

FINANCIAL REPORTING IN THE HEALTH SERVICE

Professional 2
December 2000

MARKING SCHEME

The logo for CIPFA, consisting of the letters 'CIPFA' in a serif font. The letter 'I' is stylized with a curved line above it that loops around the top of the 'P'.

Question 1

(a)

Carfield NHS Trust
Income and Expenditure Account for the year ended 31 March 2000

| | | £000 | |
|---|---------------------|---------------------|------------|
| Income from activities | (W.1) | 51,070 | <i>1</i> |
| Other operating income | (W.2) | <u>13,538.23</u> | <i>1</i> |
| | | 64,608.23 | |
| Operating expenses | (W.3) | <u>(60,356.24)</u> | <i>2</i> |
| Operating surplus | | 4,251.99 | |
| Loss on disposal of fixed asset | (W.4) | <u>(6.96)</u> | <i>1½</i> |
| Surplus before interest | | 4,245.03 | |
| Interest receivable | (per trial balance) | 40 | |
| Interest payable | (W.5) | <u>(821.67)</u> | <i>1½</i> |
| Surplus for financial year | | 3,463.36 | |
| Public dividend capital dividends payable | (W.6) | <u>(3,500.00)</u> | <i>1</i> |
| Retained deficit for the year | | <u>(36.64)</u> | |
| | | <i>Presentation</i> | <i>1</i> |
| | | | <i>(9)</i> |

Working 1

| | | £000 | |
|-------------------------|--------|---------------|----------|
| NHS patient care income | (T.B.) | 50,900 | |
| Private patient income | (T.B.) | 200 | |
| Less credit notes | (ix) | <u>(30)</u> | |
| | | <u>51,070</u> | <i>1</i> |

Working 2

| | | | |
|-----------------------|--------|------------------|----------|
| Other income | (T.B.) | 13,500 | |
| From donation reserve | | <u>38.23</u> | |
| | | <u>13,538.23</u> | <i>1</i> |

Working 3

| | | | |
|------------------------|---------------|------------------|----------|
| Salaries and wages | (T.B.) | 34,100 | |
| Supplies and services | (T.B.) | 11,000 | |
| Establishment | (T.B.) | 8,300 | |
| Other expenditure | (T.B.) | 5,300 | |
| Less operating lease | (vii) | (75) | <i>½</i> |
| Depreciation buildings | (cap charges) | 1,128.12 | <i>½</i> |
| Depreciation equipment | (cap charges) | 564.89 | <i>½</i> |
| Depn donated equipment | (cap charges) | <u>38.23</u> | <i>½</i> |
| | | <u>60,356.24</u> | |

Working 4

| | | £000 | |
|---|----------------|-----------------|-----|
| Opening GCC | | 60,000 | |
| Indexation at 2% | | <u>1,200</u> | |
| Disposal GCC | | 61,200 | 1/2 |
| Accumulated depreciation 12 quarters out of 60 | 12/60 x 61,200 | <u>(12,240)</u> | 1/2 |
| Disposal NBV | | 48,960 | |
| Proceeds | | <u>42,000</u> | |
| Loss on disposal | | <u>6,960</u> | 1/2 |

Working 5

| | | | |
|-------------------------------------|------------|---------------|-----|
| Finance lease annual payment | (vii) | 75 | |
| Over 15 years | (15 x 75) | 1,125 | |
| Total principal to pay (fair value) | | <u>(800)</u> | |
| Therefore interest element | | <u>325</u> | 1/2 |
| Annual interest | (325 / 15) | 21.67 | 1/2 |
| Interest payable (originating IBD) | (T.B) | <u>800</u> | 1/2 |
| | | <u>821.67</u> | |

Students may use the sum of digits method to calculate the split of interest and principal for the first year. In this case, the interest in year one would be:

$$15/(15+14+13+\dots+1) \times £325,000 = 15/120 \times £325,000 = £40,625$$

$$\text{Principal would be } £75,000 - £40,625 = £34,375$$

Full credit should be given for this method.

Working 6

| | | £000 | |
|-----------------------|--------|--------------|---|
| Dividends paid | (T.B.) | 2,400 | |
| Dividends owed at eoy | (viii) | <u>1,100</u> | |
| | | <u>3,500</u> | 1 |

(b)

