FINANCIAL REPORTING IN CENTRAL GOVERNMENT AND AGENCIES

Professional 2 examination
June 2000

MARKING SCHEME

Question 1

Working 1 – Profit/loss on sale of asset (note 3)

Written down value of equipment	9	
Sales proceeds	7	
Loss on sale	2	
Purchase cost of equipment	15	
Written down value	9	
Depreciation charged	6	*3*

Working 2 - Depreciation

Cumulative:
3,397 + ((20x2)/5) + (920/40) -6 = 3,422 *1*

For year:
3,397 + ((20x2)/5) + (920/40) = 3,428 *1*

(a)

**Income and Expenditure Account for the Public Services Training Agency
for year ended 31 March 1999**

	£000	£000	
Turnover		439,917	
Changes in stocks (£48,989-£53,681)	(4,692)		*1*
		435,025	*1*
Consumables (£44,609+£249)	(44,858)		*1*
Staff Costs	(60,869)		
Depreciation (W2)	(3,428)		
Loss on sale of asset *(W2)*	(2)		*1*
Other Charges	(323,371)	(432,528)	*1*
Operating Profit		2,697	*1*
Interest Receivable		1,327	
Interest Payable		(3,841)	
Profit for Year		183	*1*
Retained Profit B/f		17,649	
Retained Profit C/f		17,832	*2*

1 mark for presentation
(15)

(b)

Balance Sheet of the Public Services Training Agency as at 31 March 1999

	£000	**£000**	
Fixed Assets			
note 2&3 (68,576+2290+ 950 + 40) – (9 + 3,422)		68,425	*2*
Current Assets			
Stock	48,989		
Debtors	73,148		
Cash	3,359		
	125,496		
Current Liabilities			
Creditors (amounts falling due within one year)	(88,223)		*1*
Training fees paid in advance (note 4 - 2.5x8)	(20)		*1*
Net Current Assets		37,253	*1*
		105,678	*1*
Financed By:			
Provision for Liabilities and Charges			
Insurance provision		8,197	
Long term loan		48,020	
Revaluation (£31,767-138) (note 5)		31,629	*1*
Income & Expenditure Account		17,832	
		105,678	*1*

2 marks for presentation

2 ADDITIONAL MARKS NEED TO BE ALLOCATED *(10)*
MARKS DO NOT ADD UP TO 10. *(25)*

Question 2

(a)

- Basis for bidding for funds;	*1*
- Budget for future revenue costs;	*1*
- Ensures effective utilisation of assets.	*1*
	(3)

(b)

- Cash voted from supply	*½*
- Borrowing	*½*
- Public dividend capital	*½*
- PFI/PPP	*½*
	(2)

(c) <u>Cash voted from supply</u>

- Under cash accounting, full cost of acquisition incurred in year of purchase;	
- Under RAB, notional depreciation and 6% interest charge over useful life of asset.	*1*

<u>Borrowing</u>

- Repayment of principal and interest charged to revenue;	*½*
- Notional depreciation and 6% interest charge over useful life of asset.	*½*

<u>PDP</u>

- Depreciation charged at replacement cost;	*½*
- Transfer to reserve.	*½*

<u>PFI/PPP</u>

- Contract payments for operating lease.	*1*
	(4)

(d)

- Sets out in detail how the resources allocated to finance public or privately financed investment in the Comprehensive Spending Review will be managed to deliver the department's objectives, provide VFM and ensure positive social returns;	*2*
- decisions on investments and assets taken on the basis of what delivers the public interest;	*1*
- DIS used to support future bids and allocations.	*1*

(4)

(e)

Statement of Net Assets for Year ended 31 March 2000

	Land £000	**Buildings £000**	**Plant & Machinery £000**	**Vehicles £000**	
Cost					
Opening Balance	875	2,500	375	35	
Additions				25	*1*
Disposals			(25x3) = 75		*1*
Revaluation	30	300	0	0	*½*
Closing Balance	905	2,800	300	60	*½*
Depreciation					
Opening Balance	0	500	278	25	
Depreciation	0	56	30	12	*½*
Disposals	0	0	((25/10)x6)x3 45	0	*1*
Closing Balance	0	556	263	37	*½*
Net Book Value (start)	875	2,000	97	10	*½*
Net Book Value (end)	905	2244	37	23	*½*

2 marks for presentation
(8)

(f)

Amounts to be charged to operating A/C for year ended 31 March 2000

Sale of lorries:
Written down value (75-45) £30
Sales proceeds £27

Loss on sale **£3** *1*

Depreciation charge for year
(56+30+12) **£98** *1*

Interest charge:	**£000**		
Opening NBV (875+2000+97+10)	£2982		
Closing NBV (905+2244+37+23)	£3209		
Average for Year	£3095.5		
6% interest charge	£185.73	**£186**	*1*
Total charge to operating a/c		**£287**	*1*
			(4)
			(25)

Question 3

(a)

Principles of Budgetary Control

- budget holder must be able to exercise control over costs and have required level of responsibility; ½
- budget holder involvement in setting budget; ½
- understandable; ½
- meets user needs; ½
- accurate; ½
- timely reporting of information; ½
- comparable; ½
- flexible. ½

(4)

(b)

Budgetary Control Process

- process of monitoring actual financial activity against a previously approved plan, fundamental to the continuous assessment of performance to ensure achievement of targets and objectives.

