FINANCIAL REPORTING AND ACCOUNTABILITY

Professional 2
June 2002

MARKING SCHEME

CIPFA

Question 1

Operating Cost Statement for year ended 31 March 2001

	Workings	£000	
Staff costs		1,377	½
Operating costs	W1	752	*1½*
Depreciation	W2	180	*3*
Revaluation of Computers	W2 (15 – 8)	7	*1*
Notional costs	W3	165	*3*
Operating Expenditure		2,481	
Less: Operating income	W1	(29)	*1*
Net cost of operations		2,452	

Statement of General Fund for year ended 31 March 2001

	Workings	£000	
Deficit for the year on operations		(2,452)	½
Notional charges written back		165	½
		(2,287)	
Less: Parliamentary Grant applied to deficit	W4	2,106	*3*
Movement on General Fund		(181)	
General Fund at 1 April 2000		1,725	½
Add: Movement on general Fund		(181)	½
General Fund at 31 March 2001		1,544	

Balance Sheet as at 31 March 2001

	Workings	£000	£000	
Fixed Assets	W5		2,239	*5*
Current Assets:				
Debtors		8		½
Less: Current Liabilities:				
Creditors		(18)		½
Net Current Assets			(10)	
Total Net Assets			2,229	
Financed by:				
General Fund	(b)		1,544	½
Revaluation Reserve	W6		685	*2*
			2,229	
			Presentation	*1½*

(25)

Working 1: Expenditure and income

Operating costs:	**£000**	
Paid	729	
Add: Income netted off	26	
Add: Closing creditors	18	
Less: Opening creditors	(21)	
Total	752	*1½*
Operating income:		
Received	26	
Add: Closing debtors	8	
Less: Opening debtors	(5)	
Total	29	*1*

Working 2: Depreciation charges

Step 1: Revaluations

Asset Values	**At 1/4/00 £000**	**Index at 1/4/00**	**Index at 31/3/01**	**At 31/3/01 £000**	**Change £000**
Land	850	102	108	900	50
Buildings	1,190	102	108	1,260	70
Computers	720	96	94	705	(15)
Vehicles	132	110	115	138	6
Total	2,892			3,003	111
Depreciation					
Buildings	153	102	108	162	9
Computers	384	96	94	376	(8)
Vehicles	44	110	115	46	2
Total	581			584	3

NB. Reduction in value of computers to be charged to OCS since no associated revaluation reserve

Step 2: Calculate depreciation

Asset	**Valuation as at 31/3/01 £000**	**Dep'n period years**	**Charge £000**	
Buildings	1,260	50	25	*1*
Computers	705	5	141	*1*
Vehicles	138	10	14	*1*
Total			180	

Working 3: Notional charges

Step 1: Determine total net assets as at 31 March 2000

	£000
Fixed assets (2040+720+132)	2,892
Less: Depreciation (153+384+44)	(581)
Current Assets:	2,311
Debtors	5
Less: Current Liabilities:	
Creditors	(21)
Total Net Assets	2,295
Revaluation reserve	570
General Reserve (balancing figure)	1,725
	2,295

Step 2: Calculate notional charges

Interest on capital employed	**£000**	
Total net assets at 31 March 2001 (c)	2,229	
Less: Total net assets at 31 March 2000 (step 1)	2,295	*1*
	4,524	
Average	2,262	
Cost of capital charge at 6 per cent	136	½
Insurance		
Staff costs	1,377	
Operating costs	752	
Total	2,129	
Premium at ½%	11	*1*
Audit fee	18	½
Total notional charges	165	

Working 4: Net Parliamentary Grant

Net Parliamentary grant voted:	**£000**	**£000**	
Current expenditure		2,300	
Less: Appropriations-in-aid		(50)	
		2,250	*1*
Less: Net expenditure against Vote:			
Staff costs	1,377		
Operating costs (729+26)	755		
Less: Appropriations-in-Aid	(26)	2,106	*1*
Excess of grant over expenditure		144	
Grant applied to deficit on operations			
Net Parliamentary grant voted		2,250	
Less: Excess of grant over expenditure		(144)	
Net Parliamentary grant received and applied to deficit on operations		2,106	*1*

Working 5: Fixed assets

	Land	Buildings	Computers	Vehicles	Total	
	£000	**£000**	**£000**	**£000**	**£000**	
Fixed Assets as at 1/4/00	850	1,190	720	132	2,892	
Revaluation (W2)	50	70	(15)	6	111	*2*
Total	900	1,260	705	138	3,003	
Depreciation as at 1/4/00	-	153	384	44	581	
Revaluation (W2)	-	9	(8)	2	3	*1½*
Charge for year (W2)	-	25	141	14	180	*1½*
Total	-	187	517	60	764	
NBV at 31/3/01	900	1,073	188	78	2,239	

Working 6: Revaluation reserve

	£000	
Balance on reserve at 31 March 2000	570	
Add: Increase in value of Land, Buildings and vehicles (50+70+6)	126	*1*
Less: Revaluation of accumulated depreciation (W3) (9+2)	(11)	*1*
Balance on reserve at 31 March 2002	685	

Question 2

University of Mindpower

Consolidated income and expenditure account for the year ended 31 July 2001

	Workings	£000	
Income:			
Tuition fees and grants	16,591+2,700 – 450 (vii)	18,841	½
Investment income		213	
Other income		4,668	
Profit on sale of land	395-350(ii)	45	½
Total income		23,767	
Expenditure:			
Staff costs	(13,650+1,350)+(4%*4/12)(i)	(15,200)	*1*
Other operating expenses	see working 1	(3,947)	*2*
Depreciation	750+906 (see working 2)	(1,656)	*3*
Loss on sale of equipment	(25-6) (ii)	(19)	½
Interest payable	1,145 + 20 (iv) (see working 3)	(1,165)	½
Total expenditure		(21,987)	
Surplus before tax		1,780	
Taxation	DIL	(78)	½
Surplus after tax		1,702	
Surplus brought forward	2,150 + 620	2,770	
		4,472	

Working 1: Other operating expenses

	£000
Balances: UM	
Opening stocks	982
Operating costs	3,517
Balance: DIL (other operating costs)	730
Closing stock [830-(53-4)](v)	(781)
Annual lease payment (vi)	(51)
Internal fees paid by UM to DIL (vii)	(450)
	3,947

Consolidated balance sheet as at 31 July 2001

	Workings	£000	
Fixed assets			
Land	See working 2	6,950	*2*
Buildings	See working 2	29,250	*3*
Equipment and machinery	See workings 2	4,624	*3*
Investment	2,965-1,000 (shares in DIL)	1,965	*½*
		42,789	
Current assets			
Stocks	(v)	781	*1*
Debtors	3,372+340	3,712	
Cash at bank & in hand	DIL	50	*½*
		4,543	
Creditors < one year			
Bank overdraft	UM	(82)	*½*
Other creditors and accruals	3,226+160+200(i)	(3,586)	*½*
Finance lease	See working 3	(33)	*½*
Taxation	DIL	(78)	*½*
		(3,779)	
Creditors > one year			
Loans		(20,500)	
Finance lease	400-31-33 (see working 3)	(336)	*1*
Net assets		22,717	
Represented by			
Revaluation reserve	15,250+320+375+50+2,100+150 (see working 2)	18,245	*1*
Income and expenditure account		4,472	*½*
		22,717	
Format & presentation			*1*
Aggregation & cancellation (DIL)			*1*
TOTAL			*(25)*

Working 2: Analysis of fixed assets

Land (UM)	**Valuation £000**
Balance 31.7.00	6,375
Disposals (ii)	(350)
Revaluation (balance)	375
Balance 31.7.01 (iii)	6,400

Land (DIL)	**Valuation £000**
Balance 31.7.00	500
Revaluation (10%) (iii)	50
Balance 31.7.01	550
Total (UM+DIL)	6,950
Buildings (UM)	
Balance 31.7.00	26,250
Revaluation (8%) (iii)	2,100
Buildings (DIL)	
Balance 31.7.00	1,500
Revaluation (10%) (iii)	150
	30,000
Depreciation charge for year (30,000/40) (iv)	(750)
Balance 31.7.01	29,250