Carfield NHS Trust
Balance Sheet as at 31 March 2000

| | | £000 | £000 | |
|---------------------------------------|---------------|-------------------|---------------------|-------|
| Fixed Assets | | | | |
| Land | (Cap charges) | 9,745 | | 1 |
| Buildings | (Cap charges) | 67,533.88 | | 1 |
| Assets under construction | (Cap charges) | 450 | | 1/2 |
| Equipment | (W.1) | <u>4,774.22</u> | 82,503.1 | 4 |
| Current Assets | | | | |
| Stock | (T.B.) | 300 | | |
| Debtors | (W.2) | 1,870 | | 1/2 |
| Cash | (T.B.) | 75 | | |
| Short-term investments | (T.B.) | <u>85</u> | | |
| | | 2,330 | | |
| Creditors < 1 year | (W3) | <u>(6,553.33)</u> | | 1 1/2 |
| Net current assets | | | <u>(4,223.33)</u> | |
| Total assets less current liabilities | | | 78,279.77 | |
| Creditors > 1 year | (W4) | | <u>(693.34)</u> | 1 1/2 |
| Total assets employed | | | <u>77,586.43</u> | |
| Public dividend capital | (T.B.) | | 65,778 | |
| Revaluation reserve | (W5) | | 10,435 | 2 1/2 |
| Donation reserve | (W6) | | 695.07 | 2 |
| Income and expenditure reserve | (W7) | | <u>678.36</u> | 1/2 |
| Total capital and reserves | | | <u>77,586.43</u> | |
| | | | <i>Presentation</i> | 1 |
| | | | | (16) |

Working 1

| | | £000 | | |
|------------------|---------------|-----------------|--|-------|
| NHS - GCC | (Cap charges) | 8,792.80 | | 1 1/2 |
| NHS – Acc Depn | (Cap charges) | (4,428.65) | | 1 |
| Donated GCC | (Cap charges) | 586 | | 1 |
| Donated acc depn | (Cap charges) | <u>175.93</u> | | 1/2 |
| | | <u>4,774.22</u> | | |

Working 2

| | | | | |
|---------|--------|-------|--|--|
| Debtors | (T.B.) | 1,900 | | |
|---------|--------|-------|--|--|

| | | | |
|-------------------|------|--------------|------------|
| Less credit notes | (ix) | <u>(30)</u> | <i>1/2</i> |
| | | <u>1,870</u> | |

Working 3

| | | | |
|------------------------------------|--------|-----------------|------------|
| | | £000 | |
| Creditors < 1yr | (T.B.) | 5,400 | |
| PDC dividends owed | (vii) | 1,100 | <i>1/2</i> |
| Next year's finance lease creditor | | <u>53.33</u> | <i>1</i> |
| | | <u>6,553.33</u> | |

| | | | |
|----------------------------|----------------------------|----------------|--|
| NB Finance lease creditor: | Annual lease payment | 75 | |
| | Interest element (earlier) | <u>(21.67)</u> | |
| | | <u>53.33</u> | |

Working 4

| | | | |
|------------------------------------|-------|----------------|------------|
| Opening finance leases cred. | (vii) | 800 | <i>1/2</i> |
| Principal paid 1999/2000 | | (53.33) | <i>1/2</i> |
| 2000/01 principal in s/t creditors | | <u>(53.33)</u> | <i>1/2</i> |
| | | <u>693.34</u> | |

Working 5

| | | | |
|------------------------|---------------|---------------|------------|
| Revaluation reserve | (T.B.) | 8,100 | |
| Revaluations | | | |
| Buildings | (cap charges) | 200 | <i>1/2</i> |
| Indexation | | | |
| Land | (cap charges) | 95 | <i>1/2</i> |
| Buildings | (cap charges) | 1,962 | <i>1/2</i> |
| Equipment | (cap charges) | 154 | <i>1/2</i> |
| Equipment depreciation | (cap charges) | <u>(76)</u> | <i>1/2</i> |
| | | <u>10,435</u> | |

Working 6

| | | | |
|-------------------------|---------------|---------------|------------|
| Donation reserve | (T.B.) | 700 | |
| Addition | (ii) | 25 | <i>1/2</i> |
| Release to other income | (cap charges) | (38.23) | <i>1/2</i> |
| Indexation | (cap charges) | 11 | <i>1/2</i> |
| Depreciation | (cap charges) | <u>(2.7)</u> | <i>1/2</i> |
| | | <u>695.07</u> | |

Working 7

| | | | |
|-----------------------------|--------|----------------|------------|
| Brought forward I&E reserve | (T.B.) | 715 | |
| 1999/2000 | | <u>(36.64)</u> | <i>1/2</i> |
| | | <u>678.36</u> | |

