FINANCIAL REPORTING AND ACCOUNTABILITY

Professional 2 examination
6 December 2001

From 10.00 am to 1.00 pm
plus 10 minutes reading time from 9.50 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 answers 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.

CIPFA

SECTION A (Answer one question)

1

(Central Government)

Jordanstown Stationery Office is a trading fund that prepares its financial statements to 31 March each year. The balance sheets of Jordanstown Stationery Office as at 31 March 2000 and 31 March 2001 are presented below.

Jordanstown Stationery Office
Balance Sheet as at 31 March

	2001		2000	
	£000	£000	£000	£000
Tangible fixed assets:				
Buildings - cost	9,152		6,592	
Buildings - accumulated depreciation	(2,752)	6,400	(2,112)	4,480
Plant and equipment - cost	4,032		3,648	
Plant and equipment - accumulated depreciation	(2,112)	1,920	(1,984)	1,664
		8,320		6,144
Current assets:				
Stocks	1,184		1,312	
Trade debtors	1,888		928	
Investments	1,920		-	
Bank and cash	1,952		960	
	6,944		3,200	
Creditors – amounts falling due within one year:				
Bank overdraft	-		(320)	
Trade creditors	(878)		(1,152)	
Other creditors	(50)		-	
Interest	(38)		(32)	
	(966)		(1,504)	
		5,978		1,696
Creditors – amounts falling due after more than one year:				
Long-term loan		(3,840)		-
		10,458		7,840
Financed by:				
Income and expenditure account		10,458		7,840

Additional Information:

1. Jordanstown Stationery Office received investment income amounting to £34,000 during the year ended 31 March 2001, and paid interest of £423,000 during the same period.

2. During the year ended 31 March 2001, all additions to buildings were paid for in cash, while £50,000 in respect of additions to plant and equipment remained unpaid at 31 March 2001. This latter amount is shown as other creditors on the balance sheet.

3. Buildings with a book value of £1,920,000, originally costing £3,200,000, were sold during the year ended 31 March 2001. This resulted in an accounting profit of £320,000. Plant and equipment with a book value of £192,000, originally costing £640,000, was sold during the year ended 31 March 2001 at a book loss of £64,000.

4. The current asset investment relates to a six-month term deposit maturing on 1 June 2001.

5. The long-term loan relates to advances from the parent department taken out on 1 April 2000. The principal is repayable at the end of 10 years with interest being paid monthly in arrears.

- **Requirement for question 1**

(a) Prepare a reconciliation of operating surplus/(deficit) to net cash flow from operating activities; *8*

(b) Prepare a cash flow statement for Jordanstown Stationery Office for the year ended 31 March 2001 in accordance with FRS 1 (Revised 1996) *Cash Flow Statements* and the required practice for off-Vote Executive Agencies; *7*

(c) Prepare a reconciliation of net cash flow to movement in net debt/funds and an analysis of changes in net debt/funds; *5*

(d) What are the main issues that a user of the financial statements would glean from the statement produced above? *5*

(25)

2 (Further and Higher Education)

The balance sheets of Jordanstown College for the last two financial years are as follows:

Jordanstown College
Balance Sheet as at 31 July

	2001		2000	
Tangible fixed assets:	**£000**	**£000**	**£000**	**£000**
Land - valuation		12,000		11,750
Buildings - valuation	9,152		6,592	
Buildings - accumulated depreciation	(2,752)	6,400	(2,112)	4,480
Plant and equipment - cost	4,032		3,648	
Plant and equipment - accumulated depreciation	(2,112)	1,920	(1,984)	1,664
		20,320		17,894
Endowment asset investments:		1,200		-
Current assets:				
Stocks	1,184		1,312	
Trade debtors	1,888		928	
Investments	1,920		1,000	
Bank and cash	2,032		960	
	7,024		4,200	
Creditors – amounts falling due within one year:				
Bank overdraft	-		(320)	
Creditors	(656)		(976)	
Taxation	(272)		(176)	
Accrued interest (long term loans)	(96)		(32)	
	(1,024)		(1,504)	
Net current assets		6,000		2,696
Creditors – amounts falling due after more than one year:				
Long term loans		(3,840)		(1,000)
		23,680		19,590
Financed by:				
Endowments – specific		1,280		-
Revaluation reserve		11,300		10,750
Income and expenditure account		11,100		8,840
		23,680		19,590

Additional Information:

1. As part of its cash flow management Jordanstown College borrows short-term loans to minimise interest payable on its overdraft and it makes short term investments to generate interest when it has cash surpluses. During the year 2000/01 the College received investment income amounting to £346,000 and paid interest of £474,000 (which includes interest paid on long term loans). It also paid corporation tax of £178,000 during 2000/01 to Inland Revenue in respect of its wholly owned companies.

