FINANCIAL AND PERFORMANCE REPORTING

December 2004
Diploma stage

MARKING SCHEME

Question 1

(a) Glass Unitary Authority: Cash flow statement for the year ended 31 March 2004

		£000	£000	
Cash inflows				
Council Tax	(N7)	(250,550)		
Fees and charges	(N7)	(11,350)		
Other grants	(N7)	(50,980)		
NNDR	(N7)	(93,450)		
RSG	(N7)	(133,330)		
			(539,660)	*1*
Cash outflows				
Precepts raised	(N7)	8,540		
Payments to staff	(N7)	259,980		
Payments to creditors	(N7)	175,630		
NNDR collected	(N7)	75,435		
			519,585	*1*
Net cash flow from revenue activities			(20,075)	
Returns on investment and servicing of finance				
Interest paid	(see working 1)	6,300		
Interest received	(N7)	(270)		
			6,030	
Capital activities				
Capital payments	(see working 2)	9,001		
Capital receipts	(see working 3)	(2,221)		
			6,780	
Management liquid resources				
Movement on short term investments (1,500 – 1,075)			(425)	½
Financing				
LTB repaid	(N6)	7,600		
LTB received	(42,400 – (48,000 – 7,600)	(2,000)		*1*
			5,600	
Increase in cash			(2,090)	

Format and presentation of cash flow statement and notes ½

Note 1: Reconciliation of revenue activities to net cash flow

		£000	
Surplus for the year	(13,632 – 6,990)	(6,642)	½
Depreciation	(N1)	(6,988)	
MRP	(N2: 9,873 – 6,988)	(2,885)	*1*
DRF	(N3)	(2,500)	
Decrease in stock	(900 – 550)	(350)	
Increase in debtors	(N5: 4,930 – 5,930)	1,000	*1*
Decrease in creditors	(N5: 7,000 – 3,050)	3,950	
Net interest	(see working 4)	(5,660)	
		(20,075)	

Note 2: Reconciliation of movement in net debt to cash flow

	£000	
Increase in cash	2,090	
Decrease in short term investment	(425)	
Cash outflow: Loans repaid	7,600	
Cash inflow: Loans received	(2,000)	
Decrease in net debt	7,265	
Net debt b/f	(44,200)	
Net debt c/f	(36,935)	½

Note 3: Analysis of movement in net debt

	01/04/03 £000	Cash flow £000	31/03/04 £000	
Cash at bank and in hand	2,300	2,090	4,390	
Short term investment	1,500	(425)	1,075	
Long term borrowings	(48,000)	5,600	(42,400)	
Net debt	(44,200)	7,265	(36,935)	*1*

Working 1: Interest payable/ Paid

AMRA

	£000			£000	
Depreciation (N1)	6,988	½	Asset rentals (N1)	11,879	½
External interest	$\boxed{5,950}$	*1*	Grant (2,000 – 1,800)	200	*1*
			Transfer to CRA (N1)	859	
	12,938			12,938	

Therefore interest paid = £5,950,000 + £500,000 (N5) – £150,000 (N5) = £6,300,000 ½

Working 2: Capital expenditure

Fixed assets (NBV)

	£000			£000	
b/f	130,750		Disposals (N4)	1,000	½
Additions	$\boxed{9,001}$	½	Depreciation (N1)	6,988	½
Revaluations (from FARR)	3,000	½	c/f	134,763	
	142,751			142,751	

FARR

	£000		£000	
Disposals (N4)	1,000	b/f	19,380	
		Revaluations (Balance)	$\boxed{3,000}$	*1*
c/f	21,380			
	22,380		22,380	

Working 3: Capital receipts

CFR

	£000		£000	
		b/f	50,650	
		DRF (N3)	2,500	½
		MRP (See note 1)	2,885	½
		Grant (See AMRA)	200	*1*
c/f	62,346	Capital receipts used (N3)	5,000	½
		Set aside in year (balance)	$\boxed{1,111}$	½
	62,346		62,346	

