect interest at 6% on a further £120,000 of assets of £7,200 (3/4 for this year = £5,400; but (£nil + £7,200)/2 x 6% is also acceptable).
- Per Resource Accounting Manual (RAM) and SSAP 4.

Journal entry
Dr Fixed Assets Cr General fund £120,000
Dr Operating account – interest Cr Interest payable £5,400
Dr Operating account Cr Accumulated Depreciation £20,000 *3½*

Lease

- Lease life is less than asset life and asset returns to leasing company, undiscounted sum is close to the fair value therefore discounted value may be less than 90% of fair value, the risk of damage or wear and tear rests with the lease company; all these indicate that it is in fact an operating lease under SSAP 21 and FRS 5.
- Interest on lease = £24,000 x 3 - £70,000 = £2,000.
- Allocate (3/6) = £1,000 sum of digits.
- Principal element = £23,000.
- Depreciation charge = £70,000/3 = £23,333.
- Under SSAP 21 a finance lease would have been treated as lending; the asset included in the balance sheet and the rental split into interest and principal.
- The entire rental should therefore be charged to the income and expenditure account as operating expenses.
- Interest would have been incorrectly charged to the operating account of £70,000 x 6% = £4,200.

Journal entry
Dr Deferred Liabilities Cr Fixed assets £70,000.
Dr Operating account – operating expenses £24,000 Cr Operating account – interest £1,000; Cr Deferred liabilities £23,000.
Dr Depreciation provision £23,333 Cr Operating account £23,333.
Dr General Fund Cr operating account £4,200. *7½*

Restructuring

- FRS 12 and statement of principles require an obligation to transfer economic benefits to exist before recognising a liability.
- The decision has been made and communicated and a reasonable expectation has been raised that it will happen.
- A constructive obligation exists so provision should be made.

Journal entry
Dr Operating account £50,000
Cr Provisions £50,000 *2*

Debtors

- CFER are cash sums that must be surrendered to the consolidated fund and are recorded in the Appropriation Account; the entry will understate the amount owed to the CF.
- Debtors should be shown in a debtors account and are shown in the agency Balance sheet.
- Per Government Accounting and RAM.

Journal entry
Dr Agency trade debtors £600,000
Cr CFER £600,000 *2*

Insurance

- A charge should be made for this year.
- Prior year adjustment will not be required because the figures involved will not lead to a material misstatement.

Journal entry
Dr Operating account £500
Cr General Fund £500 *1½*

Revaluation

- RAM states that assets should be held at replacement cost.
- Revaluations are made to adjust for material changes in the value of the asset and depreciation is revalued at the same time; this is known as backlog depreciation; this is not the approach required by FRS 15.
- Depreciation to date = 800 x 3/8 = 300; x 5% = 15 for backlog depreciation.
- Depreciation charge made for the year = (800 x 1.05 – 300)/5 = 108.
- Depreciation charge should be = 840/8 = 105 ; adjustment of £3,00 required.

Journal entry
Dr Accumulated depreciation £3,000 Cr Operating account £3,000
Dr Revaluation Reserve £15,000 Cr Accumulated Depreciation £15,000 *3½*

Marks awarded for identification of relevant standards, the explanation of the standard and for reasonable attempts at demonstrating the relevant accounting entries

(20)

Question 7 (Further and Higher Education)

Capital grant

- Under SSAP 4 and the FHE SORP capital grants should be shown as deferred income not netted off against cost of asset.
- Income is credited to I&E account to match the depreciation charged to the asset.

Journal entry
Dr Fixed Assets Cr Deferred capital grants £72,000 *1½*

Lease

- Lease life is less than asset life and the asset returns to the leasing company, undiscounted sum is close to the fair value therefore discounted value may be less than 90% of fair value, the risk of damage or wear and tear rests with the lease company; all these indicate that it is in fact an operating lease under SSAP 21 and FRS 5.
- Interest on lease = £24,000 x 3 - £70,000 = £2,000.
- Allocate (3/6) = £1,000 sum of digits.
- Principal element = £23,000.
- Depreciation charge = £70,000/3 = £23,333.
- Under SSAP 21 a finance lease would have been treated as lending; the asset included in the balance sheet and the rental split into interest and principal.
- The entire rental should therefore be charged to the income and expenditure account as operating expenses.

