

# FINANCIAL REPORTING IN HOUSING ASSOCIATIONS

**Professional 2**  
**5 June 2001**

## MARKING SCHEME

**Question 1 (a)**

**Paradise Housing Association:  
Income and expenditure account for the year ended 31 March 2001**

	<b>£000</b>	
Turnover	5,387	
Operating costs	3899 +290(ii) +52(iii) +33+22+18(iv) +5(vii)	
	<u>(4,319)</u>	3
Operating deficit	1,068	
Gain on sale of fixed assets	23	
Interest receivable	27	
Interest payable	1091+62 (viii)	
	(1,153)	1
Loss on disposal of fixed assets	10+1-6 (iv)	
	<u>(5)</u>	2
(Deficit) for the year	(40)	
Add/(less): transfers from/(to) designated and revaluation reserves	270(v) -100 (vi)	
	<u>170</u>	1
(Deficit) for the year after transfers to designated and revaluation reserves	130	
Revenue deficit brought forward	<u>(41)</u>	
Accumulated deficit carried forward	<u><u>89</u></u>	

**Balance sheet as at 31 March 2001**

		<b>£000</b>	<b>£000</b>	
<i>Fixed assets</i>				
Housing property	23840+874+74-783-290(ii) -52(iii) +1900(viii)		25,563	3
Less: SHG and other capital grants	505+46 +700(viii)		<u>(1,251)</u>	1
			24,312	
Non housing fixed assets	330+110+100 -134-51-30 - (10-6)(iv) -33-22-18 (iv)		<u>248</u>	3
			24,560	
<i>Current assets</i>				
Debtors		204		
Cash at bank and in hand		461		
		665		
<i>Creditors &lt; one year</i>	1161 +1(iv) +5(vii) +62(viii)		<u>(1,229)</u>	3
<i>Net current liabilities</i>			<u>(564)</u>	
<i>Total assets less current liabilities</i>			23,996	
<i>Creditors &gt; one year</i>				
Loans	13638+1200 (viii)		<u>(14,838)</u>	1
			<u>9,158</u>	
<i>Capital and reserves</i>				
Share capital	0+1 (i)		1	1
Capital Repairs reserves	100 (vi)		100	1
Revaluation reserves	9,238-270(v)		8,968	1
Revenue reserves			<u>89</u>	
			<u>9,158</u>	
<b>Presentation of I&amp;E account and balance sheet</b>				2
				(23)

**(b)**

- LSVT associations are funded exclusively with private funds raised in the marketplace and are a development of the changes brought about by the 1988 Housing Act, which allowed private finance to be levered into housing associations. Traditional associations in most cases existed pre-1988 and the majority of their stock has been acquired with Housing Association Grant or grants from councils.
  
- The majority of the LSVT's stock is acquired through a single event (the Transfer) while most traditional associations' stock has been acquired over a number of years through ongoing programs of refurbishment and new build.

2

(25)

**Question 2**

**Nirvana Housing Association**

**Cash Flow Statement for the year ended 31 March 2001**

	<b>£000</b>	<b>£000</b>	
<b>Net cash inflow from operating activities (Note 1)</b>		2,688	<i>14</i>
<b>Returns on investments and servicing of finance</b>			
Interest received (working 2)	30		<i>1</i>
Interest paid (working 3)	<u>(513)</u>		<i>1</i>
		(483)	
<b>Capital expenditure and financial investment</b>			
Acquisition and construction of housing properties (working 4)	(8,815)		<i>1</i>
Housing association grants received (working 5)	5,070		<i>1</i>
Purchase of other fixed assets (working 6)	(280)		<i>1</i>
Sale of housing properties	500		<i>1</i>
Sale of other fixed assets	<u>25</u>		<i>1</i>
		<u>(3,500)</u>	
<i>Net cash outflow before management of liquid resources and financing</i>		(1,295)	
<b>Management of liquid resources</b>			
Investments realised		500	
<b>Financing</b>			
Loans raised	1,450		
Loans repaid	<u>(500)</u>		<i>1</i>
<i>Net cash flows from financing</i>		<u>950</u>	
<b>Increase in cash and cash equivalents</b>		<u>155</u>	<u>(22)</u>

**Note 1**

**Reconciliation of operating surplus to net cash flow from operating activities**

	<b>£000</b>	
Operating surplus (see working 1 overleaf)	2,706	5
Depreciation of housing properties (working 4)	250	1
Depreciation of other fixed assets (working 7)	120	1
Increase in provisions	180	1
Increase in debtors	(555)	1
Increase in creditors	22	1
Deferred financing costs	50	1
Surplus on sale of properties (working 8)	(100)	1
Loss on disposal of vehicles (working 9)	15	1
<b>Net cash flow from operating activities</b>	<u>2,688</u>	<u>(14)</u>

