

FINANCIAL REPORTING IN FURTHER AND HIGHER EDUCATION

Professional 2 examination 6 June 2000

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 trial balance is for Anytown University for the year ended 31 July 1999:

Trial Balance as at 31 July 1999

	Dr £000	Cr £000
Staff		
Academic	22,775	
Premises	2,097	
Administrative	2,321	
General	348	
Other	1,765	
Non-staff		
Academic	3,465	
Premises	5,953	
Administrative	1,009	
General	1,146	
Other	1,164	
Academic fees		16,609
Accumulated depreciation		
Equipment		2,000
Building		10,411
Land	10,000	
Building	40,390	
Depreciation charges for 1998/99		
Equipment	1,053	
Building	503	
Cash	14,136	302
Creditors falling due within one year		14,527
Mortgage		2,800
Deferred credit released to revenue		1,000
Deferred credit		28,616
Debtors	12,424	
Endowment asset investments	16,313	
Equipment revenue costs	2,348	
Endowment income		2,903
Funding council grants		26,020
General endowments		4,374
Income & Expenditure reserve		15,508
Interest	145	894
Miscellaneous expenditure	593	
Miscellaneous income		1,670

Pension costs	869	
Provisions		2,523
Revaluation reserve		8,000
Research grants		
Pay	7,625	
Other	5,623	
Income		15,297
Residences		
Pay	1,505	
Other	2,959	
Income		4,193
Specific endowments		12,112
Stock	330	
Student services		
Pay	550	
Other	817	
Services provided		
Pay	1,397	
Other	1,685	
Income		3,549
Equipment	10,000	
	<u>173,308</u>	<u>173,308</u>

Notes for trial balance

- (i) On 31 July 1999 pay awards for the 1998/99 year were agreed. Estimated costs for 1998/99 totalled £600,000.
- (ii) A recent internal audit report discovered that £113,000 of fees for 1998/99 had not been invoiced and no accounting transactions had taken place.
- (iii) The audit report also highlighted that a further provision of £100,000 was necessary to sustain the long term maintenance plan.
- (iv) A subsidiary company is to be consolidated. Transactions for that company in 1998/99 were:

Sales	£750,000
Staff	£272,000
Other costs	£314,000

The surplus of £164,000 is included in the ledger under miscellaneous income. There are no assets or liabilities relating to this company.

- (v) A mortgage of £2,800,000 is outstanding with a payment due in the next 12 months of £88,000.

- (vi) Cash in hand at 31 July 1999 includes endowment income of £173,000 which has been retained in specific endowment.

• **Requirement for question 1**

- (a) Prepare the Income and Expenditure account for the year ended 31 July 1999; and 10
- (b) Prepare the Balance Sheet as at 31 July 1999. 9
- (c) The issue of depreciation has caused confusion to many users of financial reports. Draft a note to accompany the above financial statements which:
- (i) Explains the purpose of depreciation;
 - (ii) Gives examples of different methods of calculating depreciation; and
 - (iii) Details the main influences in determining which depreciation method to use. 6
- (25)

2

In preparation for an important Finance Committee to discuss the performance of the college prior to a full Board meeting, the Director of Finance has collected the following information from a variety of sources:

Performance Information (all courses)	1998/99	1997/98
Students enrolled – full time equivalents (FTE)	15,538	14,658
Students completing courses-FTE	13,986	13,046
Students qualifying	5,020	4,826
Total expenditure less depreciation (£000)	88,000	80,000
Total income (£000)	91,700	87,500
Surplus/(deficit) (£000)	(1,558)	354
Net current assets (£000)	19,620	12,080
Long term loans (£000)	3,100	1,100
General funds (£000)	532	2,390

The following financial performance measures are also available:

	1998/99	1997/98
Liquid assets to current liabilities	1.47	1.17
Net liquid assets to total expenditure	72.0 days	36.5 days
Current assets to current liabilities	2.64	2.54
Debtor days	118.7 days	98.6 days
Payroll costs to expenditure	44.4 %	42.1 %
Surplus/(deficit) to total income	(1.7%)	0.4%
General funds to total expenditure (days)	2.2 day	10.9 days
Long term loans to general funds	583%	46%
Interest to total income	0.3%	0.1%

He has asked you, as Head of Finance and Information, to prepare a report on his behalf to be taken to the Finance Committee.

