FINANCIAL REPORTING AND ACCOUNTABILITY

Professional 2 examination
5 December 2002

From 10.00 am to 1.00 pm,
plus twenty minutes reading time from 9.40 am to 10.00 am.

Instructions to candidates

Answer ***five questions*** *in total;*
One *question from* ***Section A****;*
One *question from* ***Section B****;*
One *question from* ***Section C****;*
One *question from* ***Section D****; and*
One *question from* ***Section E***

Candidates have a free choice in each of Sections A, B and C as to which sector (Central Government; Further and Higher Education; Health Service; Housing Associations; Local Government) they choose to base their answer on. For the question in Section C, candidates must state the sector that their answer relates to.

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 examinations room.

Formula sheets, statistical tables, 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.

CIPFA

SECTION A (Answer one question)

(Central Government)

1

Eastern Road Asset Management Agency provides a property management service and associated management training solutions for a range of public bodies. The Finance Assistant has extracted the balances from the ledgers and provided them to you - the Finance Manager - together with supporting information to allow you to prepare the draft financial statements for year ended 31 March 2002.

The trial balance is as follows:

	£000	£000
Freehold land at valuation	28,350	
Buildings at valuation	39,900	
Accumulated depreciation on buildings as at 31/3/02		16,875
Plant & equipment at valuation	14,250	
Accumulated depreciation on plant & equipment as at 31/3/02		7,125
Stock	3,000	
Debtors	6,000	
Bank	2,250	
Creditors		10,800
Loans from National Loan Fund		21,600
Provisions for liabilities and charges		3,750
Donated assets reserve		5,025
Revaluation reserve		7,275
Income & expenditure reserve as at 1/4/01		9,900
Government grant reserve		8,550
Asset management income		90,000
Training provision income		3,600
Other operating income		12,750
Staff costs	64,800	
Other operating costs	35,250	
Depreciation charge for year	2,025	
Interest charge for year	1,425	
	197,250	197,250

The following additional information needs to be taken into account:

(i) On 31 March 2002 the Agency sold some surplus land. This was valued in the books at £3.3m and attracted sales proceeds of £6.6m, of which £2.6m is a deferred payment. The original cost of the land was £1m. No entries have been made in the accounts in respect of this disposal.

(ii) Backlog depreciation of £1m on buildings is to be charged.

(iii) On 1 April 2001 the Agency signed up to a finance lease for the provision of equipment with a capital value of £11m. This lease lasts for five years, with an annual rental payment of £2.8m. The only entries in the trial balance relate to the first rental payment which had been charged to other operating costs.

(iv) The parent department has provided the following details of inter-agency activity not yet taken into account:

	£000	£000
Debtors	1,000	
Bank	3,000	
Consultancy income		5,000
Operating costs	1,000	

(v) The Agency has entered into a contract with a software company to construct an asset employment management system for Agency use. Costs of £16m at the year end have been invoiced but have not yet been accounted for; this amount is to be capitalised. The system is not yet operational. This project was funded by a large EU grant, eligibility for receipt of which is triggered by the receipt of the invoice.

(vi) The Finance Assistant has indicated that he is uncertain about the treatment of the donated assets reserve. It was credited with the balance near the start of the financial year when a depreciable donated asset was received. This asset has a remaining useful economic life of five years and depreciation has been charged in the accounts for this year.

- **Requirement for question 1**

You are required to prepare the income and expenditure account for the year ended 31 March 2002 and the balance sheet as at 31 March 2002 for the Asset Management Agency in the appropriate format. *25*

(Further and Higher Education)

2

You are the recently appointed Financial Accountant of Western Road Further Education College. The Accountancy Assistant has extracted the balances from the ledgers and provided them to you with supporting information to allow you to prepare the draft financial statements for year ended 31 July 2002.