**Note 2**

**Reconciliation of net cash flow to movement in net debt** 3

	<b>£000</b>	
Increase in cash	155	
Loans received	(1,450)	
Loan repaid	500	
Investment realised	(500)	
<b>Change in net debt</b>	<u>(1,295)</u>	

**Analysis of the movement in net debt**

	<b>Movements</b>			<b>31 March 2001</b>
	<b>1 April 2000</b>	<b>Cash</b>	<b>Other</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Loans repayable after more than 1 year	(8,300)	(1,450)	400	(9,350)
Loans repayable within 1 year	(500)	500	(400)	(400)
Cash at bank/overdraft	810	155		965
Short term investments	1,000	(500)		500
<b>Net debt</b>	<u>(6,990)</u>	<u>(1,295)</u>		<u>(8,285)</u>

(25)

**Workings**

<b>(1) Operating surplus</b>		<b>£000</b>
Increase in revenue surplus	5,641-3,827	1,814
Increase in restricted reserves	644-500	144
Increase in designated reserves	1,250-985	265
Interest payable	Working (2)	513
Interest receivable	Working (3)	(30)
<b>Operating surplus at 31 March 2000</b>		<b><u>2,706</u></b>

<b>(2) Interest payable</b>		<b>£000</b>
Amortising loans at 1 April	8,300+500	8,800
Amortising loans repaid on 30 Sept		(500)
Amortising loans at 31 March		8,300
Average debt		8,550
Interest at 8%		684
Non-amortising loans raised	1,450 for 4 months at 6%	29
Less interest capitalised		(200)
<b>Net interest payable</b>		<b><u>513</u></b>

<b>(3) Interest receivable</b>		
Average investments	(1000+500)/2	750
Interest rate	@ 4%	
<b>Interest receivable</b>		<b><u>30</u></b>

<b>(4) Housing assets</b>	<b>Properties held for letting</b>	<b>Properties under construction</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
BV at 1 April 2000	54,600	9,500	64,100
Cash (capitalised interest per (2) above)	0	200	<b>200</b>
Acquisition of housing stock	1,000	0	<b>1,000</b>
Major repairs capitalised	600	0	<b>600</b>
Disposals (BV)	(400)	0	(400)
Depreciation charge	(250)	0	(250)
Completed properties (balance),	4,700	(4,700)	0
Cash (expenditure for year) (balance)		7,015	<b>7,015</b>
BV at 31 March 2001	<u>60,250</u>	<u>12,015</u>	<u>72,265</u>

<b>(5) Capital grants</b>	<b>£000</b>
At 1 April 2000	53,100
Transfer to RCGF	(350)
Cash additions (balance)	<b>5,070</b>
At 31 March 2001	<u>57,820</u>

<b>(6) Non housing fixed assets</b>	<b>Offices</b>	<b>Office F&amp;F</b>	<b>Vehicles</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cost at 1 April 2000	1,000	395	150	1,545
Cash additions (balance)	0	280	0	<b>280</b>
Disposals	0	0	(50)	(50)
Cost at 31 March 2001	<u>1,000</u>	<u>675</u>	<u>100</u>	<u>1,775</u>

<b>(7) Depreciation of other fixed assets charge</b>				
At 1 April 2000	0	200	30	230
Written out on disposal	0	0	(10)	(10)
Charge for year (balance)	0	100	20	<b>120</b>
At 31 March 2001	<u>0</u>	<u>300</u>	<u>40</u>	<u>340</u>

**Net other fixed assets**

At 1 April 2000	1,000	195	120	1,315
At 31 March 2001	1,000	375	60	1,435

**(8) Surplus on sale of housing properties**

	<b>£000</b>
Sales proceeds	<b>500</b>
Cost	(400)
Surplus	<u>100</u>

**(9) Loss on disposal of motor vehicles**

Cost	50
Less depreciation	(10)
Book value	<u>40</u>
Sales proceeds 5 * 5k	<b>(25)</b>
Loss	<u>(15)</u>

## SECTION B

### Question 3

#### REPORT

**To** Management Team  
**From** Management Accountant  
**Date** 5 June 2001  
**Subject** Performance of R&M Team April & May 2001

#### 1.0 Introduction

1.1 This is the first report on the performance of the R&M Team. It is essential that the performance of the Team is monitored very closely to ensure that it does not incur a deficit for the third successive year.

