

# FINANCIAL REPORTING IN HOUSING ASSOCIATIONS

**Professional 2 examination  
June 1999**

## MARKING SCHEME

**Question 1**

(a) **Income and Expenditure Account for the Year Ended 31 March 1999.**

	<b>£000</b>	<b>£000</b>	
Turnover (8,400 + 3,000)		11,400	<i>1</i>
Less: Operating costs (5,320+36+600)	(5,956)		<i>1</i>
Cost of sales	(2,400)	(8,356)	<i>1</i>
		<hr/>	
Operating surplus		3,044	
Interest payable		(1,380)	
Interest receivable		696	
		<hr/>	
Surplus for the year		2,360	
Transfer to/from designated reserves			
- Rent surplus for year	(1,228)		<i>1</i>
- Repairs for year	892		<i>1</i>
- Capital surplus on sale	(840)	(1,176)	<i>1</i>
		<hr/>	
Retained Revenue Reserve		1,184	
Revenue reserve b/f		19,696	
		<hr/>	
Revenue reserve c/f		<u>20,880</u>	

	<b>Cost</b>	<b>Depreciation</b>	<b>Depreciation charge</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	
Buildings	4,000	2.5	100	<i>1/2</i>
Equipment (1,692-1,200) (viii)	492	20	100 <sup>1</sup>	<i>1</i>
New computer system	2,000	20	400	<i>1/2</i>
			<hr/>	
			600	
			<hr/>	
				<i>(8)</i>

<sup>1</sup> Rounded to 100.

(b) **Balance Sheet as at 31 March 1999**

	£000	£000	
<b>Tangible fixed assets</b>			
Housing properties (140,808+18,768+24,000-2,400)		181,176	<i>1</i>
Less: Grants (131,528-2,160+19,200)		<u>(148,568)</u>	<i>1</i>
		32,608	
Other assets (4,000+1,692-1,252-1,200+1,160+2,000-600)		5,800	<i>3</i>
		<u>38,408</u>	
<b>Current assets</b> (23,532+3,000+4-2000)	24,536		<i>1½</i>
<b>Less:</b> Creditors: amounts falling due within one year (1,296+2,160)	(3,456)		
Net current assets		<u>21,080</u>	<i>1</i>
Total assets less current liabilities		59,488	
<b>Creditors: amounts falling due after more than one year</b> (28,104+20% x 24,000)		(32,904)	<i>½</i>
<b>Provisions for liabilities and charges:</b>		(212)	
Grant redemption fund		<u>          </u>	
<b>Net assets</b>		<u>26,372</u>	
<b>Capital and reserves</b>			
Share capital		4	
Designated reserves			
- Rent surplus reserve (1,200+1,228-668)		1,760	<i>1</i>
- Repairs reserve (3,112-892+668)		2,888	<i>1</i>
- Capital reserve		840	<i>1</i>
Accumulated surplus		<u>20,880</u>	
		<u>26,372</u>	

*(1 mark for overall presentation of I & E and Balance Sheet)*

*(12)*

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(c) There are a number of measures that could be provided, e.g.

gearing

interest cover

acid test ratio

current ratio

reserves/rent income

cash flow ratio

arrears/rent ratio

voids and bad debts

rents, etc

*1 mark for each ratio explained and exemplified to maximum of 5 marks*

(25)

**Question 2**

(a)

Cash Flow Statement for year ended 31/3/99

	<b>£000</b>	<b>£000</b>	
Net cash inflow from Operating Activities (note 1)		3,820	<i>10</i>
Returns on investment and Servicing of Finance			
- Income from short term investments	460		<i>1</i>
- Interest paid	<u>(1,700)</u>		<i>1</i>
		(1,240)	
Taxation		0	
Investing activities			
- Payments for Buildings	(12,940)		<i>2</i>
- Payments for Equipment	(2,400)		<i>2</i>
Receipts from fixed assets sold	780		
Net HAG (9,700- 100)	<u>9,600</u>	<u>(4,960)</u>	<i>1</i>
Net cash outflow before Financing		(2,380)	
Management of liquid funds		(2,000)	
Financing			
- Share capital	20		<i>1</i>
- Loans raised	10,740		<i>1</i>
Loans repaid	<u>(7,260)</u>	3,500	
Decrease in cash		(880)	<i>1</i>
<b>Operating Surplus</b>			<i>(20)</i>
		<b>£000</b>	
Accumulated Surplus increase (8,260-7760)		500	<i>1</i>
Reserves increase (4,980-4,400)		580	<i>1</i>
Interest payable		1,700	<i>1</i>
Interest receivable		<u>(460)</u>	<i>1</i>
		<u>2,320</u>	<i>1</i>