The trial balance is as follows:

	£000	£000
Freehold land at valuation	18,900	
Buildings at cost	26,600	
Accumulated depreciation on buildings as at 31/7/02		11,250
Plant & equipment at cost	9,500	
Accumulated depreciation on plant & equipment as at 31/7/02		4,750
Stock	2,000	
Debtors	4,000	
Bank	1,500	
Creditors		7,200
Long term loan		14,400
Provisions for liabilities and charges		2,500
Capital grants		3,350
Revaluation reserve		4,850
Income & expenditure reserve as at 31/7/01		6,600
Capital reserve		5,700
Funding Council grant income		60,000
Educational contracts		2,400
Other operating income		8,500
Staff costs	43,200	
Other operating costs	23,500	
Depreciation charge for year	1,350	
Interest charge for year	950	
	131,500	131,500

The following additional information needs to be taken into account:

(i) On 31 July 2002 the college sold off surplus land. This was valued in the books at £1.65m and attracted sales proceeds of £3.3m, of which £1.3m is a deferred receipt for one year. The original cost of the land was £0.5m and any gain is to be transferred to the capital reserve. No entries have been made in the accounts in respect of this disposal.

(ii) On 1 August 2001 the college signed up to a finance lease for the provision of equipment with a capital value of £5.5m. This lease lasts for five years, with an annual rental payment of £1.4m. The only entries in the trial balance relate to the first rental payment which had been charged to other operating costs.

(iii) The Bursar has supplied details of the Eastern Road office, which carries out consulting work in the Eastern Road area. The amounts which need to be consolidated are as follows:

	£000	£000
Debtors	500	
Bank	1,500	
Consultancy income		2,500
Operating costs	500	

(iv) At the year end the Principal was formally presented on behalf of the college with an endowment from a wealthy ex-student. This totalled £12m, comprising a £6m cheque and a £6m transfer of title of investments. The cash element of the endowment is for the general use of the college, but the £6m is to fund a series of scholarships for students from certain backgrounds. No entries have been recorded in respect of this transaction.

(v) The Accountancy Assistant's analysis of the other operating costs suggests that £3.5m represents exceptional restructuring costs.

(vi) The Accountancy Assistant has indicated that he is uncertain about the proper accounting treatment of the deferred capital grants reserve. It was credited with the current balance near the start of the financial year when a grant was received in order to fund the purchase of specialised equipment for the science laboratories. This purchase was made when the grant was received and has been fully accounted for in the trial balance. The equipment is expected to last for five years.

(vii) The Accountancy Assistant has indicated that the expected tax liability for the year is £100,000.

- **Requirement for question 2**

You are required to prepare the income and expenditure account for the year to 31 July 2002 and the balance sheet as at 31 July 2002 in the appropriate format. *25*

(Health Service)

3

The following balances have been extracted from the accounts of Tempus NHS Trust at 31 March 2002:

	£000	£000
Income from health authorities & PCTs		97,560
Income from private patients		13,870
Other income		8,700
Salaries and wages	76,300	
Supplies and services	18,650	
Transport expenses	3,560	
Establishment expenses	12,690	
Other expenditure	1,580	
Land at 1 April 2001	21,760	
Buildings at 1 April 2001	53,930	
Equipment at 1 April 2001	13,820	
Donated equipment 2001/02	360	
Accumulated equipment depreciation at 1 April 2001		6,350
Assets in the course of construction at 1 April 2001	8,610	
Stocks as at 31 March 2002	950	
Capital expenditure during year	3,580	
PDC dividends paid	4,860	
Creditors		2,340
NHS debtors	10,840	
Other debtors	1,230	
PDC repaid during the year	1,360	
Cash	60	
Suspense account		1,030
Income and expenditure reserve at 1 April 2001		1,690
Public dividend capital at 1 April 2001		88,660
Donation reserve at 1 April 2001		1,870
Revaluation reserve at 1 April 2001		12,070
	234,140	234,140

In addition you have been given the following information:

(i) £540,000 of the capital expenditure relates to buildings under construction, the remainder to equipment. The money spent on buildings under construction was spent evenly throughout the year. £1,350,000 was spent on equipment in April 2000, £780,000 in May 2001 and the remainder in December 2001.

(ii) Equipment with net book value of £720,000 at the disposal date was disposed of in August 2001. The equipment was originally purchased in February 1996 for £1,600,000. The cash receipt was credited to the suspense account. No other entries have been made. There was a nil balance in the revaluation reserve relating to this asset.