#### 2.0 Profiled Performance

2.1 Activity has been estimated to take place evenly throughout the year. Hence, the budget profile should be one sixth of the budgeted income and expenditure. The following table shows the actual income and expenditure compared with the budget:

	<b>Budget</b> <b>£</b>	<b>Actual</b> <b>£</b>	<b>Variance</b> <b>£</b>
Income	116,667	118,260	1,593
Expenditure	116,667	120,990	(4,323)
Surplus/(Deficit)	0	(2,730)	(2,730)

2.2 Although income is higher than anticipated, there has been an even greater increase in expenditure. If this trend continues, there will be an overall deficit of over £16,000.

2.3 The reasons for the deficit for April and May need to be examined in order to assess where remedial action is needed.

#### 3.0 Activity

3.1 The actual activity for the first two months of the year is compared with that anticipated in the following table:

<b>Job</b>	<b>Number of Jobs</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
A	83	110	27
B	67	70	3
C	50	55	5
D	33	30	(3)
E	25	30	5
F	17	10	(7)
Total	275	305	30



3.2 The estimates were based on the assumption that the annual number of jobs would be undertaken evenly throughout the year; hence, it would have been anticipated that 275 jobs would have been performed in April and May. In the event 305 jobs were completed, an increase of 11%. This activity has led to additional income but it has also led to increased expenditure. If this trend continues, the total number of jobs completed will exceed the budget by 180.

#### **4.0 Expenditure**

4.1 The budget profile is contained at Appendix A. This shows that the main areas for overspending in April and May were labour (+£3,467) and materials (+£1,650), partly offset by savings in overheads of £1,067. These areas of overspending are consistent with increased activity.

4.2 In order to perform the additional activity it would have been necessary to make use of additional labour resulting in a spending of £1,200 on overtime. The budget had been prepared on the assumption that no overtime would be worked during the year. In addition, it would have been necessary for the workforce to operate more efficiently and this is reflected in bonus payments amounting to 38% of basic pay: it was estimated originally that bonus would be equivalent to 32% of basic pay.

4.3 If the savings on overheads continue, this should result in savings of over £6,000 for a full year.

#### **5.0 Unit Costs**

5.1 The unit costs per category of job for both labour and materials are provided at Appendix B.

5.2 With the exception of Job B, the unit cost per job of labour show adverse variances which are a result of the overtime and additional bonus payments.

5.3 Materials variances are less consistent. The variances range from a favourable variance of £10 for Job E to an adverse variance of £40 for Job F.

#### **6.0 Remedial Action**

6.1 If the number of jobs continues at the same level there will be an overspending. The work carried out needs to be brought in line with budget expectations. Jobs are non-urgent in nature and can, therefore, be scheduled for later completion rather than for prompt attention. In this way the activity can be restored to that profiled. This should result in the achievement of the income budget and later savings on bonus, but the overtime cost cannot be recovered except by savings elsewhere.

- 6.2 The causes of the materials overspending need to be investigated immediately. The main causes may be increased prices over that estimated, or more materials being used than estimated either due to inadequate estimating, poor quality of materials or excess breakages. These areas need prompt attention. If the cause is increased costs then cheaper sources of supply need to be found or savings need to be made elsewhere.
- 6.3 The reasons for savings on overheads need to be investigated to establish whether April and May were exceptional or normal months. If there are likely to be recurrent savings these can be used to offset the overtime costs and the potential increased cost of materials.

## 7.0 Conclusions

- 7.1 The profile budget for April and May shows a net deficit. The reasons for this are to be found in increased activity and poor monitoring of materials prices/usage.
- 7.2 In order to avoid an annual deficit, remedial action and additional research have been identified.

## 8.0 Recommendations

- 8.1 Improved job scheduling be implemented (see 6.1 above).
- 8.2 Reasons for overspending on materials and underspending on overheads be investigated (see 6.2 and 6.3 above).

<i>Marking Scheme</i>	<i>Marks</i>
<i>Introduction</i>	<i>1</i>
<i>Profile of spending</i>	
• <i>Calculation of income</i>	<i>1</i>
• <i>Determination of budget &amp; actual spend</i>	<i>2</i>
• <i>Comment</i>	<i>1</i>
<i>Analysis of activity</i>	
• <i>Determination of profile</i>	<i>2</i>
• <i>Comment</i>	<i>1</i>
<i>Analysis of expenditure</i>	
• <i>Detailed budget/actual profile (incl labour)</i>	<i>4</i>
• <i>Comment</i>	<i>2</i>
<i>Unit costs</i>	
• <i>Calculation of labour &amp; materials unit costs</i>	<i>4</i>
• <i>Comment</i>	<i>1</i>
<i>Remedial action</i>	<i>2</i>
<i>Conclusions</i>	<i>1</i>
<i>Recommendations</i>	<i>1</i>
<i>Presentation, format, style, etc</i>	<i>2</i>
	<i>(25)</i>