UCR

	£000			£000	
Used in year (N3)	5,000	½	b/f	5,890	
Set aside in year (from CFR)	1,111	½	Received in year (balance)	$\boxed{2,221}$	*1*
c/f	2,000				
	8,111			8,111	

Working 4: Net interest charged to the CRA

Interest payable (from AMRA- working 1)		£5,950,000	
Interest receivable:			
Cash flow (N7)	£270,000		
Opening debtors (N5)	(£30,000)		
Closing debtors (N5)	£50,000		½
		£290,000	
		£5,660,000	

(20)

Question 2

(a) Wildlife and Wetlands Protection Agency: Operating cost statement for the year ended 31 March 2004

		£000	
Operating costs			
Staff costs	(12,500 +125)	12,625	½
Other costs	Working 1	5,475	
Gross operating costs		18,100	
Other income	(10,200 + 2,500 + 75)	(12,775)	½
Net operating cost		5,325	

Working 1

	£000	
Per TB	3,500	
Depreciation (see FA schedule)	817	
Notional costs (working 2)	1,157	
Loss on sale of fixed assets (working 3)	1	
	5,475	½

Working 2

	£000	£000	
Insurance:			
Operating costs, prior to depreciation and notionals (£12,500 + £125 + £3,500)	16,125		
	x 2%	323	½
Audit fee		85	½
Cost of capital:			
Opening relevant net assets:			
General fund (14,525 – 2,000)	12,525		
Revaluation reserve (9,969 – 219)	9,750		
Less: Cash	(50)		
	22,225		
Closing relevant net assets:			
Fixed assets (3,675 + 15,135 + 1,886)	20,696		
Net current assets (see Balance sheet)	230		
Less: Cash	(375)		
	20,551		

Students to be awarded credit if they disclose Closing Relevant Net Asset as FA + Stock + Drs – Crs

Average relevant net assets = 22,225 + 20,551/2 =	21,388		
	X 3.5%		
		749	*2*
Total notional expenditure		1,157	½

Working 3

		£000	
Cost of asset at disposal date: £40,000 x 1.02 =		41	
Depreciation at disposal date:			
B/f = £30,000 x 1.02 =	£31		
Charge for year (41/10)	£4		
		(35)	
NBV at disposal date		6	
Proceeds		5	
Loss on disposal		1	*1*

Wildlife and Wetlands Protection Agency: Balance sheet as at 31 March 2004

	£000	£000	
Fixed assets			
Land		3,675	
Buildings		15,135	
Equipment		1,886	
		20,696	
Current assets			
Stock	50		
Debtors (500 + 75 + 5)	580		*½*
Cash	375		
	1,005		
Current liabilities			
Creditors (650 + 125)	(775)		*½*
Net current assets		230	
Total assets less current liabilities		20,926	
Creditors due after 1 year		0	
Total net assets		**20,926**	
Taxpayers' equity			
Revaluation reserve (working 4)		10,569	
General fund (working 5)		10,357	
		20,926	

1 mark for presentation of statements

Working 4

	£000	
Per TB	9,969	
Indexation		
Buildings	894	*½*
Buildings depreciation	(294)	*½*
	10,569	

For calculation of indexation amounts, see fixed asset schedule.

Working 5

	£000	
Per TB	14,525	
Notional expenditure (working 2)	1,157	
Net operating cost for the year	(5,325)	
	10,357	
		½

Fixed asset schedule

		£000	
Buildings			
b/f		22,355	
Indexation	(22,355 x 4%)	894	½
c/f		23,249	
Buildings depreciation			
b/f		7,355	
Backlog	(7,355 x 4%)	294	½
Charge for the year	(23,249 / 50)	465	
C/f		8,114	½
NBV Buildings		15,135	
Equipment depreciation			
Indexed cost		3,519	
Charge	(3,519/10)	352	½
NBV of equipment at yr end			
Cost per TB		3,519	
Less disposal		(41)	½
		3,478	
Acc depn		1,275	
Charge		352	
Disp		(35)*	*1*
		1,592	
NBV		1,886	½

Calculation of performance against income recovery target	**£000**	
Target is 25% of gross operating costs + 25% x 18,100 =	4,525	
Income from consultancy work	10,200	
Overachievement of target	5,675	
	125%	
		½

The agency has over achieved its target. ½

* Per Note 3	£30,600	
For year (41,000/10)	£4,100	½
	£34,700	

(b) Assessment of whether the Agency should apply for Trading Fund status

- Obtaining trading fund status will mean that the Agency is no longer part of the supply finance system.