(iii) Indexation is still to be applied. The indices have been issued from the NHS Executive and are as follows:

	1/4/01	**1/4/02**
Land	1.04	1.06
Buildings	1.06	1.07
Equipment	1.05	1.06

(iv) The depreciation for the year is still to be provided. It is the policy of the Trust to depreciate assets in accordance with the capital charges manual as follows:

Buildings: depreciated over 60 years remaining life
Equipment: depreciated over a 10 year standard life

(v) All donated assets as at 1 April 2001 related to buildings.

(vi) Equipment with gross current cost of £360,000 was donated to the Trust in July 2001. Although fixed assets were debited, the credit entry was to the suspense account.

(vii) An accrual for remaining PCD dividends payable is still to be provided. This amounts to £10,000.

- **Requirement for question 3**

Prepare the income and expenditure account for Tempus NHS Trust for the year ended 31 March 2002 together with the balance sheet as at 31 March 2002. *25*

(Housing Associations)

4

The following items make up the trial balance of UK Housing Association on 31 March 2002:

	£000	£000
Turnover		38,500
Operating costs	28,850	
Cash at bank	650	
Interest payable	6,990	
Properties held for letting at cost	325,800	
SHG and other capital grants		195,480
Interest receivable		315
Designated reserves		4,350
Restricted RSF reserve		1,525
Shared ownership property held for letting at cost	8,605	
Motor vehicles at cost	250	
Properties in development at cost	20,135	
Loans		116,570
Offices at cost	4,375	
Office furniture at cost	1,050	
Debtors	2,115	
Share capital		1
Creditors due within one year		3,780
Provisions for liabilities and charges		350
Recycled Capital Grant Fund		1,500
Depreciation of other fixed assets		560
Revenue reserves		35,889
	398,820	398,820

Additional information:

The following items were revealed during the final audit and adjustments now need to be made to the final accounts:

(i) Properties held for letting include ten flats developed in 2000/01 on behalf of another housing association. It is intended to transfer these to the other association in 2002/03. The property cost and SHG held in the books is £600,000 and £400,000 respectively.

(ii) The association increased its long term debt by issuing a 25-year bond on 31 March 2002 which has not been included in the trial balance. The bond (nominal value £2,000,000) was issued at a premium of £250,000.

(iii) £25,000 of interest on a piece of land, bought in the year 2000, had been capitalised. The land has not been developed and the auditors have asked that the interest be charged to revenue.

(iv) An amount of £15,000 housing benefit in respect of rent income is due from a local authority at 31 March 2002.

(v) The maintenance manager has indicated that £45,000 in respect of repair works completed by contractors in March is payable at 31 March 2002. The maintenance department also undertook work for another association in March 2002 to the value of £80,000, for which an invoice has yet to be raised.

(vi) Transactions pertaining to the sale of the previous Chief Executive's car on 30 March 2002 have not been entered in the nominal ledger. The car was purchased three years ago for £16,000 and sold for £5,000. Vehicles are depreciated over four years.

(vii) Properties under development include £1,250,000 in respect of major repairs which are eligible for SHG funding. The grant rate has been calculated at 80% of this expenditure.

(viii) The provisions for liabilities and changes in the trial balance consist of several components. One provision, which had appeared in the accounts at £150,000, had been settled in full during the year for £120,000. The only accounting entries had been to record the payment and to debit the appropriate provision account.

- **Requirement for question 4**

Prepare the income and expenditure account for the UK Housing Association for the year ended 31 March 2002, together with the balance sheet as at that date. *25*

(Local Government)

5 The following balances have been extracted from Owenshire County Council as at the 31 March 2002:

	£000	£000
Net tangible fixed assets	858,121	
Long term debtors	59,432	
Education	397,487	112,459
Social Services	92,146	12,569
Environment	67,252	6,539
Community Development Services	17,915	2,684
Corporate and Support Services	3,339	523
Precepts paid to other public bodies	18,358	
Interest	11,646	14,124
Contributions to earmarked reserves	13,421	
Stock	1,161	
Debtors	30,730	
Short term investments	149,846	
Cash in hand	26,669	
Creditors due within one year		92,697
Long term borrowing		141,737
Provision for liabilities and charges		13,787
Earmarked reserves		28,673
Fixed asset restatement reserve		473,976
Capital financing reserve		275,344
Useable capital receipts		66,136
General fund		17,155
Council tax		184,859
Revenue support grant		152,228
National non-domestic rates		152,033
	1,747,523	1,747,523

The following additional information is also available:

(i) The following transactions relating to the financing of fixed assets for the year have not been accounted for in the trial balance:

During the year buildings, with an estimated life of 20 years, were purchased by the Social Services department. These buildings are to be partially financed by a grant of £3,000,000. The relevant capital charges have been calculated but the grant has not yet been received or accounted for.