WORKINGS

1. Determination of Income April & May 2001 (1 mark)

Job	Charge per job £	Activity No	Income £
A	176	110	19,360
B	230	70	16,100
C	440	55	24,200
D	660	30	19,800
E	880	30	26,400
F	1,240	10	12,400
Total			118,260

2 Budget Profile 2001/02 (Appendix A) (2 marks)

	Full Year	Budget	Actual	Variance	
	£	£	£	£	%
Income	700,000	116,667	118,260	1,593	1
Labour (see below)	320,000	53,333	56,800	(3,467)	(7)
Materials	156,000	26,000	27,650	(1,650)	(6)
Supervision	50,000	8,333	8,340	(7)	(0)
Overheads	100,000	16,667	15,600	1,067	6
Administration	74,000	12,334	12,600	(266)	(2)
Total Expenditure	700,000	116,667	120,990	(4,323)	(4)
<b>Surplus/(Deficit)</b>	<b>0</b>	<b>0</b>	<b>(2,730)</b>	<b>(2,730)</b>	

3 Labour Budget Profile (Appendix A) (2 marks)

	Full Year	Budget	Actual	Variance	
	£	£	£	£	%
Basic pay	220,000	36,667	36,660	7	0
Overtime	0	0	1,200	(1,200)	
Bonus	70,000	11,667	13,940	(2,273)	(19)
NI & pension	30,000	5,000	5,000	0	0

4 Activity Profile 2001/02 (2 marks)

Job	Budget 2001/02		Actual		Variance	
	Full Year	April/May				
	No.	No.	No.	No.	%	
A	500	83	110	27	33	
B	400	67	70	3	4	
C	300	50	55	5	10	
D	200	33	30	(3)	(9)	
E	150	25	30	5	20	
F	100	17	10	(7)	(41)	
Total	1,650	275	305	30	11	

5 Unit Costs of Jobs (Labour) (Appendix B) (2 marks)

Job	Actual April/May			Estimated cost/job	Variance
	Cost	Jobs	Cost/job		
	£	No.	£	£	£
A	9,680	110	88	80	(8)
B	6,580	70	94	100	6
C	11,880	55	216	200	(16)
D	9,600	30	320	300	(20)
E	12,900	30	430	400	(30)
F	6,160	10	616	600	(16)

6 Unit Costs of Jobs (Materials) (Appendix B) (2 marks)

Job	Actual April/May			Estimated Cost/job	Variance
	Cost	Jobs	Cost/job		
	£	No.	£	£	£
A	4,180	110	38	40	2
B	4,900	70	70	60	(10)
C	5,170	55	94	100	6
D	5,100	30	170	150	(20)
E	5,700	30	190	200	10
F	2,600	10	260	220	(40)

**Question 4**

- (a) — Legislative and regulatory changes
- Increased competition
- Introduction of statistical returns
- Reliance on external sources of funding
- Other reasonable comments

*1 mark for identifying each, 1 mark for implications of each, up to a maximum of 8*

- (b) — monitor and control spending, — planning,
- review performance, — manage assets,
- demonstrate value for money, — set prices / rents,
- promote accountability, — other reasonable uses.

*½ mark for each use identified up to a maximum of 4*

- (c) — objective — consistent
- timely — comparable
- easy / economical to prepare — relevant to user's needs.

*½ mark for each characteristic identified up to a maximum of 3*

- (d) — commitment accounting — profiling
- variance analysis — exception indicators

*1 mark for identifying each, 1 mark for why each matters, up to a maximum of 8*

*Appropriate presentation, logical flow and relevance to sector  
(1 mark allocated to part (a), 1 mark allocated to part (d))*

(25)

**Question 5**

(a) **Cadbury Report**

- Private sector but principles apply to housing associations
- Openness, integrity and accountability
- Different regulatory framework
- Need to explain how high level decision making is carried out
- CIPFA response – political, public sector ethos, regulation
- Any other valid points

*1 mark per point to a maximum of 5*

(b) **Corporate governance**

- Openness
- Integrity
- Accountability
- Monitoring and control systems
- Safeguards against fraud and management failure
- Audit committees/management committee
- Duties of Chairman, CEO, Board of Directors
- Transparency in financial systems
- Any other valid points

*1 mark per point up to a maximum of 6*

- (c) Answers will demonstrate how the above principles apply within the student's workplace.

*maximum 9*

(d)

- Budget, cash flow statements, financial and business plan
- Regular management accounts and budget monitoring statements
- Audited annual accounts
- Reports from Housing Corporations (Scottish Homes) on monitoring visits
- Advice from professional advisers
- Report on review of internal financial controls

*1 mark per point up to a maximum of 5*

*(25)*