  - It will no longer receive automatic funding to cover deficits. In this case, the Agency would be looking at having a £5,325,000 loss in year unless achieving trading fund status will mean that funding is received from commissioning agreements/SLAs or grants to cover the net operating cost.

  - It will be able to retain any surpluses generated in year - eg currently the Agency will need to pay over to the consolidated fund the income in excess of its target of £5,675,000 but will also bear the risk of any losses made in year. It would be wise to determine if the overachievement of income is sustainable in the long term or if there is significant non-recurring income that has boosted this year's performance.

- Being able to retain surpluses could improve long term financial planning since the agency can plan to invest in services. This is only viable if generated income streams are viable and sustainable.

- As a trading fund the agency will be required by its host Department to meet other financial targets eg a return on capital. Should ensure that these targets are realistic and achievable before committing to trading agency status, based on the Agency's business model - eg if the consultancy work requires significant use of high value fixed assets, will there be sufficient volume of consultancy work to generate the required ROCE.

- Trading fund status will mean that the audit fee becomes a real cost, not a notional one. Given the 2003/04's margin of over achievement of income collection there is an adequate income to cover these costs.

- As a trading agency, the Wildlife and Wetlands Protection Agency would need to break even as a minimum. Even though the Agency is currently overachieving against its income target it is still not achieving break even.

Other valid points made should attract credit.

1 mark per point made, 1 mark for explanation or interpretation of point in the context of the Agency's financial performance, to a maximum of 4

Students should make a clear recommendation as to whether they believe the Agency should apply for trading fund status from their analysis of the advantages/disadvantages of trading fund status.

1 mark for recommendation made, based on the student's own argument on the comparative benefits of Trading Fund status

(20)

Question 3

(a) Answer to be written as a briefing note.

1 mark available for presentation and format of the note

Item 1: Debtor write offs

FRS 18, Accounting policies, requires that accounts are prepared using estimates and policies that are reliable and relevant. Including the irrecoverable debtors in the financial statements would result in the users of the accounts having information that is not useful since the assets of the Trust will be overstated. The debtors need to be written off.

The NHS Manual for accounts requires that NHS debtors are written off by writing off income.

½ mark for identification/ discussion of FRS 18
½ mark for identification of NHS treatment of NHS Debtors

Accounting entries are therefore:

Private patients:

Dr I&E: Operating expenses:	£350,000
Cr Debtors	£350,000

NHS Debtors:

Dr I&E: Operating income	£400,000
Cr Debtors	£400,000

2 marks for accounting entries

Item 2: Impairment

FRS 11, Impairment of fixed assets and goodwill, deals with how to account for impairments. An impairment occurs when a fixed asset's carrying value falls below its cost.

The NHS Manual for Accounts allows NHS Trusts to account for temporary impairments in full through the revaluation reserve, even if a negative revaluation reserve will be held until the carrying value of the asset returns to its historic cost. This impairment is likely to be temporary since a new asset will normally incur acquisition costs that exceed its carrying value.

Dr Revaluation reserve	£100,000
Cr Fixed assets	£100,000

½ mark for identification/ explanation of FRS 11
1 ½ mark for identification of NHS treatment
1 mark for accounting entries

Students may also identify the asset impairment as permanent. Credit to be awarded for appropriate discussion of NHS treatment and accounting arrangements.

Item 3: Finance lease

SSAP 21, Accounting for hire purchase contracts and FRS 5, Substance over form, deal with accounting for finance leases. Finance leases need to be capitalised at their fair value and depreciated over the shorter of the useful economic life or lease term. Payment of the lease is split between interest and principal. Principal is recognised between long and short-term creditors.

