



# FINANCIAL AND PERFORMANCE REPORTING REPUBLIC OF IRELAND

## Diploma stage examination

**6 June 2006**

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, Pro-forma booklets, graph paper and cash analysis paper are available from the invigilator, where applicable.*

*Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.*

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

*The questions in this examination are based on the 2005 financial year and should be answered as such. Candidates are being provided with the most recent version of all Accounting Standards – those extant as at 30 April 2005. Candidates should assume that these Accounting Standards are relevant to the 2005 financial year for the purposes of this examination paper.*



**SECTION A (Compulsory)**

**1**

The following balances have been extracted from the trial balance of Crannog County Council.

	<b>€000</b>	<b>€000</b>
Land @ 1/1/05	348,212	
Buildings @ 1/1/05	297,915	
Housing @ 1/1/05	1,047,968	
Plant and machinery @ 1/1/05	10,059	
Long term debtors	219,711	
Stock	94,067	
Debtors	28,298	
Prepayments	1,640	
Cash on hand	2,516	
Creditors and accruals		36,917
Bank overdraft		962
Long term loans payable		407,885
Capitalisation account		1,704,154
General revenue reserve		32,523
Provision for bad and doubtful debts		3,956
Goods and services		91,509
Grants and subsidies		40,750
Local Government Fund – general purpose grant		40,383
Finance lease		840
Rates		107,431
Other balances	150,468	
Payroll expenses	100,298	
Operational expenses	119,635	
Establishment expenses	13,127	
Administration expenses	17,515	
Financial expenses	11,375	
Miscellaneous expenses	4,506	
	<u>2,467,310</u>	<u>2,467,310</u>

**Additional information**

1. A new and inexperienced member of the finance team was unsure of how to treat Finance Lease payments. In an attempt to get the trial balance to balance, he recorded a lease payment by crediting the bank (correctly) but debiting financial expenses above (incorrectly). It relates to a Finance lease taken out on a building on 1 January 2000. The fair value of the building at the time was €1,120,000. The lease period is 20 years with annual payments of €60,000. The associated finance charges are apportioned using the actuarial method.
2. During the year Plant with a net book value of €35,000 was sold for €40,000. The clerk recording this transaction mistakenly credited establishment expenses with the receipts and the disposal has not yet been accounted for.

3. Depreciation is to be charged as follows:

- Land – nil
- Buildings – 2.5% reducing balance
- Housing – 4% reducing balance
- Plant & machinery – 12% reducing balance

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

4. A provision for Bad Debts is to be made for 4% of Commercial debtors. The debtors figure is broken down as follows:

Government debtors -	€11,823,000
Commercial debtors -	€14,562,000
Non-commercial debtors -	<u>€ 1,913,000</u>
	€28,298,000

5. The council is taking legal action against national newspaper for a recent article concerning the County Manager, which is deemed to be libellous. The council's legal team believes there is a probable chance that the claim will be successful, with damages estimated at €50,000.

6. In March of 2006, before the AFS were audited, it was discovered that a commercial debtor had gone into liquidation and the council would not recoup its debt. The debt involved was €35,000 and it was discovered that the debtor had been having financial difficulty since mid 2005.

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• **Requirement for question 1**

Prepare the Income and Expenditure and Balance Sheet for Crannog 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 31/12/05.

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

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# 2

You are the Financial Accountant with Honeyfield General Hospital and you have recently hired a Finance Assistant to help you in the preparation of the Annual Financial Statements for submission to the HSE. The Finance Assistant is a part-qualified accountant with private sector experience.

The assistant has requested clarification on the treatment for financial year 2005 of the following list of items before recording them in the Annual Financial Statements. While she is proficient in the treatment of these items as per ROI GAAP, she is uncertain as to the treatment of these items as per the Code of Practice as issued to the Hospital by the Department of Health and Children:

1. The construction and fit out of a new pathology laboratory. The total value of the unit is €500,000, €400,000 of which has been paid and €100,000 still owing. Grant income of €500,000 has been approved in writing from the department. As at 31 December 2005, €350,000 has been received from the department.
2. The purchase of a new MRI scanner that was financed by a non-capital finance lease. The fair value of the scanner is €200,000 and the lease will be paid over 5 years with an annual payment of €50,000 made in arrears. The finance charge is apportioned using the actuarial method. The asset is also to be depreciated over 5 years on a straight line basis with no residual value.
3. During the year a decision was made to dispose of a 2-acre site, which had been previously held with a view to development. The decision to sell was as the result of a Value for Money review of Fixed Assets – this review concluded that it would be more economical to sell the site with planning permission to an outside investor. The book value of the site was €850,000 and cash proceeds received, on sale of the asset, were €1,500,000. Fees incurred in making the sale were:
  - Legal fees: €4,000
  - Planning permission fees: €820
  - Auctioneer's fees: € 15,000
4. As part of the Value for Money review, it was recommended that the hospital build an extension to the waiting area of the Accident and Emergency wing, and fund 50% of the construction costs from the proceeds of the disposal in item 3 above. The total construction cost was €1,300,000 and was completed and operational in December of 2005. At 31 December 2005, there were outstanding creditors bills, associated with the construction, of €200,000.
5. A consultant employed by the hospital is being sued by a group of patients and the court case is ongoing. The hospital's legal team believe that it is likely that the claim will be successful and the hospital will be liable for a sum in the region of €5,000,000. The final judgement on the case will be made in late 2006.

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• **Requirement for question 2**

Advise the Finance Assistant, using journals where appropriate, with the correct treatment of the above as per the Code of Practice for Hospitals as issued by the Department of Health and Children.

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

**3**

**Lakelands Nursing Home Limited  
Balance Sheets**

	<b>31/12/2004</b>	<b>31/12/2005</b>
<b>Fixed assets</b>	<b>€</b>	<b>€</b>
Tangible assets	9,760	11,600
Intangible assets	1,200	900
	<u>10,960</u>	<u>12,500</u>
<b>Current assets</b>		
Stock	6,300	5,010
Debtors	1,800	1,626
Cash at bank	1,340	1,100
	<u>9,440</u>	<u>7,736</u>
<b>Creditors less than 1 year</b>		
Creditors	(2,900)	(3,620)
Corporation tax	(800)	(770)
	<u>(3,700)</u>	<u>(4,390)</u>
<b>Net Current Assets</b>	<b>5,740</b>	<b>3,346</b>
<b>Total net assets</b>	<b>16,700</b>	<b>15,846</b>
<b>Creditors: Greater than 1 year</b>		
Long term loan	(4,000)	(3,500)
Deferred Income - Capital grants	(3,000)	(2,500)
	<u>9,700</u>	<u>9,846</u>
<b>Capital and reserves</b>		
Capital	1,000	1,000
Income and expenditure	8,000	7,746
Property revaluation reserve	700	1,100
	<u>9,700</u>	<u>9,846</u>

**Notes:**

1. During the year Fixed Assets with a Net Book Value of €500 were sold for €550.
2. The deferred income relates to a capital grant received 5 years ago for fixtures and fittings for 3 new bedrooms. At the time they were estimated to have a useful economic life of 10 years.
3. The Intangible Fixed Assets refers to Goodwill, which arose on the purchase of another nursing home in the same area 2 years ago. The nursing home was old and in need of investment and the Directors of Lakelands felt that it was worth that investment. In accordance with FRS 10, Goodwill is being amortised over 5 years.
4. The Depreciation charge for the year was €1,640.
5. The interest charge on the long-term loan for the year to the 31/12/05 was €350.
6. Corporation Tax for the year was €770.

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- **Requirement for question 3**

Prepare a cash flow statement and the reconciliation of operating costs to net cash outflow of Lakelands Nursing Home for the year ended 31 December 2005 as per FRS1: Cash flow statements. Use the pro-forma included for the Cash flow statement and show all workings clearly.