- **Requirement for question 2**

Draft a report for the Director for Finance which:

- (a) Demonstrates and comments upon the financial health of the college for the year and considers the implications of, and potential reasons for, the results this year; and 23
- (b) Identifies other non-financial performance measures that could be produced. 2

(25)

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

In the past Further and Higher Education institutions have acquired fixed assets financed in the main by either donations or specific government grants. However, successive governments have adopted policies involving the reduction of capital funding.

Against this background the Director of Finance has asked you, as the institution's Financial Accountant, to draft a report to the Board on the alternative sources of capital funding available to the institution.

The Director of Finance has also requested that the report should be complemented with a briefing paper to be circulated within the finance department only detailing the double entry requirements and accounting treatment arising from the various sources of capital funding.

- **Requirement for question 3**

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|--|----|
| (a) Draft the report to the Board on the various sources of capital financing currently available to the institution and comment briefly on the principal features of the various sources. | 12 |
| (b) Draft the complementary briefing paper for circulation within the Finance Department only on the accounting treatment required, arising from: | |
| • Capital Grants | 3 |
| • Capital Receipts | 2 |
| • Revenue Financing | 2 |
| • Leasing | 6 |

identifying relevant FRSs/SSAPs and other regulations where appropriate.

(25)

4

The principles of corporate governance have emerged as a major managerial issue throughout the public services (and the private sector) in the last decade. The successful implementation of the recommendations of the Cadbury Report and the Greenbury and Hempel Committees are now seen as essential to the effective delivery of public services management.

As Director of Finance, you have been asked to write an article for a student accountancy magazine on how the finance function has contributed to the delivery of corporate governance in your organisation.

- **Requirement for question 4**

Draft the article as requested.

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5**(a)**

A Board member has recently returned from a working visit to North America with his own trade organisation. He was enthused by the entrepreneurial spirit he came across during his visit. He was particularly impressed by a comment he heard from the Chief Executive of a private college he visited - "We do not have budgets here, the guys make bids, the Board agrees or not, and the guys live or die depending on their performance".

Whilst recognising the differences in culture the Board member is keen to examine the budgetary process further. He asks you, as Director of Finance of Anycollege, to provide him with a briefing paper that will answer the following questions:

Why do we have budgets in the college?

Who uses the budgets in the college?

- **Requirement for question 5a**

As the Director of Finance of Anycollege, draft the briefing paper on behalf to the Board member answering his questions:

- | | |
|---|-----------|
| (i) Why do we have budgets in the organisation? | <i>10</i> |
| (ii) Who uses the budgets in the organisation? | <i>5</i> |

(15)

(b)

The following budget report relates to the Catering Department of Anycollege. You are the Management Accountant and have been asked by the Director of Finance to draft a briefing note for him in preparation for a meeting with the Catering Manager regarding the following year's budget. In particular, he wants you to comment on the current year's performance and suggest any potential improvements to the following year's budget statements.

**Anycollege Catering Department
Budget Report
Month 10 1998-1999**

Budget heading	Annual budget	Budget this month	Expenditure this month	Cumulative budget	Cumulative expenditure	Cumulative variance
	£000	£000	£000	£000	£000	£000
Staff						
Managers	48	4	4	40	36	-4
Cooks	120	10	8	100	110	10
Catering						
Assts	180	15	13	150	133	-17
Cleaner	36	3	2.5	30	28	-2
Non-Staff						
Provisions	300	25	28	250	290	40
Hardware/ Crockery	12	1	2	10	10	-
Sub-Total	696	58	57.5	580	607	27
Income	720	60	54	600	540	60
Total	24	2	-3.5	20	-67	-87

- **Requirement for question 5b**

As the Management Accountant of Anycollege, draft the briefing note for the Director of Finance in advance of his meeting with the Catering Manager.

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