

FINANCIAL REPORTING IN CENTRAL GOVERNMENT AND AGENCIES

Professional 2
June 2001

MARKING SCHEME

Question 1

Trial balance (no marks)

Category	£000	£000
Fixed assets (at valuation)	117,860	
Accumulated depreciation		28,360
Turnover		81,265
Stock at 31 March 2000	4,406	
Research funding grants		16,412
Interest payable	1,442	
Interest receivable		1,005
Retained profits at 31 March 2000		20,476
Loans from National Loans Fund		24,600
Consumables	12,990	
Other operating charges	7,829	
Staff costs	49,077	
Debtors	14,750	
Cash at bank and in hand	8,302	
Creditors		8,974
Revaluation reserve		40,262
Deferred development expenditure	4,700	
	<u>221,356</u>	<u>221,356</u>

(a) **Income and expenditure account**

Working 1 – Deferred development expenditure (Note 1)

Project	Amount to be charged to I&E (£)	Calculation	Remaining deferred expenditure (£)	
HAL 2001	920,000	SSAP 13 – total O/S	Nil	<i>1</i>
SAL 3001	445,000	£4,450,000 x 0.1	1,335,000	<i>1/4</i>
GAL 4001	<u>1,000,000</u>	£5,000,000 x 0.2	<u>1,000,000</u>	<i>1/4</i>
Total	£2,365,000		£2,335,000	

Working 2 - Sale of Equipment (Note 2)

	£	
Written down value of equipment	195,000	
Less: Sales proceeds (add to cash)	<u>(75,000)</u>	
Loss on sale	120,000	<i>1/2</i>
Opening valuation	400,000	
Less: Written down value	<u>(195,000)</u>	
Depreciation to date	205,000	<i>1/2</i>
Valuation at 1/4/2000	400,000	
Less Original cost	<u>(300,000)</u>	
Amount to be written off revaluation reserve	100,000	

Working 3 – Deferred Income (Note 3)

	£	
Research grant income	16,412,000	
Less: Amount to deferred	(3,400,000)	
To I&E account	13,012,000	½

(a) **Income and Expenditure Account**

**Income and Expenditure Account for the Information Technology Research and Development
Agency for year ended 31 March 2001**

	£000	£000	
Turnover	81,265		
Changes in stocks (4,406-5,092)(Note 5)	686		<i>1</i>
	81,951		
Grants (16,412-3,400) (W3)	13,012		
		94,963	<i>1</i>
Consumables	(12,990)		
Staff costs	(49,077)		
Other charges	(7,829)		
Depreciation	(6,025)		
Loss on disposal of asset (W2)	(120)		
Deferred development expense (W1)	(2,365)		
		(78,406)	<i>1</i>
Operating profit		16,557	
Interest receivable	1,005		
Interest payable	(1,442)		
		(437)	
		16,120	
Retained profit b/f		20,478	<i>1</i>
		36,598	<i>1</i>

*2 marks for presentation
(10)*

(b) **Balance Sheet**

Working 4 – Fixed assets and Depreciation (Note 4)

	£	
Fixed assets (at valuation)	117,860,000	
<i>Less:</i> Disposal	(400,000)	½
	117,460,000	
<i>Add:</i> Revaluation for year	4,475,000	½
Total to balance sheet	121,935,000	
Accumulated depreciation @ 1/4/00	28,360,000	
<i>Less:</i> Disposal (W2)	(205,000)	½
	28,155,000	
<i>Add:</i> Backlog depreciation	125,000	½
<i>Add:</i> Charge for year	6,025,000	½
Total to balance sheet	34,305,000	

Working 5 – Revaluation reserve

	£	
Revaluation reserve @ 1/4/00	40,262,000	
<i>Less:</i> Backlog	(125,000)	
<i>Less:</i> Disposal (W2) (to I&E reserve)	(100,000)	1
	40,037,000	
<i>Add:</i> Revaluation for year	4,475,000	
Total to balance sheet	44,512,000	1

Working 6 – Income and Expenditure Reserve

	£	
I&E reserve @ 1/4/00	20,478,000	
<i>Add:</i> Profit for year	16,120,000	
<i>Add:</i> Transfer from revaluation reserve (W2)	100,000	
Total to balance sheet	36,698,000	1

