FINANCIAL REPORTING AND ACCOUNTABILITY

Professional 2
December 2002

MARKING SCHEME

Question 1

Income and expenditure account for the year ended 31 March 2002

	£000	
Income		
Asset management income (90,000 + 5,000(iv))	95,000	*½*
Training income	3,600	
Other operating income	12,750	
Total income	111,350	
Expenditure		
Staff costs	64,800	
Other operating expenses (35,250 – 2,800B + 1,000(iv))	33,450	*1½*
Depreciation charge (2,025 + 2,200B - 1,005(vi))	3,220	*2*
Total operating costs for the year	(101,470)	
Operating surplus for the year	9,880	
Interest payable (1,425 + 1,000B)	(2,425)	*1*
Profit on disposal of fixed assets	3,300	*1*
Surplus for the year	10,755	
Balance b/f	9,900	
Surplus c/f	20,655	

(6)

Balance sheet as at 31 March 2002

	£000	£000	
Fixed assets			
Tangible fixed assets			
Land (28,350 – 3,300A)		25,050	*1*
Buildings	39,900		
Accumulated depreciation (16,875 + 1,000(ii))	(17,875)	22,025	*1*
Plant & equipment (14,250 + 11,000B)	25,250		*1*
Accumulated depreciation (7,125 + 2,200B)	(9,325)	15,925	*1*
Assets under construction (C)		16,000	*1*
		79,000	
Current assets			
Stock	3,000		
Debtors (6,000 + 2,600A + 1,000(iv) + 16,000C)	25,600		*2½*
Cash at bank and in hand (2,250 + 4,000A + 3,000(iv)	9,250		*1½*
	37,850		
Creditors < 1 year (10,800 + 2,000B + 16,000C)	(28,800)		*2*
Net current assets		9,050	
Total assets less current lia bilities		88,050	
Creditors > 1 year			
Long-term loan	(21,600)		
Finance lease (11,000 – 1,800B - 2,000B)	(7,200)	(28,800)	*3*
Provisions for liabilities and charges		(3,750)	
Net Assets		55,500	
Taxpayers equity			
Reserves:			
Government grant reserve (8,550 + 16,000C)		24,550	*1*
Donated assets reserve (5,025 – 1,005(vi))		4,020	*1*
Revaluation reserve (7,275 – 2,300A - 1,000(ii))		3,975	*2*
I&E reserve (20,655 + 2,300A)		22,955	*1*
		55,500	

(19)

(25)

Workings:

A. Land:

	£000
Disposal proceeds	6,600
Value in books	(3,300)
Gain on disposal	3,300
Original cost	(1,000)
Realised revaluation reserve	2,300

B. Finance Lease:

Total lease payments (5 x 2,800)	14,000
Principal element (fair value)	(11,000)
Total interest payable	3,000
Annual depreciation (11,000/5)	2,200
Sum of digits (5 + 4 + 3 + 2 + 1) = 15	
2001/02:	
Annual rental payment	2,800
Interest element in year (3,000/15*5)	(1,000)
Principal repayment	1,800
2002/03:	
Annual rental payment	2,800
Interest element in year (3,000/15*4)	(800)
Principal repayment	2,000

C. Contract:

Assets under construction	16,000
Creditors < 1 year	16,000
Debtors	16,000
Government grants	16,000

Question 2

Income and Expenditure Account for the year ended 31 July 2002

	£000	
Income		
Funding council grants	60,000	
Educational contracts (2,400 + 2,500(iii))	4,900	½
Other operating income (8,500 + 670 (vi))	9,170	
Total income	74,070	
Expenditure		
Staff costs	43,200	
Other operating costs (23,500 – 1,400B + 500(iii) – 3,500(v))	19,100	*2*
Depreciation charge (1,350 + 1,100B)	2,450	*2*
Total expenditure	(64,750)	
Surplus on operations	9,320	
Interest payable (950 + 500B)	(1,450)	*1*
Exceptional restructuring costs	(3,500)	½
Gain on disposal of assets A	1,650	*1*
Surplus before tax	6,020	
Taxation	(100)	*1*
Surplus after tax	5,920	
Transfer to capital reserve A	(1,650)	*1*
Surplus for year	4,270	