Equipment & machinery	**Cost £000**	**Deprec'n £000**	**Book value £000**
Balance 31.7.00 UM	8,250	3,425	4,825
Balance 31.7.00 DIL	480	150	330
Disposals (ii)	(70)	(45)	(25)
Additions	400		400
Charge for year (9,060/10) (iv)		906	(906)
Balance 31.7.01	9,060	4,436	4,624

Working 3: Lease payments (vi)

Total lease payments = £51,000 * 10 years =		£510,000
Fair value of asset =		£400,000
Total interest = £510,000 - £400,000 =		£110,000
Sum of the digits = 1+2+3+4+5+6+7+8+9+10 =		55
Interest per digit = £110,000/55 =		£2,000
Interest 2000/01 = £2,000 * 10 =		£20,000
Interest 2001/02 = £2,000 * 9 =		£ 18,000
Principal repaid 1999/2000 = £51,000 - £20,000 =		£31,000
Principal repayable 2000/01 = £51,000 - £18,000 =		£33,000
Accounting entries:		
Dr Machinery a/c	£400,000	
Cr Finance lease (Creditor > one year)		£400,000
Dr Operating costs	£40,000	
Cr Depreciation provision (see W2 above)		£40,000
Dr Interest payable	£20,000	
Dr Finance lease (Creditor > one year)	£31,000	
Cr Operating costs		£51,000
Dr Finance lease (Creditor > one year)	£33,000	
Cr Finance lease (Creditor < one year)		£33,000

Question 3

Rayford NHS Trust:

Income and Expenditure Account for the year ended 31 March 2001

	Working	**£000**	
Income from activities	W1	58,025	½
Other operating income	W2	12,762	*1*
		70,787	
Operating expenses	W3	(62,570)	*4*
Operating surplus		8,217	
Profit on disposal of fixed asset	W4	2	*1½*
Surplus before interest		8,219	
Interest receivable	Trial balance	35	
Interest payable	W5	(600)	½
Surplus for financial year		7,654	
Public dividend capital dividends payable	W6	(4,800)	½
Retained surplus for the year		2,854	
Presentation			*1*

Working 1 – Income from activities		**£000**	
NHS patient care income	Trial balance	55,750	
Private patient income	Trial balance	2,300	
Less credit notes	(ii)	(25)	½
		58,025	

Working 2 – Other operating income		**£000**	
Other income	Trial balance	12,500	
From donation reserve	W13	255.26	½
Ultrasound income	(vii)	7	½
		12,762.26	

Working 3 – Operating expenses		**£000**	
Salaries and wages	Trial balance	35,250	
Supplies and services	Trial balance	10,830	
Maintenance	Trial balance	7,250	
Miscellaneous expenditure	Trial balance	6,270	
Pay award	(iv)	51	½
Write off of PP bad debts	(ix)	9	½
Expenses netted off against ultrasound income	(vii)	7	½
Depreciation buildings	W13	2,077.01	½ W13
Depreciation equipment	W13	868.60	½ W13
Depreciation donated equipment	W13	255.26	½ W13
Profit on disposal (donation reserve)	W4	1.75	½
Interest payable	(x)	(300)	½
		62,569.62	

Working 4 – Profit on disposal of fixed assets		**£000**	
Opening GCC	(iii)	40	
Indexation at 1%	(viii)	0.4	
Disposal GCC		40.4	½
Accumulated deprec'n (15 quarters out of 40)	15/40 x 40.4	(15.15)	½
Disposal NBV		25.25	
Proceeds	Trial balance	27	
Profit on disposal		1.75	½

Working 5 – Interest payable		**£000**	
Interest payable	Trial balance	300	
Interest included in miscellaneous expenditure	(x)	300	
		600	½

Working 6 – PDC dividends		**£000**	
Dividends paid	Trial balance	2,700	
Dividends owed at 31.3.01	(vi)	2,100	
		4,800	½

Rayford NHS Trust: Balance Sheet as at 31 March 2001

		£000	**£000**	
Fixed Assets				
Land	(W13)	9,191		*1½* W13
Buildings	(W13)	75,047		*1½* W13
Equipment	(W7)	4,755	88,993	*5*
Current Assets				
Stock	(T.B.)	500		
Debtors	(W8)	6,766		*1*
Cash	(T.B.)	205		
Short-term investments	(T.B.)	85		
		7,556		
Creditors < 1 year	(W9)	(7,501)		*1*
Net current assets			55	
Total assets less current liabilities			89,048	
Creditors > 1 year			0	
Total assets employed			89,048	
Public dividend capital	(T.B.)		68,678	
Revaluation reserve	(W10)		13,775	*2*
Donation reserve	(W11)		1,284	*3*
Income and expenditure reserve	(W12)		5,311	*½*
Total capital and reserves			89,048	

Presentation ½

(25)

Working 7 – Equipment NBV

		£000	
NHS - GCC	(W13)	8,986	*1* ½ W13
NHS – Acc Depn	(W13)	(5,514.6)	*1* W13
Donated GCC	(W13)	2,634.6	*1* ½ W13
Donated acc depn	(W13)	(1,351.11)	*1* W13
		4,754.89	

Working 8 - Debtors

Debtors	(T.B.)	6,800	
Less credit notes	(ii)	(25)	½
Less PP write off	(ix)	(9)	½
		6,766	

Working 9 – Creditors < 1 year

Creditors < 1yr	(T.B.)	5,350	
PDC dividends owed	(vii)	2,100	½
Pay award		51	½
		7,501	

Working 10 – Revaluation reserve

Revaluation reserve	(T.B.)	10,550	
Indexation			
Land	(W13)	261	½ W13
Buildings	(W13)	2,924	½ W13
Equipment	(W13)	86	½ W13
Equipment depreciation	(W13)	(46)	½ W13
		13,775	

Working 11 – Donation reserve

Donation reserve	(T.B.)	1,400	
Addition	(ii)	150	½
Release to other income			
(donated asset depreciation)	(W13)	(255.26)	½ W13
Equipment GCC indexation	(W13)	25	½ W13
Equipment depn indexation	(W13)	(11)	½ W13
Profit on disposal	(W13)	1.75	½ W13
Sale proceedes to I&E res	(W13)	(27)	½ W13
		1,283.49	

Working 12 – Income & Expenditure reserve

Brought forward I&E reserve	(T.B.)	2,430	
Sale proceeds from DR		27	½
2000/01		2,854	
		5,311	

Working 13 - Capital charges (all £000)

Land	**Q1**	**Q2**	**Q3**	**Q4**	**Total**	
Opening NBV	8,700.00	8,961.00	9,191.00	9,191.00	8,700.00	
Revalue					0.00	
Index	261.00				261.00	*½ b/s*
Depreciation					0.00	
Addition		230.00			230.00	*½ b/s*
Disposal					0.00	
Closing NBV	8,961.00	9,191.00	9,191.00	9,191.00	9,191.00	*½ b/s*

Buildings	**Q1**	**Q2**	**Q3**	**Q4**	**Total**	
Opening NBV	73,100.00	76,610.32	76,089.21	75,568.10	73,100.00	
Revalue					0	
Index	2,924.00				2,924.00	*½ b/s*
Depreciation	(513.68)	(521.11)	(521.11)	(521.11)	(2,077.01)	*½ W3*
Addition	1,100				1,100.00	*½ b/s*
Disposal					0.00	
Closing NBV	76,610.32	76,089.21	75,568.10	75,046.99	75,046.99	*½ b/s*

Depreciation Q1 (£73,100 + £2,924) / (37 x 4) = £513.68
Depreciation Q2 – Q4 £513.68 + (£1,100 / (37 x 4)) = £521.11

Equipment (NHS)	**Q1**	**Q2**	**Q3**	**Q4**	**Total**	
Opening GCC	8,600.00	8,686.00	8,686.00	8,686.00	8,600.00	
Index	86.00				86.00	*½ W7*
Addition				300.00	300.00	*½ W7*
Disposal					0.00	
Closing GCC	8,686.00	8,686.00	8,686.00	8,986.00	8,986.00	*½ W7*

