FINANCIAL REPORTING IN FURTHER & HIGHER EDUCATION

Professional 2
June 1999

MARKING SCHEME

CIPFA

Question 1

(a)

Reconciliation of surplus to net cash flow

	£000	
Surplus for year	1,883	
ADD Depreciation	1,556	½
Provisions made for year	683.5	*1*
LESS Deferred capital grants released	(1,000)	*2*
Investment income	(3,797)	½
ADD Interest payable	144.5	½
Increase in stock	(15.5)	½
Increase in debtors	(2,432.5)	½
Increase in creditors	2,693	½
	(335)	
		(6)

Cash Flow Statement

	£000	
Net cash inflow/(outflow) from operations	335	
Returns on investment and servicing of finance		
Investment income (3,797+172.5)	3,969.5	*2*
Interest payable	(144.5)	½
	3,490	
Taxation	(25)	½
	3,465	
Capital expenditure and investment		
Acquisition of fixed assets (5,264+228)	(5,492)	*1*
Acquisition of endowment investments	(2,700)	½
Receipts from sale of endowment assets	2,100	½
Capital grants	375	½
Endowment received	600	½
	1,652	
Management of liquid resources	**nil**	½
Financing		
Loans raised	3,950	½
Loans repaid	(1,125)	½
Net cash outflow from operations	1,173	½

(8)

Analysis of changes of net funds

	Opening	**Cashflow**	**Closing**
Endowment assets	0	+172.5	172.5
Other	12,945.5	+1,018	13,963.5
Overdraft	(284.5)	(17.5)	(302)
	12,661	1,173	13,834

(5)

(19)

(b)

Major changes include;

- Dividend separated not applicable - any dividends paid disappear on consolidation
- Management of liquid resources - buying and selling short - term investments
- Acquisition and mergers - possibly applies
- Cash not equivalents - applies
- Capital expenditure and financial investment - applies

1 mark for each point and (maximum 5 marks) 1 mark for presentation

Question 2

(a)

Income and Expenditure Account

	£000	£000	
Income			
Grants and fees	17,500		
Other income (4,000+275)	4,275	21,775	*½*
Expenditure			
Staff costs	12,500		
Other operating costs	8,500		
Depreciation (300+200)	500	(21,500)	
SURPLUS before interest and taxation		275	
Exceptional item			
Profit on sale of asset		750	*1*
		1,025	
Interest payable		(250)	*½*
		775	
Tax		0	
Surplus for year		775	
			presentation ½

BALANCE SHEET

	£000	£000	
Fixed Assets			
Land (5,500-650+450)		5,300	*1*
Buildings		9,400	
Less depreciation	(3,500)	5,900	*1*
Equipment (3,000+1,500)	4,500		
Less depreciation	(2,500)	2,000	*½*
		13,200	
Current Assets			
(6,000+50+275-250+1,000)	7,075		*2½*
Creditors less than 1 year			
(5,750+260+400)	(6,410)	665	*½*
		13,865	

LESS

Creditors more than 1 year (1,500+2,500)	(4,000)	*½*
Deferred creditors (1,250-260)	(990)	*1*
Provisions	(500)	
	8,375	
Financed by;		
Revaluation reserve (600-400+450)	650	*1*
I+E reserve (6,950+775-750)	6975	*1*
Capital reserve (750)	750	*½*
	8375	

Finance Lease

Total lease payments £400,00 x 4 = £1,600,000

Principal element (fair value) = £1, 250,000

Interest element = £350,000 (1,6000,000-1,250,000)

Using sum of digits 4+3+2+1=10

Interest in first payment = £350,000/10 x 4 = 140,000

(2½)
(15)

(b)

(i) Income to be accrued SSAP 2 *1*

(ii) Capital expenditure is be included in Balance Sheet for finance lease.
Capitalise asset and create deferred liability-written of as principal paid. *4*

SSAP 12 / SSAP 2 /SSAP 21
FRS 5

(iii) Capital expenditure incurred therefore accrue SSAP 2 *1*

(iv) Recognise gain on sale - writing back unrealised gain on sale to RR show as exceptional given unusually large. *2*

SSAP 12 / FRS 3

(v) Not a PBSE-merely oversight. Revaluation still can be made with note to accounts 0.4 % revaluation immaterial. *2*

(10)

(25)

Question 3

(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
and
Values

1 mark for each topic mentioned to maximum of 3

(5)

(b)

Background/context

Cadbury 1992

separation of role CE/Chairman,
Audit Committee
Company Secretary

Greenbury 1995 developed Cadbury

Remuneration committee.
Greater disclosure of remuneration packages and policy

Hemple 1998

Directors reelected every 3 years
Boards make full presentation to AGM

3

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
Competencies of above 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
structure in place

1998 HEFCE Audit code of practise updated including model key documents

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

7

(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
(maximum of 10 marks)