(9)

Balance Sheet as at 31 July 2002

	£000	£000	
Fixed assets			
Tangible fixed assets			
Land (18,900 – 1,650A)		17,250	*1*
Buildings	26,600		
Accumulated depreciation	(11,250)	15,350	
Plant & equipment (9,500 + 5,500B)	15,000		*1*
Accumulated depreciation (4,750 + 1,100B)	(5,850)	9,150	*1*
Investments (iv)		6,000	*½*
		47,750	
Current assets			
Stock	2,000		
Debtors (4,000 + 1,300(i) + 500(iii))	5,800		*1½*
Cash (1,500 + 2,000(i) + 1,500(iii) + 6,000(iv))	11,000		*2*
	18,800		
Creditors < 1 year (7,200 + 1,000B + 100(viii))	(8,300)		*2*
Net current assets		10,500	
Total assets less current liabilities		58,250	
Creditors > 1 year			
Long term loan	(14,400)		
Finance lease (5,500B – 900B - 1,000B)	(3,600)	(18,000)	*3*
Provisions for liabilities and charges		(2,500)	
Deferred income			
Capital grants (3,350 – 670(vii))		(2,680)	*1*
Net assets		35,070	
Financed by:			
Endowments:			
Specific	6,000		*½*
General	6,000	12,000	*½*
Reserves:			
Revaluation reserve (4,850 – 1,150A)	3,700		*½*
Capital reserve (5,700 + 1,150A + 1,650A)	8,500		*1*
I&E reserve (6,600 + 4,270)	10,870	23,070	*½*
		35,070	

(16)

(25)

Workings:

A. Land:

	£000
Disposal proceeds	3,300
Value in books	(1,650)
Gain on disposal	1,650
Original cost	(500)
Realised revaluation reserve	1,150

B. Finance Lease:

Total lease payments (5 x 1,400)	7,000
Principal element (fair value)	(5,500)
Total interest payable	1,500
Annual depreciation (5,500/5)	1,100
Sum of digits (5 + 4 + 3 + 2 + 1) = 15	
2001/02:	
Annual rental payment	1,400
Interest element in year (1,500/15*5)	(500)
Principal repayment	900
2002/03:	
Annual rental payment	1,400
Interest element in year (1,500/15*4)	(400)
Principal repayment	1,000

Question 3

(Tempus NHS Trust)

(a) **Income and expenditure account for the year ended 31 March 2002**

	Note	£000	
Income from activities: continuing operations	(1)	111,430	½
Other operating income	(2)	8,749	2
Operating expenses: continuing operations	(3)	(115,203)	4 ½
Operating surplus: continuing operations		4,976	
Profit or loss on disposal of fixed assets	(4)	(50)	1
Surplus before interest		4,926	
Interest receivable		0	
Surplus for the financial year		4,926	
Public dividends payable	(5)	(4,870)	½
Retained surplus for the year		56	
			Presentation 1
			(9½)

Workings for the income and expenditure account **£000**

		£000	
1	**Income from activities**		
	Health authorities & PCTs	97,560	
	Private patients	13,870	
		111,430	½
2	**Other operating income**		
	Trial balance	8,700.00	
	From donation reserve (donated depn) (31.48 + 18)	49.48	2
		8,749.48	
3	**Operating expenses**		
	Salaries and wages	76,300.00	
	Supplies and services	18,650.00	
	Transport expenses	3,560.00	½
	Establishment expenses	12,690.00	
	Other expenditure	1,580.00	
	Depreciation (875.84 + 1,497.66 + 31.48 + 18)	2,422.98	4
	Total	115,202.98	
4	**Profits/loss on disposal**		
	Cash receipt (1,030 – 360) (notes (ii) & (vi))	670	
	NBV at disposal date	(720)	
	Loss on disposal	(50)	1
5	**Public dividends payable**		
	Trial balance	4,860	
	Accrued (note (vii))	10	½
		4,870	