Accum depn equipment (NHS)	**Q1**	**Q2**	**Q3**	**Q4**	**Total**	
Opening GCC	4,600.00	4,863.15	5,080.30	5,297.45	4,600.00	
Index	46.00				46.00	*½ W7*
Disposal					0.00	
Charge for quarter	217.15	217.15	217.15	217.15	868.60	*½ W3*
Closing GCC	4,863.15	5,080.30	5,297.45	5,514.60	5,514.60	*½ W7*

Equipment (donated)	**Q1**	**Q2**	**Q3**	**Q4**	**Total**	
Opening GCC	2,500.00	2,525.00	2,525.00	2,634.60	2,500.00	
Index	25.00				25.00	*½ W7*
Addition			150.00		150.00	*½ W7*
Disposal			(40.40)		(40.40)	
Closing GCC	2,525.00	2,525.00	2,634.60	2,634.60	2,634.60	*½ W7*

Accum depn equipment (donated)	**Q1**	**Q2**	**Q3**	**Q4**	**Total**	
Opening GCC	1,100.00	1,174.13	1,237.26	1,285.24	1,100.00	
Index	11				11	*½ W7*
Disposal			(15.15)		(15.15)	
Charge for quarter	63.13	63.13	63.13	65.87*	255.26	*½ W3*
Closing GCC	1,174.13	1,237.26	1,285.24	1,351.11	1,351.11	*½ W7*

$$* \ 63.13 + \frac{150 - 40.4}{10 \times 4}$$

Question 4

High Rise Housing Association:

Income and expenditure account for the year ended 31 March 2001

		£000	
Turnover		6,315	
Operating costs	See working 1	(4,453)	*4*
Operating surplus		1,862	
Profit on sale of housing properties	750- (420-40)(v)	370	*1*
Profit on sale of office building	600-(320-72)(vi)	352	*1*
Interest receivable		7	*1*
Interest payable	See working 2	(991)	
Surplus for the year		1,600	
Transfer to repairs reserve	(iii)	(100)	½
Transfer to capital financing reserve	(viii)	(722)	½
Surplus for the year after transfers to reserves		778	
Surplus brought forward		51	½
Surplus carried forward		829	

Working 1: Operating costs

	£000
Trial balance	4,437
Capitalised repairs (ii)	(200)
Capitalised overheads disallowed (iv)	27
Prepaid rent on new office (180*8/12) (vi)	(120)
Finance lease payment (vii)	(26)
Depreciation (see working 4)	335
	4,453

Working 2: Interest payable

	£000
Trial balance	981
Finance charge for year included in lease (vii)	10
	991

Balance sheet as at 31 March 2001

		£000	£000	
Fixed assets	See working 4		19,892	*9*
Current assets				
Stock		137		
Debtors		534		
Prepayments	Rent on new office(180*8/12)(vi)	120		*1*
Cash in hand		15		
		806		
Creditors < one year				
Bank overdraft		(152)		
Creditors	See working 3	(879)		*1½*
		(1,031)		
Net current liabilities			(225)	
Total assets less current liabilities			19,667	
Creditors > one year				
Loans			10,638	
Finance lease	100-16-18 (vii) See working 5		66	*2*
			10,704	
Provisions			83	
Capital and reserves				
Share capital			1	
Capital financing reserves	7,228+722 (viii)		7,950	½
Repairs reserve	(iii)		100	½
Revenue reserves			829	
			19,667	
Presentation				*2*
				(25)

Working 3: Creditors

	£000
Trial balance	761
SHG repayable (vii)	100
Principal repayment of finance lease in 2001/02 (ix)	18
	879

Working 4: Analysis of fixed assets

	Land	Prop'y under constr'n	Housing property	Depot	Office	F E & V	Total
	£000	£000	£000	£000	£000	£000	£000
Trial balance	7,300	1,550	32,800	280	320	200	42,450
Note (ii)			200				200
Note (iv)		(27)					(27)
Note (v)	(20)		(400)				(420)
Note (vi)					(320)		(320)
Note (vii)						100	100
Balance 31.3.01	7,280	1,523	32,600	280	0	300	41,983
SHG balance		800	19,300				20,100
Note (v)			(100)				(100)
Balance 31.3.01		800	19,200				20,000
Net cost	7,280	723	13,400	280	0	300	21,983
Dep'n 1.4.00	0	0	1,650	56	72	90	1,868
Note (v)			(40)				(40)
Note (vi)					(72)		(72)
Charge for year	0	0	268	7	0	60	335
Balance 31.3.01	0	0	1,878	63	0	150	2,091
NBV 31.3.01	7,280	723	11,522	217	0	150	19,892

Working 5: Finance lease

Total lease payments = £26,000 * 5 years =	£130,000
Fair value of asset =	£100,000
Total interest = £130,000 - £100,000 =	£30,000
Sum of the digits = 1+2+3+4+5 =	15
Interest per digit = £30,000/15 =	£2,000
Interest 2000/01 = £2,000 * 5 =	£10,000
Interest 2001/02 = £2,000 * 4 =	£8,000
Principal repaid 1999/2000 = £26,000 - £10,000 =	£16,000
Principal repayable 2000/01 = £26,000 - £8,000 =	£18,000

Accounting entries:

	Dr	Cr
Dr Furniture, equipment & vehicles a/c	£100,000	
Cr Finance lease (Creditor > one year)		£100,000
Dr Operating costs	£20,000	
Cr Depreciation provision		£20,000
Dr Interest payable	£10,000	
Dr Finance lease (Creditor > one year)	£16,000	
Cr Operating costs		£26,000
Dr Finance lease (Creditor > one year)	£18,000	
Cr Finance lease (Creditor < one year)		£18,000

Question 5

Gringots Unitary Authority

(a)

Asset Management Revenue Account

		£000		£000	
½	Depreciation (General Fund)	13,140	Asset rents – General Fund	73,050	1
½	External interest	84,675	Tfr from govt grants deferred	200	1
1	**Transfer to CRA: C I & E**	5,985	HRA Debt Charges	30,550	1
		103,800		103,800	

(5)

(b)

	£000	£000	
Fixed asset restatement reserve	875		
Net fixed assets		875	
To remove the book value of the asset disposed of.			1
Proceeds from sale of fixed assets a/c	1,325		
Usable capital receipts		1,325	
To correctly account for the sale proceeds.			½
Usable capital receipts	265		
Capital financing reserve		265	
To reserve 20% of the capital receipt.			½

(2)

N.B. Students should be given full credit for the following:

Proceeds from sale of fixed assets a/c	1,325	
Usable capital receipts		1,060
Capital financing reserve		265
To account for the capital receipt and reserve 20%.		

(c) **Consolidated revenue account for the year ended 31 March 2001**

		Exp're £000	Income £000	Net £000	
Education & Libraries	(305,800+26,500)	332,300	(140,400)	191,900	½
Social services	(195,125+31,800)	226,925	91,200	135,725	½
Highways	(15,000+4,005)	19,005	6,500	12,505	½
Environment	(45,000+4,225)	49,225	2,300	46,925	½
Leisure & Recreation	(42,500+5,370)	47,870	17,850	30,020	½
Other services	(29,000+1,150)	30,150	14,000	16,150	½
Net cost of General Fund Services		**705,475**	**(272,250)**	**433,225**	
Housing Revenue Account	(235,000+30,550)	265,550	(265,000)	550	½
Net Cost of Services		**971,025**	**(537,250)**	**433,775**	
Corporate income and expenditure					
- Precepts paid to other bodies				1,000	½
- Interest received				(8,100)	½
- Asset management revenue account				(5,985)	½
Net operating expenditure				420,690	
Appropriations					
- Surplus / Deficit transferred to/from HRA Balances				(550)	½
- Contributions to capital financing reserve					
- MRP adjustment (14,050 – 13,140 depreciation)				910	*1½*
- Direct Revenue Financing				2,500	½
- Government grant deferred account				200	½
Amount to be met from government grant and local taxpayers				423,750	
Demands on collection fund (council tax)				(153,000)	
Revenue support grant				(165,000)	
Contributions from NNDR pool				(107,000)	
(Surplus) / deficit for year				(1,250)	
General fund balance brought forward				(8,275)	
General fund balance carried forward				**(9,525)**	