Most of the remaining capital expenditure had been financed through borrowing with the balance to be financed as follows:

	£000
Useable Capital Receipts	7,533
Direct Revenue Financing	723

(ii) At the end of the year a package of land was sold by the Education department to a private developer. The land had a net book value of £111,000 and was sold for £120,000 which is still due to the Council. With the exception of the impact on capital charges, no other accounting entries have been made for this sale. The authority has a voluntary policy of setting aside a proportion of capital receipts. This currently stands at 20%.

(iii) Capital charges have been calculated as follows but have not yet been charged to the service departments:

	Depreciation £000	**Notional interest £000**
Education	7,642	38,864
Social Services	4,625	25,358
Environment Services	4,333	8,451
Community Development Services	1,986	6,969
Corporate and Support Services	2,984	1,448

(iv) The council had advances of £367m at the start of the year and an opening balance of reserved capital receipts of £24m

(v) Education owes Environmental Services £53,000 at the end of the year.

- **Requirement for question 5**

(a) Prepare the asset management revenue account for the year ended 31 March 2002. *4*

(b) Prepare the consolidated revenue account for the period ended 31 March 2002. *10*

(c) Prepare the consolidated balance sheet as at 31 March 2002. *11*

(25)

SECTION B (Answer one question)

(Central Government)

6

You are the newly appointed Finance Manager of the Southern Procurement Agency and you have been asked by the parent department to prepare a cash flow statement (in a form suitable for publication) with supporting notes to assist in their planning processes. The Accountancy Assistant has provided you with the following information.

(i) The draft financial statements for the year show an opening credit balance on the income and expenditure reserve of £800,000 and a closing debit balance at 31 March 2002 of £2,900,000.

(ii) Interest payable contained in the creditors was £200,000 on 31 March 2001 and £250,000 on 31 March 2002; the interest charge for the year was £1,150,000. All the investment income due for the year amounting to £300,000 had been received by the year end.

(iii) Short term investments at the beginning and end of the year stood at £3,150,000 and £3,000,000 respectively; during the year investments of £900,000 were realised at cost.

(iv) At the start of the year, the long term loans outstanding stood at £18m; at the year end, the balance was £23m. Loans amounting to £3m had been repaid during 2001/02.

(v) On 31 March 2001 the net book value of buildings and equipment were £10.5m and £3.75m respectively; accumulated depreciation for these fixed assets was £4.5m and £5.25m respectively.

During the year, buildings which had cost £6.75m (accumulated depreciation of £2.25m) were sold for £5.2m. In addition, equipment originally costing £1.5m (accumulated depreciation of £0.9m) was also sold for £0.2m.

On 31 March 2002 buildings and equipment at cost amounted to £17.25m and £10.5m respectively and their net book values were £11.6m and £5.1m respectively.

(vi) Land is revalued annually by the agency, the increase in value for 2001/02 being £400,000. Surplus land owned by the agency had been disposed of during the year for £800,000; its valuation in the books of the agency was £650,000 (cost £450,000). The valuation of land at the beginning and end of the year was £2,250,000 and £2,500,000 respectively.

(vii) At the start of the year, the agency had £100,000 in its bank account. However, by the end of the year, the agency was overdrawn by £600,000.

(viii) At the start of the year, the balances in the accounts for stock, debtors and creditors were £750,000, £300,000 and £600,000 respectively. At the year end, the respective balances were £700,000, £450,000 and £850,000.

(ix) At the beginning of the year the agency's revaluation reserve stood at £1,400,000 and at the end of the year it was £1,600,000. Realised revaluation gains from previous years arising from the disposal of land are credited to the agency's capital reserve which increased from £700,000 to £900,000 during the year.