Capital charges (all £000)

| Land | Q1 | Q2 | Q3 | Q4 | Total | |
|--------------|-----------|-----------|-----------|-----------|--------------|---|
| Opening NBV | 9,500.00 | 9,595.00 | 9,745.00 | 9,745.00 | 9,500.00 | |
| Revalue | | | | | 0.00 | |
| Index | 95.00 | | | | 95.00 | ½ |
| Depreciation | | | | | 0.00 | |
| Addition | | 150.00 | | | 150.00 | ½ |
| Disposal | | | | | 0.00 | |
| Closing NBV | 9,595.00 | 9,745.00 | 9,745.00 | 9,745.00 | 9,745.00 | ½ |

| Buildings | Q1 | Q2 | Q3 | Q4 | Total | |
|------------------|-----------|-----------|-----------|-----------|--------------|---|
| Opening NBV | 65,200.00 | 67,081.33 | 66,800.65 | 67,819.98 | 65,200.00 | |
| Revalue * 1 | 200.00 | | | | 200.00 | ½ |
| Index | 1,962.00 | | | | 1,962.00 | ½ |
| Depreciation | (280.68) | (280.68) | (280.68) | (286.09) | (1,128.12) | ½ |
| Addition | | | 1,300.00 | | 1,300.00 | ½ |
| Disposal | | | | | 0.00 | |
| Closing NBV | 67,081.33 | 66,800.65 | 67,819.98 | 67,533.88 | 67,533.88 | ½ |

Revaluation Building 1,200 to 1,400 revalue up by 200
 Depreciation Q1-Q3 $(65,200+200+1,962) / 240$
 Depreciation Q4 $£280.68 + (1,300/240)$

| Assets under construction | Q1 | Q2 | Q3 | Q4 | Total | |
|----------------------------------|-----------|-----------|-----------|-----------|--------------|---|
| Opening NBV | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | |
| Revalue | | | | | 0.00 | |
| Index | 0.00 | | | | 0.00 | |
| Addition | | | | 450.00 | 450.00 | ½ |
| Disposal | | | | | 0.00 | |
| Closing NBV | 0.00 | 0.00 | 0.00 | 450.00 | 450.00 | ½ |

| Equipment NHS | Q1 | Q2 | Q3 | Q4 | Total | |
|----------------------|-----------|-----------|-----------|-----------|--------------|---|
| Opening GCC | 7,700.00 | 8,654.00 | 8,592.80 | 8,792.80 | 7,700.00 | |
| Index | 154.00 | | | | 154.00 | ½ |
| Addition | 800.00 | | 200.00 | | 1,000.00 | ½ |
| Disposal | | (61.20) | | | (61.20) | ½ |

| | | | | | | |
|-------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|
| Closing GCC | <u>8,654.00</u> | <u>8,592.80</u> | <u>8,792.80</u> | <u>8,792.80</u> | <u>8,792.80</u> | $\frac{1}{2}$ |
|-------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|

| Accum depn NHS | Q1 | Q2 | Q3 | Q4 | Total | |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|
| Opening GCC | 3,800.00 | 4,006.90 | 4,138.89 | 4,282.11 | 3,800.00 | |
| Index | 76.00 | | | | 76.00 | $\frac{1}{2}$ |
| Disposal | | (12.24) | | | (12.24) | $\frac{1}{2}$ |
| Charge for quarter | 130.90 | 144.23 | 143.21 | 146.55 | 564.89 | $\frac{1}{2}$ |
| Closing GCC | <u>4,006.90</u> | <u>4,138.89</u> | <u>4,282.11</u> | <u>4,428.65</u> | <u>4,428.65</u> | $\frac{1}{2}$ |

| Equipment donated | Q1 | Q2 | Q3 | Q4 | Total | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Opening GCC | 550.00 | 561.00 | 586.00 | 586.00 | 550.00 | |
| Index | 11.00 | | | | 11.00 | $\frac{1}{2}$ |
| Addition | | 25.00 | | | 25.00 | $\frac{1}{2}$ |
| Disposal | | | | | 0.00 | |
| Closing GCC | <u>561.00</u> | <u>586.00</u> | <u>586.00</u> | <u>586.00</u> | <u>586.00</u> | $\frac{1}{2}$ |

| Accum depn donated | Q1 | Q2 | Q3 | Q4 | Total | |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Opening GCC | 135.00 | 147.05 | 156.40 | 166.17 | 135.00 | |
| Index | 2.70 | | | | 2.70 | $\frac{1}{2}$ |
| Disposal | | | | | 0.00 | |
| Charge for quarter | 9.35 | 9.35 | 9.77 | 9.77 | 38.23 | $\frac{1}{2}$ |
| Closing GCC | <u>147.05</u> | <u>156.40</u> | <u>166.17</u> | <u>175.93</u> | <u>175.93</u> | $\frac{1}{2}$ |