Correct format/presentation 1

(9)

Consolidated balance sheet as at 31 March 2001

	£000	£000	
Net tangible fixed assets (1,121,640-13,140-875+250)		1,107,875	*1½*
Long term investments		35,000	
		1,142,875	
Current assets			
Stock and WIP	5,000		
Debtors (33,000+1,000)	34,000		*½*
Cash and bank	2,675		
	41,675		
Creditors due within one year			
Borrowing repayable	(3,000)		
Creditors	(70,000)		
	(73,000)		
Net current liabilities		(31,325)	
Total assets less current liabilities		1,111,550	
Long term borrowing		(559,000)	
Government grants deferred (1,000-200)		(800)	*1*
Net assets		551,750	
Fixed Asset Restatement Reserve (301,715-875+250)		301,090	*½*
Capital Financing Reserve (196,500+910+200+2,500+7,500+265)		207,875	*2½*
Useable Capital Receipts (15,000-7,500+1,325-265)		8,560	*1½*
Balances			
- General Fund		9,525	*½*
- HRA		6,200	*½*
Earmarked Reserves		18,500	
		551,750	

Correct format/presentation ½

(9)

(25)

Workings:

MRP – General Fund

Opening Credit Ceiling x 4%

O.C.C = Opening Advances – Opening Reserved Capital Receipts

= 252.5m – 15m = 237.5m x 4% =£9.5m

	£000
MRP Adjustment	
MRP – General Fund	9,500
MRP – HRA	4,550
Total	14,050
Less : Depreciation	
- General Fund	(13,140)
- HRA	0
MRP Adjustment	910
DR CRA (Appropriations)	910
CR CFR	910
HRA Debt Charges: MRP and Interest	
MRP	4,550
Interest	26,000
	30,550
DR HRA	30,550
CR AMRA	30,550
Government Grant	
Due	£1,000
Asset Life	5 years
Amount to take to AMRA	200
DR Debtors	1,000
CR Govt Grant Def a/c	1,000
DR Govt Grant Def a/c	200
CR AMRA	200
DR CRA (Appropriations)	200
CR CFR	200

Financing of furniture and equipment
Acquisition = £10m. UCR = £7.5m
Therefore, £2.5m to be funded from Revenue

DR UCR	7,500
CR CFR	7,500
DR CRA (Appropriations)	2,500
CR CFR	2,500

Question 6

(a) Reconciliation of profit on ordinary activities to net cash in/outflow from ordinary activities

	£000	£000	
Profit on ordinary activities (W1)		6,670	*4*
Non-cash movements			
Add: Depreciation	10,000		
Add: Notional items – insurance	750		½
Less: Profit on disposal of investments (11,000 – 10,000)	(1,000)		½
Less: Deferred income (12,000 – 8,000)	(4,000)		*1*
		5,750	
Movement in working capital			
Add: Decrease in debtors (12,450-11,005)	1,445		
Add: Increase in creditors (47,220-46,940)	280		
Less: Increase in Stock (31,110-28,540)	(2,570)		
		(845)	*1*
Net cash inflow from ordinary activities		11,575	

(7)

(b) National Agency for Reclamation of Contaminated Land Cash Flow Statement for the year ended 31 March 2001

Cash Flows	£000	£000	
Net cash inflow from ordinary activities		11,575	
Returns on investment and servicing of finance			
Interest paid	(2,400)		
Interest and dividends received	1,650	(750)	½
Taxation		(380)	½
Capital Expenditure			
Acquisition of fixed assets (W3)		(21,300)	*2*
Management of Liquid Resources			
Proceeds of sale of investments		11,000	*1*
Financing			
Redemption of loan		(20,000)	*1*
Movement in cash balances		(19,855)	

Presentation *1*

(6)

(c) **Reconciliation of movement in net debt**

Net debt as at:	**1 April 2000 £000**	**31 March 2001 £000**
Borrowings	(30,000)	(10,000)
Cash	27,730	7,875
Liquid resources (investments)	10,000	-
Net Debt	7,730	(2,125)

Movement in net debt	**£000**
Decrease in cash for financial year	(19,855)
Decrease in debt	20,000
Decrease in liquid resources (investment)	(10,000)
Change in net debt	(9,855)
Net debt at 1 April 2000	7,730
Net debt at 31 March 2001	(2,125)

(3)

(d) **Four examples of differences between the financial statements of on-Vote and off-Vote Executive Agencies**

- On-Vote likely not to have their own cash balances; Off-Vote nearly always will.
- On-Vote net assets financed by General Fund; Off-Vote have long term loans, share capital.
- On-Vote may subsume I&E account and Revaluation reserve within General reserve; Off-Vote will disclose these separately.
- On-Vote likely to have net cost of operations/deficit in operating statement; Off –Vote required to finance activities from charges for goods/services supplied.
- On-Vote operating statement only contains administration costs; Off-vote will include operational costs and income.
- Other valid differences.

1 mark per point up to a maximum of 4 marks

(20)

Workings for parts (a) and (b) with indicative marks for calculations of final figures.

W1 – Profit on ordinary activities

	£000	£000	
Retained profit c/f		9,570	
Retained profit b/f		(3,280)	
Retained profit for year		6,290	*½*
Add: Taxation	380		*½*
Interest paid (W2)	2,400		*1*
Less: Interest received	(1,650)		*½*
Notional insurance premium	(750)		*1*
		380	
Profit on ordinary activities		6,670	*½*
			(4)

W2 – Interest paid in year

		£
£10,000,000 @ 8% p.a. for 12 months	=	800,000
£20,000,000 @ 8% p.a. for 6 months	=	800,000
Penalty interest on early redemption	=	800,000
Total		2,400,000

W3 – Fixed assets additions

	£000	£000	
Closing NBV		78,300	
Add: Depreciation charge	10,000		
Less: Opening NBV	(64,500)		
Revaluation increase	(2,500)		
		(57,000)	
Additions to fixed assets in year		21,300	*2*

Question 7

(a) Determination of interest payable and paid for 2000/01

Loan	**Calculation**	**£000**	
12% loan repaid 31.1.01 (vi)	250*12%*6/12	15	*1*
12% loan (iii)	250*12%	30	*½*
10% loan (iii)	6,250*10%	625	*½*
8% loan (iii)	3,000*8%	240	*½*
6% loan raised on 1.4.01 (vi)	1,250*6%*4/12	25	*1*
Bank interest (iv)	Given	25	*½*
Total payable for year		960	
Accrued 1.8.00 (vi)	Given	50	*½*
Accrued 31.7.01 (vi)	Given	(60)	*½*
Total paid for year		950	*(5)*

(b) Skilmore College: Cash flow statement for the year ended 31 July 2001

	£000	**£000**	
Net cash inflow from operating activities (w1)		1,730	*6*
Returns on investments and servicing of finance:			
Investment income received (ii)	120		½
Interest paid – see (a)	(950)		½
		(830)	
Taxation:			
Tax paid (previous year) (vi)		(100)	½
Capital expenditure and financial investment:			
Acquisition of land & buildings (see working 2)	(800)		½
Acquisition of plant & equipment (see working 2)	(1,800)		½
Acquisition of motor vehicles (see working 2)	(100)		½
Investments made (see working 2)	(750)		½
Proceeds from sale of land & buildings (ii)	500		½
Proceeds from sale of plant & equipment (ii)	150		½
Proceeds from sale of vehicles (ii)	10		½
Proceeds from sale of investments (500+100) (ii)	600		½
		(2,190)	
Cash outflow before financing		(1,390)	
Financing:			
6% Loans raised (iii)	1,250		½
14% Loan repaid (vi)	(250)		½
		1,000	
Decrease in cash during the year (-40-350)		(390)	
Note 2 (see below)			*2½*
			(15)

