FINANCIAL REPORTING IN FURTHER AND HIGHER EDUCATION

Professional 2
5 June 2001

MARKING SCHEME

Question 1

Outwood College

Consolidated income and expenditure account for the year ended 31 July 2000

	Workings	**£000**	***Marks***
Income:			
Tuition fees and grants	College	18,368	
Fees and charges	OCT	2,300	
Other operating income	College	3,617	
Investment income	College	108	
Profit on sale of land	342-310 (ii)	32	*1*
Total income		24,425	
Expenditure:			
Staff costs	(12,800+1,200)+(3%*3/12) (vii)	(14,105)	*1*
Other operating expenses	see working 1	(5,530)	*2*
Depreciation	783 + 11 + 30 + 634 (see workings 2 & 3)	(1,458)	*3*
Loss on sale of equipment	20-8 (ii)	(12)	*1*
Interest payable	845 + 20 (v) (see working 3)	(865)	*1*
Total expenditure		(21,970)	
Surplus before tax		2,455	
Taxation	(viii)	(12)	½
Surplus after tax		2,443	

Working 1: Other operating expenses	**£000**
Balances: College	
Operating costs	4,839
Opening stocks	1,237
Balance: OCT Ltd	540
Closing stock (iv) (1,140-47+2)	(1,095)
Annual lease payment	(41)
Provision (vi)	50
	5,530

Consolidated balance sheet as at 31 July 2000

	Workings	£000	Marks
Fixed assets			
Land	15,600+275 (see working 2)	15,875	*1*
Buildings	15,201+407 (see working 2)	15,608	*2*
Equipment and machinery	See workings 2 & 3	3,041	*3*
Investment	2,175-100 (shares in OCT)	2,075	*½*
		36,599	
Current assets			
Stocks	(iv)	1,095	*1*
Debtors	4,735+310+250 (ix)	5,295	*1*
Cash at bank & in hand	OCT	150	
		6,540	
Creditors < one year			
Bank overdraft	College	(166)	
Other creditors and accruals	5,137+180+50(vi)+105(vii)	(5,472)	*1*
Finance lease	See working 3	(23)	*1*
Taxation	(viii)	(12)	*½*
		(5,673)	
Creditors > one year			
Loans	College	(14,500)	
Finance lease	300-21-23 (see working 3)	(256)	*1*
		(14,756)	
Net assets		22,710	
Represented by			
Revaluation reserve	16,000+150+1,160+25+2,900-1,716+50-12 (ii)(see working 2)	18,557	*1½*
Income and expenditure account	1,360 + 100 + 250 (ix) + 2,443 surplus	4,153	*1*
		22,710	
Format & presentation			*1*
TOTAL			*25*

Working 2: Analysis of fixed assets

	Cost/valuation £000	Depreciation £000	Book value £000
Land (College)			
Balance	14,750		14,750
Disposals	(310)		(310)
Revaluation	1,160		1,160
At 31.7.00	15,600		15,600
Land (OCT)			
Balance	250		250
Revaluation	25		25
At 31.7.00	275		275
Buildings (College)			
Balance	36,250	21,450	14,800
Additions/charge for year		783	(783)
Revaluation	2,900	1,716	1,184
At 31.7.00	39,150	23,949	15,201
Buildings (OCT)			
Balance	500	120	380
Additions/charge for year		11	(11)
Disposals			
Revaluation	50	12	38
At 31.7.00	550	143	407
Equipment & machinery (College)			
Balance	6,400	2,975	3,425
Additions (v)	300	30	270
Charge for year		634	(634)
Disposals	(60)	(40)	(20)
At 31.7.00	6,740	3,599	3,041