**Net Cash Inflow from Operating Activities (Note 1)**

	<b>£000</b>	
Surplus before Taxation	2,320	
Depreciation	1,120	2
Increase in provisions	900	1
Decrease in stocks	20	
Increase in debtors	(620)	1
Increase in creditors	40	1
Loss on sale of assets (140-80)+(380-600)+(260-140)	40	
	<u>3820</u>	
		10

**Interest Payable**

	<b>Balance 01/04/98</b>	<b>Balance 01/04/99</b>
Creditors after 1 year	13,000	15,520
Housing loans within 1 year	5,200	6,280
NON Housing loans within 1 year	1,060	940
	<u>19,260</u>	<u>22,740</u>

$$42,000 / 2 = 21,000$$

$$21,000 \times 8\% = 1,680,000$$

	1680
+ overdraft	20
	<u>1700</u>

**Interest Receivable**

Bank	40
Short term	420
	<u>460</u>

**Payments for Buildings, Equipment, Vehicles**

	<b>Buildings</b>	<b>Equipment</b>	<b>Vehicles</b>
Balance 1/4/98	75,600	7,000	3,200
Disposals (viii+ix)	(140)	(400)	(1000)
Acquisitions (balancing figure)	<u>12,940</u>	<u>1,000</u>	<u>1,400</u>
Balance 31/3/99	<u>88,400</u>	<u>7,600</u>	<u>3,600</u>
HAG/Dep balance 1/4/98	58,000	4,400	1,800
Disposals (ix)	(100)	(320)	(400)
Additions/Charges (balance)	<u>9,700</u>	<u>520</u>	<u>600</u>
Balance 31/3/99	<u>67,600</u>	<u>4,600</u>	<u>2,000</u>

**Loans Raised**

	<b>Housing</b>	<b>Non-Housing</b>
Balance 1 4 98	10,000	3,000
Special repayment (vi)	(1,000)	0
Repayable 1999/00 (ii)	<u>(6,280)</u>	<u>(940)</u>
Raised during year (balancing)	<u>9,880</u>	<u>860</u>
Balance 31 3 99	12,600	2,920

**Reconciliation of Net Cash Flow to Movement in Debt**

Decrease in cash	(880)
Cash raised by loan	(2,520)
Cash used to increase short term investments	<u>2,000</u>
Change in Net Debt	(1,400)
Net Debt 1/4/98	5,500
Net Debt 31/3/99	6,900

**Analysis of Change in Net Debt**

	<b>1/4/98</b>	<b>31/3/99</b>
Cash	700	(180)
Debt due after 1 year	(13,000)	(15,520)
Short term investments	<u>6,800</u>	<u>8,800</u>
	(5,500)	(6,900)

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(b)

- genuine cash flow (no cash equivalents)
- clearer definition of cash
- more appropriate format
- reconciliation of cash movement with movement in debt
- better management of liquid resources
- any other valid points

*1 mark each up to a maximum of 5 marks*

(25)

**Question 3**

(a)

Housing Association grant will finance around 70% of the capital cost. 1  
Other finance options are:

- Loans from banks/institutional lenders
- Loans from Housing Corporation/Scottish Homes
- Joint finance from local authority through community care
- Joint investment finance from Primary Care Trust group
- Funds from New Housing Partnership or other public/private initiative

*(1 mark per point to max of 4)*

(b)

- Loan
- Disclose in balance sheet as creditor more than one year
- Show type of loan and duration in note to balance sheet
- Repay and write down loan over agreement period
- Charge interest in revenue account
- When appropriate move loans into creditors due within one year 8

- Joint finance
- Record receipt of finance monies
- Disclose grant in balance sheet (local authority/NHS)
- Increase reserves for monies received under public/private partnership 4

(c)

PFI is in line with government policy. Will perhaps allow project to be expedited if private partners available.

**Main Requirements**

Value for money  
Transfer of risk  
Private sector control of project

**Advantages**

Potentially quicker access to project  
Innovative designs from bidders competition  
Lower costs through risk transfer

**Disadvantages**

Higher tendering costs  
Complex contractual arrangements  
Ensuring significant risk transfer

8  
(25)

**Question 4**

(a)

<b>User</b>	<b>Main Uses</b>
Board	Policy Review Performance Review
Government	Monitoring and Control
Housing Corporation/Scottish Homes	Monitoring Performance Review
External Auditors	Profiling Value for Money
Trade Unions/Pressure Group	Policy Monitoring Employee Rights
Tenants	Performance and Policy Review
Public	Accountability

*1 mark for each user and 1 mark for each use, suitably explained up to a maximum of 12 marks*

*(12)*

(b)

**Statutory Framework**

Housing Association Act 1985	<i>1</i>
Housing Association Act 1988	
Accounting Requirements Orders (various)	

**SSAPs and FRSs**

Comply with all relevant	<i>1</i>
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**SORP**

Explain ASB and process for SORP approval. Compliance with SORP required by Accounting Requirements Order.	<i>1</i>
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**Depreciation**

Not, at present, required by SORP. Unlikely to be material where cost of housing assets is reduced by HAG.