Note 1: Reconciliation of Surplus to netcash flow from operations

	£000	
Operating surplus for year (see working 1 below)	1,765	
Add: Depreciation (225+450+175) (iv)	850	½
Loss on sale of plant & equipment (200-150) (ii)	50	½
Loss on sale of motor vehicles (50-10) (ii)	40	½
Less: Profit on sale of land & buildings (500-400) (ii)	(100)	½
Increase in stocks (900-800) (v)	(100)	½
Increase in debtors (2,300 – 1,650) (v)	(650)	½
Decrease in creditors and accruals (1,025 – 1,150) (v)	(125)	½
	1,730	

Working 1

Surplus for year (5,350 – 4,450) (i)	900	½
Taxation (vi)	125	½
Add back: Interest payable - see (a)	960	½
Less: Investment income (ii)	(120)	½
Less: Profit on sale of investments (ii)	(100)	½
Operating surplus for year	1,765	

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

	£000	
Decrease in cash (v)	(350)	
Increase in overdraft (vi)	(40)	
Loans received (iii)	(1,250)	
Loans repaid (vi)	250	
Change in net debt	(1,390)	*1*

Analysis of the movement in net debt *1½*

		Movements		
	1 August 2000	**Cash**	**Other**	**31 July 2001**
	£000	**£000**	**£000**	**£000**
Loans repayable after more than 1 year (iii)&(vi)	(9,500)	(1,250)	250	(10,500)
Loans repayable within 1 year (vi)	(250)	250	(250)	(250)
Cash at bank/overdraft (v) & (vi)	350	(390)	0	(40)
Net debt	(9,400)	(1,390)	0	(10,790)

Working 2: Analysis of fixed assets	**Land & buildings**	**Plant & equipment**	**Motor vehicles**	**Invest-ments**
	£000	**£000**	**£000**	**£000**
Balance at 1.8.00 (NBV) (ii)	13,800	3,700	800	2,500
Disposals during year at NBV (ii)	(400)	(200)	(50)	(500)
Depreciation charge for year (iv)	(225)	(450)	(175)	-
Revaluation (i)	200	-	-	-
Acquisitions during year (balance)	800	1,800	100	750
Balance at 31.7.01 (NBV) (ii)	14,175	4,850	675	2,750

Question 8

Roydale NHS Trust – Charitable Funds

Statement of Financial Activities for year ended 31 March 2001

	Unrestricted funds	**Restricted funds**	**Endowment funds**	**Total**	
	£	**£**	**£**	**£**	
Incoming resources					
Donations	17,360	15,000		32,360	½
Legacies	2,000	25,000		27,000	½
Grants receivable:					
Investment income	(A)56,430	(B)37,620	1,500	95,550	*3*
Income from non-charitable trading		(C)88,580		88,580	½
Total incoming resources	**75,790**	**166,200**	**1,500**	**243,490**	
Resources expended					
Direct charitable expenditure					
Grants payable: to other NHS charities	(D)94,550	(E)168,000	0	262,550	*2*
Other direct charitable expenditure	10,200		0	10,200	
Other expenditure:					
Fund-raising and publicity	0	7,860	0	7,860	
Management and administration	(F)22,700	(G)12,300	(H)7,900	42,900	*2*
Total resources expended	127,450	188,160	7,900	323,510	
Net incoming/(outgoing) resources	(51,660)	(21,960)	(6,400)	(80,020)	
Gains/(losses) on investment assets:					
Realised	9,900	6,600		16,500	*2*
Unrealised	91,800	61,200		153,000	*2*
Unrealised gains/(losses) on tangible fixed assets			20,000	20,000	½
Net movement in funds	50,040	45,840	13,600	109,480	
Fund balances brought forward at 31 March 2001	832,500	555,000	154,167	1,541,667	½
Fund balances carried forward at 31 March 2002	882,540	600,840	167,767	1,651,147	

Presentation 1

Notes:

(A) 53,700 + 1,410 – 690 + 2,010	(B) 35,800 + 940 – 460 + 1,340
(C) 1,250 + 2,000 + 85,330	(D) 95,000 + 3,000 - 3,450
(E) 17,000 + 126,000 + 25,000	(F) 17,300 + 5,400
(G) 8,700 + 3,600	(H) 900 + 6,000 + 1,000

Balance Sheet as at 31 March 2001

	£	£	
Fixed assets			
Tangible assets: Investments (1,401,000+170,000)		1,571,000	*2½*
Current assets			
Stocks	3,350		½
Debtors	3,350		½
Cash at bank and in hand (12,117+485,790-396,960)	100,947		
	107,647		
Creditors: amounts falling due within one year (2,500+25,000)	(27,500)		*1*
Net current assets		80,147	
Net assets		1,651,147	
Capital funds:			
Endowment funds		167,767	
Income funds:			
Restricted	600,840		
Unrestricted	882,540	1,483,380	
Total funds		1,651,147	
			Presentation 1

(20)

Workings

Realised gains/losses

	Opening Holding	Market value	Opening price	Sale price	Difference	Shares sold	Gain / (loss)
	No.	£	£	£	£	No.	£
A	7,000	70,000	10	12	2	1,000	2,000
B	60,000	480,000	8	10	2	15,000	30,000
B			8	6	(2)	10,000	(-20,000)
C	30,000	450,000	15	20	5	1,000	5,000
D	20,000	120,000	6	5	(1)	500	(-500)
Total		1,371,000					16,500

Unrealised gains/losses

	Held 1/4/00	Bought /sold	Held 31/3/01	Price paid	Price 31/3/01	Gain/ (loss) per share	Total Gain / (loss)	Closing MV
	No.	No.	No.	£	£	£	£	£
Treasury								250,000
A	7,000	(1,000)	6,000	10	14	4	24,000	84,000
B	60,000	(25,000)	35,000	8	5	(3)	(105,000)	175,000
C	30,000	(1,000)	29,000	15	22	7	203,000	638,000
D	20,000	(500)	19,500	6	6	0	0	117,000
E	4,000	0	4,000	0.25	0.5	0.25	1,000	2,000
F	0	15,000	15,000	7	9	2	30,000	135,000
Total							153,000	1,401,000

Question 9

(a) Determination of interest payable and paid for 2000/01

Loan	**Calculation**	**£000**	
8% loan repayable on 31.3.00 (vi)	500*8%	40	½
8% loan outstanding 2000/01 (vii)	3,500*8%	280	½
7% loan outstanding 2000/01 (vii)	5,400*7%	378	½
6% loan raised on 1.10.00 (viii)	2,300*6%*6/12 (accrued)	69	*1*
Bank interest (viii)	**Given**	27	½
Less interest capitalised (viii)		(250)	½
Total payable		544	
Interest accrued – loan raised 1.10.00 (viii)		(69)	½
Interest paid		475	*(4)*

Long term loans outstanding 1.4.00	
8% loan (vii)	3,500
7% loan (vii)	5,400
8% loan transferred to short term creditors	(500)
6% loan raised (balance)	2,300
Long term loans outstanding 31.3.01 (vii)	10,700

Note 1: Reconciliation of operating surplus to net cash flow from operations

	£000	
Operating surplus (working 1)	2,617	*2½*
Depreciation (220+25+35+24) (working 3)	304	*2*
Profit on sale of properties [750-(300-20)] (v)	(470)	½
Loss on disposal of vehicles (16-5) (x)	11	½
Increase in provisions (800-700) (xii)	50	½
Increase in stock (695-625) (vi)	(70)	½
Increase in debtors (2,100-1,500) (vi)	(600)	
Increase in creditors [(1,285-69 accrued interest)-1,055] (vi) & (viii)	161	½
Net cash flow from operating activities	2,003	*(7)*

(b) **Cash Flow Statement for the year ended 31 March 2001**

	£000	£000	
Net cash inflow from operating activities (Note 1)		2,003	*7*
Returns on investments and servicing of finance			
Interest received (working 2)	27		} ½
Interest paid (a)	(475)		
		(448)	
Capital expenditure and financial investment			
Purchase/build of prop'y (2,500+700+250+3,900) (working 2)	(7,350)		*2*
SHG received (working 4)	3,430		} ½
SHG repaid (working 4)	(180)		
Purchase of other fixed assets (250+50) (working 3)	(300)		*1*
Sale of housing properties (v)	750	}	½
Sale of other fixed assets (x)	5		
		(3,645)	
Net cash outflow before liquid resources and financing		(2,090)	
Management of liquid resources			
Investments made (700-500) (vi)		(200)	½
Financing			
Loans raised	2,300		*1*
Loans repaid	(500)		½
Net cash flows from financing		1,800	
Decrease in cash and cash equivalents (–310-180) (vi)		(490)	
Note 2			*2*
Format and presentation			½
			(16)