Authorise expenditure
↓
record actual expenditure
↓
compare actual with budget
↓
investigate reasons for variance
↓
take action
↓
meet new priorities

4

(c)

Advantages/Disadvantages of Devolved Budgets

Advantages:
- budgets are set at a level over which greater control and accountability can be exercised; ½
- motivational; ½
- improved links with performance measurement. ½

Disadvantages:
- risk of fragmentation of budget reducing overall control and accountability of organisational budget; ½
- administrative inefficiencies and overheads; ½
- development of competing corporate fiefdoms focusing on short-term operational goals and targets at the expense of the organisation's objectives. ½

(3)

(d)

Benefits to the Organisation

- links planned performance/inputs to organisation's aims; ½
- provides information for future plans; ½
- provides flexibility in responding to new priorities and unforeseen events; ½
- motivational. ½

(2)

(e)

Department of Urban Affairs
Revised Budgetary Report for Region 3
Month 10 of year ending 31 March 2000

Expense type	**Annual budget (£000)**	**Year to date budget (£000)**	**Cumulative actual outturn (£000)**	**Year to date variance (£000)**	**Annual budget available (£000)**	
Staff costs						
Salaries	6,000	5,000	5,800 + (10x(12x3/12)) 5,830	(5,000-5,830) 830	(6,000-5,830) 170	*1*
Travel & subsistence	18	15	11	(4)	7	
Total staff costs	**6,018**	**5,015**	**5,841**	**826**	**177**	
Running costs						
Heat, light and power	270	225	220	(5)	50	
Rent & rates	540	450	450	0	90	
Postage	120	100	94	(6)	26	
Telecoms	300	250	(220+108) 328	(250-328) (78)	(300-328) (28)	*½*
Promotional activities	(150-6) 144	(144/12)x 10 120	(136+8) 144	(144-120) 24	(144-144) 0	*1*
Hospitality	(6-3) 3	(3/12)x10 2.5	2	(2-2.5) (0.5)	(3-2) 1	*½*
Consultancy	420	350	(480+45) 525	(350-525) 175	(420-525) (105)	*1*
Corporate overheads	48	40	40	0	8	
Total running costs	**1,854**	**1,545**	**1,642**	**97**	**212**	
Total spend for Region	**7,872**	**6,560**	**7,453**	**893**	**419**	

(4)

(f)

Workings – Forecast outturn for year

Expense type	Revised annual budget (£000)	Profiled monthly spend	Forecast outturn	Forecast under/(over)spend
Staff costs				
Salaries	6,000	(500+(10x12/12)) 510	5,850+(510x2) 6870	6,000-6,870 (870)
Travel & subsistence	18	1.5	11+(1.5x2) 14	18-14 4
Total staff costs	**6,018**		**6,884**	**6,018-6,884 (886)**
Running costs				
Heat, light and power	270	22.5	220+(22.5x2) 265	270-265 5
Rent & rates	540	45	450+(45x2) 540	540-540 0
Postage	120	10	94+(10x2) 114	120-114 6
Telecoms	300	25	328+(25x2) 378	300-378 (78) NB: Further bill is due, amount unknown
Promotional activities	144	12	144+(12x2) 168	144-168 (24)
Hospitality	3	0.25	2+(0.25x2) 2.5	3-2.5 0.5
Consultancy	420	35	525+(35x2) 595	420-595 (175) NB: Bill of £17k estimated for final quarter, so o/spend may be reduced.
Corporate overheads	48	4	40+(4x2) 48	48-48 0
Total running costs	**1,845**		**2,110.5**	**1,845-2,110.5 (265.5)**
Total spend for Region	**7,872**		**8,994.5**	**7,872-8,994.5 (1,122.5)**

2

Financial Position:

- significant overspend on both salaries and running costs forecast – approximately 14% on budget for year; *½*

- urgent action required to redress problems before year end; *½*

- current underspends could be maximised by stopping further spend on travel and subs, promotional activities, and hospitality; *½*