Position being review by revised SORP.

2

(c)

**Internal Reports**

**Users**

**Main Use**

Policy Makers

Comparing expenditure with objectives

Budget Holders

Budgetary control and monitoring

Senior Managers

Performance Review - unit costs and other performance measures

Finance Department

Overall budget monitoring, cash flow monitoring, capital project monitoring, setting rent levels.

*1 mark for each user and 1 mark for each suitably explained use up to a maximum of 8 marks*

8

(25)

**Question 5**

(a) **Revised budgetary control statement month 7**

<i>Marks</i>	<b>Description</b>	<b>1998/99 Actual YTD</b>	<b>1998/99 Budget YTD</b>	<b>1998/99 Variance</b>	<b>1998/99 Annual Budget</b>	<b>Notes</b>
	<b>PAY COSTS</b>					
<i>1</i>	Estates Manager	16,625	16,622	3	28,495	Budget ytd and annual include pay award
<i>1</i>	Security staff	32,479	26,363	6,116	46,350	}budget ytd includes 1 month with pay
<i>2</i>	Cleaning staff_	16,306	17,575	-1,269	30,900	}award. Annual budget includes total pay
<i>1</i>	Maintenance staff	43,937	35,150	8,787	61,800	}award.
<i>1½</i>	Grounds staff	14,500	21,750	-7,250	37,470	Budget ytd includes bonus payment, annual budget includes pay award
	<b>Total Pay</b>	<b>123,847</b>	<b>117,460</b>	<b>6,387</b>	<b>205,015</b>	
	<b>NON-PAY COSTS</b>					
<i>1½</i>	Electricity	12,790	12,790	0	30,500	The budget is split into 31 parts months 1-7 account for 13/31
<i>1½</i>	Gas	10,800	10,777	23	25,700	
<i>½</i>	Telephones	5,250	5,250	0	9,000	Budget profiled in 12ths
<i>½</i>	*Maintenance contracts	0	0	0	14,500	Budget profile – all month 10 or equal amounts ytd budget and ytd actual
	Cleaning materials	4,650	2,917	1,733	5,000	
	Office Equipment	125	1,167	-1,042	2,000	
<i>1</i>	Stationery	1,500	1,125	375	1,500	Budget profile in quarters Months 1, 4, 7, 10
<i>1</i>	Furniture and fittings	5,000	8,750	-3,750	15,000	
	Uniforms	1,500	1,021	479	1,750	

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	Grounds maintenance	3,500	2,625	875	4,500	
	Maintenance and repairs	10,500	7,292	3,208	12,500	
1/2	* Water Charges	0	0	0	2,500	Budget profile – all month 10 or equal amounts ytd budget and ytd actual
	Insurances	4,500	4,500	0	4,500	Budget profile in halves Month 1 –7 or equal amounts ytd budget and ytd actual
	<b>Total non-pay</b>	<b>60,115</b>	<b>58,214</b>	<b>1,901</b>	<b>128,950</b>	
	<b>Total</b>	<b>183,962</b>	<b>175,674</b>	<b>8,288</b>	<b>333,965</b>	

(13)

*Alternatives such as profiling budget in twelfths and accruing expenditure equally acceptable*

(b)

**Budget Profiling**

- allows accurate comparison between budget and actual expenditure.
- variances are 'real'

**Remedial Action**

- is variance controllable – if so take necessary action
- if not controllable – consider virement or supplementary estimate

**Profiling**

Varies according to nature of expenditure item, e.g. historic patterns, equal monthly amounts, weighted monthly amounts.

**Exception Reporting**

Allows manager to focus on significant items, more efficient use of time – suggest approach to Director and Board re: implementation.

**Commitment Accounting**

More accurate and up-to-date budgetary control information. Again seek implementation.

**Managerial Control**

Recognition should be made of those items outwith managers control and he should only be accountable for those cost centres he can manage and influence.

*(Up to 2 marks for each section to a maximum of 12)*

*(25)*