Note 2: Reconciliation of net cash flow to movement in net debt *1*

	£000
Decrease in cash	(490)
Loans received	(2,300)
Loan repaid	500
Investment raised	200
Change in net debt	(2,090)

Analysis of the movement in net debt *1*

		Movements		
	1 April 2000	**Cash**	**Other**	**31 March 2001**
	£000	**£000**	**£000**	**£000**
Loans repayable after more than 1 year	(8,900)	(2,300)	500	(10,700)
Loans repayable within 1 year	(500)	500	(500)	(500)
Cash at bank/overdraft	180	(490)	0	(310)
Short term investments	500	200	0	700
Net debt	(8,720)	(2,090)	0	(10,810)

Working 1: Operating surplus		**£000**
Increase in revenue reserve (i)	6,654-5,249	1,405
Increase in restricted reserves (i)	625-400	225
Increase in capital financing reserve (i)	6,770-6,300	470
Interest payable	(a)	544
Interest receivable	Working 2	(27)
Operating surplus at 31 March 2001		2,617

Working 2: Interest receivable		**£000**
Average investments (vi)	(700+500)/2	600
Interest rate (ix)	@ 4.5%	
Interest receivable		27

Working 3: Housing assets	**Properties for letting**	**Properties under constr'n**	**Offices**	**Equip't & fittings**	**Motor vehicles**
	£000	**£000**	**£000**	**£000**	**£000**
Cost 1.4.00 (ii)	51,900	6,750	1,250	550	100
Acquisition of housing stock (iii) *	2,500	0	0	0	0
Major repairs capitalised (iii) *	700	0	0	0	0
Capitalised interest paid (viii) *	0	250	0	0	0
Disposals (v) (x)	(300)	0	0	0	(30)
Completed properties (balance)	2,800	(2,800)	0	0	0
Expenditure for year (balance) *		3,900	0	250	50
Balance at 31.3.01	57,600	8,100	1,250	800	120
Depreciation 1.4.00	1,250	0	200	110	40
Disposals (v) (x)	(20)	0	0	0	(14)
Depreciation charge (balance)	220	0	25	35	24
Balance at 31.3.01	1,450	0	225	145	50

* Payments

Working 4: SHG	**£000**
At 1.4.00 (iv)	38,600
Repaid (v)	(180)
Cash additions (balance)	3,430
At 31.3.01 (iv)	41,850

Question 10

Pension Fund Account for the year ended 31 March 2001

Contributions and benefits	**£000**	**£000**	
Contributions receivable:			
From employers (48,928-52)	48,876		*½*
From employees or members	27,500		
Transfers in (1769 + 538+52)	2,359		*½*
Other income (500 + 185 + 27)	712	79,447	*1*
Benefits payable			
Pensions (58,558 + 162)	58,720		*½*
Lump sums (6,719 + 299 + 518 + 57 + 5 + 90)	7,688		*2½*
Payments to and on account of leavers			
Refunds of contribution	315		
Transfers out (1,936 + 24)	1,960		*½*
Administrative and other expenses (579 + 51)	630	(69,313)	*½*
Net additions from dealing with members		10,134	
Returns on investments			
Investment Income (see note 2)	10,737		*1*
Change in the market value of investments (see note 1)	59,078		*5*
Investment management expenses (1945+95)	(2,040)	67,775	*1*
Net increase in the fund during the year		77,909	
Opening net assets of the scheme		253,497	
Closing net assets of the scheme		**331,406**	
Format/Presentation			*1*

Net Assets Statement as at 31 March 2001

	£000	**£000**	
Investment Assets			
Fixed interest securities		113,395	½
Equities		162,377	½
Property		45,182	½
		320,954	
Current Assets			
Debtors (1,115+185+27+538+3,733)	5,598		*2*
Cash	5,733		
	11,331		
Less Current Liabilities			*1*
Creditors (90+95+619+51+24)	(879)		½
		10,452	
Net assets at 31 March 2001		**331,406**	
Format/presentation			*1*
			(20)

Calculation notes:

1. Change in the market value of investments

	Fixed £000s	**Equity £000s**	**Property £000s**	
<u>Realised Profit/Loss</u>				
Sale Proceeds	3,162	5,248	4,800	
Less : Disposal	(2,409)	(5,419)	(4,317)	
Profit / (Loss)	753	(171)	483	*2*
<u>Unrealised Profit/Loss</u>				
Opening Market Value	54,980	145,729	39,151	
Add: purchases	15,211	7,840	12,175	
	70,191	153,569	51,326	
Less: disposals	(2,409)	(5,419)	(4,317)	
Closing balance	67,782	148,150	47,009	
Closing value	113,395	162,377	45,182	
Change in value	45,613	14,227	(1,827)	*2*
Equities Closing Balance	148,150			
Less Purchases	7,840	@ 2.5%	196	
	140,310	@ 10%	14,031	
			14,227	*1*

Total change in market value (£000) =

$$\underbrace{45{,}613 + 14{,}227 + (1{,}827)}_{\text{unrealised}} + \underbrace{753 - 171 + 483}_{\text{realised}} = 59{,}078$$

2. Investment Income (£000)

Property	1,417	(1,517 – 100)
Fixed Interest	5,261	(4,146 + 1,115)
Equities	<u>4,059</u>	
	<u>10,737</u>	

3. Property Mgr Income (£000)

5% Annual rent income (5% x 1,417) = 70,850
5% net sales profit (5% x 483) = <u>24,150</u>
<u>95,000</u>

Question 11

(a) Financial and managerial accountability in the public sector

Financial accountability

- Also known as "stewardship" ie demonstration of proper use of resources by those who have use of them to those who have provided them.
- Entails submission of accounts to independent scrutiny (audit) to ensure they show the true financial position of the entity.

Managerial accountability

- Requirement that managers should also be accountable for achieving goals or objectives and providing value for money.
- Involves comparison with of outcomes with objectives and use of performance indicators/measures/targets.

1 mark per point made up to a maximum of 4 marks

CENTRAL GOVERNMENT

(b) **Demonstration of financial and managerial accountability in particular sectors**

- Production of annual financial statements in accordance with Treasury directions – resource accounts; agency accounts; operating costs statement, balance sheet, cash flow statement etc.
- Departments report via annual accounts on use of funds voted by Parliament in Schedule 1 (comparison of resources used against resources voted) and Schedule 5 (analysis of resources by departmental objectives) of resource accounts.
- Role of accounting officer (senior civil servant in departments; CEO in agencies) eg appearances before Parliamentary select committees including Public Accounts Committee.
- Annual departmental report on achievement of targets set under public service agreements and service delivery agreements.
- Agencies set key performance indicators, measures and targets by Secretary of State.
- Statement on internal financial controls accompanying annual accounts.

1 mark per point made up to a maximum of 6 marks

(c) **Role of audit in demonstrating managerial accountability**

- Statutory value for money examinations by external audit.
- Validation of performance indicators by either internal or external audit.
- External auditor's report on statement on internal financial controls.
- Internal audit's role in support of management's statement on internal financial controls.
- Ability of external auditor to compare best practice across departments.

1 mark per point made up to a maximum of 5 marks

FURTHER & HIGHER EDUCATION

(b) **Demonstration of financial and managerial accountability in particular sectors**

- Roles of vice chancellor/principal; chief finance officer.
- Publication of financial statements: annual report; statement of accounts.
- Budget setting / budgetary control.
- Targets set by funding bodies.
- Reviews and inspectorate reports.
- Benchmarking & comparisons across services/organisations/years.

