FINANCIAL AND PERFORMANCE REPORTING

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, Proforma 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 2003/2004 financial year and should be answered as such. Candidates are being provided with the most recent version of all UK Accounting Standards – those extant as at 30 April 2004. Candidates should assume that these Accounting Standards are relevant to the 2003/2004 financial year for the purposes of this examination paper.

AT THE HEART OF YOUR CAREER

SECTION A (Compulsory)

1

The following balance sheets have been extracted from the annual accounts of Yellow Unitary Authority.

The balance sheet shown as at 31 March 2004 has not yet been audited and during the course of the final accounts audit, further adjustments have been identified requiring action as identified below:

	Unaudited balance sheet as at 31 March 2004	Final balance sheet as at 31 March 2003
	£000	**£000**
Net fixed assets	290,975	295,600
Long term investments	4,500	3,500
Total long term assets	295,475	299,100
Stock	430	380
Debtors	8,900	7,110
Cash	6,690	7,630
	16,020	15,120
Creditors	(14,700)	(17,600)
Net current assets	1,320	(2,480)
Total assets less current liabilities	296,795	296,620
Deferred government grants	(1,000)	0
Long term borrowing	(39,900)	(42,400)
Total net assets	**255,895**	**254,220**
Financed by:		
Fixed asset restatement reserve	126,620	126,620
Capital financing reserve	103,400	96,400
Useable capital receipts reserve	12,700	16,200
General fund	13,175	15,000
	255,895	**254,220**

Additional information

1. The Authority disposed of some surplus assets during 2003/04. Sales proceeds have been recorded in the balance sheet above but the assets have not yet been written out of the accounts. The assets are included in the unaudited balance sheet as at 31 March 2004 with a net book value of £1,500,000.

2. Included in the unaudited balance sheet are the Authority's capital purchases for the year. As well as using long term borrowing to finance fixed asset purchases, the Authority financed additions using £4,000,000 of capital receipts, £500,000 of revenue financing and £1,000,000 of capital grants. These financing transactions have been included in the above balance sheet.

3. The capital grant relates to an asset with a useful economic life of 10 years and was not received until April 2004.

4. Depreciation and asset rentals have been charged on all assets included in the unaudited balance sheet. The depreciation charge for the year was £12,125,000, of which £220,000 relates to assets disposals. The Authority's policy is to charge a full year's asset rentals on additions and none in the year of disposal. Notional interest is calculated on the closing book value of fixed assets.

5. An impairment review was completed after the unaudited balance sheet was completed. This identified that the Authority's assets had suffered impairment losses of £250,000 due to loss of economic benefits.

6. No amounts have been included in the balance sheet for the minimum revenue provision for the year. The minimum revenue provision for the year has been calculated as £1,715,000.

7. The following cash flows for the year have taken place:

	£000
Council tax	150,900
Revenue support grant	120,600
NNDR	340,780
Revenue grants received	10,980
Interest received	1,250
Payments to employees	365,900
Other payments	247,800
Interest paid	3,750

- **Requirement for question 1**

(a) Prepare the final balance sheet for Yellow Unitary Authority as at 31 March 2004.

Note you are not required to show the impact on the consolidated revenue account of any of the adjustments required but only show the full impact on the general fund. *12*

(b) Prepare the reconciliation of revenue activities to net cash flow for the year ending 31 March 2004. *8*

(20)

2

The following records have been extracted from the trial balance of Red Primary Care Trust as at 31 March 2004

	£000	£000
Land	2,500	
Buildings (Purchased)	10,700	
Buildings (Donated)	500	
Other Fixed Assets	6,100	
Other Fixed Assets – accumulated depreciation		3,000
Stocks of medical supplies (01/04/03)	17	
Debtors	6,900	
Cash (held at PAYMASTER)	210	
Creditors		6,280
Donation reserve		500
Revaluation reserve		3,450
General fund		12,890
Department of Health funding		215,500
Salaries	25,790	
Premises costs	5,800	
Establishment costs	3,590	
Other expenditure	2,300	
Medical supplies	9,863	
Commissioning of primary healthcare	35,080	
Commissioning of secondary healthcare	150,800	
Income received from other commissioners		15,700
Private patient income		450
Other income		2,670
Suspense account (see note 2)	290	
	260,440	260,440

Additional information:

1. Indexation has not yet been provided. The following indexation rates have been issued by Treasury:

Land	5%
Buildings	6%
Other fixed assets	2.5%

2. The suspense account includes the following transactions:

Sales proceeds from disposal of equipment	£10,000
Maintenance expenditure	£50,000
Expenditure on enhancements to buildings	£250,000

The sales proceeds relate to equipment which is currently included on the trial balance at a cost of £40,000. The asset was sold in February 2004 and was originally purchased in March 1999.

The maintenance work took place in June 2003 and the enhancements to the buildings were completed in August 2003.

3. Depreciation for the year has not yet been calculated. All buildings are to be depreciated over a 45 year remaining useful economic life. All other fixed assets are to be depreciated over a 7 year life. Historical cost depreciation for the year has been calculated to be £230,000 for purchased buildings and £879,000 for all other purchased fixed assets.

4. Debtors have been reviewed at year end. Private patient debtors of £25,000 and NHS debtors of £100,000 are disputed.

5. No cost of capital charge has been recognised in the trial balance. The Primary Care Trust held cash in PAYMASTER of £50,000 as at 31 March 2003.

6. Where costs cannot be directly allocated to the commissioning or providing arm they are to be apportioned in the ratio of 15:85.