Journal entry
Dr Deferred Liabilities Cr Fixed assets £70,000
Dr I&E – operating expenses £24,000 Cr I& E – interest £1,000; Cr Deferred liabilities £23,000
Dr Depreciation provision £23,333 Cr I&E £23,333 *7½*

Restructuring

- FRS 12 and statement of principles require an obligation to transfer economic benefits to exist before recognising a liability.
- The decision has been made and communicated and a reasonable expectation has been raised that it will happen.
- A constructive obligation exists so provision should be made.

Journal entry
Dr I&E £50,000
Cr Provisions £50,000 *2½*

VAT

- SSAP 5 requires financial statements to be prepared ex-VAT.
- VAT suffered as irrecoverable should be included in the expenses they relate to in the statements.
- SSAP 17 requires post balance sheet events (such as the VAT inspection) to be adjusted where the balance at the balance sheet is incorrectly stated (VAT for July).
- Non-adjusting events need only be disclosed where their omission would materially misstate the position at the balance sheet date.
- No provision should be made for the August and September costs until 2002/3.

Journal entry
Dr I&E £10,000
Cr Creditors – VAT payable £10,000 *4*

Donated land

- The FHE SORP requires the creation of a donations reserve for any donations received directly by the college.
- The asset should be recognised in the balance sheet and depreciated where appropriate; amounts are released from the donations reserve to match the depreciation in the income and expenditure account leaving a nil cost to the college.
- Land is not depreciated but the asset should still be shown in the donations reserve.

Dr Fixed assets Cr Endowments – general £500,000 *2½*

Legacy

- The legacy constitutes an endowment and should be held in trust to ensure that it is treated in line with the donors wishes.
- It should be held in endowment funds under general purposes which means that the capital cannot be spent but the income will be credited to the income and expenditure account.
- The endowment funds are consolidated with the college accounts under the FHE SORP.

Dr I&E account Cr Endowments – general £500,000 *2*

Marks awarded for identification of relevant standards, the explanation of the standard and for reasonable attempts at demonstrating the relevant accounting entries

(20)

Question 8 (Health Service)

Lease

- Lease life is less than asset life and the asset returns to the leasing company, undiscounted sum is close to the fair value therefore discounted value may be less than 90% of fair value, the risk of damage or wear and tear rests with the lease company; all these indicate that it is in fact an operating lease under SSAP 21 and FRS 5.
- Interest on lease = £24,000 x 3 - £70,000 = £2,000.
- Allocate (3/6) = £1,000 sum of digits.
- Principal element = £23,000.
- Depreciation charge = £70,000/3 = £23,333.
- Under SSAP 21 a finance lease would have been treated as lending; the asset included in the balance sheet and the rental split into interest and principal.
- The entire rental should therefore be charged to the income and expenditure account as operating expenses.

Journal entry
Dr Deferred Liabilities Cr Fixed assets £70,000
Dr I&E – operating expenses £24,000 Cr I& E – interest £1,000; Cr Deferred liabilities £23,000
Dr Depreciation provision £ 23,333 Cr I&E £23,333 *7½*

Restructuring

- FRS 12 and statement of principles require an obligation to transfer economic benefits to exist before recognising a liability.
- The decision has been made and communicated and a reasonable expectation has been raised that it will happen.
- A constructive obligation exists so provision should be made.

Journal entry
Dr I&E £50,000
Cr Provisions £50,000 *2½*

VAT

- SSAP 5 requires financial statements to be prepared ex-VAT.
- VAT suffered as irrecoverable should be included in the expenses they relate to in the statements (ie most VAT payable by NHS Trusts).
- SSAP 17 requires post balance sheet events (such as the VAT inspection) to be adjusted where the balance at the balance sheet is incorrectly stated (VAT to March).
- Non-adjusting events need only be disclosed where their omission would materially misstate the position at the balance sheet date.
- No provision should be made for the April cost until 2002/3 (ie charge is £40,000 x ¾).

Journal entry
Dr I&E £30,000
Cr Non-NHS Creditors – VAT payable £30,000 *3½*

Legacy

- The legacy constitutes an endowment and should be held in trust to ensure that it is treated in line with the donors wishes.
- It should be held in charitable funds - endowment funds under general purposes which means that the capital cannot be spent but the income will be credited to the income and expenditure account.
- The endowment funds are not consolidated with the Trusts own accounts but are reported separately under the manual for accounts and the charities SORP.