2. During the year ended 31 July 2001, all additions to buildings were paid for in cash, while £50,000 in respect of additions to plant and equipment remained unpaid at 31 July 2001. This latter amount is included within creditors on the balance sheet.

3. Buildings with a book value of £1,820,000, originally costing £3,200,000, were sold during the year ended 31 July 2001. This resulted in a profit of £320,000. Plant and equipment with a book value of £190,000, originally costing £640,000, was sold during the year ended 31 July 2001 at a loss of £64,000.

4. There were no acquisitions or disposals of land during 2000/01.

5. The current asset investment relates to a six-month term deposit maturing on 1 October 2001.

6. The bank balance as at 31 July 2001 contains £80,000 which was received in respect of endowment assets and was pending investment.

- **Requirement for question 2**

(a) Prepare a reconciliation of operating surplus/(deficit) to net cash flow from operating activities; *8*

(b) Prepare a cash flow statement for Jordanstown College for the year ended 31 July 2001 in the appropriate format; *9*

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

(d) What are the main issues that a user of the financial statements would glean from the statements produced above? *4*

(25)

3 (Health Service)

Jordanstown NHS Trust prepares its financial statements to 31 March each year. The balance sheets of Jordanstown NHS Trust as at 31 March 2000 and 31 March 2001 are presented below.

Jordanstown NHS Trust
Balance Sheet as at 31 March

	2001		2000	
	£000	£000	£000	£000
Tangible fixed assets:				
Land and buildings		25,360		23,440
Plant and equipment		3,200		1,664
		28,560		25,104
Current assets:				
Stocks and work in progress	1,184		1,312	
Debtors (operating)	1,888		928	
Cash	2,924		960	
Creditors - amounts falling due within one year:				
NHS creditors (operating)	(924)		(1,134)	
Other creditors	(50)		-	
Bank overdraft	-	5,022	(320)	1,746
Creditors - amounts falling due after more than one year:				
Provisions for liabilities and charges		(50)		(50)
		33,532		26,800
Financed by:				
Public dividend capital		21,852		18,960
Revaluation Reserve		7,000		7,000
Income and expenditure account		3,400		840
Donation reserve		1,280		0
		33,532		26,800

Additional Information:

1. The Trust owns land with a book value of £18,960,000.

2. Buildings with a net book value of £1,920,000, and an opening gross current cost of £3,200,000, were sold during the year ended 31 March 2001. This resulted in an accounting profit of £320,000. Plant and equipment with a net book value of £192,000 and opening gross current cost of £640,000 were sold during the year ended 31 March 2001 at a loss of £64,000.

3. During the year to 31 March 2001, all additions to buildings were paid for in cash, while £50,000 in respect of additions to plant and equipment remained unpaid at the year-end. This latter amount is shown as other creditors on the balance sheet.

4. Accumulated depreciation on buildings was £2,112,000 at 31 March 2000 and £2,752,000 at 31 March 2001. Accumulated depreciation on equipment was £1,984,000 at 31 March 2000 and £2,112,000 at 31 March 2001.

5. There were no revaluations or indexations of fixed assets during the 2000/2001 financial year.

6. During the year the Trust received bank interest of £346,000 and paid dividends of £474,000.

7. A scanner costing £1,280,000 was donated to the Trust on 27 March 2001.

8. The External Financing Limit for the financial year was set at £700,000.

- **Requirement for question 3**

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

(b) Prepare a cash flow statement for Jordanstown NHS Trust for the year ended 31 March 2001 in accordance with FRS 1 (Revised 1996) *Cash Flow Statements*; *9*

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

(d) Explain what the External Financing Limit (EFL) is and what it represents. Comment on whether Jordanstown NHS Trust has met its EFL or not for the 2000/2001 financial year. *6*

(25)

4 (Housing Associations)

The balance sheets of Jordanstown Housing Association for the last two financial years are as follows:

Jordanstown Housing Association
Balance Sheet as at 31 March

	2001		2000	
Tangible fixed assets:	**£000**	**£000**	**£000**	**£000**
Land - valuation		12,600		12,000
Housing properties - cost	11,152		8,592	
Housing properties - accumulated depreciation	(2,752)	8,400	(2,612)	5,980
Social housing grant (SHG)		(4,830)		(3,170)
Plant and equipment - cost	4,032		3,648	
Plant and equipment - accumulated depreciation	(2,112)	1,920	(1,984)	1,664
		18,090		16,474
Current assets:				
Stocks	1,184		1,412	
Debtors	1,888		1,388	
Investments	1,920		1,400	
Bank and cash	1,952		-	
	6,944		4,200	
Creditors – amounts falling due within one year:				
Bank overdraft	-		(320)	
Creditors	(928)		(1,152)	
Accrued interest (long term loans)	(96)		(32)	
	(1,024)		(1,504)	
Net current assets		5,920		2,696
Creditors – amounts falling due after more than one year:				
Long-term loan		(9,650)		(7,400)
Provisions		(150)		(100)
		14,210		11,670
Financed by:				
Share capital		10		10
Revaluation reserve		3,950		3,100
Designated reserves		720		580
Restricted reserves		670		240
Revenue reserve		8,860		7,740
		14,210		11,670

Additional Information:

1. As part of its cash flow management Jordanstown Housing Association borrows short term loans to minimise interest payable on its overdraft and it makes short term investments to generate interest when it has cash surpluses. During the year 2000/01 the Association received investment income amounting to £346,000 and paid interest of £874,000 (which includes interest payable on long term loans).

2. During the financial year 2000/01, all additions to fixed assets were paid for in cash, except for £50,000 in respect of additions to plant and equipment which remained unpaid at 31 March 2001 and was included among creditors in the balance sheet.

3. Housing properties with a book value of £820,000, originally costing £1,200,000, were sold during the year ended 31 March 2001. This transaction necessitated the repayment of £270,000 to the Housing Corporation in respect of SHG; it also resulted in a profit of £320,000. Plant and equipment with a book value of £152,000, originally costing £340,000, was sold during the year ended 31 March 2001 at a book loss of £64,000.

4. There were no acquisitions of land during the year. The Association made a profit of £50,000 on the disposal of land.

5. Changes in designated and restricted reserves took place via the income and expenditure account.

6. The current asset investment relates to a six-month term deposit maturing on 1 June 2001.

- **Requirement for question 4**

(a) Prepare a reconciliation of operating surplus/(deficit) to net cash flow from operating activities; *9*

(b) Prepare a cash flow statement for Jordanstown Housing Association for the year ended 31 March 2001 in the appropriate format; *9*

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

(d) What are the main issues that a user of the financial statements would glean from the statements produced above? *4*

(25)

5 **(Local Government)**

Jordanstown County Council prepares its financial statements to 31 March each year. The balance sheets of Jordanstown County Council as at 31 March 2000 and 31 March 2001 are presented below.

Jordanstown County Council
Balance Sheet as at 31 March

	2001		2000	
	£000	£000	£000	£000
Net Fixed Assets		7,600		6,144
Current assets:				
Stocks and works in progress	1,184		1,312	
Debtors	888		928	
Investments	520		-	
Bank and cash	1,052		960	
Current liabilities:	(1,024)		(1,504)	
		2,620		1,696
Long term borrowing:		(3,840)		(3,672)
		6,380		4,168
Fund Balances and Reserves:				
Fixed Asset Restatement Reserve		1,904		2,797
Usable Capital Receipts		159		434
Capital Financing Reserve		3,178		1,067
General fund		1,139		(130)
		6,380		4,168

Additional information

1. During the year ended 31 March 2001 Jordanstown County Council received and made the following cash payments:

Receipts:	Precepts	£5,802,000
	Grants	£4,100,000
	Interest	£16,000
Payments:	To and on behalf of employees	£4,836,000
	Other costs	£3,100,000

2. Notional interest for 2000/2001 was calculated as £456,000, depreciation was £190,000 and the AMRA adjustment was a credit to the Consolidated Revenue Account of £132,000.

3. Internal financing consisted of £1,600,000 from usable capital receipts and £549,000 from revenue.

4. The MRP for the year has been calculated as £152,000.

- **Requirement for question 5**

(a) Prepare a reconciliation of net surplus/(deficit) to net cash flow from revenue activities; *8*

(b) Prepare a cash flow statement for Jordanstown County Council for the year ended 31 March 2001 in the appropriate format; *9*

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

(d) What are the main issues that a user of the financial statements would glean from the statements produced above? *4*

(25)

SECTION B (Answer one question)

6

(Central Government)

You have recently been appointed as Financial Accountant to Foyle Agency, an on-Vote agency of the Department of Specialised Construction. One of your duties is to assist in the preparation of the financial statements for the year ended 31 March 2001 but there are a number issues still to be resolved before these can be finalised.