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# 4

The Funtime Leisure Management Company was awarded a contract by Jamestown Local Authority to manage and provide leisure services for Jamestown. Currently Funtime are managing the services of 3 leisure centres operating in the area. The company was awarded the contract 2 years ago and the respective financial statements are below:

## Funtime Leisure Management: Summarised Income and Expenditure account

Year ending:	31/12/2004	31/12/2005
	<b>€000</b>	<b>€000</b>
Income	9,400	8,505
Operating costs	(8,080)	(8,955)
Operating surplus/ deficit	<u>1,320</u>	<u>(450)</u>
Capital financing charges (includes interest)	<u>(1,070)</u>	<u>(1,280)</u>
Surplus/ Deficit for the year	<u>250</u>	<u>(1,730)</u>

## Funtime Leisure Management: Balance sheet

Year ended:	31/12/2004		31/12/2005	
	€000	€000	€000	€000
Fixed assets		13,085		12,430
Stock	75		65	
Debtors	70		75	
Cash	<u>550</u>		<u>255</u>	
	695		395	
Creditors	(2,040)		(3,310)	
Deferred income (annual membership)	<u>(350)</u>		<u>(400)</u>	
	(2,390)		(3,710)	
Net current liabilities		<u>(1,695)</u>		<u>(3,315)</u>
Loans		(5,700)		(5,130)
Total net assets		<u>5,690</u>		<u>3,985</u>
Reserves				
Surplus/Deficit		500		(1,230)
Capital reserve		<u>5,190</u>		<u>5,215</u>
		<u>5,690</u>		<u>3,985</u>

You are a financial accountant working for Jamestown Local Authority. Council members have asked you to complete a financial review of the first two years of Funtime Leisure Management with a view to assessing if the company has the capacity to take on the management of two more leisure centres, which are currently under construction.

Members appreciate that you may not be able to reach any firm conclusions at this stage and that your assessment may identify areas for further review before a decision can be made - but they are keen to understand whether the financial performance of Funtime indicates whether it is wise to increase the level of service required of the company. Of particular concern is the reliance of Funtime on grant funding.

The following additional information has been made available to help you in your review.

1. A breakdown of income over the two years is as follows:

	<b>31/12/04</b>	<b>31/12/05</b>
	<b>€000</b>	<b>€000</b>
Entrance fees	2,800	2,885
Catering	600	620
Grants	6,000	5,000
	<u>9,400</u>	<u>8,505</u>

Entrance fees and catering income are all cash sales. Grants include support from the Local Authority, which are to decrease year on year as Funtime Management becomes self-financing, as well as other sources.

2. A breakdown of creditors over the two years is as follows:

	<b>31/12/04</b>	<b>31/12/05</b>
	<b>€000</b>	<b>€000</b>
Trade creditors	440	3,110
Capital creditors	1,500	0
Interest charges	100	200
	<u>2,040</u>	<u>3,310</u>

Capital creditors related to a programme, valued at €2,000,000 to improve additional facilities at Leisure Centres such as cafés that could be used for income generation.

3. When the contract was originally awarded, two financial targets were identified for Funtime Leisure Management performance:
- A net margin (after capital financing costs have been accounted for) of at least 2%
  - A return (after capital financing costs have been accounted for) on capital employed of at least 3.5%

You are asked, however, to use any indicators of financial performance, which would be useful in assessing the performance of Funtime Leisure Management.

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• **Requirement for question 4**

Prepare a report in which you:

- Analyse the financial performance of Funtime Leisure Management. 10
- Recommend ways in which financial performance could be improved or better understood. 5
- Recommend if the management of the 2 new leisure centres should be awarded to Funtime Leisure Management. 2
- Explain any limitations of your review. 3

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# 5

Public service organisations are by their nature very different from private sector organisations. As such, financial statements prepared for users of public service financial statements must be very different from those prepared for the private sector.

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- **Requirement for question 5**

- (a) Compare and contrast the users of private and public service financial statements, explaining the information from the financial statements in which they would be interested. 10
- (b) Explain the extent to which the financial statements prepared for a government department compares with those prepared by a private company. 10

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# 6

Financial and Performance Reporting in the Irish Public Services has undergone significant change in the past 12 years. The Strategic Management Initiative (SMI) had at its core, reform of Financial and Performance Reporting procedures throughout the Irish Public Sector.

Currently the process is far from complete and Financial and Performance Reporting procedures are still undergoing reform and development.

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• **Requirement for question 6**

- (a) What have been the key stages of reform of financial and performance reporting in the Irish public sector since the launch of the SMI? 10
- (b) In general, what have been the international experiences of public sector financial and performance reporting reform programmes? 5
- (c) Critically appraise the future of financial and performance reporting reform in the Irish public sector over the next ten years. 5

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