Journal entry
Dr I&E account Cr Endowments – general £500,000. *2½*

Revaluation

- The capital accounting manual states that assets should be held at replacement cost.
- Annual indexation takes place at the beginning of each year to adjust for material changes in the value of the asset; depreciation is revalued at the same time; this is known as backlog depreciation; this is not the approach required by FRS 15.
- Depreciation to date = 600 x 1/6 = 100; x 5% = 5.
- Depreciation charge made for the year = (600 x 1.05 – 100)/5 = 106.
- Depreciation charge should be = 630/6 = 105 ; adjustment of £1,000 required.

Journal entry
Dr Accumulated depreciation £1,000 Cr I&E account £1,000
Dr Revaluation Reserve £5,000 Cr Accumulated Depreciation £5,000 *4*

Marks awarded for identification of relevant standards, the explanation of the standard and for reasonable attempts at demonstrating the relevant accounting entries

(20)

Question 9 (Housing Associations)

Capital grant

- Under SSAP 4 capital grants should be shown as deferred income not netted off against cost of asset.
- However the SORP for social landlords requires disclosure of housing properties on the balance sheet as either net of Social Housing Grant (SHG) or at valuation in which case the SHG should be shown as a Deferred Income.

Journal entry
Dr I&E – other income Cr SHG £72,000 *2½*

Lease

- Lease life is less than asset life and the asset returns to the leasing company, undiscounted sum is close to the fair value therefore discounted value may be less than 90% of fair value, the risk of damage or wear and tear rests with the lease company; all these indicate that it is in fact an operating lease under SSAP 21 and FRS 5.
- Interest on lease = £24,000 x 3 - £70,000 = £2,000.
- Allocate (3/6) = £1,000 sum of digits.
- Principal element = £23,000.
- Depreciation charge = £70,000/3 = £23,333.
- Under SSAP 21 a finance lease would have been treated as lending; the asset included in the balance sheet and the rental split into interest and principal.
- The entire rental should therefore be charged to the income and expenditure account as operating expenses.

Journal entry
Dr Deferred Liabilities Cr Fixed assets £70,000
Dr I&E – operating expenses £24,000 Cr I& E – interest £1,000; Cr Deferred liabilities £23,000
Dr Depreciation provision £23,333 Cr I&E £23,333 *7½*

VAT

- SSAP 5 requires financial statements to be prepared ex-VAT.
- VAT suffered as irrecoverable should be included in the expenses they relate to in the statements.
- SSAP 17 requires post balance sheet events (such as the VAT inspection) to be adjusted where the balance at the balance sheet is incorrectly stated (VAT to March).
- Non-adjusting events need only be disclosed where their omission would materially misstate the position at the balance sheet date.
- No provision should be made for the April cost until 2002/3 (ie charge in £40,000 x ¾).

Journal entry
Dr I&E £30,000
Cr Creditors – VAT payable £30,000 *3½*

Asset sale

- The surplus on disposal (£300,000) should be credited to income and expenditure account as non-operating income.
- The SHG should be credited to creditors or a recyclable grant reserve.
- The surplus above grant should be set aside in a capital reserve [£800,000 – (500,000 x 80%) = 400,000].

Journal entry
Dr Miscellaneous income £800,000; Cr operating expenses £500,000; Cr non-operating income £300,000.
Dr Miscellaneous income £400,000 Cr Creditors or Recyclable Grant Reserve £400,000
Dr I&E reserves £400,000 Cr Capital Reserve £400,000 *4*

Repairs

- The RSL SORP and FRS 12 only allow a provision to be made where an obligation exists but surpluses can be placed in designated reserves.
- The "provision for future repairs" should be transferred from the revenue reserve to a repairs reserve.

Journal entry
Dr Provisions £400,000 Cr I&E expenses
Dr I&E reserve £400,000 Cr repairs reserve £400,000 *2½*

(20)

Question 10 (Local Government)

Capital grant

- Under SSAP4 capital grants should be shown as deferred income not netted off against cost of asset.
- Income is then credited to the AMRA to match the depreciation charged to the asset.