Working 3: Lease payments

Total lease payments = £41,000 * 10 years =	£410,000
Fair value of asset =	£300,000
Total interest = £410,000 - £300,000 =	£110,000
Sum of the digits = 1+2+3+4+5+6+7+8+9+10 =	55
Interest per digit = £110,000/55 =	£2,000
Interest 1999/2000 = £2,000 * 10 =	£20,000
Interest 2000/01 = £2,000 * 9 =	£18,000
Principal repaid 1999/2000 = £41,000 - £20,000 =	£21,000
Principal repayable 2000/01 = £41,000 - £18,000 =	£23,000

Accounting entries:

Dr Interest payable	£20,000	
Dr Finance lease (Creditor > one year)	£21,000	
Cr Operating costs		£41,000
Dr Finance lease (Creditor > one year)	£23,000	
Cr Finance lease (Creditor < one year)		£23,000

Question 2

(a)
Godstone University: Cash flow statement for the year ended 31 July 2000

	£000	£000	*Marks*
Net cash inflow from operating activities (w1)		4,325	*8½*
Returns on investments and servicing of finance:			
Investment income received	100		*½*
Interest paid (800 –100 + 75) (ii)	(775)		*1*
		(675)	
Taxation:			
Tax paid (previous year)		(300)	*1*
Capital expenditure and financial investment:			
Acquisition of land & buildings (i)	(600)		*½*
Acquisition of plant & equipment (i)	(2,650)		*½*
Acquisition of motor vehicles (i)	(1,250)		*½*
Investments made (2,000 – 1,500)	(500)		*½*
Proceeds from sale of fixed assets (v)	1,150		*1*
		(3,850)	
Cash outflow before financing		(500)	
Financing:			
6% Loans raised (iii)	1,750		*1*
14% Loan repaid (ii)	(500)		*1*
		1,250	
Increase in cash during the year		750	
Note 2 (see below)			*3*
Format and presentation			*1*
			20

Note 1: Reconciliation of Surplus to net cash flow from operations

	£000	*Marks*
Surplus for year (see workings below)	2,850	
Add: Depreciation (150 + 800 + 750) (i)	1,700	*1*
Loss on sale of plant & equipment [400(i) - 300(v)]	100	*½*
Loss on sale of motor vehicles [200(i) – 150(v)]	50	*½*
Less: Profit on sale of land & buildings [700(v) – 500(i)]	(200)	*½*
Decrease in stocks (1,200 – 1,400) (ii)	200	*½*
Increase in debtors (4,700 – 3,300) (ii)	(1,400)	*½*
Increase in creditors (2,600 – 100) – (1,550 - 75) (ii)	1,025	*1*
	4,325	

Workings

Surplus for year	2,150	
Add back: Interest paid (see below)	800	
Less: Investment income	(100)	
Revised surplus	(2,850)	*2*

Interest payable comprises:	**£000**	**Marks**
£500,000 @ 14% repaid on 31 January 2000 (ii)	35	
£500,000 @ 14%	70	
£3,250,000 @ 10%	325	
£3,500,000 @ 9%	315	
£1,750,000 @ 6% from 1 April 2000	35	
Bank interest (iv)	20	
	800	*2*

Note 2: Reconciliation of net cash flow to movement in net debt

	£000
Increase in cash	650
Decrease in overdraft	100
Loans received	(1,750)
Loans repaid	500
Change in net debt	(500)

Analysis of the movement in net debt

		Movements		
	1 August 1999	**Cash**	**Other**	**31 July 2000**
	£000	**£000**	**£000**	**£000**
Loans repayable after more than 1 year	(7,250)	(1,750)	500	(8,500)
Loans repayable within 1 year	(500)	500	(500)	(500)
Cash at bank/overdraft	(100)	750		650
Net debt	(7,850)	(500)	0	(8,350)

(b)

The acquisition of fixed assets (£4,500k, excluding investments) has been partly funded from the proceeds of the sale of other fixed assets (£1,150k) and the raising of loans (£1,250k net).