- **Requirement for question 6**

(a) Prepare the reconciliation of operating surplus/(deficit) to net cash flow from operating activities. *7*

(b) Prepare the cash flow statement for Southern Procurement Agency for the year ended 31 March 2002 in the appropriate format. *10*

(c) Prepare the reconciliation of net cash flow to movement in net debt/funds and an analysis of changes in net debt/funds. *3*

(20)

(Further and Higher Education)

7

As the Financial Accountant of the Northern Region Higher Education College, you have been asked by the Director of Finance to prepare a cash flow statement (in a form suitable for eventual publication) with appropriate supporting notes. The Accountancy Assistant has been able to provide you with the following information.

(i) The draft financial statements for the year show an opening credit balance on the income and expenditure reserve of £800,000 and a closing debit balance at 31 July 2002 of £2,900,000.

(ii) Interest payable contained in the creditors was £200,000 on 31 July 2001 and £250,000 on 31 July 2002; the interest charge for the year was £1,150,000. All the investment income due for the year amounting to £300,000 had been received by the year end.

(iii) The college's tax charge for the year is included in the financial statements as £300,000; the college owed £150,000 for tax on 1 August 2001 and £250,000 on 31 July 2002.

(iv) Short term investments at the beginning and end of the year stood at £3,150,000 and £3,000,000 respectively; during the year investments of £900,000 were realised at cost.

(v) A cash endowment was received during the year of £3m, of which £2m was invested on a long term basis to fund scholarships.

(vi) At the start of the year, the long term loans outstanding stood at £19m; at the year end, the balance was £23m. Loans amounting to £3m had been repaid during 2001/02.

(vii) On 31 July 2001 the net book value of buildings and equipment were £10.5m and £3.75m respectively; accumulated depreciation for these fixed assets was £4.5m and £5.25m respectively.

During the year, buildings which had cost £6.75m (accumulated depreciation of £2.25m) were sold for £5.2m. In addition, equipment originally costing £1.5m (accumulated depreciation of £0.9m) was also sold for £0.2m.

On 31 July 2002 buildings and equipment at cost amounted to £17.25m and £10.5m respectively and their net book values were £11.6m and £5.1m respectively.

(viii) Land is revalued annually by the college, the increase in value for 2001/02 being £400,000. Surplus land owned by the college had been disposed of during the year for £800,000; its valuation in the books of the college was £650,000 (cost £450,000). The valuation of land at the beginning and end of the year was £2,250,000 and £2,500,000 respectively.

(ix) At the start of the year, the college had £100,000 in its bank account. However, by the end of the year, the college was overdrawn by £500,000.

(x) At the start of the year, the balances in the accounts for stock, debtors and creditors (excluding taxation) were £750,000, £300,000 and £600,000 respectively. At the year end, the respective balances were £700,000, £450,000 and £850,000.

(xi) At the beginning of the year the college's revaluation reserve stood at £1,400,000 and at the end of the year it was £1,600,000. Realised revaluation gains from previous years arising from the disposal of land are credited to the college's capital reserve which increased from £700,000 to £900,000 during the year.

- **Requirement for question 7**

(a) Prepare the reconciliation of operating surplus/(deficit) to net cash flow from operating activities. *6*

(b) Prepare the cash flow statement for Northern Region Higher Education College for the year ended 31 July 2002 in the appropriate format. *10*

(c) Prepare the reconciliation of net cash flow to movement in net debt/funds and an analysis of changes in net debt/funds. *4*

(20)

(Health Service)

8

The following balance sheets have been extracted from the accounts of Oakhill NHS Trust for the year ended 31 March 2001 and 2002:

Balance Sheet as at 31 March	**2002**	**2001**
	£000	**£000**
Tangible fixed assets	115,838	103,780
Stocks and work in progress	83	97
Debtors	5,390	6,440
Cash at bank and in hand	523	237
Creditors falling due within one year	(14,580)	(10,710)
Creditors falling due after more than one 1 year	(1,680)	0
Total net assets employed	105,574	99,844
Capital and reserves		
Public dividend capital	100,905	97,075
Revaluation reserve	3,855	2,395
Donation reserve	900	0
Income and expenditure reserve	(86)	374
Total capital and reserves	105,574	99,844

Additional information

(i) An analysis of the income and expenditure account for the year ended March 2001 revealed the following:

	£000
Profit on disposal of fixed assets	40
Interest receivable	80
Interest payable (including finance lease interest)	70
PDC dividends payable	6,970