Journal entry
Dr Revenue account Cr Deferred capital grants £72,000
Dr Deferred capital grants Cr AMRA £2,000 *2½*

Lease

- Lease life is less than asset life and the asset returns to the leasing company, undiscounted sum is close to the fair value therefore discounted value may be less than 90% of fair value, the risk of damage or wear and tear rests with the lease company; all these indicate that it is in fact an operating lease under SSAP 21 and FRS 5.
- Interest on lease = £24,000 x 3 - £70,000 = £2,000.
- Allocate (3/6) = £1,000 sum of digits.
- Principal element = £23,000.
- Depreciation charge = £70,000/3 = £23,333.
- Under SSAP 21 a finance lease would have been treated as lending; the asset included in the balance sheet and the rental split into interest and principal.
- The entire rental should therefore be charged to the income and expenditure account as operating expenses.

Journal entry
Dr Deferred Liabilities Cr Fixed assets £70,000
Dr I&E – service revenue accounts £24,000 Cr AMRA – interest £1,000; Cr Deferred liabilities £23,000
Dr Depreciation provision £23,333 Cr AMRA £23,333
Dr AMRA Cr Service revenue accounts £28,000 *8*

VAT

- SSAP 5 requires financial statements to be prepared ex-VAT.
- VAT suffered as irrecoverable should be included in the expenses they relate to in the statements.
- SSAP 17 requires post balance sheet events (such as the VAT inspection) to be adjusted where the balance at the balance sheet is incorrectly stated (VAT to March).
  Non-adjusting events need only be disclosed where their omission would materially misstate the position at the balance sheet date.
- No provision should be made for the April costs until 2002/3 (ie charge is £40,000 x ¾).

Journal entry
Dr Service Revenue Accounts £30,000
Cr Creditors – VAT payable £30,000 *3½*

Capital Charges and Financing

- The presentation follows that contained within the capital accounting guidance in the SORP.
- MRP reflects the statutory obligation to charge council tax payers with notional debt charges and revenue financing of capital rather than capital charges.

Journal entry
Dr CRA – appropriations £60,000 Cr Capital Financing Reserve £60,000.
Dr CRA – appropriations (DRF) £350,000 Cr Capital Financing Reserve £350,000. *3*

Pension Fund

- The Pensions SORP, Local government legislation and SORP require the Pension Fund to be kept separate from the assets and liabilities of the authority.
- The revaluation of the investments should be reflected in the fund balance of the Pension Fund not in the FARR.

Journal entry
Dr FARR £1,000,000 Cr Investments £1,000,000 (Authority accounts)
Dr Investments Cr Fund balance £1,000,000
(Pension fund accounts) *3*

Marks awarded for identification of relevant standards, the explanation of the standard and for reasonable attempts at demonstrating the relevant accounting entries

(20)

Question 11

(a) Explain the concept of capital maintenance and discuss the extent to which it is relevant to the public sector.

- **Capital maintenance** – the concept of capital maintenance is related to theoretical and legal definitions of income; income is the increase in an owners wealth above the amount already committed to the business; distributions should not usually be made which reduce the capital of the business (ie as drawings or dividends). *1*

- **Financial capital maintenance –** views the value of the owners capital as that which should be maintained; in historic cost accounting this means that must not distribute beyond historic cost profits made by the business. *½* *½*

- **Operating capability capital maintenance –** takes the business capital as that which should be maintained; this means that sufficient physical and monetary assets (resources) should be retained within the business to maintain earning capacity. *1*

- **Public sector application –** organisations use assets to provide their services therefore operating capability needs to be maintained; they do not have profit seeking shareholders though so damage to capital base will not come through distribution. *1* *1*

- **By sector:** *2 for sector specific comments*

CENTRAL GOVERNMENT – assets funded through allocations and accounted for through RAB budgets; shareholder equivalent is Parliament;

FURTHER AND HIGHER EDUCATION – assets funded by loans and grants and retained surpluses; shareholder equivalent is Funding Agency but no requirement to pay back surpluses;

HEALTH – assets funded through allocations based on business cases; shareholder equivalent is DoH to whom dividends are paid but PDC provided if this would reduce operating capability;

HOUSING ASSOCIATIONS – assets funded by grants and loans; not for profit corporation so even though nominal shareholding do requirement to pay a dividend;

LOCAL GOVERNMENT – assets funded from loans, capital receipts and Council tax contributions; no shareholders and no requirement to repay surpluses.

Marks will be awarded for additional points relating to the general impact of inflation and relevant standards, SSAP16, PSSAP7 as illustrations of the points above

(7)

(b) Explain why inflation can be a problem for financial and management accounting in public sector organisations.

