

FINANCIAL REPORTING IN FURTHER AND HIGHER EDUCATION

Professional 2 examination **8 June 1999**

From 10.00 am to 1.00 pm,
plus ten minutes reading time from 9.50 am to 10.00 am

Instructions to candidates

*Answer **four** questions in total. **Both** questions from Section **A** and **two** 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 examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

SECTION A (Answer both questions)**1**

The following information relating to your College has been provided for the year ending 31 May 1999.

The Director of Finance is keen to get a full understanding of the cash flows for the year before the next Board meeting, which is to take place in the next few days. He has asked you, as the Technical accountant, to prepare a Cash flow statement from the following information he has extracted from the financial ledger and records.

In addition, he wants a briefing note for another meeting on the main changes to FRS1.

Information

	£	
(i) Surplus for the year	1,833,000	
(ii) Depreciation	1,556,000	
(iii) Investment income	3,797,000	
(iv) Interest payable	144,500	
(v) Movements in working capital		
Stocks	+ 62,000	
Debtors	+2,432,500	
Creditors	+2,693,000	
Investment income due	- 690,000	
(vi) Deferred capital grants of £10 million are being written off over a 10 year period.		
(vii) Taxation paid on the profits of a college subsidiary company totals £25,000.		
(viii) Cash movements in the year (closing balances in brackets) amount to;		
Endowment assets	+£172,500	(£172,500)
Other	+£1,018,000	(£13,963,500)
Overdraft	-£17,500	(£302,000)

- (ix) Capital expenditure for the year was;

Buildings	£5,264,000
Equipment	£228,000
Endowment investments	£2,700,000

- (x) Capital receipts for the year were;

Sale of endowment assets	£2,100,000
Capital grants	£375,000
Endowments received	£600,000

- (xi) Debts raised totalled £3,950,000, while loans repaid totalled £1,125,000.

• **Requirement for question 1**

- (a) Prepare the Cash Flow statement for the year, including a reconciliation of surplus to cash flow from operations and an analysis of changes in net funds. 19
- (b) Draft a briefing note to the Director of Finance highlighting the principal changes included in the revised FRS 1. 6

(25)

2

The following trial balance at 31 May 1999 has been extracted from the ledgers of Hilltop College, a Further Education College operating within the FE sector.

	£000
Staff	12,500
Operating costs	8,500
Interest charges	250
Fee and Grant income	17,500
Other income	4,000
Land	5,500
Buildings	9,000
Buildings depreciation	3,500
Equipment	3,000
Equipment depreciation	2,500
Stock	2,000
Debtors	4,000
Cash	50
Creditors	5,750
Provisions	500
Depreciation 1998/99	
- Buildings	300
- Equipment	200
Long-term loans	4,000
Revaluation	600
I+E Reserve	6,950

The Financial Accountant has investigated the ledger and other financial records and discovered the following transactions have not been included in the accounts;

- (i) Investment income of £275,000 is due but had not been received as at the 31 May 1999.
- (ii) £1.5 million of capital expenditure on equipment was financed as follows;

Revenue	£0.25 million
Finance Lease	£1.25 million

The finance lease is over 4 years at an annual rental of £400,000, with the first rental payment due on the 1 June 1999.

- (iii) A loan has been raised to finance building work totalling £400,000. There was a delay in receiving the cash from the bank due to a computer logic error. The treasury manager was delaying payment to the contractor until the cash was received. The cash was credited to the college's account on the 4 June. The building work was not included in the accounts.
- (iv) A plot of land that was surplus to requirements and valued at £0.65 million in the books was sold in-year for £1 million. The land had originally cost £0.5 million. The transaction has not been recorded in the ledger and any gain from the sale should be appropriated to a capital reserve.
- (v) The remaining land had been professionally valued at the 31 May 1998 and was found to have increased in value by £450,000 (excluding the land sold during the year). The revaluation report was not actioned in the 1997/98 accounts and, although no formal revaluation has taken place, local land prices are known to have risen by 0.4% since 31 May 1998.

- **Requirement for question 2**

- (a) Prepare the Income and Expenditure account for the year ended 31 May 1999 together with a Balance Sheet as at 31 May 1999. 15
 - (b) Draft a report to the Financial Accountant explaining your treatment of the various adjustments, identifying the accounting standard wherever appropriate. 10
- (25)

SECTION B (Answer two questions)**3**

There has been a number of well publicised examples of less than acceptable standards of management in a variety of public services, including the further and higher education sector, in the last decade.

In a number of cases millions of pounds of taxpayers money have been lost. Consequently the issue of corporate governance has become a very significant item on the agenda of senior management and is likely to stay so for the foreseeable future.

You are a newly appointed management accountant, and the Director of Finance is preparing a booklet on an introduction to finance for newly appointed governors, senior managers and other relevant parties. He has asked you to prepare the section on corporate governance.

- **Requirement for question 3**

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|-----|--|------|
| (a) | Explain of the term 'corporate governance'. | 5 |
| (b) | Describe how the higher and further education sector has addressed the issue of corporate governance in the last decade. | 10 |
| (c) | Comment on the effectiveness of the measures introduced to date and suggest any areas of potential further developments. | 10 |
| | | (25) |

4

A new member of the Board of Governors is a recently retired Managing Director of a large local manufacturing company. It is anticipated that the new Board member will be asked to join the Finance Committee and various senior members of the Finance department have been asked to write up briefing material for the new Governor.

You and a colleague have been asked to write briefing material on issues around capital financing and the capital programme.

You have agreed to write material on sources of finance and the accounting treatment of capital transactions, (**excluding** the Private Finance Initiative which is being dealt with separately).

- **Requirement for question 4**

The format for this question should be in a style appropriate for presentation to the new Governor.

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|-----|---|-------------|
| (a) | Identify the principal sources of capital finance available to Further and Higher education institutions with a brief description of each source and its individual features. | <i>10</i> |
| (b) | Write a note on the accounting treatment for capital acquired using the different methods of financing, including the appropriate journal entries. | <i>15</i> |
| | | <i>(25)</i> |

5

You are the Deputy Director of Finance of your institution and have been asked by an accounting student magazine to write a brief article for students on the accounting policies used in the production of the institution's accounts.

The editor has asked in response to students' requests that your article centres in particular on a number of identified areas.

- **Requirement for question 5**

Draft the article as requested, ensuring the following topics are included;

- Subsidiary undertakings 4
- Pensions 4
- Fixed Assets 4
- Exceptional and extraordinary items/prior year adjustments 4
- Long term and planned maintenance 4
- Post balance sheet events 4

1 mark for presentation
(25)