

# FINANCIAL REPORTING IN THE HEALTH SERVICE

## **Professional 2 examination 8 June 1999**

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.*

## 1

**SECTION A (Answer both questions)**

The following information relates to Billworth NHS Trust

	<b>31 March 1999</b>		<b>31 March 1998</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>				
Tangible assets		67,520		68,500
<b>Current assets</b>				
Stocks and WIP	1,150		1,420	
Debtors	2,030		2,790	
Cash	<u>200</u>		<u>160</u>	
<b>Total current assets</b>	3,380		4,370	
Creditors due within one year	<u>(6,600)</u>		<u>(7,300)</u>	
Net current liabilities		<u>(3,220)</u>		<u>(2,930)</u>
<b>Total assets less current liabilities</b>		64,300		65,570
Creditors due after one year		(33,400)		(32,750)
Provisions for liabilities and charges		<u>(980)</u>		<u>(150)</u>
<b>Total assets employed</b>		<u>29,920</u>		<u>32,670</u>
<b>Financed by capital and reserves</b>				
Public dividend capital		27,800		27,800
Revaluation reserve		1,900		2,550
Income and expenditure		<u>220</u>		<u>2,320</u>
<b>Total capital and reserves</b>		<u>29,920</u>		<u>32,670</u>

Additional information:

1. Depreciation provided for the year ended 31 March 1999 amounted to £2,430,000.
2. During 1998/99 a net loss of £200,000 was made on fixed assets disposed of during the year, their net book value amounted to £380,000.
3. An analysis of debtors reveals the following:

	<b>31/3/99</b>	<b>31/3/98</b>
	<b>£000</b>	<b>£000</b>
Operating activities	2,010	2,780
Interest receivable	<u>20</u>	<u>10</u>
	<u>2,030</u>	<u>2,790</u>

4. An analysis of creditors due within one year reveals the following:

	<b>31/3/99</b>	<b>31/3/98</b>
	<b>£000</b>	<b>£000</b>
Instalments due on loans	1,760	1,680
Interest payable	150	150
Other	<u>4,690</u>	<u>5,470</u>
	<u>6,600</u>	<u>7,300</u>

5. Interest receivable credited to the income and expenditure account during 1998/99, amounted to £110,000 and interest payable of £3,400,000 was debited.

• **Requirement for question 1**

- |     |  |      |
|-----|--|------|
| (a) | Explain the importance of the cash flow statement in assessing trust performance.                    | 3    |
| (b) | Prepare the cash flow statement for Billworth NHS trust for the year ending 31 March 1999.           | 7    |
| (c) | Prepare the reconciliation of operating surplus to net cash flow from operating activities (note 1). | 5    |
| (d) | Prepare the reconciliation of net cash flow to movement in net debt (note 2).                        | 4    |
| (e) | Prepare the analysis of changes in net debt (note 3).  | 4    |
| (f) | Explain why the reconciliation in (c) to (e) above is required.                                      | 2    |
|     |  | (25) |

## 2

The following balances have been determined for Pencaster NHS Trust as at 31 March 1999:

	<b>£000</b>
Public Dividend Capital	29,600
Revaluation Reserve	2,065
Donation Reserve	1,300
Income and expenditure reserve	1,455
Provisions for liabilities and charges	2,370
Instalment due on loans	1,190
Interest owing	1,110
NHS creditors	1,590
Other creditors	3,450
Long term loans	23,100
Stocks and WIP	2,940
Debtors	5,570
Cash at bank and in hand	5,100
Land (net book value 1 April 1998)	6,570
Buildings (net book value 1 April 1998)	45,550
Equipment (gross replacement cost 1 April 1998)	26,500
Accumulated equipment depreciation at 1 April 1998)	18,500
Income from healthcare contracts	98,000
Other income	13,400
Salaries and wages	60,800
Supplies and services	40,600
Other expenditure	1,500
Interest payable	1,110
Interest receivable	650
Public dividend capital dividends	1,540

The trial balances needs to be adjusted for the following transactions:

1 Provisions for liabilities and charges are to be increased by £1,790,000.

2 Capital transactions relating to land and buildings for 1998/99 are summarised below:

	<b>Indexation</b>	<b>Additions</b>	<b>Revaluation</b>	<b>Depreciation</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Land	155	150	(225)	-
Buildings:				
Cash purchase	1,770	1,870	(520)	3,025
Donated	10			5

3 The average life of equipment at the 1 April 1998 was 8 years, and indexation to be applied for 1998/99 is 2%.

4 Two pieces of equipment were purchased during 1998/99

Category	Financed	Date	£
5 years	Cash	1 July 1998	400,000
10 years	Loan	1 April 1998	1,000,000

5 One piece of equipment was disposed of during the year. Its gross current replacement cost at 31 March 1998 amounted to £900,000 and it raised a capital receipt of £650,000 on the 1 January 1999. The equipment was originally purchased on 1 October 1996 and had a standard life of 8 years.

