

TREASURY AND TAX MANAGEMENT

Professional 2
11 June 1999

MARKING SCHEME



Question 1

(a) Position at end of each week:

Current Forecast				Forecast after improvements		
open bal	04/06/99	PGO	2,250,000	open bal	PGO	2,250,000
		current	35,000		current	35,000
		CR	-1,749,965		CR	-1,750,000
		NHS Sup	-500,035		NHS Sup	-500,035
		XYZ	-1,500,000		XYZ	
		ABC	-850,000		ABC	
		wage	-25,000		wage	-25,000
		income	100,000		income	100,000
			-2,240,000			109,965
	11/06/99	cash	-2,240,000			109,965
		income	700,000		income	700,000
					XYZ	-1500,000
		wages	-25,000		wages	-25,000
		invest	1,500,000		invest	1,500,000
		interest	22,192		interest	22,192
			-42,808			807,157
	18/06/99	cash	-42,808			807,157
		income	700,000		income	700,000
		block	7,200,000		block	7,200,000
		cr	-4,000,000		cr	-4,000,000
		block			block	-850,000
		wages	-25,000		wages	-25,000
			3,832,192			3,832,157
	25/06/99	cash	3,832,192		cash	3,832,157
		income	700,000		income	700,000
		wages	-25,000		wages	-25,000
			4,507,192			4,507,157
	30/06/99	cash	4,507,192		cash	4,507,157
		invest	2,500,000		invest	2,500,000
		interest	24,144		interest	24,144
		salaries	-6,500,000		salaries	-6,500,000
			531,336			531,301

Marks awarded for key figures in cashflow

Week 1	(£2,240,000)	
Week 2	(£42,808)	
Week 3	£3,832,157	
Week 4	£4,507,157	
30/6/99	£531,301	8

- (b) Cash position could be improved by retiming payments and making payments by CHAPS to XYZ and ABC on the due date.
Also further actions could be taken on debts such as offering discounts, factoring etc. 5
- (c) EOQ = 2,522

$$\sqrt{2 * 35 * 100,000 / 1.1}$$
4
13 orders per year 1

Alternative for 4 marks

$$\sqrt{2 * 35 * 100,000 / 1.1} = 3742$$

.50

27 orders per year

- (d) **Financial benefits**
savings on holding costs/storage
stock taking costs
labour (warehouse staff)
- Non-financial**
accommodation released for better purposes
less admin work for medical staff
flexibility to get up to date products
No wastage
- Risks**
non-delivery - medical and legal implications
clinicians "hoarding" supplies 7

(25)

Question 2

- (a) Level of risk involved
Long term stability
Regulatory framework
Non-financial factors e.g. political/experience
Integrated with all treasury management activities

1 mark per item if full description given, up to a maximum of 5

- (b) Sources from which funds are available
- PWLB (if local authority)
- commercial lenders - terms and conditions

Movement in interest rates

- what is view of future interest rates
- variable v fixed

Actual cash flows

- using temporary borrowings/deposits
- matching actual cashflows - repayments

Maturity profile of existing debt

- ensure no peak of debt repayment
- structure of interest rates
- long term (over 25 years)

Documentation/authorisation

- ensure authorisation is available
- assess documentation if unusual borrowing

2 marks per factor up to a maximum of 8

(c) Outsourcing debt portfolios

Advantages	Disadvantages
Expertise	Loss of control, additional systems to ensure control exists
Knowledge	Costly
Increased access to the markets	May need to explain the legislature restrictions

1 point made for any reasonable point to a maximum of 6

(d) **Examples**

Compliance with internal guidelines and policies, with published codes and statutory requirements and with good practice principles.

- adopting and implementing Treasury Management Code of Practice
- compliance with treasury management strategy
- familiarity with Code of Conduct
- favourable internal/external audit report with other local authorities

Statistical comparisons

- existing stats eg CIPFA, DETR
- average interest rate
- percent of fixed to variable
- analysis of debt maturity

Local performance indicators

- benchmarks
- reducing overall interest rate (dependant upon market situation)

Simple, comparative performance index

- overall effectiveness of borrowing and debt management activities

(½ mark for identifying, ½ for description, up to a maximum of 4)

Issues affecting interpretation:

- cumulative effect
- past decisions on refinancing/borrowing
- volatility of markets
- management risk decisions
- many measures are inter-related
- caution when comparing 'interauthority' measures

2

(6)
(25)

Question 3

(a) Role of Treasury Manager is given centralised control of the public sector spending:-

- To ensure appropriate planning, control and decision making with respect to spending.
- Compliance with the Treasury Management Code.
- To ensure timely preparation of accounts and maintenance of records in line with statutory and other requirements.
- To raise appropriate amounts of finance from acceptable sources in order to maximise funds available to the organisation over the short, medium and long term.

Give marks for mature reflection on the role of the Treasury Manager
10

(b)
$$\frac{(14 \times 5.75) + (4 \times 6.25) + (3 \times 5.50) + (4 \times 4.75) + (5 \times 5.00) + (1 \times 4.50)}{31}$$

=5.5%

5

(c) Historical basis for determination of cost of capital can give misleading impression. Depends upon market conditions ruling at the time the finance was raised and the perception of risk with respect to the organisation, its sector and the national and international economy.

5

(d) Consideration of marginal rate compared to average rate. More relevant as takes account of current market conditions with respect to the investment under consideration.