The NHS Capital Accounting Manual outlines the arrangements for accounting for fixed assets.

½ mark each for identification/ explanation of SSAP 21 and acknowledgement that finance lease capital accounting entries are directed by the capital accounting manual

Dr Fixed assets £150,000
Cr Creditors, > 1 year £150,000

1 mark for accounting entry

Calculation of depreciation (NB: Asset bought in Q1, therefore 3 quarters depreciation chargeable for the year): 150,000 / 20 x 3 = £22,500

Dr I&E: Depreciation £22,500
Cr Accumulated depreciation £22,500

1 mark for accounting entry and calculation of it

Split of principal and interest

Total payments = £40,000 x 5 = £200,000. Therefore total interest = £50,000

Sum of digits = 1 + 2 + 3 + 4 + 5 = 15

Therefore interest = £50,000 / 15 x 5 = £17,000 (rounded to nearest £000)

Dr Interest payable £17,000
Cr Cash £17,000

½ mark for accounting entry and ½ mark for calculation of interest

Principal = £40,000 - £17,000 = £23,000 (rounded to nearest £000)

Dr Creditors > 1 year £23,000 (since fair value of lease has been reported in full)
Cr Cash £23,000

½ mark for accounting entry and ½ mark for calculation of principal

Principal for next year:

Interest = £50,000 / 15 x 4 = £13,000 (rounded)
Principal = £40,000 - £13,000 = £27,000 (rounded)

Dr Creditors > 1 year £27,000
Cr Creditors < 1 year £27,000

½ mark for accounting entry and ½ mark for calculation of principal

Item 4: Hosting shared services

SSAP 25, Segmental reporting, requires entities to report the turnover and cost of sales of material segments separately. A segment is defined as a geographical location or a class of business. Segmental reporting applies to the NHS where material non-patient healthcare activities are provided. The manual for accounts requires that operating income and expenditure is reported segmentally. The Trust needs to report income and costs for shared service separately from its operating income and expenditure.

½ mark for identification of SSAP 25. 1 ½ mark for discussion of NHS application.

Students to be awarded credit for appropriate discussion of FRS 9 and the shared service as a JANE.

Item 5: Netting off of income

Companies' Act 1985 Manual for Accounts requires that income and expenditure is reported gross. The NHS Manual for account endorses this approach.

Dr I&E: Operating expenditure	£2,500,000
Cr I&E: Other income	£2,500,000

1 mark for identification of Companies' Act/ Gross Principle
1 mark for accounting entries

Item 6: Provision

The NHS Manual for Accounts requires that provisions are discounted. An interest charge should be recognised to unwind the discount (increase the volume of the provision). *½*

The provision would have been brought forward at 90% of its gross value $(1/1.035)^3$ = 90%. *½*

Next year's discount rate is 93% $(1/1.035)^2$ = 93%. *½*

Provisions needs to increase by £2,500 (75,000/90 x 93 = 77,500). *½*

Dr I & E: Interest – unwinding the discount	£2,500	
Cr Provisions	£2,500	*1*

(20)

Question 4

(a) and (b)

Private sector	Public service organisations - general	Application in housing associations
Cadbury Committee established the Code of Best Practice. Established the three fundamental principles – openness, integrity and accountability Key issues reviewed in the Cadbury Code include: • The Board to have procedures in place to discharge its duties • The Board to be accountable to shareholders • The manner in which the board controls the company • A statement of responsibility by directors to be published • Remuneration committee to be established • Audit committees to be established	Cadbury reviewed and applied to the public sector. Key actions taken include: • Adoption of standing orders defining Board/ sub committee membership and roles • Wider duty to stakeholders reinforced • Statement of directors' responsibility published in accounts/ annual report. Some areas (LG and NHS) have now adopted the wider statement of internal control that the Chief Executive signs off • Remuneration committees decide pay awards for Executive directors • Remuneration for other managers/ staff may be subject to national pay scales eg Whitely Conditions • Audit Committees established	Code of Governance, Competence and Accountability (1995) covers • constitution of the board • functions of the board • conduct of board business • openness • tenant/resident participation • audit This is updated in the "Way Forward" report of 2002 which provides further detail as to how good governance can be achieved and the role of the Housing Corporation as regulator. Remuneration committees whose members are Governors are in place. Audit Committees in place.
Greenbury Committee reviewed remuneration in further detail. Four key findings arose: • Remuneration committee to be made up of NEDs • Remuneration committee needs to report annually to shareholders • A remuneration policy needs to be	Greenbury applied to the public sector. As a minimum: • Remuneration committees of NEDs established • Minimum number of times the remuneration committee meets established in standing orders • Remuneration committee reports in public	Roles of the Audit Committee, Internal audit and the requirement for these committees to report performance in the annual report established through Housing Corporation circulars.

