

FINANCIAL AND PERFORMANCE REPORTING REPUBLIC OF IRELAND

**Diploma stage examination
6 December 2005**

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

Instructions to candidates

*Answer **five** questions in total: **Two** questions from **Section A**, and **three** questions from **Section B**. The marks available for each question are shown in italics in the right-hand margin.*

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

Formula sheets, 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.

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



SECTION A (Compulsory)

1

The following balances have been extracted from the trial balance of Lakeshore Town Council at 31/12/04.

	€000	€000
Land @ 1/1/04	10,754	
Buildings @ 1/1/04	11,364	
Housing @ 1/1/04	98,612	
Plant and machinery @ 1/1/04	1,281	
Work-In-Progress & preliminary expenses	12,329	
Long term debtors	7,433	
Stock	875	
Debtors	6,532	
Prepayments	310	
Cash in hand	757	
Bank Investment	5,300	
Creditors and accruals		4,287
Bank overdraft		3,600
Long term loans payable		15,220
Capitalisation account		122,011
General revenue reserve		23,722
Provision for bad and doubtful debts		72
Goods and services		8,413
Grants and subsidies		12,571
Local Government Fund – general purpose grant		11,266
Finance lease		64
Rates		2,782
Payroll expenses	10,314	
Operational expenses	11,625	
Establishment expenses	1,683	
Administration expenses	1,612	
Financial expenses	1,637	
Miscellaneous expenses	145	
Non-mortgage loan payment	1,500	
Suspense a/c		55
Other balances	20,000	
	<u>204,063</u>	<u>204,063</u>

Additional information

1. The Suspense account is made up of:

a. Finance Lease Payment - €20,000.

Last year, a Building was purchased using a Finance Lease. The fair value of the property was €80,000. The lease is to be paid over a 5 year period with annual payments in arrears of €20,000. Finance charges are apportioned on a straight-line basis. The finance lease payment for this year has been credited to the bank account, but the corresponding entry has not yet been recorded.

b. Cash proceeds from disposal of Fixed Assets - €75,000

During the year, machinery with a Net Book Value of €75,000 was disposed of. The suspense account represents the cash proceeds, which have been lodged to the bank, but the corresponding entry has not yet been recorded.

2. Depreciation is to be charged as follows:

Land – nil
Buildings – 2% reducing balance
Housing – 3% reducing balance
Plant & machinery – 10% reducing balance

Assets are depreciated in the year of purchase, but not in the year of sale.

3. A provision for Bad Debts is to be made for 6% of Commercial debtors. The debtors figure is broken down as follows:

Government debtors -	€4,820,000
Commercial debtors -	€1,234,000
Non-commercial debtors -	€ 478,000

4. During the year Buildit Ltd took a claim against the council, for prohibiting building work that had been previously given planning permission. The council's legal representatives feel that it is likely that the claim will be successful and the estimated costs will be €1,000,000.
5. The non-mortgage loan payment is broken down into Principal €1,000,000 and Interest €500,000.
6. The following have yet to be accounted for:
- a. Back dated pay awards due but will not be paid until June next year €890,000
 - b. Cherrywood Ltd., a furniture manufacturing company, has become bankrupt. Payment for services of €80,000 are outstanding and have been deemed to be unrecoverable.

• Requirement for question 1

Prepare the Income and Expenditure and Balance Sheet for Lakeshore Council on the basis of the Code of Practice and Accounting Regulations issued by the Department of Environment, Heritage and Local Government, for the year ending 31/12/04.

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

(20)

2

The following balance sheets relate to TV2U, a public services broadcasting company.

	31/12/2003	31/12/2004
	€000	€000
Fixed assets		
Tangible assets	2,500	2,725
Intangible assets	380	190
Financial assets	1,500	1,500
	<u>4,380</u>	<u>4,415</u>
Current assets		
Debtors	1,390	959
Marketable securities	2,790	2,450
Cash at bank	862	897
	<u>5,042</u>	<u>4,306</u>
Creditors less than 1 year		
Creditors	(2,173)	(2,720)
Tax owing	(1,590)	(1,850)
	<u>(3,763)</u>	<u>(4,570)</u>
Capital grants	(450)	(400)
	<u>5,209</u>	<u>3,751</u>
Capital and reserves		
Income and expenditure	3,709	2,051
Land revaluation reserve	1,500	1,700
	<u>5,209</u>	<u>3,751</u>

Additional information

1. TV2U prepares annual financial statements under current UK/ROI GAAP.
2. Interest received from Financial assets was € 150,000.
3. During the year buildings with a Net Book Value of €500,000 was sold for €600,000.
4. Capital grant received was in respect of telecommunications equipment purchased in 2002. The equipment had an estimated useful life of 10 years.
5. Intangible assets refer to Goodwill on the purchase of a subsidiary in 2001. Goodwill is amortised over a five-year period.
6. The depreciation charge for the year was € 350,000.
7. The corporation tax charge for the year was € 1,600,000.