**Balance Sheet of the Information Technology Research and Development
Agency as at 31 March 2001**

	£000	£000	
Fixed assets			
Valuation as at 31/3/2001	121,935		
Less: Depreciation	<u>(34,305)</u>		
Net book value		87,630	<i>1</i>
Intangible assets			
Deferred development expenditure		2,335	
Current assets			
Stock	5,092		<i>1</i>
Debtors	14,750		
Cash	<u>8,377</u>		
		<u>28,219</u>	<i>1</i>
Current liabilities			
Creditors (amounts falling due within one year)	<u>(8,974)</u>		
Net current assets		19,245	<i>1</i>
Total net assets		<u>109,210</u>	<i>1</i>
Financed by:			
	£000	£000	
Provision for liabilities and charges			
Deferred income (W3)		3,400	<i>1</i>
Long term loans			
Advances from the National Loans Fund		24,600	<i>½</i>
Reserves			
Revaluation reserve	44,512		
Income and expenditure reserve	<u>36,698</u>		
		<u>81,210</u>	<i>1</i>
		<u>109,210</u>	
		<i>2 marks for presentation</i>	
		<i>(15)</i>	
		<i>(25)</i>	

Question 2

(a) Calculation of the net cash outflow from activities

	£000	£000	
Operating deficit		(7,397)	1/2
<i>Add:</i> Charges not involving cash movements			
Depreciation		470	1/2
Loss on disposal of assets		127	1/2
Notional items – insurance	150		1/2
audit fee	30		1/2
return on capital	592	772	1/2
<i>Add/less:</i> Movement in working capital			
Decrease in debtors (3720-2981)	739		1/2
Increase in creditors (1811-1704)	107	846	1/2
Net cash flow from operating activities		(5,182)	1/2

Movement in cash and cash equivalents

	1 April 2000 (£000)	31 March 2001 (£000)	Movement (£000)	
Cash	1,619	591	(1,028)	1/2

1 mark for presentation
(6)

(b) Parliamentary grant received reconciled to the Appropriation Account for the Vote

	£000	£000	
Reconciliation			
Gross Parliamentary grant		12,660	
Appropriations in aid		<u>(7,900)</u>	
Net Parliamentary grant voted		4,760	1
Excess of Parliamentary grant over actual expenditure	(276)		1
Excess of Appropriations in aid	<u>(210)</u>		1
		<u>(486)</u>	
Net Parliamentary grant received		4,274	1
The grant was utilised to finance			
- net cash outflow from operating activities	5,182		1/2
- net capital expenditure (150-30)	<u>120</u>	<u>(5,302)</u>	1
Decrease in cash		<u>(1,028)</u>	1/2

(6)

(c) **Animal Welfare Agency Cash Flow Statement for the year ended 31 March 2001**

Cash Flows	£000	£000	
Net cash outflow from operating activities		(5,182)	1
Investing activities			
Purchase of fixed assets	(150)		1
less			
receipts from sale of fixed assets	<u>30</u>		1
Net cash outflow from investing activities		<u>(120)</u>	1
Net cash outflow before financing		(5,302)	1
Financing			
Net vote expenditure appropriated in the year		<u>4,274</u>	1
Decrease in cash and equivalents		<u>(1,028)</u>	1
		<i>1 mark for presentation</i>	(8)

(d) **Five main categories of cash flows**

Operating activities: May be disclosed by the direct or indirect method. Shows the cash flows associated with the ordinary activities of the organisation.

Returns on investments and servicing of finance: Includes non-trading revenues (eg interests received) less any revenue transaction relating to financing (eg dividends to shareholders). Distinguishes cash flows relating to the financing of the organisation from those relating to the profits of the business.

Taxation: Usually relates to the payment of Corporation Tax and as such rarely appears in the cash flow statements of Government entities. VAT is not included here and any non-recoverable amounts would be included in the operating activities.

Investing activities: Capital cash flows not related to financing of the business ie

- amounts paid to acquire fixed assets or sums received on disposal of fixed assets;
- investments made or redeemed; and
- loans made by or repaid to the organisation.

Financing: Any injections of new finance should be shown separately as should repayment of any loan finance. In the central government context this would include funds provided by the Vote for on-Vote agencies and repayment of National Loans Fund advances for trading funds.