Private sector	**Public service organisations - general**	**Application in housing associations**
established to provide a fair pay for the job in hand • Notice periods should not exceed 1 year to reduce the extent to which high value compensation for loss of office is offered	board meetings • Existence/ membership of remuneration committee reported in annual report • National pay scales, eg Whitely, exist and may be applied. Pay rises in some sectors are set nationally to avoid possible abuse by directors/ managers • Notice periods do not exceed 1 year • Additional "Greenbury" disclosures made in the annual accounts of some sectors (eg NHS) identifying pay, benefits and accrued pension benefits for directors	
Hampel Committee established and "Combined Code" developed. This merges and applies the findings of Greenbury and Cadbury.	Steps taken to adopt Cadbury/ Greenbury in the Public Services in general ensure that the requirements of the combined code are met.	Some housing associations (larger RSLs) need to report on their performance against the Combined Code in their annual report.
The Turnbull report established what effective internal control should be and how this can be assessed in an organisation.	The Public Services have responded to Turnbull in two key ways: • Ensuring that there is an effective internal audit service in place through annual review of the internal audit function by external audit • Ensuring that internal audit review the effectiveness of the internal control environment Some parts of the public sector have also adopted a statement of internal control, published in the annual accounts.	The "Way Forward" report requires Housing Associations to produce an annual statement to the Housing Corporation reporting their performance against the Housing Corporation's Regulatory Code of Conduct which considers the effectiveness of internal control. Statement of internal control published in annual report demonstrating the extent to which the Governors have ensured that controls to manage risks are in place.
	The Nolan report specifically addressed standards in public sector life. The seven principles of public life were established: • Selflessness – acting purely in the public interest	Nolan has been adopted specifically in Housing Associations through: • Duty to develop tenant participation (including having a tenant voice on

<table>
<tr><th>Private sector</th><th>Public service organisations - general</th><th>Application in housing associations</th></tr>
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Integrity – be free from external influences and obligations
Objectivity – decisions to be made on merit only
Accountability – the need to demonstrate stewardship over public money
Openness – decisions to be made in the open
Honesty – private interests should be declared and the law should be obeyed
Leadership – these examples should be demonstrated by example and leadership

Nolan is adopted in the public sector in a number of ways eg through the appointment process for NEDs, holding of Board Meetings in public, holding of registers of interests, requirement to publish annual accounts.

Fourth Nolan report sets out requirements for Whistle-blowing procedures and how to identify/ resolve conflicts of interest.
</td><td>
committee) helps ensure openness and accountability

Role of Housing Corporation as the regulator helps ensure accountability
Board/ senior officers required to register interests

The development of “The Way Forward” report has set out the details of how Housing Associations should demonstrate good corporate governance eg ensuring that:

management structures support good governance
a code of conduct is established for all staff
risks are identified and arrangements adopted to mitigate these

Register of interests maintained for housing associations.

Housing associations required to comply with the Public Interest Disclosure Act 1998.
</td></tr>
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1 mark for identification of the general principle that has developed corporate governance, 1 mark for explaining what this entails, 1 mark for identification of how this has been adopted in the public sector to a maximum of 12.