Balance sheet as at 31 March 2002

	Notes	£000	£000	
Fixed assets	(6)		93,646	*9*
Current assets				
Stocks	TB	950		
Debtors	(7)	12,070		
Cash	TB	60		
		13,080		
Creditors: Amounts falling due < 1 year	(8)	(2,350)		½
Net current liabilities			10,730	
Total asset less current liabilities			104,376	
Creditors: Amounts falling due > 1 year			0	
Provisions for liabilities and charges			0	
Total assets employed			104,376	
Financed by:				
Capital and reserves				
Public dividend capital	(9)		87,300	½
Revaluation reserve	(10)		13,132	*2½*
Donation reserve	(11)		2,198	*1½*
Income and expenditure	(12)		1,746	½
Total			104,376	
				Presentation 1
				(15 ½)

Workings for the balance sheet	**£000**	
6 **Fixed assets**		
Land (21,760 + 418.46)	22,178.46	½
Buildings (purchased) (52,060 + 491.13 – 875.84)	51,675.29	*1*
Assets under construction (8,610 + 81.23 + 540)	9,231.23	*1*
Equipt GCC (purchased)(13,820+131.62+3,040–1,600)	15,391.62	*2½*
Equip't dep'n (purchased)(6,350+60.48+1,497.66–880)	(7,028.14)	*2*
Buildings (donated) (1,870 + 17.64 – 31.48)	1,856.16	*1*
Equipment GCC (donated)	360.00	½
Equipment depreciation (donated) (9 * 2 quarters)	(18.00)	½
Total	93,646.62	
7 **Debtors**		
NHS Debtors	10,840	
Other debtors	1,230	
Total debtors	12,070	
8 **Creditors due within 1 year**		
Trial balance	2,340	
Accrued on PDC dividends (note (vii))	10	½
	2,350	

			£000	
9	**Public dividend capital**			
	Trial balance		88,660	
	Repaid in year		(1,360)	
			87,300	½
10	**Revaluation reserve**			
	Trial balance		12,070.00	
	Indexation (418.46 + 491.13 + 81.23 + 131.62 - 60.48)		1,061.96	*2½*
			13,131.96	
11	**Donation reserve**			
	Trial balance		1,870.00	
	Addition		360.00	½
	Indexation		17.64	½
	Depreciation release to other operating income (31.48+18)		(49.48)	½
			2,198.16	
12	**Income and expenditure reserve**			
	Trial balance		1,690	
	Retained surplus for the year		56	½
			1,746	

Fixed asset schedules (all £000)

Land	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Opening NBV	21,760.00	22,178.46	22,178.46	22,178.46	21,760.00
Revaluation					
Index	418.46				418.46
Addition					
Disposal					
Closing NBV	22,178.46				22,178.46

Buildings					
Opening NBV					
(53,930 – 1,870(v))	52,060.00	52,332.17	52,113.21	51,894.25	52,060.00
Revaluation					
Index	491.13				491.13
Depreciation	(218.96)	(218.96)	(218.96)	(218.96)	(875.84)
Addition					
Disposal					
Closing NBV	52,332.17	52,113.21	51,894.25	51,675.29	51,675.29

Assets Under Constr					
Opening balance	8,610.00	8,826.23	8,961.23	9,096.23	8,610.00
Revaluation					
Index	81.23				81.23
Addition	135.00	135.00	135.00	135.00	540.00
Disposal					
Closing balance	8,826.23	8,961.23	9,096.23	9,231.23	9,231.23

Equipment GCC					
Opening balance	13,820	16,081.62	14,481.62	15,391.62	13,820
Index	131.62				131.62
Addition (1,350+780)	2,130		910 (bal)		3,040
Disposal		(1,600)			(1,600)
Closing balance	16,081.62	14,481.62	15,391.62	15,391.62	15,391.62

Equipment depn					
Opening acc depn	(6,350.00)				(6,350.00)
Index	(60.48)				(60.48)
Depreciation	(348.79)	(402.04)	(362.04)	(384.79)	(1,497.66)
Addition					
Disposal		880.00			880.00
Closing acc depn	(6,759.27)	(6,281.31)	(6,643.35)	(7,028.14)	(7,028.14)