Up to 1 mark per point made to a maximum of 5 marks

(5)
(25)

Question 3

(a) **Ledger entries (all £000)**

Consolidated Fund			
o/bal	376	PGA	813
PGA	4,900	PMA	12,328
PGA	8,140	Bal c/d	275
	<u>13,416</u>		<u>13,416</u>
Bal b/d	275		
Sub Accountants			
o/bal	62	Running costs	634
Orders Payable	854	Awards	268

1½

		Bal c/d	14	
	916		916	<i>1</i>
Bal b/d	14			

Parl. Grant Account (PGA)

Cons Fund	813	o/bal	813	
Running costs	6,097	Cons. Fund	4,900	
Other current costs	1,984	Cons. Fund	8,140	
Capital	890	A in A	812	
Awards	4,622			
Bal c/d	259			
	13,852		13,852	<i>1½</i>
		Bal b/d	259	

Paymasters Account (PMA)

o/bal	375	Orders Payable	13,215	
A in A	972			
Cons. Fund	12,328	Bal c/d	460	
	13,675		13,675	<i>1½</i>
Bal b/d	460			

Running Costs

Orders Payable	5,397	PGA	6,097	<i>½</i>
Sub accountants	634			
Awards	66			
	6,097		6,097	

Orders Payable			
PMA	13,215	Running costs	5,397
Other Current Costs	49	Other current costs	2,033
Awards	71	Sub Accountants	854
		Capital	890
Bal c/d	330	Awards	4,491
	13,665		13,665
		Bal b/d	330
Other Current Costs			
Orders Payable	2,033	Orders Payable	49
		PGA	1,984
	2,033		2,033
Capital			
Orders Payable	890	PGA	890
Awards			
Orders Payable	4,491	Orders Payable	71
Sub Accountants	268	Running costs	66
		PGA	4,622
	4,759		4,759
Appropriations in Aid (A in A)			
PGA	812	PMA	972
CFER	160		
	972		972
CFER			
		A in A	160

1½

½

½

½

½

½

(10)

(b) **Statement of liabilities and assets as at 31 March 2001**

	£000	£000	
Consolidated fund	275		Available, undrawn grant.
Sub Accountants	14		Equivalent to imprest.
Parl. Grant Account		259	2000/2001 underspend.
Paymasters Account	460		Equivalent to bank balance.
CFER		160	Unreturned extra receipts.
Orders payable		330	Uncashed OPs at year end
	<u>749</u>	<u>749</u>	

*1 mark for
balances and
½ mark for
each
explanation*

(4)

(c) **Appropriation Account for the Department of Rural Regeneration for the year ended 31 March 2001**

	Grant	Expenditure	Less than	More estimate	
	£000	£000	£000	£000	
A1 Running costs	5,789	6,097		308	
A2 Other current costs	2,391	1,984	407		1
A3 Capital costs	892	890	2		
A4 Grants and transfers (current)	4,780	4,622	158		
Gross total	13,852	13,593	567	308	
			<u>Surplus</u>		
			259		1
	Auth	Applied			
A in A	812	812			
Net total	13,040	12,781			1

Table of receipts

	Authorised	Realised	
Receipts of classes authorised to be used as A in A	812	972	
A in A applied		812	1
Net total		160	

Actual sum payable separately to consolidated fund: £160,000

Note: Cash limit reduced to £12,900,000.

1/2
Presentation 1 1/2
(6)

(d) **Changes in format in Resource Accounts**

- Schedule 1 – Summary of Resource Outturn. Parliamentary control total showing outturn with estimate and overall cash requirement of the Department in the financial year.
- Schedule 2 – Operating Cost Statement; (plus Statement of Total Recognised Gains and Losses). Shows the resources consumed by the department (both administration and programme) net of income on an accruals basis including depreciation and cost of capital.
- Schedule 3 – Balance Sheet. Shows for the first time the value of all assets and liabilities at modified historic cost.
- Schedule 4 – Cash Flow Statement. The net cash flows of the department analysed principally into operating, capital and financing cash flows.
- Schedule 5 – Resources by Departmental Aims and Objectives. Resources consumed (both operating and capital) in year analysed by the aims and objectives of the department.

*1/2 mark per schedule with an additional 1/2 mark for an explanation of what it contains to a maximum of (5)
(25)*

Question 4

(a) **Format, introduction and conclusion**

(up to 3 marks for suitable format, introduction and conclusion)

(b) **Factors making monitoring of financial information more important**

- increased accountability – e.g. change to accruals accounting under RAB
- pressure for cost savings / efficiency initiatives

- need to demonstrate value for money
- introduction of Open Government / consumer focused approach and therefore greater expectations from public/taxpayer
- competition and market testing – need to be able to identify costs and related income streams
- increased use of benchmarking in public sector

(1 mark for each issue identified plus 1 mark for implications of each – to a maximum of 8 marks)