1 mark for illustration of how Housing Associations have adopted corporate governance to a maximum of 8.
Other relevant comments should attract credit
(20)

Question 5

The answer should be written as a report. *½ mark for presentation and report format*

(a) Analysis of financial performance for the year

Calculation of whether 1.5% target has been met

On the face of it the College seems to have met the target:

1,745 / 104,630 = 1.67% *½*

This has only been achieved through the receipt of significant additional/ non recurring income. *½*

"True" performance against the 1.5% target is as follows:

	£000
Surplus for the year	1,745
Less: non recurring grant – net of costs (1,500 – 500)	(1,000)
Less: Profit on sale of fixed assets	(2,570)
Revised deficit for the year	(1,825)
Assessment of achievement of the 1.5% target	(1.74%)

1 ½

Additionally, we should consider the endowment income received and used in year to be high risk - the returns on investment that have generated net income of £4,775,000 (£15,750,000 - £10,975,000) is not be guaranteed at this level. This adds further risk to achieving the financial target next year. *1*

Review of non teaching activities

Negative contribution from accommodation = £2,000 – £2,200 = (£200)

Contribution from catering = £3,600 - £3,500 = £100

Contribution from conferences = £12,000 - £10,000 = £2,000

½ mark for 3 calculations

Overall non teaching and activities are making a contribution but provision of student accommodation is operating at a loss (see comments below for recommendations). *½*

Conferences are making a gross profit margin of 17%, less than the 25% target. (2,000 / 12,000 = 17%) *½*

Although the conferences are not achieving the desired profit margin they have contributed an additional £2,000,000 of net income to the college so should not be stopped on the basis of not meeting their performance target. *1*

Other valid points to attract credit

Maximum of 5 ½ marks to be given for calculation/ review of financial performance

Recommendations/Actions

Can we charge more for either our non teaching and research activity or our teaching courses? The non financial aspects of doing this (eg legislation, whether the College wants to charge maximum fees) will need to be considered. *1*

Can we reduce our costs further? (Particularly for catering and accommodation where costs are currently greater than income). *1*

Can we save money by outsourcing non teaching and research activity? *1*

Can we reduce financial risk by setting up arm's length limited companies to run our non teaching and research activities? This will also give the group greater scope to raise capital since limited companies would be able to issue shares/ adopt a more risky capital structure since less/no public sector money will be at risk. *1*

Can we look to merge with Thyme College - either fully or share support services and teaching staff? *1*

Can we look at how we classify eligible expenditure for our specific endowments and ensure that we are maximising the use of this endowment income?

Can we bid to receive the EFL grant again? This represents additional "cost free" income so can help support our other activities. *1*

Are the performance targets too historical now and need to be revised? *1*

Other explained and relevant recommendations/ actions should attract credit
1 point per comment to a maximum of 6

(b) Explanation of endowments

When the College receives an endowment it needs to retain the capital. Selling the endowment assets is therefore not an option. *1*

It would be unwise to sell assets in this way to fund revenue activities as the income is non recurring. *1*

Endowments haven't cost the College nearly £11 million pounds. Endowments can be bequested to the College for specific or general purposes. Where a specific endowment is granted, we can only use the income when we have eligible expenditure. If there is no eligible expenditure we need to transfer this to the balance sheet until eligible expenditure is incurred. *2*

We could ask potential benefactors to not attach specific terms and conditions to any endowments so that we can maximise the available income from these. *1*

(c) Other factors to consider

To receive a fuller picture of Olive's financial performance we should look at their cash flow statement and STRGL too.

Assessing performance using the financial statements does not consider issues of quality. We should look at other VFM indicators eg cost/student, %/number of first time passers, %/ number of returning students etc.

We need to understand how good Olive's performance is compared with other similar colleges, particularly those with a similar capital structure and income streams. Is their financial performance on a par with other similar organisations?

How exceptional is this year's financial performance? Are there exceptional items of expenditure included in this year's I&E? We need to compare the financial performance with prior year's performance to better understand the financial position.