Consider Dividend Growth Model and Capital Asset Pricing Model but recognise that they are limited to the private sector in application.

5

(25)

Question 4

Trading Loss	-90,500	
Non Trading Income	-9,500	1 ½
	<u>-100,000</u>	
Depn	30,000	½
Legal - tax	7,000	½
Legal Health & Safety	5,000	½
Debt to Monk	2,000	½
Increase in debt provision	1,000	½
Entertaining	5,000	½
Oxfam	2,000	½
Car lease	4,000	½
Premium	15,000	½
		(4½)
Car lease		
$4000 \times 12K + \frac{1/2(20K-12K)}{20K}$	-3,200	2
lease prem 2% (n-1)/17 years	<u>-600</u>	<u>67,200</u>
		1
		-32,800
		1 ST = 10

Note: If split loss adjustment into CAPS then maximum = 6 out of 10

	12mth	6mth	
Capital allowance given	-21,866.7	-10,933.3	1
cap all 30000 X 25%/2	-15,000.0		1
		<u>-3,750.0</u>	2
Adjusted loss	-36866.7	-14,683.3	

Assessment

D1	0	0	
D111	500		1
A		8,000	1
non trade charge		<u>-2,597</u>	1
PCTCT	500	5,403	
Tax at 21%	105	1,135	1

Note: ½ mark if not split into CAPS

(i) Twelve months ended 31 March 1998

Options:

Set off against Schedule D Case III income £500 of same year, the carry against profit of £35,000 in the year ended 31 March 1997.

The set-off against the £500 would save tax at 21% and the claim in the year ended 31 March 1997 would produce a refund of all tax paid for the year (at 24%) but would entail the loss of relief for the non-trade charge £2,500.

Carry the whole loss forward against future profits of the same trade (S 393 (1)). The loss would be relieved against the profits of the year ending 30 September 1999. As £100,000 of this profit would be in the marginal band, tax 33.5% would be saved.

(ii) Six months ended 30 September 1998

Options:

Set-off against Schedule D Case III income £8,000, then carry back against Schedule D Case III income of the previous year (£500) if not already claimed as explained in (i) above.

The set-off in the current year would save tax at 21% but would entail the loss of relief for the non-trade charge £2,597.

Carry forward against future profits as in (i).

Conclusion

Unless there is urgent need for the cashflow derived from the refund obtainable for the carrying back of the loss for the year ended 31 March 1998, it must be right to carry both losses forward into year ending 30 September 1999. There is no suggestion of any change of ownership and change of trade which might jeopardise this relief.

Question 5

Explain tests

Contract OF or FOR plus tests:

e.g control/ exclusivity / risk / ee-er relationship/provision of equipment

(max 2 marks per element) 10

Ex Director

question re control / ability to send deputy / VAT registered
core activity / level of guidance / instruction
exclusivity
prima facie employed

Ensom city should account for PAYE & NIC

5

Childminding

times
determination of work / process of correction
risk
provision of equipment

5

UNKNOWN OUTCOME - mark according to the scope of argument

Accountant

Control / risk
VAT

teaching is core - prima facie employed
equipment / timing / content of lecture

5

as accountant - buying professional advice
prima facie self employed

can a person be employed & self employed to same organisation ?

(25)

Marks awarded if conclusions are consistent with arguments.

Marks are allowed to transfer up to 1 mark per section if good use of relevant case law

Question 6a

VAT status

Charity	exempt supply	1
	can only register in have taxable supplies	1
	what types of non exempt business supplies (sale of books but they are zero rated anyway)	1
	if can register - then partial exemption - de minimis unlikely to apply	1
	conclusion - not a lot can be done	1
		(5)

LEA school

covered by LEA registration	
s33 body - recover input tax on exempt non business supplies	2

Current situation

junior school pay	1050 include 5% VAT	1
recharge	40% 420	1
Cost of juniors	630	
juniors unable to recover VAT		1
infants have no VAT to recover		
		(3)

Alternative

infants pay	1175 include 17.5%	1
recover input tax	<u>175</u>	1
	1000	
recharge	<u>600 plus vat @5%</u>	
	400	1
cost to infant school £400 a saving of £20		1
cost to juniors the same - £630		1
		(5)
		(15)

Question 6b
Tlloyd social club

Month	Std rate	Zero	Exempt
January 1999	9,000	3,000	8,000
February 1999	10,000	2,000	8,000
March 1999	8,000	4,000	5,000
April 1999	18,000	1,000	1,000
May 1999	10,000	5,000	3,000
June 1999	12,000	5,000	2,000

3 marks for tabulation 0/3 if include exempt supplies within taxable supplies

Cumulative taxable supplies

Month	Revenue	Capital	Net
January 1999	12,000		12,000
February 1999	24,000		24,000
March 1999*	36,000		36,000
April 1999*	55,000	8,000	47,000
May 1999*	70,000		70,000
June 1999*	87,000		87,000

Limit exceeded at end of May 1999 - register by 30 June

1

1/3 if only use stu rate as taxable supplies

Capital rule 2

Note: -1 for using incorrect VAT limits

Tlloyd summary tabulation
 Capital rule
 Conclusion

3

2

1

(6)

Guilletserv Ltd

monthly supplies 25,000

1

limit exceeded at end of August - register by 30 September

3

(4)

(10)

(25)