Issue 1:

It has recently been discovered that creditors amounting to £150,000 had not been taken into account in producing the financial statements in respect of the year ended 31 March 2000.

Issue 2:

Towards the end of the financial year, the final equipment for a new printing press was installed. The value of this equipment was £250,000 and it was available for use on 12 March 2001. The Agency's policy on depreciation is to charge acquisitions pro-rata for each full month they were held. The only entries which have been made in the general ledger are:

DR	Suspense Account	£250,000
CR	Creditors	£250,000

Issue 3:

Foyle Agency has had use of a new computerised job monitoring system for all of the financial year which ended on 31 March 2001. The system which has a fair value of £500,000 was obtained under a finance lease arrangement. The lease term is 10 years and the annual lease payment is £70,000 per year in arrears. The invoice for the first annual payment has just been paid but no accounting entries for the finance lease have yet been made.

Issue 4:

The following information has come to light:

- £80,000 of income recorded in the accounts will not now be received from the debtor in question.
- Following an aged debt analysis of other trade debtors it has been decided that a total of £60,000 of this income is unlikely to be received.
- A claim for negligence has been made against the Agency relating to a road traffic accident which occurred in the 2000/2001 financial year involving one of the Agency's cars. Legal advice is that the Agency will very probably be found liable and the expected value of the final settlement is £350,000.

Issue 5:

In mid-June 2000, a piece of technical equipment valued at £130,000 was donated to the Agency by a scientific foundation with which the Agency had collaborated on a project. This equipment has been in use since then and has a remaining expected life of 5 years with no residual value. No accounting entries have yet been made. There has been no material change since June in the valuation index for this type of equipment

- **Requirement for question 6**

You are required to produce a memorandum to the Director of Finance which explains how each of the above issues should be dealt with in the accounts. *20*

Note:
The explanation should include reference to relevant accounting standards or Treasury guidance and should state any assumptions made.

7 (Further and Higher Education)

You have recently been appointed as Financial Accountant in Foyle University and one of your duties is to assist in the completion of the final accounts for the year ended 31 July 2001. This task can be completed once the following issues have been resolved.

Issue 1:

It has recently been discovered that creditors amounting to £150,000 had not been taken into account in producing the financial statements in respect of the year ended 31 July 2000.

Issue 2:

Towards the end of the financial year, the last of the equipment for the new e-learning unit was installed. The value of this equipment was £250,000 and it was available for use on 12 July 2001. The only entries which have been made in the general ledger are:

DR	Suspense Account	£250,000
CR	Creditors	£250,000

Issue 3:

Foyle University has had use of a new computerised system in the Astrophysics Department for all of the financial year which ended on 31 July 2001. The system which has a fair value of £500,000 was obtained under a finance lease arrangement. The lease term is 10 years and the annual lease payment is £70,000 per year in arrears. The invoice for the first annual payment has just been paid, the accounting entries being:

DR	Suspense Account	£70,000
CR	Bank	£70,000

Issue 4:

The following information has come to light:

- £80,000 of income recorded in the accounts will not now be received from the Funding Council;
- Following an aged debt analysis of foreign students fees, it has been decided that a total of £60,000 of this income is unlikely to be received;
- A claim for unfair dismissal has been received by the University following the closure of a small specialist academic department which occurred in the year ended 31 July 2001. The expected value of the final settlement of this claim will probably be in the order of £350,000.

Issue 5:

In October 2000, chemical analysis equipment valued at £130,000 was donated to the Chemistry Department by a pharmaceutical company. This equipment has been in use since that date and has an expected life of 5 years with no residual value. No accounting entries have yet been made.

- **Requirement for question 7**

You are required to produce a memorandum to the Director of Finance which explains how each of the above issues should be dealt with in the accounts for the year ended 31 July 2001. *20*

Note:
Your explanation should include reference to relevant accounting standards or other specific accounting guidance. State any assumptions made.

8 **(Health Service)**

You have recently been appointed as Financial Accountant in Foyle NHS Trust and one of your duties is to assist in the completion of the final accounts for the year ended 31 March 2001. This task can be completed once the following issues have been resolved.