- **Requirement for question 2**

Prepare the cash flow statement and the reconciliation of operating costs to net cash outflow for TV2U for the year ending 31 December 2004.

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SECTION B – (Answer three questions from this section)**3**

Article 33 of the Constitution stipulates “There shall be a Comptroller and Auditor General (C&AG) to control on behalf of the State all disbursements and to audit all accounts of money’s administered by or under the authority of the Oireachtas”.

One of the key functions of the C&AG is to “audit Government accounts for accuracy and regularity and to carry out such examination as he or she considers appropriate in regard to economy and efficiency on the use of resources and the effectiveness of certain management systems ie A value for money audit”.

For each fiscal year ending 31st of December, the C&AG’s office produce the Audited Appropriation Accounts of Departments and Offices. Amongst other statements and summaries is the *Statement of Accounting Policies and Principles* for the preparation of Government accounts which details the principles and procedures used in recording and reporting all governmental financial transactions.

- **Requirement for question 3**

Identify and explain the Accounting Policies and Principles for Governmental Accounting as included in the annual report from the Comptroller and Auditor General’s office.

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4

BELFRY Housing Association is an agency providing low cost housing to a number of tenants in a rural area from a number of local offices. A new Finance Director has recently been appointed to the Association who has worked in a range of private sector organisations. The appointment of the new Finance Director has prompted a review of how the finance function is managed and whether current arrangements offer value for money. At present each local office has finance staff based within it covering creditor payment, debtor collection and some financial management roles.

You are the financial accountant at the Association responsible for performance management. The following information has been collected as part of a benchmarking exercise completed with two other Housing Associations for the year ending 31 December 2004:

Performance data for the year ending 31 December 2004

	BELFRY HA	HA 1 (Rural)	HA 2 (City based)
Cost of the creditors function *	€100,400	€85,000	€87,000
Number of staff in the creditors function **	10	6	6
Full time equivalent of staff in the creditors function **	3.2	4	4.5
Number of invoices processed	70,400	45,400	46,000
Average invoice value	€50.00	€120.00	€145.00
Number of invoices paid within 30 days	42,240	39,952	42,780
Error rates	2%	0.5%	0.5%

* Cost includes all direct costs and overheads

** Staff numbers include both direct staff and management time

The Finance Director has asked you to use the provided information to assess whether the current arrangements offer value for money. Consideration is being given to the centralisation of creditor payments. Similar information is currently being collected in relation to the Housing Association's debtor's function and the Finance Director is keen to know your views as to whether centralisation of the debtors department should be considered as well.

• Requirement for question 4

Draft a report for the Finance Director using the above information, which assesses:

- If the creditors function offers value for money; and
- The case for the business to centralise creditors and/or debtors.

Your report should make recommendations where appropriate and highlight any limitations of your analysis.

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5

Currently in the UK Public Sector, the Whole of Government Accounts initiative has resulted in the publication of consolidated accounts for Central Government, with a view to complete Public Sector consolidated accounts by 2006-2007.

The WGA programme has built on the successful Resource Accounting and Budgeting project for Central Government in the UK.

As of now, consolidation of accounts has not been considered for the ROI Public Sector, although consolidated accounts are prepared for some state sponsored and semi state organisations.

- **Requirement for question 5**

- (a) Identify the conditions that require the production of consolidated accounts. 6
- (b) Outline in principle how accounts should be consolidated. 6
(For both (a) and (b) above you should refer to relevant Accounting Standards).
- (c) Explain the benefits to stakeholders of producing both organisational and consolidated accounts. 3
- (d) For the UK Public Sector, outline the key stages of progress in moving from the implementation of Resource Accounting and Budgeting to Whole of Government Accounts. 5

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6

Accounting Standards are primarily designed with the Private Sector in mind, but can be adapted to suit the Public Sector based on the decisions of the relevant governing Central Government Department.

The Department of Health and Children prepare the accounting code of practice for the Health Service and the Department of Environment, Heritage and Local Government prepare the accounting code of practice for local authorities.

Because ROI GAAP can be changed to suit the activities of the organisations in question, there will be differences in these codes of practice.

- **Requirement for question 6**

For each of the topics listed below, identify the following:

- (i) The relevant accounting standard and its requirements.
- (ii) The treatment outlined in the current accounting code of practice for the Health Services Executive.
- (iii) The treatment outlined in the current accounting code of practice for Local Authorities.

Topics:

- Revaluation and impairment reviews of fixed assets.
- Disposals and depreciation of fixed assets.
- Leased fixed assets.
- Contingencies and provisions.
- Post balance sheet events.
- Subsidiaries.

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