• **Requirement for question 2**

(a) Calculate the equipment depreciation for the year ended 31 March 1999, together with its net replacement cost.

5

(b) Prepare the income and expenditure account for Pencaster NHS Trust for the year ending 31 March 1999.

6

(c) Prepare the balance sheet for Pencaster NHS Trust as at 31 March 1999.

14

(25)

# 3

## SECTION B (Answer two questions)

Newtown NHS Trust wish to acquire a large piece of medical and surgical equipment which is included in the current capital programme. It is estimated that the equipment will cost in the region of £1.2m and will last for 10 years. There is also likely to be associated revenue costs of £500,000 per annum for this period of time.

The Trust's Capital Finance Committee is due to meet to consider the financing of the equipment. They have requested that for this meeting the Director of Finance provide the committee with a report considering not only the methods of finance available, but also the accounting and financial implications associated with each.

The Director of Finance has requested that you as a Capital Accountant draft a report for that committee.

- **Requirement for question 3**

Write a report for the Capital Finance Committee which:

- |     |   |      |
|-----|---|------|
| (a) | Identifies the internal and external methods of capital finance which may be available to the Trust.  | 3    |
| (b) | Explains the financial implications of each method, together with an explanation of the accounting treatment of the asset in the accounts of the Trust. | 22   |
|     |   | (25) |

# 4

## Universal NHS Trust

### INTERNAL MEMORANDUM

**To:** Mrs J Lynn, Director of Finance

**From:** Mr V Wayne, Non-Executive Director

#### **Board Meeting - Finance report item**

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I am writing following the recent Trust Board meeting, which, as you are aware, was my first in my role as a non-executive director of Universal NHS Trust.

It was clear from the meeting that the Trust has a very full agenda, and that the next year is going to a very busy one if we are to go into the next millennium as a leading teaching hospital. As you know, my background is in industry and I am still trying hard to familiarise myself with some of the 'NHS Speak'. I followed the main points in your financial report but made a few notes of certain areas that I was unsure of with a view to asking you to clarify them for me. These are as follows:

1. In talking about meeting our financial duties you mentioned the 'EFL'. I would be grateful if you could explain to me what an EFL is and what in general must be done in order to ensure that we meet it. I also made a note that you said we had a positive and not a negative EFL, what is the difference?
2. Secondly, still in relation to the financial duties that we must meet, I noted that although we are required to make a 6% rate of return, I am unsure of how this is calculated. Could you explain this to me and also let me know what the major reasons may be why we may make either a larger or a smaller rate of return than 6%.
3. We discussed the new 'Saloon Wing' due for development in 2000. I realise that at £3 million this is indeed a major capital project. Could you explain why we have capital programmes in this trust?
4. I noted on the Trust Balance Sheet two terms whose meaning I was unsure of. These were 'Interest Bearing Debt' and 'Public Dividend Capital'. I presume they have something to do with capital and reserves as they appeared in the bottom half of the balance sheet and, from my limited knowledge of financial accounting, I believe items there generally do. Perhaps you could confirm what these items mean and explain any differences between them.

I'm sorry to have to trouble you, as I understand you must be a very busy person, but I would be very grateful if you could help me out.

## Victor

- **Requirement for question 4**

- (a) NHS Trusts are required to publish statutory accounts and an annual report and hold an Annual General Meeting each year.

Who are the main users and what are the main uses of these sources of information? 8

- (b) Draft a response to Mr V Wayne from the Finance Director addressing the issues raised in the above memorandum. 17

(25)



# 5

Seagrave NHS Trust provides a radiology service to three purchasing authorities, under a block contract arrangement.