(ii) The opening and closing values of fixed assets were as follows:

	31 March 2002	**31 March 2001**
	£000	**£000**
Land	25,820	25,350
Buildings	76,140	63,270
Equipment	29,090	27,890
Equipment depreciation	(15,212)	(12,730)
	115,838	103,780

(iii) Revaluation and indexation of fixed assets for 2001/02 were as follows:

	Revaluation/ Indexation £000
Land	470
Buildings	950
Equipment	110
Equipment depreciation	(70)
	1,460

(iv) Additions to and disposals of fixed assets were as follows:

	Additions £000	**Disposals £000**
Buildings	12,490	0
Equipment	2,800	1,710
Equipment depreciation	n/a	(1,368)
	15,290	342

Equipment was financed via a finance lease

(v) Creditors due within one year are analysed as follows:

	31 March 2002 £000	**31 March 2001 £000**
PDC dividends payable	6,970	5,320
Fixed assets	3,770	2,830
Creditors for supplies	3,270	2,560
Finance leases	560	0
Interest	10	0
	14,580	10,710

(vi) The creditor falling due after more than one year relates to the finance lease.

(vii) An analysis of debtors reveals the following:

	31 March 2002 £000	**31 March 2001 £000**
Interest receivable	70	60
Commissioners	5,320	6,380
	5,390	6,440

(viii) PDC of £13,000 was paid back at the end of the year.

- **Requirement for question 8**

(a) Prepare the note reconciling the operating surplus to net cash flow from operating activities. *6*

(b) Prepare the cash flow statement for the year ended 31 March 2002. *10*

(c) Prepare the reconciliation of net cash flow to movement in net debt/funds and an analysis of changes in net debt/funds. *4*

(20)

(Housing Associations)

9

The following information relates to Locus Housing Association:

Balance Sheet as at 31 March	**2002**	**2001**
	£000	**£000**
Fixed assets		
Housing properties	12,500	10,300
Social Housing Grant	(9,600)	(8,500)
Non housing fixed assets	1,250	950
	4,150	2,750
Net current assets	395	430
	4,545	3,180
Creditors falling due after one year	3,450	2,050
Capital and reserves		
Called up share capital	0	0
Designated reserves	195	380
Restricted reserves	430	320
Revenue reserves	470	430
	4,545	3,180

Notes:

(i) Fixed assets comprise:

	31/3/02	**31/3/01**
	£000	**£000**
Housing property held for letting	12,800	10,550
Housing property depreciation	(300)	(250)
Offices at cost	900	850
Office equipment, fixtures & fittings	570	300
Office equipment, fixtures & fittings depreciation	(220)	(200)

A test of impairment during the year required a writing down of the carrying value of the offices by £50,000.

(ii) £2,500,000 of expenditure on major works to housing properties was incurred and capitalised during the year. £1,600,000 of SHG was received against this expenditure. Interest equivalent to 4% of the works cost was also capitalised.

(iii) During the year the association disposed of a housing property for £800,000. The cumulative depreciation charged against this property was £25,000.

(iv) Net current assets comprise:

	31/3/02	**31/3/01**
	£000	**£000**
Debtors	810	490
Cash	190	410
Repayments of loan principal	(100)	(100)
Other creditors	(505)	(370)

(v) Creditors falling due after more than 1 year comprise:

	31/3/02	31/3/01
	£000	£000
Recycled capital grant fund	500	0
Long term loans	2,950	2,050

(vi) £1,000,000 of long term loans were raised on 1 July 2001; the interest rate on these loans was 6%.

(vii) The weighted average interest rate on existing long term loans was 7%. Repayments of loan principal on these loans are due on 30 September each year and are held in short term creditors at the previous year-end.

(viii) The interest receivable on average cash balances was equivalent to 5%.

(ix) Computer equipment with a book value of £20,000 was disposed of during the year for £15,000 and written out of the books. The original cost of the equipment was £25,000.