Problems with inflation are:

- **Management accounting –** creates uncertainty in budgeting and estimating; central government controls may assume a level of inflation which is not the same as experienced by the public sector organisation; public sector spending can be a macroeconomic tool used to control inflation in the economy; many controls are cash limited therefore inflationary assumptions become crucial, some payments are index linked thereby forcing up spending which may require cuts elsewhere, returns are measured in the public sector based on real rates of return (6% normally) therefore inflation estimates can distort performance measures, unit costs and other PM/Pis can also be difficult to compare over time unless put on a single price base.

- **Financial accounting** – asset values can become out of date rapidly, statutory performance targets can become distorted.

1 mark per comment with sector specific context; ½ if a general comment made
Up to a maximum of 5

- **By sector:**

CENTRAL GOVERNMENT – cash limits and RAB budgets have no inflation contingency; targets of agencies incorporate a real rate of return (6%).

FURTHER AND HIGHER EDUCATION – funding from agencies is not inflation adjusted during the year and fee charging is often limited; any national pay settlements affect every institution.

HEALTH – DoH estimates of inflation are used to budget but the actual price increases experienced may differ; cost recovery is based on a real return of 6% and Trusts are also required to break even; capital is cash limited through the EFL; any national pay settlements affect all parts of the NHS.

HOUSING ASSOCIATIONS – rents increases are limited and grants assume a % contribution to be approved; inflation in the construction industry or building maintenance trade has to managed by the association.

LOCAL GOVERNMENT – Council Tax rises are monitored by the electorate, some fees are externally set and discretionary fees may be designed to encourage take up; any national pay settlements affect all authorities, grant funding is based partly on central government assumptions of inflation which may differ from local inflation rates.

(c) Explain how inflation is dealt with in the financial accounts of organisations from your sector.

- **By sector:**

  CENTRAL GOVERNMENT – all fixed assets should be shown in the accounts using modified historic cost; this means that they are shown at the lower of replacement cost and recoverable amount; this is reviewed annually and material changes recorded in the balance sheet; this includes backlog depreciation; a real cost of capital is debited to the operating account and credited to the General Fund; where material stock may be revalued to replacement cost but this is rarely the case.

  FURTHER AND HIGHER EDUCATION – fixed assets are held at historic cost but this is modified when certain assets are revlaued under FRS 15; no backlog depreciation is made but the asset would be restated at valuation then depreciated based on the remaining life; revaluation of donated assets should be done through the Donations Reserve; no other adjustments are made for inflation in the accounts.

  HEALTH – all fixed assets should be shown in the accounts using current replacement cost; this is reviewed annually by means of an annual indexation and a periodic revaluation for land and buildings; this includes backlog depreciation for equipment; a real cost of capital of 6% is reported in the accounts as the cost absorption target; revaluation of donated assets should be done through the Donations Reserve; no other adjustments are made for inflation in the accounts.

  HOUSING ASSOCIATIONS – Housing properties are held on the balance sheet at cost less SHG but may alternatively be held at valuation; the valuation basis would be Existing Use Value for social Housing; the increases in carrying value as a result would be shown in a revaluation reserve; no other adjustments are made for inflation in the accounts.

  LOCAL GOVERNMENT – whilst some fixed assets (infrastructure and community assets) are held at historic cost other assets should be held on the balance sheet at the lower of net current replacement cost and net realisable value; values should be reviewed annually to assess the possibility of material changes but formal revaluation need only take place every five years; all adjustments to value go through the FARR which will include backlog depreciation; any capital charges to services in the form of asset rents are based on the revalued amount however these are credited back out of the CRA; no other adjustments are made for inflation in the accounts.

(3)

(15)

Question 12

	£000	£000	
Cost of investment		**19,200**	
Equity @ 28 February 2003	25,000		
Less: transactions during year			
• Revaluation	(500)		½
• Retained profit for year (W1)	(900)		½
• Rights issue (W2)	(5,500)		½
Net assets on BS @ 1 March 2002	18,100		
Add: Fair Value adjustments (500+100-50-20)	530		*1*
FV of assets	18,630		
	x 80%		½
FV of assets acquired		**(14,904)**	
Goodwill		**4,296**	½

(W1)

Earnings for the year since acquisition	£1.5 million	
Less: Dividends paid	(£0.6 million)	½
Retained profits for year	**£0.9 million**	½