You are the Directorate Accountant responsible for the budgetary control information for the radiology department. Attached is the draft budgetary control report for the department to the end of month 5 of the current financial year.

The management accountant with day-to-day responsibility for the budget of the Radiology department, is unconcerned at its current position, showing as it does, only a small overspend. However, you know that in previous years the Radiology department has been a large overspending department and are suspicious at this favourable position.

You decide to conduct some further investigations prior to producing a final statement suitable for inclusion in the monthly directorate budget report.

Your investigations reveal the following:

- (i) A 3% nursing pay award effective from 1 April has not been included into the budget. Staff have received the award.
- (ii) The professions allied to medicine (which include radiographers) have received a 2.5% pay award effective from 1 August. This has not been included into the budget. The staff have received the award.
- (iii) One of the three senior radiographers has been off sick since the beginning of the financial year. One of the basic grade radiographers is 'acting up', and a basic grade has been appointed from an agency to maintain the establishment of 5 basic grades. The agency fees are 10% in addition to the basic cost (including pay award) of a basic grade radiographer.
- (iv) The department has received new software for the computer system costing £6,500, but the invoice is still to be received.
- (v) There is unauthorised expenditure on printing. On investigation this is found to belong to the pharmacy department.
- (vi) The drug budget has not been increased for prices for the whole year; it is estimated that prices will rise by 3%.
- (vii) The directorate accountant for medicine has identified miscoding of some items. There is medical and surgical equipment (MSSE) totalling £400 that have been wrongly coded to a medical ward that belong to radiology.

- (viii) A maintenance contract for the CT scanner totalling £2,500 has just been paid. This covers the whole financial year.
- (ix) Capital charges relating to equipment are allocated by the finance department at the end of each month.
- (x) An internal virement of £500 budget is to be transferred to the drug budget of the surgical department from the drug budget of the radiology department.

**SEAGRAVE NHS TRUST  
RADIOLOGY DEPARTMENT**

**Budgetary Control Statement for the period to the end of August**

	<b>Annual Budget £</b>	<b>Budget to date £</b>	<b>Expenditure to date £</b>	<b>Variance £</b>
<b>PAY</b>				
Chief Radiographer	40,000	16,667	17,120	453
Senior Radiographers	82,000	34,167	34,340	173
Basic radiographers	104,000	43,333	55,520	12,187
Nursing	32,100	13,375	13,770	395
Admin and clerical	20,050	8,354	8,320	(34)
<b>Total Pay</b>	<b>278,150</b>	<b>115,896</b>	<b>129,070</b>	<b>131,74</b>
<b>NON PAY</b>				
MSSE	41,000	17,083	16,500	(583)
Drugs	53,000	22,083	26,120	4,037
Pathology tests	12,000	5,000	1,010	(3,990)
Printing	0	0	500	500
Office equipment	500	208	300	92
Disposable dressings	4,780	1,992	2,251	259
Computer hardware and software	15,000	6,250	0	(6,250)
Maintenance contracts	2,500	1,042	2,500	1,458
Travel	600	250	300	50
Books and periodicals	50	21	0	(21)
X Ray film	2,680	1,117	1,300	183
X Ray chemicals	3,000	1,250	1,115	(135)
<b>RECHARGES</b>				
Capital charges	48,000	20,000	12,000	(8,000)
<b>Total Non Pay</b>	<b>183,110</b>	<b>76,296</b>	<b>63,896</b>	<b>(12,400)</b>
<b>Total Expenditure</b>	<b>461,260</b>	<b>192,192</b>	<b>192,966</b>	<b>774</b>

- **Requirement for question 5**

As Directorate Accountant you are responsible for preparing the finance report to be included in the Directorate Monthly meeting. After the previous meeting, the director had firstly asked you to consider ways in which the budget report could be improved upon, and secondly had expressed concern over the inclusion of capital charges on the budget report, feeling that he had little control over the level of capital charges.

Prepare the report for the meeting to include the following:

- |     |   |      |
|-----|---|------|
| (a) | A revised month 5 budget statement.   | 10   |
| (b) | An analysis of the financial position of the department, including a breakdown of major variances.  | 6    |
| (c) | Suggestions as to how the budget report could be improved upon, including any additional information that could be provided to improve the understanding of its recipients. | 6    |
| (d) | Justification of the inclusion of capital charges for equipment on the budget report.   | 3    |
|     |   | (25) |