- **Requirement for question 9**

Prepare a cash flow statement for the Locus Housing Association for the year ended 31 March 2002, together with supporting notes. *20*

(Local Government)

10

The following balance sheets relate to Coleshire County Council for the two years ended 31 March 2001 and 2002:

	2002 £000	2001 £000
Net fixed assets	610,834	565,234
Long term investments	56,433	56,433
Stock	1,358	1,014
Debtors	33,302	31,737
Short term investments	154,585	158,603
Creditors	(60,765)	(67,085)
Bank overdraft	(3,057)	(18,874)
Long term loans	(267,638)	(249,714)
	525,052	477,348
Fixed asset restatement reserve	166,949	145,603
Useable capital receipts	71,822	71,489
Capital financing reserve	269,126	248,821
General fund	17,155	11,435
	525,052	477,348

The following information is also available:

(i) Revenue activities resulted in the following cash flows

	£000
Employees	322,098
Other operating payments	310,389
Interest received	12,257
Council tax	172,363
Revenue support grant	160,037
National non-domestic rates	148,061
Government grants	33,431
Other receipts	131,613

(ii) Notional interest for the year was calculated to be £18,624,000; the depreciation charge was £6,281,000 and the transfer from the asset management revenue account resulted in a credit in the consolidated revenue account of £6,544,000.

(iii) The council's MRP requirement has been calculated as £10,840,000.

(iv) Direct revenue financing during the year was determined to be £4,864,000. The balance of capital expenditure was financed from credit approvals and capital receipts. Capital receipts of £6,396,000 were applied during the year.

(v) The council has a voluntary policy of reserving 40% of capital receipts.

- **Requirement for question 10**

(a) Prepare a reconciliation of net surplus/(deficit) to net cash flow from revenue activities. *6*

(b) Prepare a cash flow statement for Coleshire County Council for the year ended 31 March 2002 in the appropriate format. *10*

(c) Prepare a reconciliation of net cash flow to movement in net debt/funds and an analysis of changes in net debt/funds. *4*

(20)

SECTION C (Compulsory)

11

All public sector organisations that prepare financial statements are required to select accounting policies that are appropriate to their circumstances, reasonable and consistently applied. Their choice of policy may, however, be constrained by certain factors, including legislation, regulation, UK GAAP and basic accounting principles.

- **Requirement for question 11**

(a) With reference to your chosen sector, give examples of specific constraints that apply to the choice of an entity's accounting policies. *4*

(b) Define and explain the applicability of the fundamental concepts of:

(i) going concern; and
(ii) accruals (or matching) *8*

to entities within your chosen sector.

(c) Explain some of the difficulties of applying accounting standards, which have been primarily developed for use in the private sector, to entities within your chosen sector. Refer to specific accounting standards where appropriate. *3*

(15)

Note: You must state the specific sector (Central Government, Further and Higher Education, Health Service, Housing Associations or Local Government) that your answer relates to at the beginning of your answer to this question.

SECTION D (Compulsory)

12

The balance sheets of Wye plc, Exe plc and Dee plc at 30 September 2002 are as follows:

	Wye plc	**Exe plc**	**Dee plc**
	£m	**£m**	**£m**
Tangible fixed assets	1,100	1,000	500
Investments	1,000	0	0
Net current assets	200	350	100
Creditors > one year (8% debentures)	0	(200)	0
	2,300	1,150	600
Share capital	500	400	200
Reserves	1,800	750	400
	2,300	1,150	600

Additional information:

(i) The share capital of the three companies is as follows:

	Wye plc	**Exe plc**	**Dee plc**
	£m	**£m**	**£m**
Ordinary shares £1 each	500	300	0
Ordinary shares 50p each	0	0	200
5% preference shares £1 each	0	100	0

The share capital of each company has remained unchanged since incorporation.

(ii) The reserves consist of:

	Wye plc	**Exe plc**	**Dee plc**
	£m	**£m**	**£m**
Share premium account	500	150	100
Revaluation reserve	300	0	100
Profit and loss account	1,000	600	200

The share premium account for each company arose when the ordinary shares were issued.

(iii) The investments of Wye plc include £700m which relates to 200m ordinary shares, 40m preference shares and £50m debentures in Exe plc which were acquired on 1 October 1992 (the preference shares and debentures were acquired at nominal value). At that date Exe plc's profit and loss account stood at £120m and the fair value of its tangible fixed assets was £90m more than their book value. These assets had an expected economic life of 30 years from 1 October 1992.

(iv) The investments of Wye plc also include £300m which relates to 160m of the 50p shares in Dee plc which were acquired on 1 October 1997. At that date Dee plc's revaluation reserve and profit and loss account stood at £50m and £100m, respectively.