Issue 1:

It has recently been discovered that creditors amounting to £150,000 had not been taken into account in producing the financial statements in respect of the year ended 31 March 2000.

Issue 2:

Towards the end of the financial year, the final equipment for a new operating theatre was installed. The value of this equipment was £250,000 and it was available for use on 12 March 2001. The only entries which have been made in the general ledger are:

DR	Suspense Account	£250,000
CR	Creditors	£250,000

Issue 3:

Foyle NHS Trust has had use of a new computerised pathology system for all of the financial year which ended on 31 March 2001. The system which has a fair value of £500,000 was obtained under a finance lease arrangement. The lease term is 10 years and the annual lease payment is £70,000 per year in arrears. The invoice for the first annual payment has just been paid but no accounting entries for the finance lease have yet been made.

Issue 4:

The following information has come to light:

- £80,000 of income recorded in the accounts will not now be received from the local Health Authority;
- Following an aged debt analysis of private patient income, it has been decided that a total of £60,000 of this income is unlikely to be received;
- A clinical negligence claim has been received by the Trust relating to an operation which occurred in the 2000/2001 financial year. The expected value of the final settlement is £350,000.

Issue 5:

In June 2000, a piece of medical equipment valued at £130,000 was donated to the Trust by a local charity. This equipment has been in use since that date and has an expected life of 5 years with no residual value. No accounting entries have yet been made.

- **Requirement for question 8**

You are required to produce a memorandum to the Director of Finance which explains how each of the above issues should be dealt with in the accounts. *20*

Note:
The explanation should include reference to relevant accounting standards or NHS guidance and should state any assumptions made.

9 **(Housing Associations)**

You have recently been appointed as Financial Accountant in Foyle Housing Association and one of your duties is to assist in the completion of the final accounts for the year ended 31 March 2001. This task can be completed once the following issues have been resolved.

Issue 1:

It has recently been discovered that creditors amounting to £150,000 had not been taken into account in producing the financial statements in respect of the year ended 31 March 2000.

Issue 2:

Towards the end of the financial year, the last of the alarm equipment for the sheltered housing units was installed. The value of this equipment was £250,000 and it was available for use on 12 March 2001. The only entries which have been made in the general ledger are:

DR	Suspense Account	£250,000
CR	Creditors	£250,000

Issue 3:

Foyle Housing Association has had use of a new computerised system for scheduling and costing in the Property Maintenance Unit for all of the financial year which ended on 31 March 2001. The system which has a fair value of £500,000 was obtained under a finance lease arrangement. The lease term is 10 years and the annual lease payment is £70,000 per year in arrears. The invoice for the first annual payment has just been paid, the accounting entries being:

DR	Suspense Account	£70,000
CR	Bank	£70,000

Issue 4:

The following information has come to light:

- £80,000 of income recorded in the accounts will not now be received from joint financing agencies;
- Following an aged debt analysis of rents, it has been decided that a total of £60,000 of this income is unlikely to be received;
- A claim for negligence has been received by the Housing Association following the injuries sustained by tenants after the collapse of a load-bearing wall following repairs by the Property Maintenance Unit. This occurred in the 2000/2001 financial year and the expected value of the final settlement of this claim will probably be in the order of £350,000.

Issue 5:

In July 2000, Foyle Housing Association took delivery of equipment valued at £130,000 which had been financed by a grant from a national charity. This equipment has been in use since that date and has an expected life of 5 years with no residual value. No accounting entries have yet been made.

- **Requirement for question 9**

You are required to produce a memorandum to the Director of Finance which explains how each of the above issues should be dealt with in the accounts for the year ended 31 March 2001. *20*

Note:
Your explanation should include reference to relevant accounting standards or other specific accounting guidance. State any assumptions made.

10 (Local Government)

You have recently been appointed as Financial Accountant in Foyle District Council and one of your duties is to assist in the completion of the final accounts for the year ended 31 March 2001. This task can be completed once the following issues have been resolved.

Issue 1:

It has recently been discovered that creditors amounting to £150,000 had not been taken into account in producing the financial statements in respect of the year ended 31 March 2000.

Issue 2:

Towards the end of the financial year computer equipment for a new rent system to be financed from capital receipts was installed. The value of this equipment was £250,000 and it was available for use on 12 March 2001. The only entries which have been made in the general ledger are:

DR	Suspense Account	£250,000
CR	Creditors	£250,000

Issue 3:

Foyle District Council has had use of new reprographics equipment for all of the financial year which ended on 31 March 2001. The system which has a fair value of £500,000 was obtained under a finance lease arrangement. The lease term is 10 years and the annual lease payment is £70,000 per year in arrears. The invoice for the first annual payment has just been paid with a corresponding entry in a suspense account but no other accounting entries for the finance lease have yet been made.