- **Requirement for question 2**

Prepare the operating cost statement and balance sheet for Red Primary Care Trust as at 31 March 2004.

(20)

SECTION B (Answer three questions from this section)

3

You are the technical accountant for Purple Agency, a supply financed Central Government Agency. Annual accounts are currently being prepared for the year ending 31 March 2004 and the Accounts Assistant has left you with a list of queries for your attention.

Outstanding accounts issues

1. I've been told that the audit fee for the year was £55,000. I've not got an invoice or purchase order relating to this so I don't know how we can record this. I've not included any costs yet for this in the accounts.

2. The central insurance fund has told me they want us to recognise £150,000 for insurance costs for the year but as they manage the insurance fund for us and we don't actually pay them anything, I've not included this in the accounts.

3. I've looked back at our appropriations in aid budget for the year and we've collected £60,000 more than originally approved. At the moment I've just included the income from appropriations in aid approved in the operating cost statement as we've paid back the £60,000.

4. The house we were donated in the legacy of Lord Green has been included in the balance sheet but I've not calculated any depreciation for the year as it's free to us. It's valued at £1,000,000 and has a useful economic life of 50 years and is being used as an office. I've included it in the cost of capital charge for the year though as it's still an asset and I know the charge is notional. The total cost of capital charge was £635,000 by the way and I've credited it to other creditors.

5. The Valuation Office has completed its review of our assets for the year. Our main office has increased in value as at 1 April 2003 due to its prime location in the centre of London and should now be shown at a cost of £5,500,000 (previous cost was £5,000,000). They've also given me an indexation rate for buildings of 7% for the year. I've not included any changes to the buildings value in the accounts yet as I'm not sure what to do with the revaluation and indexation but of course I have included depreciation expenses based on the brought forward cost of the building.

- **Requirement for question 3**

Write a memo for the accounts assistant in which you:

Explain how the items identified above need to be treated, referring to appropriate regulation and accounting standards. You should include journals outlining any required adjustments and explain any further adjustments that will need to be made in the financial statements.

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4 The Green Leisure Trust has been set up by Green Unitary Authority as an arm's length trading company to manage and provide leisure services for the council. Green Leisure Trust operates at arms length from the Council and is treated as an independent subsidiary (fully owned by Green Unitary Authority). Financial statements from its first two financial years of operation are below:

Green Leisure Trust: Summarised income and Expenditure account

Year ending:	**31/03/2003**	**31/03/2004**
	£000	**£000**
Income	9,400	8,505
Operating costs	(8,080)	(8,955)
Operating surplus/ deficit	1,320	(450)
Capital financing charges (includes interest and a charge to provide for debt principal)	(1,070)	(1,280)
Surplus/ Deficit for the year	250	(1,730)

Green Leisure Trust: Balance sheet

Year ended:	**31/03/2003**		**31/03/2004**	
	£000	**£000**	**£000**	**£000**
Fixed assets		13,085		12,430
Stock	75		65	
Debtors	70		75	
Cash	550		255	
	695		395	
Creditors	(2,040)		(3,310)	
Deferred income (annual passes)	(350)		(400)	
	(2,390)		(3,710)	
Net current liabilities		(1,695)		(3,315)
Loans		(5,700)		(5,130)
Total net assets		5,690		3,985
Reserves				
Revenue reserve		500		(1,230)
Capital reserve		5,190		5,215
		5,690		3,985

You are a financial accountant working for the Council. Council members have asked you to complete a financial review of the first two years of Green Leisure Trust with a view to assessing if transferring operations of the Authority's cultural services (museums, theatres and libraries) should take place within a three year timescale.

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 the Leisure

Trust indicates whether it is wise to transfer these services. Of particular concern is the reliance of the Leisure Trust on the Council for 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:

	31/03/03	**31/03/04**
	£000	**£000**
Entrance fees	2,800	2,885
Catering	600	620
Grants	6,000	5,000
	9,400	8,505

Entrance fees and catering income are all cash sales. Grants include support from the Council, which is to decrease year on year as the Leisure Trust becomes self financing, as well as other sources.

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

	31/03/03	**31/03/04**
	£000	**£000**
Trade creditors	440	3,110
Capital creditors	1,500	0
Interest charges	100	200
	2,040	3,310

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. The Council has identified two financial targets for the Leisure Trust:

a. A net margin (after capital financing costs have been accounted for) of at least 2%
b. 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 Leisure Trust's performance.

- **Requirement for question 4**

Prepare a report in which you:

(a) Analyse the financial performance of Green Leisure Trust. *10*

(b) Recommend ways in which financial performance could be improved or better understood. *5*

(c) Recommend if the transfer of cultural services should be completed. *2*

(d) Explain any limitations of your review. *3*

(20)

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.

- **Requirement for question 5**

(a) Compare and contrast the users of private sector 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 housing association and a central government department compare with those prepared by a private company. *10*

(20)

6

SSAP 4 is a critical accounting standard for public service organisations since government grant funding will for most Public Service Organisations represent a significant element of their income. The accounting standard is, however, applied in various forms across the different types of public service organisations and in different situations.

- **Requirement for question 6**

(a) Explain how a Local Authority would account for a capital grant, using journals to illustrate your answer. You should explain any differences from the treatment of a capital grant per the requirements of UK GAAP. *9*

(b) Explain how revenue grants would be disclosed in the consolidated revenue account for a local authority. *4*

(c) Explain how a housing association would account for housing stock valued at £1,000,000 with a useful economic life of 40 years, funded by 25% social housing grant. You should use journals to illustrate your answer and explain if the treatment adopted differs from UK GAAP. *7*

(20)