(v) No interim dividends for the year ended 30 September 2002 have been paid by Exe plc or Dee plc. The net current assets of Exe plc and Dee plc include proposed dividends of £65m and £40m, respectively. Wye plc does not accrue dividends receivable.

(vi) Wye plc amortises goodwill over 20 years.

(vii) At 30 September 2002 Wye plc's stocks include goods which it had purchased from Exe plc for £150m. Exe plc includes a profit margin of 40% on the selling prices of its goods.

- **Requirement for question 12**

(a) Prepare the consolidated balance sheet for the Wye plc group as at 30 September 2002. *16*

(b) Contrast the accounting treatment for the consolidation of Exe plc and Dee plc. *4*

(20)

SECTION E (Answer one question)

13

Cakewell, Bunchester and Gattox are three broadly similar public sector organisations who all operate in the south west of England. These organisations are considered to be comparable and share information about the performance of their Payroll functions.

A new Payroll Manager has recently joined Cakewell from a private sector organisation where ratios were used to measure the organisation's performance. He has been invited to a regional meeting for Payroll Managers where Value For Money and performance are to be discussed. Before attending the meeting he wants to gain an understanding of how the public sector is required to assess its performance, and in particular, to establish how Cakewell's Payroll function is performing in comparison to other similar organisations. The fundamental aim of the Payroll function is to pay the correct amounts to staff each month.

The Payroll Manager has found a Payroll Performance file which contained the following performance information for the year ended 31 March 2002 for Bunchester and Gattox, some national averages for public sector organisations together with some details from a private sector company:

Ref		Bunchester	Gattox	National average	Private sector Co.
	Number of employees :				
	Weekly paid	0	0		
	Monthly paid	1,000	500		
	Number of payroll staff	4	3		
	Average number of errors per month	40	1		
	Percentage of errors corrected in month	100%	0%		
	Annual payroll staff salaries	70,000	52,500		
	Annual cost of payroll function	£275,000	£145,000		
	Number of cheque payments per month	40	0		
	Number of BACS payments per month	1,000	500		
	Number of payslips per month	1,000	500		
Performance measures					
P1	Average cost of a payroll officer	£17,500	£17,500	£16,500	£25,000
P2	% payroll staff costs/payroll costs	25.45%	36.21%	30.00%	20.83%
P3	Cost per payslip	£22.92	£24.17	£22.50	£20.00
P4	Cost per employee	£275	£290	£285	£240
P5	Error rate	4.00%	0.20%	2.00%	0.00%

In addition, he has provided you with the following information for Cakewell for the past two years:

	Year ended 31/3/02	**Year ended 31/03/01**
Number of employees :		
Weekly paid	500	495
Monthly paid	1,000	1,010
Number of payroll staff	10	10
Average number of errors per month	150	140
% errors corrected in month	90%	75%
Annual payroll staff salaries	£150,000	£143,750
Annual cost of payroll function	£450,000	£441,200
Number of cheque payments per month	2,135	2,085
Number of BACS payments per month	1,000	1,010
Number of payslips per month	3,000	2,990

- **Requirement for question 13**

As the Payroll Manager's Service Accountant, you are required to produce a briefing note for the Payroll Manager which:

(a) Explains why a Value For Money (VFM) assessment of performance is more valid in the public sector than the use of ratio analysis. *2*

(b) Defines the three elements of VFM and uses the above information (where appropriate) to illustrate how each element could be measured/demonstrated. *6*

(c) Uses the above information to make comparisons and draw relevant conclusions regarding Cakewell's performance. *9*

(d) From your comparisons, suggests areas where further information or investigation may prove beneficial to the performance of Cakewell's Payroll function. *3*

(20)

14

Whilst the accounts of commercial organisations are normally prepared on a similar basis to each other, those produced within the public sector show wide variations.

- **Requirement for question 14**

(a) Identify the key organisations responsible for defining accounting regulation within the public and private sectors, and briefly explain their role. *6*

(b) Identify the key differences in the emphasis of the financial reporting statements between the private sector and the public sector. Discuss why these differences arise. *6*

(c) Discuss the similarities and differences in capital accounting between different public sector organisations. *8*

(20)