(c) Uses to which financial information is put within Central Government

- monitor and control spending/cash flow in year
- reallocation of spare resources in year
- review performance against objectives e.g. unit costs and PIs
- policy review e.g. monitor use of resources in line with policy objectives (RAB)
- manage maintenance and replacement of capital assets
- demonstrate value for money
- set price or recharge levels to internal or external customers
- promote accountability of budget holders for resources under their control
- demonstrate accountability to Parliament via annual audited accounts
- form basis of estimate for future bids for resources

(½ mark for each use identified to a maximum of 3 marks)

(d) Characteristics of good information in general

- objective – lack of bias in the collection or presentation of data
- consistent – basis of preparation should allow meaningful comparisons
- timely – should be produced within a timescale appropriate to requirements
- comparable – ie compare like with like especially across sectors
- easy / economical to prepare – it should not cost £10 to monitor £5 of expenditure
- relevant to users needs – eg the level of detail on financial performance will typically decrease the higher in the organisation it is being reported

(½ mark for each use identified to a maximum of 3 marks)

(e) **Types of financial reporting techniques**

- commitment accounting – recording expenditure at the time the decision to commit to it rather than strict accounting rules on recognition. Enables budget holders more accurately to see how much of a budget remains. Particularly useful at end of year to avoid overspending owing to late submission of bills.
- profiling – forecasting patterns of expenditure during the financial year based on past patterns/known events. Usually done on a monthly basis. Enables a more accurate picture of spending against budget to be formed throughout the year and significant variances reported.
- variance analysis – regular comparison of outturn against budget or target figures eg at the end of every monitoring period, to look for significant variations. Requires interpretation by managers to decide what a significant variation is either on a monetary basis, percentage deviation from budget or a combination of these.
- exception reporting – based on a system of variance analysis eg if expenditure on a particular project varies by greater than a certain margin the reporting system will indicate this. Especially useful for reporting at more senior management levels since it allows attention to be focussed on key areas and may help avoid information overload.

(1 mark for each technique identified with 1 mark for explanation of the use of each–

to a maximum of 8 marks)

(25)

Question 5

(1 mark for appropriate format and tone)

(a) Source of revenue funds

- Trading funds do not receive any running cost funding from their parent department
- Set up in the expectation they will meet all running costs from normal trading activities

(1 mark per point made to a maximum of 2 marks)

(b) Sources of capital assets

- Internally generated funds eg surpluses or capital receipts (although likely these would be used to reduce debt first)
- Interest bearing loans to trading fund from either parent department or National Loans Fund (NLF) – subject to external financing limits
- Extra issues of Public Dividend Capital (PDC) by responsible Secretary of State
- PFI/PPP schemes
- Donated assets

(1 mark per point made to a maximum of 4 marks)

(c) Public Dividend Capital and rates of return

- PDC is issued by the Secretary of State, usually 50:50 with interest bearing debt when a Trading fund is originally set up
- Additional issues of PDC can be granted by the Secretary of State in order to fund capital expansion
- Dividends can only be declared by the Secretary of State or the Treasury
- Dividends are declared to return surpluses to the Consolidated Fund, usually only after debt has been redeemed
- The “rate of return” is a return on capital employed (fixed assets and working capital) separate from any dividends
- It is usually the test discount rate used by Treasury for investment appraisal – this is 6% (8% for bodies operating in a commercial sector)
- Represents either a Surplus to be achieved on operations or an opportunity cost of the capital tied up in the assets of the organisation
- It is a notional charge in the accounts of the trading fund

(1 mark per point made to a maximum of 8 marks)

(d) Annual financial statements – content and guidance

Content

- An explanatory forward
- Statement of accounting policies
- Operating statement (including statement of total recognised gains and losses)
- Balance sheet
- Cash flow statement
- Notes to the accounts
- Statement of Accounting Officer’s responsibilities for the statement of accounts

Guidance

- Government Accounting
- Other Treasury guidance
- Companies Act 1985-1989)
- UK GAAP) as applicable
- Financial Reporting Standards)
- Accounts Direction issued by Treasury specifying any additional disclosure requirements

(½ mark per point made to a maximum of 6 marks)

(e) Methods of accountability

- Annual financial statements prepared under Government Trading Fund Act 1973

- Statement by Accounting Officer (Chief Executive) on internal financial controls
- Accounts & statement audited by C&AG/NAO - report to Parliament
- Possibility of Value for Money reports by C&AG/NAO
- Appearance of AO before Public Accounts Committee (PAC) on matters relating to annual accounts or VFM reports
- Key performance targets set by Secretary of State – may be financial or non-financial
(1 mark per point made to a maximum of 4 marks)

(25)