Question 2

(a) **Freeway NHS Trust NHS Trust**
Funds Held on Trust
Statement of Financial Activities for the year ended 31 March 2000

| | | Unrestricted £ | Restricted £ | Endowment £ | Total £ | |
|--|----------------|-------------------|------------------|------------------|------------------|-----------|
| Incoming Resources | | | | | | |
| Donations | (iv) | 125,000 | 16,000 | 0 | 141,000 | <i>½</i> |
| Legacies | (iv) | 0 | 45,000 | 0 | 45,000 | <i>½</i> |
| Investment income | (W1) | 27,400 | 14,000 | 24,000 | 65,400 | <i>1½</i> |
| Income from non charitable trading | (W2) | 7,400 | 2,500 | 0 | 9,900 | <i>1</i> |
| Total incoming resources | | 159,800 | 77,500 | 24,000 | 261,300 | |
| Resources Expended | | | | | | |
| Grants Payable | (W3) | 141,600 | 104,100 | 29,500 | 275,200 | <i>1½</i> |
| Other direct expenditure | (iv) | 2,900 | 1,500 | 0 | 4,400 | <i>½</i> |
| Total direct charitable expenditure | | 144,500 | 105,600 | 29,500 | 279,600 | |
| Other Expenditure | | | | | | |
| Fundraising and publicity | (W4) | 1,700 | 1,200 | 0 | 2,900 | <i>1</i> |
| Management and admin. | (W5) | 18,500 | 9,100 | 3,600 | 31,200 | <i>1</i> |
| Total other expenditure | | 20,200 | 10,300 | 3,600 | 34,100 | |
| Total resources expended | | (164,700) | (115,900) | (33,100) | (313,700) | |
| Net incoming/outgoing resources | | (4,900) | (38,400) | (9,100) | (52,400) | |
| Gains/losses on investment assets | | | | | | |
| Realised | (W6) | (466) | (234) | 0 | (700) | <i>3</i> |
| Unrealised | (W7) | 2,505 | 1,260 | 30,000 | 33,765 | <i>5</i> |
| Net movement in funds | | (2,861) | (37,374) | 20,900 | (19,335) | |
| Fund balanced b/f | | 272,500 | 137,000 | 810,000 | 1,219,500 | <i>½</i> |
| Fund balances carried forward | 269,639 | 99,626 | 830,900 | 1,200,165 | | |

Presentation 1
(17)

Working 1

| | Unrestricted | Restricted | Endowment | |
|----------------------|---------------------|-------------------|------------------|--------------|
| | £ | £ | £ | |
| Dividends (iv) | 23,900 | 12,200 | | } <i>I</i> |
| Interest (iv) | 3,500 | 1,600 | | |
| Property rental (iv) | | | 24,000 | |
| Opening debtors (v) | | (2,100) | | } <i>1/2</i> |
| Closing debtors (v) | | 2,300 | | |
| Total | 27,400 | 14,000 | 24,000 | |

Working 2

| | Unrestricted | Restricted | Endowment | |
|---------------------------|---------------------|-------------------|------------------|------------|
| | £ | £ | £ | |
| Sponsored run (iv) | 4,600 | | | } <i>I</i> |
| Fete (iv) | | 1,200 | | |
| General fund raising (iv) | 2,800 | 1,300 | | |
| Total | 7,400 | 2,500 | | |

Working 3

| | Unrestricted | Restricted | Endowment | |
|-----------------------|---------------------|-------------------|------------------|------------|
| | £ | £ | £ | |
| Patients welfare (iv) | 92,200 | 98,300 | 29,500 | } <i>I</i> |
| Staff welfare (iv) | 14,000 | 2,800 | | |
| Research (iv) | 12,300 | 3,000 | | |
| Capital project(iv) | 21,000 | | | |
| Closing creditor (vi) | 2,100 | | | <i>1/2</i> |
| Total | 141,600 | 104,100 | 29,500 | |

Working 4

| | Unrestricted | Restricted | Endowment | |
|---------------------------------|---------------------|-------------------|------------------|------------|
| | £ | £ | £ | |
| Fund raising and publicity (iv) | 900 | 1,200 | | <i>1/2</i> |
| Year end creditor (vi) | 800 | | | <i>1/2</i> |
| Total | 1,700 | 1,200 | | |

Working 5

| | Unrestricted | Restricted | Endowment | |
|------------------------------------|---------------------|-------------------|------------------|------------|
| | £ | £ | £ | |
| Management and administration (iv) | 18,500 | 9,100 | 3,000 | <i>1/2</i> |
| Stock movement - £800-£200 (vii) | | | 600 | <i>1/2</i> |
| Total | 18,500 | 9,100 | 3,600 | |

Working 6

Realised gains/losses (see calculations below)

| | | | |
|--|--|--------|--------------|
| Sales of Bumble, Dream and Escape: | realised loss | = £700 | <i>1 1/2</i> |
| Split across unrestricted / restricted on opening fund balances: | | | |
| Unrestricted: | $272,500 / (137,000 + 272,500) \times 700$ | = £466 | <i>1/2</i> |
| Restricted: | $137,000 / (137,000 + 272,500) \times 700$ | = £234 | <i>1/2</i> |