Issue 4:

A claim of £350,000 has been received by the Council relating to an old age pensioner who tripped up on Council premises during 2000/2001. It is likely that the claim will be settled in full.

Issue 5:

During the year ended 31 March 2001 the Council sold council house stock under the 'right to buy' legislation with a book value of £1 million. The sale generated £1.5 million in cash. No accounting entries have been made to reflect this.

- **Requirement for question 10**

You are required to produce a memorandum to the Director of Finance which explains how each of the above issues should be dealt with in the accounts. *20*

Note:
The explanation should include reference to relevant accounting standards or Local Authority Guidance and should state any assumptions made.

SECTION C (Compulsory)

11 In recent years performance indicators and measures have become increasingly important as a means of ensuring accountability for the stewardship of resources in the public sector.

- **Requirement for question 11**

(a) Distinguish between performance measures and performance indicators. What uses, both internal and external, can they be put to?; *5*

(b) Discuss the ways in which performance indicators/measures complement traditional methods of demonstrating accountability; *4*

(c) Describe, briefly, the arrangements within your sector for the setting, validation and reporting of performance indicators/measures. *6*

(15)

Note:

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

SECTION D (Compulsory)

12

The individual company balance sheets as at 30 June 2001 of F plc, R Ltd and A Ltd are presented below.

Balance sheet as at 30 June 2001

	F plc	R Ltd	A Ltd
	£m	£m	£m
Tangible fixed assets	653	340	360
Investments – shares in R Ltd at cost	597	-	-
Investments – shares in A Ltd at cost	500	-	-
Stock	290	230	180
Trade debtors	140	200	190
Current account with A Ltd	5	-	-
Dividends receivable	125	-	-
Bank and cash	80	10	10
Trade creditors	(104)	(60)	(158)
Current account with F Ltd	-	-	(2)
Proposed dividends	(96)	(60)	(80)
	2,190	660	500
Capital and reserves:			
£1 ordinary shares	750	300	200
Profit and loss account	1,440	360	300
	2,190	660	500

Additional Information

(i) On 1 July 1996 F plc purchased 225 million ordinary shares in R Ltd for £597 million. On this date the profit and loss account of R Ltd stood at £240 million and tangible fixed assets with a remaining useful life of 10 years were recorded at £64 million less than their fair value.

(ii) On 1 July 2000 F plc purchased all of the share capital of A Ltd for £500 million. On this date the profit and loss account of A Ltd stood at £270 million and the net assets had a fair value which was the same as their book value.

(iii) R Ltd sold goods to F plc during the year ended 30 June 2001 at an invoice price of £20 million. R Ltd included a profit margin of 40 per cent on these goods which were paid for on delivery. One half of these goods was still in the stock of F plc at 30 June 2001.

(iv) On 29 June 2001 A Ltd sent a cheque for £3 million to F plc that was not received until 2 July 2001.

(v) It is group policy to amortise goodwill arising on consolidation over a period of ten years on a straight-line basis. It is also group policy to charge a full year's depreciation and amortisation in the year of acquisition.

- **Requirement for question 12**

Prepare the consolidated balance sheet of F plc group as at 30 June 2001. (All workings should be clearly shown.) *20*

SECTION E (Answer one question)

13 FRS 15 *Tangible Fixed Assets* was issued in February 1999, marking the culmination, for the time being, of a lengthy debate on this very significant area.

- **Requirement for question 13**

(a) Discuss the main changes introduced by FRS 15 and the impact these are likely to have on public sector organisations. *8*

(b) The following valuation bases are detailed in the Chartered Surveyors' Practice Statements:

- Open market value
- Existing use value
- Open market value for alternative use
- Depreciated replacement cost
- Value to the business

Explain what is meant by each of the five bases and give examples of when these might be used within public sector organisations. *10*

(c) What are the reasons for capital charges being applied within some public sector organisations such as the NHS and Local Government? *2*

(20)

14

It is not unusual for practices that originate in the private sector to be applied to the public sector. However, the slavish following of private sector principles by the public sector is often inappropriate because of fundamental differences between the two sectors.

- **Requirement for question 14**

Discuss this view in relation to the application of the principles of corporate governance to the public sector.

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