(W2)

Rights issue shares (2.5 million x 1/5)	(0.5 million)	*1*
	X £11	½
Share capital raised since acquisition	**£5.5 million**	

Goodwill should be written off against consolidated profit and loss over an appropriate period; presumed to be no more than 20 years but can be rebutted; if taken as more than 20 years an impairment review must be done every year. *2*

(N.B Full credit should be given for alternative methodologies to calculate goodwill)

(8)

(b) Balance sheet:

	M&P Group £000	
Goodwill	4,000	W1
Tangible fixed assets	16,000	W2
Working capital	7,000	W3
	27,000	
M &P plc Share capital (£1 shares)	3,000	W4
Share premium	1,000	W5
P&L account	23,000	W7
	27,000	
Presentation		½

Workings

W1 Cost of investment to M&P @ FV = = **£16m**
Less: Equity acquired @ FV = (11m+1m) = **£12 m**
Goodwill = £4m *1*
Note: (£2m /£2 = 1 million shares) – acquired 100% of MC shares
- Goodwill is the additional amount paid for the business above the fair value of the individual net assets acquired *½*

W2 M&P £7m + MC £8m + £1m at FV = **£16 m** *1*

W3 M&P £20m + MC £3m - £16m consideration = **£7 m** *½*
- All assets controlled by the group should be combined at their fair value *1*

W4 M&P only = **£3 m Share capital** *1*

W5 M only = **£1 m Share premium** *½*
- The ownership of the assets controlled are shown under capital and reserves; post acquisition the assets are owned by the holding company and any minority interests (nil here with the 100% acquisition) *1*

W6 M&P only = **£23m** *½*
- **MC P&L is pre -acquisition** *½*

(8)

(b) (ii) Explain how the balance sheet would differ if the acquisition was achieved through a share swap of four M&P plc shares for one MC plc share.

Goodwill – calculation of goodwill would be exactly the same except the consideration would be made up as the market value of the M&P shares swapped (4 shares x £4 market value x 1 million MC shares = £16 million). *½*
Tangible Fixed Assets – would be combined in exactly the same way (ie at fair value). *½*
Working Capital – would be combined in full (no cash paid). *½*
Share capital – would need to include the new shares in issue (3 million original + 4 million new = £7 million). *1*
Share Premium – needs to show the difference between the nominal value of shares issued and the market value of the consideration (ie £16 million - £4 million). *1*
Profit and loss – will be exactly the same. *½*

(note : calculations are for illustration only – they are **not** required to get the marks)

(4)

(20)

Question 13

(a) Outline the development of corporate governance for private sector companies.

- **Late 1980s** – collapse of large corporations damaging consumer and investor confidence (eg Maxwell Comms, BCCI, Pollypeck); poor control of senior executives partly seen as a contributory factor especially when compared to other countries (eg US); accounting standards also seen as too loose and "excessive" executive pay were further criticisms. ½ ½ ½ ½

- **Cadbury committee** – reported in 1992; drew up a code of practice which became a requirement for Stock exchange listing in 1993. *1*

- **Greenbury Committee** – 1995 focused on director's remuneration. ½

- **Hempel Committee** – 1998 saw a consolidated document known as the combined code including the following – regular meetings, designated agenda, access to advice and training, Chair and Chief Exec should be separated, non-execs should make up at least one-third, independent remuneration committee, pay appropriate for the responsibilities directors hold, performance pay, AGM should vote on individual issues, chairs of audit and remuneration committees available, reporting should be explained and a balanced report of prospects given, maintain sound internal controls including internal audit where felt appropriate, audit committee should be set up and be independent of the board. ½

½ mark per point up to a maximum of 3

- **Turnbull Committee** – 1999 report regarding internal control which listed companies must follow from 2000. *1*

(8)

(b) Explain why good corporate governance is relevant to the public services and why it has not been possible to just apply private sector principles of corporate governance directly to public service organisations.

WHY RELEVANT?

- New Public Management is more market oriented and akin to private sector approaches.
- Many areas of the public services have Board of Director style management.
- Internal control systems still need to be reviewed to achieve the objectives of the organisation.
- Public service organisations have had apparent accountability failures (eg BCCI investors, Welsh Development Agency, Westminster Council, Wessex RHA).
- Public perception of managerial problems in the public services.

PROBLEMS OF IMPLEMENTATION?