Working 7

Unrealised gains/losses (see calculations below)

| | | | |
|--|--|------------|------------|
| Endowment: revalued from £780,000 to £810,000 | = £30,000 | <i>1/2</i> | |
| Total unrealised gain unrestricted and restricted: | = £3,765 | <i>3</i> | |
| Unrestricted: | $272,500 / (137,000 + 272,500) \times 3,765$ | = £2,505 | <i>1/2</i> |
| Restricted: | $137,000 / (137,000 + 272,500) \times 3,765$ | = £1,260 | <i>1/2</i> |

(b)

Freeway NHS Trust NHS Trust
Funds Held on Trust
Balance Sheet as at 31 March 2000

| | | £ | £ | |
|----------------------|-------------|----------------|---------------------|------------|
| Fixed Assets | | | | |
| Investments | (W1) | | 1,184,665 | 3 |
| Current Assets | | | | |
| Stocks | (vii) | 200 | | 1/2 |
| Debtors | (v) | 14,700 | | 1/2 |
| Cash | (W2) | <u>3,500</u> | | 1 |
| Total current assets | | 18,400 | | |
| Creditors : < 1yr | (vi) | <u>(2,900)</u> | | 1/2 |
| Net current assets | | | <u>15,500</u> | |
| Net Assets | | | <u>1,200,165</u> | |
| Capital | | | | |
| Endowment | (from SOFA) | | 830,900 | 1/2 |
| Restricted Income | (from SOFA) | | 99,626 | 1/2 |
| Unrestricted Income | (from SOFA) | | <u>269,639</u> | 1/2 |
| Total Funds | | | <u>1,200,165</u> | |
| | | | <i>Presentation</i> | <i>1</i> |
| | | | | <i>(8)</i> |

Working 1

Investments – see (un)realised gains and losses statement below:

| | | | | |
|---------------------------|--|-------------------|--|-----|
| Investment Property | | £810,000 | | 1/2 |
| Narrower range (Treasury) | | £63,200 | | 1/2 |
| Wider range (shares) | | <u>£311,465</u> | | 2 |
| Total investments | | <u>£1,184,665</u> | | |

Working 2

| | | £ | | |
|--------------|--|-----------|--|--|
| Opening Cash | | 5,000 | | |
| Receipts | | | | |
| Unrestricted | | 213,800 | | |
| Restricted | | 104,400 | | |
| Endowment | | 24,000 | | |
| Payments | | | | |
| Unrestricted | | (184,100) | | |
| Restricted | | (127,100) | | |
| Endowment | | (32,500) | | |
| | | <hr/> | | |

| | | |
|-------|--------------|----------|
| Total | <u>3,500</u> | <i>1</i> |
|-------|--------------|----------|

Realised gains and losses

| | Opening holding | Value | Val/Share | Sold | Value | Val/Share | Incr/decr per share | Realised Gain/loss |
|--------|------------------------|--------------|------------------|-------------|--------------|------------------|----------------------------|---------------------------|
| | No | £ | £ | No | £ | £ | £ | £ |
| Bumble | 10,000 | 28,000 | 2.80 | 3,500 | 10,500 | 3.00 | 0.20 | 700 |
| Dream | 8,000 | 54,000 | 6.75 | 8,000 | 52,000 | 6.50 | (0.25) | (2,000) |
| Escape | 13,000 | 65,000 | 5.00 | 3,000 | 15,600 | 5.20 | 0.20 | 600 |
| Total | | | | | | | | <u>(700)</u> |

Unrealised Gain/loss

Endowment

| | |
|-----------------|---------|
| Opening MV | 780,000 |
| Closing MV | 810,000 |
| Unrealised gain | 30,000 |

Other

| | Opening Holding | Value | Val/share | Purch/sales number | Open. val | Adj MV | Closing | Val/share | Total value | Unrealised gain/loss |
|----------|------------------------|----------------|------------------|---------------------------|------------------|----------------|----------------|------------------|--------------------|-----------------------------|
| | No | £ | £ | No | £ | £ | No | £ | £ | £ |
| Amble | 47,200 | 118,000 | 2.50 | | | 118,000 | 47,200 | 2.70 | 127,440 | 9,440 |
| Bumble | 10,000 | 28,000 | 2.80 | (3,500) | (9,800) | 18,200 | 6,500 | 3.10 | 20,150 | 1,950 |
| Cantor | 28,750 | 92,000 | 3.20 | | | 92,000 | 28,750 | 2.90 | 83,375 | (8,625) |
| Dream | 8,000 | 54,000 | 6.75 | (8,000) | (54,000) | 0 | 0 | | 0 | 0 |
| Escape | 13,000 | 65,000 | 5.00 | (3,000) | (15,000) | 50,000 | 10,000 | 4.90 | 49,000 | (1,000) |
| Flash | | | | 9,000 | 29,700 | 29,700 | 9,000 | 3.50 | 31,500 | 1,800 |
| Treasury | | 63,000 | | | | 63,000 | | | 63,200 | 200 |
| Total | | <u>420,000</u> | | <u>(5,500)</u> | <u>(49,100)</u> | <u>370,900</u> | | | <u>374,665</u> | <u>3,765</u> |