The balance has been funded from the net cash inflow generated from operations of £3,350k (ie £4,325k, offset by net interest paid £675k and tax paid £300k). The cash inflow on operations was achieved as a result of operating at a surplus (this may have been planned deliberately or the University may have had a "good" year) and through cash retentions through depreciation (£1,700k).

The excess of cash raised has eliminated the overdraft which existed at the start of the financial year and, after investing £500k, left the University with cash in hand of £650k at the year end.

It may be argued that much of the loan raised during the year (£1,750k) was unnecessary given the investment and the high closing cash balance. However, the long term loan situation needs to be viewed in the context of the forthcoming repayment of £500k on 1 January 2001 and the comparative interest rates (old debt bearing interest at 14% being replaced by new loans at 6%).

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(25)

Question 3

(a) Unit cost of activities

Costs	A	B	C	D	E	F	Total	
Direct	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	
Teaching staff	800	1,250	450			625	3,125	
Supplies	200	420	50	10	40		720	
Room rentals	50	100	20				170	
Total direct cost	1,050	1,770	520	10	40	625	4,015	*1*
Dept overheads	70	124	38	44	652	60	988	*1*
CBS costs	1,120	1,894	558	54	692	685	5,003	
*University overheads **	98	164	48	1	4	58	373	*1*
Full cost	1,218	2,058	606	55	696	743	5,376	½
Units								*1½*
Student numbers	180	140	40					
Research days #						2,400		
Delegate days				1,250	9,500			
Unit cost (£)	**6,767**	**14,700**	**15,150**	**44**	**73**	**310**		*1*

Total marks *(6)*

Key:
A Undergraduate programmes
B MBA programme
C Other postgraduate programmes
D Day conferences
E Residential conferences
F Research

* University overheads = (373/4,015) * 100 = 9.29% of direct cost
# Research days = 40 wks x 5 days x 12 WTE = 2,400

(b) Contribution

Costs	A £000	B £000	C £000	D £000	E £000	F £000	Total £000	
Income	1,404	1,750	280	24	880	1,000	5,338	*1½*
Direct cost	(1,050)	(1,770)	(520)	(10)	(40)	(625)	(4,015)	½
Other direct costs								*1*
- catering	(39)	(49)	(20)	(20)	(395)	0	(523)	
- domestic staff					(80)		(80)	
- energy (rooms)	(1)	(11)	(1)	(4)	(24)	0	(41)	
CBS costs	(1,090)	(1,830)	(541)	(34)	(539)	(625)	(4,659)	½
Contribution	314	(80)	(261)	(10)	341	375	679	½
Dept overheads	(30)	(64)	(17)	(20)	(153)	(60)	(344)	½
Contribution/(cost) to CBS	284	(144)	(278)	(30)	188	315	335	½
University overheads	(98)	(164)	(48)	(1)	(4)	(58)	(373)	½
Surplus/(deficit)	186	(308)	(326)	(31)	184	257	(38)	½

Income calculations:

Undergraduate =	180 * (£1,000 + £6,800)
MBA =	140 * £12,500
Postgraduate =	40 * (£5,500 + £1,500)

Other income is provided in the question.

Summary	**Surplus /(deficit) £000**	
A Undergraduate	186	
B MBA	(308)	
C Postgraduate	(326)	
D Day conference	(31)	
E Residential conference	184	
F Research	257	
	(38)	
Bar profits (350 - 170 - 25)	155	*1*
BUBS surplus for year	117	

Comments:

- Overall surplus (£117k);
- Making a contribution to University overheads (£335k);
- Academic activities (A, B, C and F) incur a deficit of £191k;
- Commercial operations (D, E and bar) make a surplus of £308;
- Scope for improving financial performance of academic activities (esp. MBA and Postgraduate), eg more efficient use of resources (esp staff) increasing student numbers, raising prices (dependent upon market conditions);
- Scope for improving financial performance of day conferences (eg raising prices, increasing number of delegate days, cost reductions – subject to market conditions);
- Consider charging for staff lunches;
- Any other reasonable comment.