1 mark per point made and explained to a maximum of 3
Other valid points should attract credit

(20)

Question 6

(a) Application of FRS 15

FRS 15	**RAB organisations**	**Local Authority**
Initial measurement: Definition of capital expenditure Only directly attributable costs of the purchase or construction of fixed assets should be capitalised, subject to an organisation's deminimus level.	FRS 15 is complied with. For PCTs the NHS Capital Accounting Manual sets deminimus levels at £5,000. This is to ensure of accounting policies so that on consolidation accounts present a true and fair view of the NHS as a whole.	FRS 15 is complied with. The SORP allows Authorities to adopt their own deminimus levels per FRS 15.
Valuation of assets An organisation can chose to disclose their fixed assets at either: • Historical cost, net of depreciation where charged • Revalued cost, net of depreciation where charged Where assets are revalued this needs to be completed: • At least every 5 years • For a complete class of asset	Assets are revalued every 5 years (all in one go). RAM and the NHS MFA requires assets to be indexed annually so that they are held at a current value. This leads to backlog depreciation being charged which is not the case outside of the RAB. The valuation and disclosure of heritage assets departs from FRS 15 (held at the lower of depreciated historical cost and replacement value) due to true and fair override.	Assets are revalued every 5 years. An Authority can choose whether to revalue all assets at once or revalue on a rolling basis.
Charging of depreciation Depreciation needs to be charged on operational assets except where the asset life is infinite. Organisations need to chose their depreciation policy (considering the requirement of FRS 18)	Depreciation is charged on operational assets. Useful economic lives for PCTs are directed in the Capital Accounting Manual to assist with accounts consolidation. Other RAB Organisations	Depreciation is charged to services as part of asset rentals so that the CRA includes the full cost of services. The SORP allows Local Authorities to adopt their own depreciation policies considering the

FRS 15	RAB organisations	Local Authority
	are free to chose their own depreciation policies (with reference to FRS 18).	requirements of FRS 18. LGHA 1989 requires that the local taxpayer pays for the cost of financing the capital programme, not the costs associated with the accounting for fixed assets. MRP must be charged to the CRA under the LGHA 1989. The MRP adjustment ensures that the council tax payer only pays for the cost of financing MRP, not the cost of depreciation.
Demonstrating accountability for the use of resources Not applicable under FRS 15.	The RAM requires RAB organisations to incur a notional cost of capital charge on their fixed assets.	The SORP requires Local Authorities to charge notional interest on fixed assets. The LGHA 1989 requires that council tax payers finance the actual costs of financing fixed assets. The AMRA is used to adjust for the difference in notional and actual interest to ensure that the council tax payers fund the costs of financing the capital programme.
Disposal of fixed assets No direct guidance given in FRS 15 but the ensuing principle is that the asset is written out at NBV and profit/loss on sale is calculated.	Asset written out at current NBV and profit/ loss on sale calculated.	Asset written out at its NBV. Sales proceeds are reported in full in the UCR. No profit/loss on sale is calculated.

1 mark per point explained
(12)

(b) Accounting entries for a granted asset:

Local Authority:

Dr Fixed assets £100,000
Cr Cash £100,000

Dr Cash £100,000
Cr Deferred grants £100,000

1

For the addition of the asset

Dr AMRA £10,000
Cr Fixed assets £10,000

With depreciation *½*
Calculation of asset rentals:

Notional interest = £100,000 - £10,000 x 3.5% =	£3,150
Depreciation	£10,000
	£13,150

1

Note: students who calculate notional interest based on £100,000 should also be given credit as the SORP recommends but does not require this to be on closing NBV of assets.

Dr CRA: Cost of services £13,150
Cr AMRA £13,150

½

Transfer of grant through AMRA to CFR:

Dr Deferred grants £10,000
Cr AMRA £10,000

1

Dr CRA: Appropriations £10,000
Cr CFR £10,000

1

RAB Body

Dr Fixed assets £100,000
Cr Government Grant reserve £100,000

For the addition of the asset

Dr Operating cost statement £10,000
Cr Accumulated depreciation £10,000

For depreciation

Dr Government grant reserve £10,000
Cr Operating cost statement £10,000

With release from the grant reserve *3*

NB: No notional charges are applied as the asset is excluded from the definition of relevant net assets. ***(20)***