Question 3

- (a) Briefing note format should be used.
Specific points should be addressed accordingly:

- (i) SSAP2 (Disclosure of Accounting Policies) accruals concept states that goods received should be accounted for in the year they relate to. SSAP9 (Stocks and Long-Term Contracts) describes how unused stocks should be accounted for.

A creditor of £24,000 should be raised for the goods. The goods used (£5,000) should be charged as operating expenses, and the stock valuation should be raised by £19,000 for the unused goods remaining in store.

| | | |
|----|--------------------|---------|
| DR | Operating expenses | £5,000 |
| DR | Stock | £19,000 |
| CR | Creditors | £24,000 |

1 mark for discussion, 1 mark for accounting entries

- (ii) It is a requirement under the Companies Act 1985 (S5 of Schedule 4) that income and expenditure should be reported and published gross, ie income and expenditure should not be netted off against each other. In order to show income and expenditure correctly in this case:

| | | |
|----|------------------------|--------|
| DR | Operating expenses | £8,000 |
| CR | Other operating income | £8,000 |

An exception to the rule is where costs are recharged in such a way that the Trust is acting merely as an agent, eg net accounting is permissible for the recharge of staff costs.

1 mark for discussion, 1 mark for accounting entries

- (iii) SSAP2 (Disclosure of Accounting Policies) requires prudence when reporting income. In this case, it seems that £17,000 of private patient income will not now be received. This should be written off to the Income and Expenditure Account as bad debt expense.

| | | |
|----|-------------------------------|---------|
| DR | Operating expense (bad debts) | £17,000 |
| CR | Debtors | £17,000 |

£28,000 of Health Authority invoices also need to be written out of the accounts. The Secretary of State for Health (through the NHS Trust Manual

for Accounts) has decreed that there cannot be inter-NHS bad debts, so the correct accounting treatment is to issue a credit note to the Health Authority.

| | | |
|----|------------------------|---------|
| DR | Income from activities | £28,000 |
| CR | Debtors | £28,000 |

1½ marks for discussion, 1½ marks for accounting entries

- (iv) SSAP4 (Accounting for Government Grants) deals specifically with assistance received from government sources. However, SSAP4 is also indicative of best practice for accounting for assistance from “other” sources. In the case of NHS Trusts, accounting for assets funded through donations is determined by SSAP4. The accounting entries for this transaction are:

| | | |
|----|------------------|---------|
| DR | Fixed assets | £35,000 |
| CR | Cash | £35,000 |
| DR | Cash | £35,000 |
| CR | Donation reserve | £35,000 |

As the work was completed in the final quarter, there is no depreciation due for the 1999/00 financial year.

1 mark for discussion, 1 mark for accounting entries

- (v) SSAP13 (Accounting for Research and Development) states that expenditure on pure and applied research should be written off in the year in which it is incurred. Development expenditure on the other hand can be written off or deferred subject to meeting specific criteria. The £28,000 of research expenditure should not be written off over 15 years as proposed, but should all be written off in 1999/00.

| | | |
|----|--------------------|---------|
| DR | Operating expenses | £28,000 |
| CR | Fixed assets | £28,000 |

1 mark for discussion, 1 mark for accounting entries

- (vi) SSAP24 (Accounting for Pension Costs) defines “defined contribution” and “defined benefit” pension schemes and explains how to account for them. The NHS Pension scheme is unusual in that the extra costs of early retirements are not funded by the scheme. For early retirements, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the trust commits itself to the retirement. This policy is based on the spirit and reasoning behind SSAP24, but the specific circumstances found in the NHS are not covered directly by the standard.

| | | |
|----|--------------------|---------|
| DR | Operating expenses | £39,000 |
| CR | Creditors / Cash | £39,000 |

1 mark for discussion, 1 mark for accounting entries

- (vii) FRS11 (Impairment of fixed assets and goodwill) is applicable for accounts from 1999/2000. This accounting standard requires impairment reviews to be undertaken where there is an indication that the value of assets may be overstated in the balance sheet. Where the valuation is below the carrying amount in the balance sheet, the asset should be valued downwards, with the diminution charged to the income/expenditure account or revaluation reserve as appropriate.