Question 4

(a)

Capital Receipts

Proceeds from sale of fixed assets may be used to pay for future fixed assets , subject to central government restrictions. Funding councils permission may need to be sought in certain circumstances. *1*

Borrowing

Further and higher education institutions can borrow from external sources, banks or the money market , subject to certain restrictions. *1*

Revenue funds

Fixed assets can be bought from revenue - via a contribution to the capital reserve as capital cannot be charged to revenue. Often done when small capital expenditure necessary. *1*

Renewals accounts

These accounts are a way of spreading the costs of revenue funding of fixed assets in order to avoid the total revenue cost being charged in one year. An amount is charged to revenue each year and a provision is built up to pay for replacement fixed assets. *2*

Leasing

(i) **Operating lease**

Lease company buys asset and leases to institution. Ownership stays with the company. Asset does not appear on institutions balance sheet and payments go through the income and expenditure account. *2*

(b) The lease company provides the finance for the asset but the ownership of the asset passes to the institution at the end of the lease period. Assets financed under finance lease agreements are recorded in the balance sheet. *2*

The funding bodies make grants to institutions to fund capital spending. Capital grants should be shown in the accounts as a deferred liability and released to the I+E account to match the depreciation of the asset over its useful life. *1*

(10)

(b)

Capital Grants

Follow guidance from SSAP4 - grant credited to reserve and the benefit transferred to the I+E to match the depreciation of the asset.

Receipt of grant

DR Cash
CR Capital grants deferred a/c *2*

As asset depreciated

DR Capital grant deferred a/c
CR Income and Expenditure a/c *2*

Financing by capital receipts

Proceeds from sale of asset

DR Bank
CR Capital receipts *2*

Financing of new asset

DR Fixed Assets
CR Bank *2*

Financing from Revenue

DR Income and Expenditure a/c
CR Capital financing reserve *1*

Financing by lease

Operating lease - charge to I + E account *1*

Financing lease

The institution has an outstanding liability. Ownership lies with the institution and future payments need to be made.

Principal and interest elements need to be identified. Principal element = capital value of asset and should be shown as a liability which has to be repaid The expenditure has to be capitalised.

DR Fixed Assets
CR Deferred liabilities *2*

capitalisation of expenditure and recognition of liability under finance lease to repay principal

During life of lease principal repaid

DR Deferred liabilities
CR Cash *2*

and interest charged to I + E a/c

DR I + E (interest)
Cr Cash *1*

15

(25)

Question 5

Subsidiary Undertakings

Institutions with subsidiary undertakings are required to comply with FRS 2.

Accounts on consolidated basis - accounting year for subsidiaries as far as possible same acounts for institution alone must be presented alongside consolidated accounts.

SORP for HE requires clarification of relationship with Students Union. *4*

Pensions

SSAP 24 Accounting for pensions, requires employers to recognise expected costs of providing pensions to its employees on a systematic and rational basis over the period it derives benefit from the employees services.

Legal or contractual commitment under a pension scheme.

Or implicit in its actions to provide or contribute to pensions to its employees. *4*

Fixed Assets

Land or building to be capitalised.

Included in the balance sheet at cost or valuation.

When revalued changes to valuation need to be reflected in the revaluation reserve.

Equipment / Furniture over minimum value (£10,000 for FE).

Depreciation should be provided for in accordance with SSAP12. *4*

Exceptional/Extraordinary/ Prior Year Adjustments

***Exceptional items** - Items such as large scale redundancies, costs of industrial action i.e. events not expected to occur frequently. Should be charged to I+E and where material include in note to the Accounts.

***Extraordinary items** - Rare. Arise where material losses or surplus incurred a consequence of unlawful transactions

***Prior year adjustments** Need arises when changes in accounting policies implemented or fundamental errors occurred in previous year accounts.

Normally disclosed in the I+E a/c - if exceptional can appear as a note to accounts. *4*

Long term/planned maintenance

HE and FE differ

FE required to draw up long-term maintenance programme.Takes form of detailed schedule of costed building works probably over a ten-year rolling programme.

HE - financial memoranda requires estate strategy and regular review of buildings and land,

HE SORP requires institutions to set aside a realistic level of funds to provide for long term maintenance

HE and FE should debit annual maintenance provision to the I+E thus creating a provision against which maintenance works could be charged. *4*

Post Balance Sheet Events

Treatment based directly on SSAP 17.

Events having a bearing on financial results but occur between balance sheet date and date accounts signed by responsible officer.

Adjusting events - if material accounts need adjusting - ie retrospective pay awards, legal claims,

notification of grant entitlement after balance sheet date

Errors or frauds_ in accounts making accounts incorrect

Non adjusting events - if material note to accounts required.

Fire to insured property

Closure of college/university company

Disposal of land / buildings *4*

1 mark for presentation

(25)