1 mark per point made up to a maximum of 6 marks

(c) **Role of audit in demonstrating managerial accountability**

- Value for money examinations.
- Validation of performance indicators by either internal or external audit.
- External auditor's report on statement on internal financial controls.
- Internal audit's role in support of management's statement on internal financial controls.
- Provide an independent review of information put forward to demonstrate public accountability.
- Internal audit systems/compliance audits to form view on controls, procedures & performance and suggestions for improvement.
- Provide benchmarking/comparison information from other similar organisations and the private sector to enable colleges/universities to evaluate their performance.

1 mark per point made up to a maximum of 5 marks

NATIONAL HEALTH SERVICE

(b) **Demonstration of financial and managerial accountability in particular sectors**

- Annual report and financial statements (I&E, balance sheet, cash flow) & annual general meeting.
- Statement of chief executive's responsibilities as the accountable officer.
- Operating and financial review.
- Codes of conduct and accountability.
- Statement on internal financial controls accompanying annual accounts.
- Quarterly monitoring of trusts by regional office.
- CE may be called before PAC to account for activities.
- Standing financial instructions/standing orders must be adhered to.
- Purchaser/provider split eg commissioners requiring demonstration of VFM in service agreements.

1 mark per point made to up a maximum of 6 marks

(c) **Role of audit in demonstrating managerial accountability**

- External auditors' report on internal financial control statement.
- Internal audit input to SFIs & SOs.
- VFM audits by internal and external audit.
- Clinical audit by Commission for Health Improvement (CHI) to ensure adherence to National Institute for Clinical Excellence (NICE) guidelines.
- Ability of external auditor and other audit agencies to benchmark against other authorities/Trusts.

1 mark per point made up to a maximum of 5 marks

HOUSING ASSOCIATIONS

(b) **Demonstration of financial and managerial accountability in particular sectors**

- Roles of chief executive; chief finance officer.
- Publication of financial statements: annual report; statement of accounts.
- Budget setting / budgetary control.
- Targets set by funding bodies.
- Reviews and inspectorate reports.
- Benchmarking & comparisons across services/organisations/years.
- Tenant committees

1 mark per point made up to a maximum of 6 marks

(c) **Role of audit in demonstrating managerial accountability**

- Value for money examinations.
- Validation of performance indicators by either internal or external audit.
- External auditor's report on statement on internal financial controls.
- Internal audit's role in support of management's statement on internal financial controls.
- Provide an independent review of information put forward to demonstrate public accountability.
- Internal audit systems/compliance audits to form view on controls, procedures & performance and suggestions for improvement.
- Provide benchmarking/comparison information from other similar organisations and the private sector to enable housing associations to evaluate their performance.

1 mark per point made up to a maximum of 5 marks

LOCAL GOVERNMENT

(b) **Demonstration of financial and managerial accountability in particular sectors**

- Statutory Roles of chief executive; chief finance officer.
- Publication of financial statements: annual report; statement of accounts; council tax leaflet.
- Budget setting/budgetary control.
- Council tax setting/capping.
- Grant claims and returns to government departments.
- Service/best value reviews and inspectorate reports.
- Citizen's Charter/best value/locally set performance indicators.
- Benchmarking & comparisons across services/organisations/years.
- Best value performance plan.
- Public meetings/area forums/tenant committees/consultation/customer surveys.

1 mark per point made up to a maximum of 6 marks

(c) **Role of audit in demonstrating managerial accountability**

- Provide an independent review of information put forward to demonstrate public accountability (eg PIs, BVPP).
- Internal audit systems/compliance audits to form view on controls, procedures & performance and suggestions for improvement.
- Value for money audits both external and internal.
- Provide benchmarking/comparison information from other similar organisations and the private sector to enable local authorities to evaluate their performance.
- Public interest reports by the District Auditor.

1 mark per point made up to a maximum of 5 marks

Question 12

(a) Determination of Goodwill

	Middle plc	Bottom plc	
Proportion of shares owned by Top plc	**%**	**%**	
Ordinary	80%	75%	
Preference	25%		
Period as subsidiary	6 years	2/3 year	
	£000	**£000**	
Investment at cost	2,890	1,725	*1*
Nominal value of share capital			
Ordinary: 8m @ 10p	(800)		½
Preference: 50,000 @ £1	(50)		½
Ordinary: 600,000 @ £1		(600)	½
Share premium account (pre-acquisition = 500 * 80%)	(400)		½
Revaluation reserve (pre-acquisition = 400 * 75%)		(300)	½
Profit & loss a/c			
Pre-acquisition = 80% * 1,500	(1,200)		½
Pre-acquisition = 75% * 600		(450)	½
Retained for year = 180 * 1/3 year (pre-acquisition) * 75%		(45)	½
Proposed dividend (pre-acquisition = 120 * 1/3 year * 75%)		(30)	½
Reduction in fair value of plant & equipment (200 * 80%)	160		½
Goodwill	600	300	*(6)*
Amortisation period	20 years	20 years	
	£000	**£000**	
Annual goodwill amortisation	30	15	
Amortisation for previous 5 years	150		
Amortisation for current year (M: full year; B: 2/3 year)	30	10	

(b) **Consolidated Profit and Loss Account for the year ended 31 December 2000**

	Working	£000	
Turnover	1	20,400	*1*
Cost of sales	2	(11,475)	*3½*
Gross profit		8,925	
Distribution costs	3	(3,634)	*½*
Administrative expenses	4	(2,680)	*½*
Operating profit		2,611	
Interest payable	5	(229)	*1*
Net profit before taxation		2,382	
Taxation	6	(758)	*½*
Net profit after taxation		1,624	
Profit attributable to minority interest shareholders	7	(132)	*3½*
		1,492	
Dividends - paid	Top only	(200)	*} ½*
Dividends - proposed	Top only	(300)	
Retained profit for year		992	
Retained profit brought forward	8	6,530	*3*
Retained profit carried forward		7,522	*(14)*

Workings

1. Turnover	**£000**
Top	12,000
Middle	8,000
Bottom (2,400 * 2/3 year)	1,600
Intra group sales (iv)	(1,200)
Total	20,400

2. Cost of sales	**£000**
Top	6,300
Middle	5,400
Bottom (1,350 * 2/3 year)	900
Intra group purchases (iv)	(1,200)
Unrealised profit in closing stock (210 * 40/140) (iv)	60
Current year amortisation of goodwill	
Middle plc	30
Bottom plc	10
Fair value depreciation (reduction): current year (200/8)	(25)
Total	11,475

3. Distribution costs	**£000**
Top	2,200
Middle	1,150
Bottom (426 * 2/3 year)	284
Total	3,634

4. Administrative expenses

	£000
Top	1,670
Middle	850
Bottom (240 * 2/3 year)	160
Total	2,680

5. Interest payable

	£000
Top	167
Middle	70
Bottom (24 * 2/3 year)	16
Less: Debenture interest included in T's investment income	(24)
Total	229
N.B. Top's investment income comprises:	
Debenture interest from M (750*8%*40%)	24
Preference dividend from M (50*6%)	3
Ordinary dividend from M [156-6 (bal of pref div)*80%]	120
Ordinary dividend from B (120*75%)	90
	237

6. Taxation

	£000
Top	600
Middle	118
Bottom (60 * 2/3 year)	40
Total	758

7. Profit attributable to minority interest shareholders

	£000
Middle:	
Attributable to PSC holders (pref div only) = (200*6%*75%)	9
Attributable to OSC = post tax profit less pref div = [(412-12)*20%]	80
Less: MI's share of unrealised profit = 60*20%	(12)
Add: MI's share of fair value depreciation (reduction) = 25*20%	5
Bottom (300 * 2/3 year * 25%)	50
Total	132

8. Retained profit brought forward

	£000
Top	5,500
Middle [(2,850 – 1,500 pre-acquisition) * 80%]	1,080
Less: prior years amortisation of goodwill (5 * 30)	(150)
Add: Group's share of fair value depreciation (reduction) for previous year = 5 * 25 * 80%	100
Bottom (became a member of the group during the year)	0
Total	6,530

Question 13

(a) **The purpose of regulation**

- True and fair view / present fairly
- Protect users / stakeholders by evidencing stewardship and accountability *1*

The types of regulation in the public sector influencing financial reporting

Legislation

- Statutory Framework
- Each area of the public sector has its own legal framework

Examples include:
Local Govt : Local Govt Act 1972; Local Govt & Hsg Act 1989
NHS : NHS Act 1977;
Central Govt : E&A Dept Act 1866; Govt Resources & Accounts Act 2000
Housing Associations : Hsg Act 1996; Cos Act 1985
Higher & Further Education : Edn Reform Act 1988; F&HE Act 1992

Accounting Standards

- Public sector bodies required to comply with all relevant SSAPs and FRSs
- Statement of Recommended Practice (SORPs) provide detailed guidance covering all aspects of the preparation of financial statements for a specific sector. SORPs are developed by bodies recognised by the ASB in accordance with ASB guidelines eg CIPFA / LASAAC joint Committee for Local Government. Local Government, Housing Associations & Higher &Further Education have SORPS but Central Govt / NHS do not – have detailed accounting manuals instead.