1 mark for general discussion

- Consumption of asset. Where the diminution is due to general wearing out, the full impairment value should be charged to the I&E account.

| | | |
|----|--------------------|---------|
| DR | Operating expenses | £25,000 |
| CR | Fixed assets | £25,000 |

Students may (correctly) state that an additional accounting entry would be made transferring the revaluation reserve balance of £9,000 to the income and expenditure reserve, ie.

| | | |
|----|--------------------------------|--------|
| DR | Revaluation reserve | £9,000 |
| CR | Income and expenditure reserve | £9,000 |

An application can be made for income to match the expenditure so that the net affect on the break-even position is nil. When this is received the accounting entries are:

| | | |
|----|--------|---------|
| DR | PDC | £25,000 |
| CR | Income | £25,000 |

½ mark for discussion, 1½ marks for accounting entries

- Market factors. Where the diminution is due to market factors, the amount can be written off to the revaluation reserve (and disclosed in the Statement of Total Recognised Gains and Losses), as long as there is a credit balance on the reserve relating to that asset. Any diminution in excess of the revaluation reserve balance must be written off to the P&L account.

| | | |
|----|---------------------|---------|
| DR | Revaluation reserve | £40,000 |
| CR | Fixed assets | £40,000 |

Balance on revaluation reserve

| | | |
|----|--------------------|---------|
| DR | Operating expenses | £10,000 |
|----|--------------------|---------|

CR Fixed assets £10,000

Remaining impairment to I&E account

DR PDC £10,000

CR Income £10,000

Agreed funding from DoH

½ mark for discussion, 1½ marks for accounting entries

(18)

(b) FRS12 (Provisions, Contingent Liabilities and Contingent Assets) applies in full to clinical negligence cases for NHS Trust account from 1999/00 onwards. This requires:

- Accounting for all claims rather than those over 50% probable;
- Accounting using the expected value concept and discounting if material.

In this case, the expected value of the provision is:

| Forecast settlement | Probability | Expected Value | Discount Factor | Discounted |
|----------------------------|--------------------|-----------------------|------------------------|-------------------|
| £50,000 | 40% | £20,000 | | |
| £8,000 | 60% | £4,800 | | |
| Total | 100% | £24,800 | 0.8396 | £20,822 |

The expected value should be discounted using the 6% public sector discount rate over 3 years.

The balance sheet provision needs to be increased and an equivalent charge made to the income and expenditure account.

DR Expenditure £20,822

CR Provision £20,822

Each year, the discount needs to be unwound. For next year, the discount on the provision will be unwound by $0.06 \times £20,822 = £1,249$

DR Interest payable £1,249

CR Provision £1,249

2 marks for calculating expected value, 1 mark for unwinding

2 marks for discussion of FRS 12

2 marks for accounting entries

(7)

Question 4

(a)

| | 1999/2000 | Points | 1998/99 | Points | 1997/98 | Points | Total | |
|------------------|------------------|---------------|----------------|---------------|----------------|---------------|--------------|-----------|
| Company A | | | | | | | | |
| Current ratio | 136:123=1.11 | 1 | 118:132=0.89 | 0 | 118:113=1.04 | 1 | 2 | <i>1½</i> |
| Acid test | 114:123=0.93 | 1 | 100:132=0.76 | 0 | 90:113=0.80 | 0 | 1 | <i>1½</i> |
| Post tax profits | | 1 | | 1 | | 0 | 2 | <i>½</i> |
| Total | | | | | | | 5 | |
| Company B | | | | | | | | |
| Current ratio | 117:89=1.31 | 1 | 104:90=1.16 | 1 | 102:84=1.21 | 1 | 3 | <i>1½</i> |
| Acid test | 87:89=0.98 | 1 | 76:90=0.84 | 0 | 76:84=0.90 | 1 | 2 | <i>1½</i> |
| Post tax profits | | 1 | | 1 | | 1 | 3 | <i>½</i> |
| Total | | | | | | | 8 | |
| Company C | | | | | | | | |
| Current ratio | 132:91=1.45 | 1 | 132:108=1.22 | 1 | 115:92=1.25 | 1 | 3 | <i>1½</i> |
| Acid test | 97:91=1.07 | 1 | 98:108=0.91 | 1 | 85:92=0.92 | 1 | 3 | <i>1½</i> |
| Post tax profits | | 1 | | 1 | | 1 | 3 | <i>½</i> |
| Total | | | | | | | 9 | |

Companies B & C can be invited to tender on financial criteria.

½

(11)

(b)

| | X Ltd | Points | Y Ltd | Points | Z Ltd | Points | |
|--------------|--------------|---------------|--------------|---------------|--------------|---------------|----|
| Staff | 6/30=20% | 5 | 10/59=17% | 5 | 21/99=21% | 10 | 1½ |
| Contract | | 0 | | 5 | | 10 | ½ |
| Price* | | 20.91 | | 17.14 | | 6.95 | 4½ |
| Total | | 25.91 | | 27.14 | | 26.95 | |

Company Y should be offered the contract.