- Political involvement.
- Multi-objectives , not just profit maximisation.
- A wider range of influential stakeholders
- Managerial structure different (ie not Board of Directors and Chairman).
- Public service ethic.
- Wider audit role to include probity not just financial certification.
- Regulators and ombudsmen have a greater role (partly because of some of the above!).
- Multi-agency regulation (eg one person may be on the caseload of health, social services, police, courts and welfare services all at the same time).

½ mark per point up to a maximum of 6

(c) Explain how the corporate governance and accountability issues differ for elective and non-elective public service bodies.

- **Definition –** elective bodies have power embodied in elected politicians; non-elective bodies have power vested in a board appointed by a minister. *½ ½*

- **Elective bodies –** adopt most of the recommendations regarding audit committees, internal control reviews and openness about the implementation of corporate governance requirements; the separation of the role of chair and chief executive is achieved already however through the restriction on members being officers/servants and vice versa; committees and debates are generally public meetings; examples are local government and central government. *1 1 ½ ½*

- **Non-elective bodies –** have tended to adopt corporate governance procedures to a wider degree in particular the appointment of non-exec directors; board style is less public and more akin to a company board of directors; examples include NHS trusts, F&HE Institutions and Housing associations. *½ ½ 1*

(6)

(20)

Question 14

(a) Explain the concept of Value for Money.

- **Definition** – VFM is a concept used to consider performance in public services where service provision and achievement of service outcomes is the motivation not profit. *1*
- **Economy –** acquisition of resources at the lowest cost (ie financial cost per unit of input). *1*
- **Efficiency –** maximising outputs from inputs or minimising inputs to achieve outputs (ie resource levels). *1*
- **Effectiveness –** a measure of whether the objectives of the service have been met including service levels, quality and outcomes for the service recipient. *2*

(5)

(b) Identify TWO appropriate performance measures for each of the '3 E's' and explain how they can be used to improve the performance of the relevant public sector organisation (*Note: examples do NOT need to come from the same sector).*

EDUCATION EXAMPLES ARE GIVEN FOR ILLUSTRATION PURPOSES – ALL APPROPRIATE ANSWERS FROM ANY SECTOR SHOULD BE GIVEN CREDIT.

- **Economy –** measure must be an indicator of cost of the INPUTS (eg salary per teacher, cost per therm for gas, cost per book acquired); COST PER STUDENT IS NOT APPROPRIATE BECAUSE THIS IS PARTLY TO DO WITH EFFICIENCY; can be used to identify good purchasing decisions and highlight areas for which joint arrangements, new contracts, new sources, bulk buy discounts can beinvestigated to reduce unit costs – but beware of false economy which leads to greater inefficiency! *½ x 2* *2*

- **Efficiency –** measure must be an indicator of INPUT to OUTPUT (eg pupil teacher ratio, computers per student, students per classroom); can be used to identify areas of improved throughput and productivity and areas that need greater motivation or support or tools/assets/technology to improve– but beware that efficiency may lead to reduced effectiveness! *½ x 2* *2*

- **Effectiveness –** measure should indicate are as such as service levels, customer satisfaction, service targets, quality, time, customer achievements (eg pass rates, retentions, grade improvement rates, student feedback ratings); THE MEASURES SUGGESTED SHOULD BE DIFFERENT – CUSTOMER SATISFACTION FOR TWO SERVICES WILL COUNT AS ONE POINT!; measures can indicate services no longer required, or changes needed in the mode/location/level of service needed. *½ x 2* *2*

(9)

(c) Explain the role of benchmarking in performance management of public services.

- **Definition** – benchmarking is the comparison of the processes and procedures in an organisation or service to other similar organisations or parts of the same organisation with a view to identifying best practice; *1*

- **Role –** includes motivation of managers, impetus for change, formal review by auditors and regulators, regular review of performance and improvement through benchmarking "clubs", helps identify/clarify objectives, provides a structured approach to performance management and improvement, facilitates communication between organisations and sharing of best practice, may lead to better coordination of multi-agency services, allows involvement and therefore ownership of changes as a result of the benchmarking, it may clarify goals and objectives for service providers, it provides a voluntary framework rather than something imposed by central government and/or a regulator, it increasingly aids central government in assessing/encouraging improvements through national initiatives and auditor driven reviews of a service across the country.

1 mark per point well explained, up to a maximum of 5 *(6)*

(20)