Accounting Practice

- Areas of public sector follow Companies Act reporting and disclosure where possible to follow UK Generally Accepted Accounting Practice.
- Follow basic accounting concepts (materiality; going concern; matching; consistency; prudence; substance over form).
- Derive and publish accounting policies in financial statements, accounting policies which are consistent with the accounting concepts.

Specific Rules

- Detailed accounting manuals are published for NHS (Health Authority manual of Accounts) and Central Government (Resource Accounting Manual) where no SORPs are produced.
- All parts of public sector have their own rules too – mainly regulations issues by Secretary of State, for example, Statutory Instruments which have had parliamentary approval.

½ mark per regulation type, 1 for explanation up to a maximum of 6
(7)

(b) *Who is responsible for the setting of standards and what is their role with regard to the public sector.*

- Financial Reporting Council (FRC) – has two subsidiary organisations: Accounting Standards Board (ASB) and Review Panel
- ASB responsible for issuing accounting standards. These apply to all companies and other entities that prepare accounts.
- ASB role is to improve standards of financial accounting and reporting for benefit of users, preparers and auditors of financial information.
- ASB give negative assurance statements confirming that SORPs do not contain any provisions that are inconsistent with ASB principles/policies.
- ASB has a sub-committee called the Public Sector and Not-for-Profit Committee (PSNC). It is a specialist committee who advise on SORP proposals put forward by specialist bodies developing accounting practice for their sectors.

1 mark per well explained point up to a maximum of 3

(c) *Explanation of FRS 5 and it's applicability in the public sector*

FRS 5 – Reporting the Substance of Transactions - requires that the reality/substance of an entity's transactions and activities underlying them are reported in its financial statements (eg any resulting assets, liabilities, gains and losses), and not merely report the legal form of the transaction. Sets out how to determine the substance of a transaction, whether any assets and liabilities should be included in the balance sheet and what disclosures should be made.

FRS 5 is applicable to the public sector, including the application note regarding Private Finance Initiatives. *2*

(d) *Sources of financing of capital expenditure available include:*

Borrowing
Most parts of the public sector (except central government departments) are allowed to borrow to finance capital projects. However, there are restrictions placed on this type of borrowing (capital control mechanism usually operated by central government).

Capital Receipts
When public sector organisations sell fixed assets the proceeds are known as a capital receipt and may be used to pay for future fixed assets (except central government departments) subject to restrictions imposed by capital control mechanism.

Revenue Funding
Organisations can choose to pay for fixed assets by making an additional charge to the revenue account. The resultant increase in revenue spending will need to be funded by increased charges, rent, council tax etc and is therefore restricted in this way.

Government Grants
For specific capital projects often offered to public sector organisations (shown in the accounts as a deferred liability) – they are specific to projects and their use is restricted in this way.

Leases
Two types of lease (operating and finance). Under operational leases the asset stays with the lease company which means that the asset is not treated as part of the capital of the organisation and only appears as the lease charge in revenue expenditure. Finance lease is a way of paying for fixed assets owned by the organisation. Assets financed in this way are therefore treated as part of the capital of the organisation.

Non-cash considerations scheme
Means that a deal includes the acquisition of an asset in exchange for another asset or as part of approval to develop.

Public Dividend Capital (PDC)
NHS Trusts, for example, may increase their PDC to finance capital. This must be agreed by the NHS Executive in advance.

Donations
To NHS bodies may be utilised to finance capital expenditure. Any restrictions imposed by the Donor must be complied with.

NB Marks should be awarded for any other valid source identified.

1 mark per source identified
1 mark per explanation (including restrictions) up to a maximum of 8

(20)

Question 14

(a) Fixed Assets

- 'Rights or other access to future economic benefits controlled by an entity as a result of past transactions or events'.
- Assets that will available for use for more than 1 year. *1*

Tangible & intangible assets

- Tangible assets have physical form, whereas intangible assets have no physical form. *1*

Examples of tangible assets

- Land
- Buildings
- Plant & machinery
- Vehicles
- Equipment

(½ mark for each relevant point up to a maximum of 1)

Examples of intangible assets

- Research & development
- Goodwill
- Software licences

(½ mark for each relevant point up to a maximum of 1 mark)
(4)

(b) Reason for depreciating fixed assets

- To match expenditure to the income generated by use of the asset.
- To write off the cost of the asset over the life of the asset.

(½ mark for each relevant reason up to a maximum of 1 mark)

Methods of depreciation

- Straight line – an equal amount is charged to the depreciation account each year over the life of the asset.
- Residual balance – a percentage of the net book value of an asset is charged to the depreciation account each year.

(1 mark for statement and explanation of each method up to a maximum of 2 marks)

Assets under construction:

- Are not depreciated as they are incapable of earning income. *1*

(4)

(c) Key differences:

- A finance leased asset is capitalised and therefore appears on the balance sheet, whereas an operating lease asset is not.
- Substantially all of the risks and rewards of ownership are transferred to the lessee under an finance lease, whereas they stay with the lessor under an operating lease.
- Finance leased assets are depreciated whereas operating leased assets are not.

(½ mark for each difference to a maximum of 1)

Accounting treatment of an operating lease:

- Rental payments charged to revenue.
- No effect on balance sheet. *(½ mark for each up to a maximum of 1 mark)*

Accounting treatment of a finance lease:

- On acquisition, debit the fixed asset account and credit long term creditors with fair value of the asset.
- Split the annual payments into interest and principal (using straight line or sum of digits).
- Transfer the next years payment from long to short term creditors.
- Annual interest charged to income & expenditure account.
- Annual principal payment reduces creditors, then transfer the next years payment from long to short term creditors.

(½ mark for each up to a maximum of 2 marks)
(4)

(d) Economic impairment:

- A market impairment is where an asset loses value due to it being 'used up' quicker than anticipated. *½*

Market impairment:

- A market impairment is where an asset loses value due to a general fall in prices. *½*

Accounting treatment of an economic impairment:

- Credit fixed assets.
- Debit I&E. *1*

Accounting treatment of a market impairment:

- Credit fixed assets.
- Debit revaluation reserve until it is reduced to zero then charge the balance to I&E. *1*

Affect on Statement of Recognised Gains and Losses:

- Economic impairment – the opening figure (surplus / deficit for the financial year) would be lower due to the charge on the I&E account.
- Market impairment – the unrealised surplus on the revaluation reserve would be lower due to the charge of the impairment on the reserve.

(½ mark for each up to a maximum of 1 mark)
(4)

(e) The revaluation reserve

- Contains all unrealised gains and losses relating to fixed assets.
- Is used for revaluations, indexation and market impairments.

(½ mark for each up to a maximum of 1 mark)

Entries

- Debit fixed assets.
- Credit revaluation reserve. *1*

(2)

(f) Sale of fixed asset:

- Debit disposal account & credit fixed assets with the NBV. *½*
- Debit cash & credit disposal account with the cash received. *½*
- Debit I&E & credit disposal account with the loss. *1*

Or, for Local Government:

- Debit Fixed Asset Restatement Reserve and Credit fixed assets with the NBV. *1*
- Debit cash and credit usable capital receipts with the sale proceeds. *1*

(2)

(20)