½
(7)

Note: Students may interpret the last paragraph of the question in other ways, leading to a rounding of percentages, which may result in different points scores, the effect of which may be to change the recommendation to Company Z – full credit should also be given for recommending Company Z in these circumstances.

* Price Notes: £

| | |
|-------|----------------|
| X Ltd | 225,375 |
| Y Ltd | 241,095 |
| Z Ltd | <u>283,530</u> |
| Total | 750,000 |

Average Price = £250,000

£225,375 = 9.85% less than the mean, hence points = $15 + (9.85 * (2\% * 30)) = 20.91$

£241,095 = 3.56% less than the mean, hence points = $15 + (3.56 * (2\% * 30)) = 17.14$

£283,530 = 13.41% greater than the mean, hence points = $15 - (13.41 * (2\% * 30)) = 6.95$

(c)

| Responsibility | Explanation | |
|---|---|------|
| Drawing up the contact specification | Detailed description of the service/goods/ works, eg tasks, times, frequencies, materials, etc including minimum standards Conditions, including client & contractor responsibilities Provides a benchmark against which the tenders can be assessed. | 2 |
| Estimate of realistic cost | Based on the provision of the service/goods/ works detailed in the contract specification | 1 |
| Publication of notice | To inform interested parties of the service to be tendered | 1/2 |
| Send questionnaire and outline details | To obtain information to allow short-listing of contractors who will be invited to submit tenders | 1 |
| Review questionnaire | To reject potential tenderers that do not meet minimum standards of financial standing or technical capacity | 1/2 |
| Invitation to tender | Sending details to approved potential tenderers | 1/2 |
| Tender evaluation | Review all tenders on the basis of cost and quality and conclude with a preferred bidder | 1/2 |
| Announcement of award | Notification to successful and unsuccessful tenderer | 1 |
| | | (7) |
| | | (25) |

Question 5

(a) Role and responsibilities of the Director of Finance

OLM Reference – Block 1, Study Unit 2

The answer should outline the key points under each appropriate headings as follows: The student should not just write a list similar to a job description or person specification, but needs to expand each point to illustrate understanding.

Corporate management

- Member of board and executive team (direction and policy, contribution to strategic decisions, manages and advises on finance).
- Works with clinical managers (enabling relationship with clinicians, ability to communicate, ability to appreciate the wider implications of individual clinicians' actions).
- Strategic and business planning (shaping financial objectives, outside knowledge of public finance, innovative, able to adapt to the market).
- Corporate governance (to work within statutory framework, SO's, SFI's, scheme of delegation).
- Value for money.
- Business case assessment (consistency with organisational direction).
- Private sector finance (innovation, use of private finance, adherence to government regulations and policy).
- Non-financial management responsibilities (planning, contracting, information).

Public accountability and stewardship

- Directors of finance in public service — duty to manage in the best interest of the public service and the patient.
- SFI's and financial control systems (ensuring that financial controls are in place and that procedure notes and SFIs are adhered to).
- Statutory accounts and returns.
- Financial reporting (to the board, objectivity).
- Monitoring information for the NHSE.

Financial management

- Financial strategy (formulation and monitoring, risk assessment).
- Budgetary control and reporting (reporting and action).
- Financial accounting (timely and accurate).
- Treasury management (EFL, cash limit, creditors, debtors, investment of funds).
- Financial services.
- Charitable funds (trustees duty of care).

Management of the finance directorate

- High standards of management (leadership skills, quality).
- Business planning within the finance directorate (produced from the bottom up).
- Thinking ahead (staff planning, workload planning).
- Effective delegation (skills awareness, empowering managers, communication, reporting mechanism).
- Monitoring of quality (setting objectives).
- Motivation of staff (also management of staff, discipline of staff).
- Communication (ensuring goal congruence).
- Staff development and training (appraisals, training needs).
- Management of outposted or contracted out services.

½ mark per point and 1 for explanation up to a maximum of 19

(b) Devolved financial management

OLM Reference – Block 5, Study Unit 20

The exact definition will vary but should refer to:

- The shifting of the decision making process away from the centre to front-line services
- Front line service managers being responsible for budgets and budget monitoring

2

(c) Advantages of Devolved Financial Management

- Alignment of financial and managerial responsibility
- Enables front line staff to respond more quickly to needs of clients
- Fosters ownership of budgets
- Clearer accountability
- Any other appropriate points

½ mark per point up to a maximum of 2

Disadvantages

- Costly to set up due to training requirements
- Devolving financial responsibility to non-finance experts
- More difficult for the centre to control and influence
- Any other appropriate points

½ mark per point up to a maximum of 2
(4)

(25)