1 mark per comment reasonably explained up to a maximum of 5

(12)

(c) Planning pro forma (content)

Non - financial content: name of course; purpose of course; other constraints (eg timing, room requirements); minimum and maximum number of participants).

Financial content: resourcing (staff input, direct supplies, other direct costs eg room or equipment hire); course fee; expected income; net contribution.

1 mark per comment reasonably explained up to a maximum of 4

(d) Additional information

This could include: profiles; room areas; master timetables and course schedules; benchmarking and PI's; bar usage data; actual funding unit values for 1999/2000; other appropriate comments.

1 mark per comment reasonably explained up to a maximum of 3

(25)

Question 4

(a) Management of the whole organisation.
How the organisation achieves its purpose.
Protecting stakeholders interest in the organisation. *2*

Elements of

Leadership	Stewardship
Security	Vision
Direction	Influences
Values	

1 mark for each topic mentioned to maximum of 3

(5)

(b) **Background/context**

Cadbury 1992
separation of role of CE/Chairman/ Company Secretary
role of Audit Committee

Greenbury 1995 developed Cadbury
Remuneration committee.
Greater disclosure of remuneration packages and policy

Hemple 1998
Directors re-elected every 3 years
Boards make full presentation to AGM

3

EITHER

HEFCE produced 1998 Effective Financial Management in Higher Education (guide for governors/heads of institutions/ and senior managers)

10 principles

- Governing Body responsible for key decisions and financial health
- Role and responsibilities of governing body, committees and senior managers understood
- Their competencies reviewed regularly
- Strategic plans in place
- Corporate plans and financial strategy
- Opportunities and risks recognised, assessed and managed
- Information reliable, relevant and timely
- Communication effective
- Appropriate structure in place for achievement
- 1998 HEFCE Audit code of practise updated including model key documents

1 mark for each point to maximum of 7

OR

FEFC
Casterbridge financial statements
statement on corporate governance and management
statement on systems of internal controls including

- comprehensive budgeting system
- reviews of financial reports
- financial and non-financial targets
- capital control framework in place

Audit committee play a major role
FEFC Audit code of practice revised

1 mark for each point to maximum of 7

(10)

(c) **Effectiveness** can be assessed in a variety of ways;

- changes in culture , more proactive , finance relevant
- structure , more appropriate structure
- internal control framework evident and robust
- value for money
- improved quality

The candidates may offer the above attributes or some others. This list is certainly not exhaustive. The attributes should preferably be supported by example(s) from their own institutions.

2 marks for each example of effectiveness to a maximum of 10

(25)

Question 5

(a) Main stages are:

Client	Contractor
Publication of notice	Initial expression of interest
Send questionnaire and outline details including specification available	Formal notification of interest
Invitation to tender (send contract documentation)	Submission of tender
Tender evaluation and announcement of award	Start contract

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(b)

Advantages	Disadvantages	
Lump sum contracts supported by bill of quantities		*1*
Administratively easier	Difficult to reach agreement on price	*1*
Schedule of rates		*1*
More flexible as volume levels taken into account; variability reflected in demand	Risk of not recovering full costs since based on estimate of prices	*3*
Lump sum contracts supported by specifications		*1*
Takes quality into account and specifies measurement of outputs, tasks, inputs and level of service	Detailed costing exercise needed	*2*

(9)

(c) Presentation – *useful to the person evaluating tenders and clearly laid out.* *2*
Content should reflect the essential factors to be considered:
(i) lowest price or most advantageous basis?
(ii) tender price
(iii) price to points formula
(iv) lower credible price limit
(v) coverage of specification
(vi) technical performance assessment
(vii) non-subjective criteria.

Detailed knowledge of building cleaning is not required but student's ability to apply knowledge to a practical scenario should be rewarded. *8*

(10)

(25)