- agreement should be sought to vire underspends on budget lines such as travel, heat, light and power, rent and rates, postage and hospitality to offset overspends. *½*

(4)

(g)

- budget should not include items over which no control can be exercised eg telecoms, corporate overheads; *1*

- budget should be profiled according to timing of spend, not apportioned uniformly across the financial year; *1*

- budgets should be regularly monitored, variances pursued, and budgets revised/reprofiled – overspends on salaries and consultancy suggests that this does not happen; *1*

- monitoring reductions should only be made where reduced requirements are possible – reductions to the promotional activities budget means that an overspend may arise, or planned work may have to be postponed. *1*

(4)

(25)

Question 4

Benefits of PFI

- offers the potential to factor in additional capital from the private sector; *1*
- scope for innovation and efficiencies to be achieved. *1*
- risk transfer to the private sector *1*

(3

FRS5

- "Reporting the Substance of Transactions"; *1*
- issued by the Accounting Standards Board; *1*
- FRSs form part of overall body of guidance and advice on best accounting practice - UK GAAP. *1*

(3

Balance Sheet/Resultant Asset

- statement showing total assets and liabilities of the agency at a point in time, usually the final day of the financial year – a snap shot of the financial position of the organisation on that day; *1*
- the headquarters building constructed under the PFI deal is classed as a fixed asset; *1*
- fixed asset – long life, used to achieve the overall objectives of the organisation, not for resale. *1*

(3)

On/Off Balance Sheet

- FRS5 states that where the construction of a substantial asset underpins a PFI contract, the ownership of the asset must be determined by looking at the associated risks and rewards of ownership; *1*
- the successful transfer of risk to the private sector operator is a key issue; *1*
- the asset must be recognised on the balance sheet of the party deemed to be the owner of the asset. *1*

(3)

On balance sheet

- should the asset be determined to be on the agency's balance sheet, capital spend is subject to the Public Expenditure capital limit for the agency; *1*
- decisions to proceed with the deal will be made on the grounds of affordability, and other competing capital bids; *1*
- capital value of the development is charged to the agency's balance sheet on commissioning of the building; *1*
- asset is matched by a liability in the form of a finance lease; *1*
- annual revenue costs are met by the private sector operator and built into the contract charges to the agency. *½*

(4½)

Off balance sheet

- Funding of the construction of the building is provided by private sector bidder, and is not subject to the agency's capital limit; *1*
- Annual revenue costs are met by the private sector operator and built into the contract charges to the agency. *½*

(1½)

PE Cover

- The maximum amount of public expenditure that can be incurred by the agency during the financial year, using voted funds; *1*
- Specifically with regard to PFI, requirement that cost of asset can be accommodated within the total capital spending limit of the agency. *1*

(2)

Resource Budgeting

- Replaces cash based budgets; *½*
- applies to Central Government departments, agencies and non-executive NDPBs; *½*
- accruals based; *½*
- uses capital accounting; *½*
- budgets (and ultimately funding) are based upon the resources required to achieve agreed departmental objectives, and agreed outputs; *½*
- accruals based Resource Control Total for each department; *½*
- Requests for Resources at objective level; *½*
- No virement from capital to current, or among RfRs; *½*
- specifies need for five-year asset management plan, outlining plans for the utilisation and replacement of assets *½*
- one vote per department. *½*

(5)

(25)

Question 5

(a)

- Agency and departmental corporate and business plans, containing strategic and operational targets;	*1*
- Output and Performance Analysis under RAB;	*1*
- Public Service Agreements;	*1*
- Departmental Investment Strategies;	*1*
- Next Steps;	*1*
- Citizens Charter;	*1*
- Agency and departmental efficiency plans;	*1*
- Supported by management information systems, SLAs, etc.	*1*
	(8)

(b)

- benchmarking;	*1*
- regulators/watchdogs;	*1*
- Parliamentary Committees;	*1*
- league tables;	*1*
- charter marks;	*1*
- aggregate national targets, such as Health Service waiting lists, reduction in incidence of various diseases	*1*
Necessary to:	
- ensure effective use of public resources;	*1*
- ensure accountability and stewardship;	*1*
- government macro-economic policy and fiscal rules;	*1*
- fair and equitable delivery of key public services;	*1*
- ensure commitment to overriding Government commitments and national obligations.	*1*
	(11)

(c)

- Wide customer base, with varying and changing needs;	*1*
- Outputs are often difficult to define, intangible and difficult to measure;	*1*
- Outputs and their impact are often long term in nature;	*1*
- The achievement of outcomes is often the combined responsibility of several departments or agencies;	*1*
- The achievement of outputs is often influenced by factors beyond the control of the agency or department;	*1*
- Performance measurement must take account of the wider political context within which services are provided	*1*

(6)
(25)