Donated buildings					
Opening NBV (v)	1,870.00	1,879.77	1,871.9	1,864.03	1,870.00
Revaluation					
Index	17.64				17.64
Depreciation	(7.87)	(7.87)	(7.87)	(7.87)	(31.48)
Addition					
Disposal					
Closing NBV	1,879.77	1,871.90	1,864.03	1,856.16	1,856.16

Donated equip GCC	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Opening balance	0	0	360	360	0

Index					
Addition (vi)		360			360
Disposal					
Closing balance	0	360	360	360	360
Donated equip depn					
Opening acc depn	0	0	0	(9)	0
Index					
Depreciation			(9)	(9)	(18)
Addition					
Disposal					
Closing acc depn	0	0	(9)	(18)	(18)

Fixed asset schedule workings

Calculation of Indexation to be applied

$$\frac{\text{Closing Index - Opening Index}}{\text{Opening Index}}$$

Indexation

Land NBV: $\frac{1.06 - 1.04}{1.04} \times 21{,}760 = 418.46$

Buildings NBV (purchased): $\frac{1.07 - 1.06}{1.06} \times 52{,}060 = 491.13$

AUC (purchased): $\frac{1.07 - 1.06}{1.06} \times 8{,}610 = 81.23$

Buildings NBV (donated): $\frac{1.07 - 1.06}{1.06} \times 1{,}870 = 17.64$

Equipment GCC (purchased): $\frac{1.06 - 1.05}{1.05} \times 13{,}820 = 131.62$

Equipment Acc Dep'n (purchased): $\frac{1.06 - 1.05}{1.05} \times 6{,}350 = 60.48$

Depreciation for the year

Buildings (purchased): $\frac{52{,}060 + 491.13}{60 \times 4} = 218.96$ per qtr

Equipment (purchased) Q1: $\frac{13{,}820 + 131.62}{10 \times 4} = 348.79$

Equipment (purchased) Q2: $\frac{16{,}081.62}{10 \times 4} = 402.04$

Equipment (purchased) Q3:	$\frac{14,481.62}{10 \times 4}$	=	362.04
Equipment (purchased) Q4:	$\frac{15,391.62}{10 \times 4}$	=	384.79
Buildings (donated):	$\frac{1,870 + 17.64}{60 \times 4}$	=	7.87 per qtr
Equipment (donated) Q3 & 4:	$\frac{360}{10 \times 4}$	=	9 per qtr

Gross current cost (GCC) & accumulated depreciation on disposal

	£
Cost (ii)	1,600,000
Best value (ii)	720,000
Accumulated depreciation	880,000

Question 4

Income and expenditure account for the year ended 31 March 2002

		£000	
Turnover	38,500 + 15 (iv) + 80 (v)	38,595	*2*
Operating costs	28,850 + 45 (v) – 30 (viii)	(28,865)	*2*
Operating surplus		9,730	
Interest receivable		315	
Interest payable	6,990 + 25 (iii)	(7,015)	*2*
Surplus on sale of fixed assets	5 – (16/4) (vi)	1	*1*
Surplus for the year		3,031	
Less: transfers to designated and restricted reserves		–	
Surplus for the year after transfers to reserves		3,031	
Revenue reserves brought forward		35,889	*1*
Revenue reserves carried forward		38,920	

Balance sheet as at 31 March 2002

		£000	£000	
Fixed assets				
Housing property	325,800 + 8,605 + 20,135 – 600 (i) – 25 (iii)		353,915	*2*
Less: SHG	195,480 - 400(i) + 1,000(vii)		(196,080)	*2*
			157,835	
Non housing fixed assets	250+4,375+1,050–560–4(vi)		5,111	*1*
			162,946	
Current assets				
Debtors	2,115+600(i)+15(iv)+80(v)	2,810		*3*
Cash at bank and in hand	650 + 2,250 (ii) + 5 (vi)	2,905		*2*
		5,715		
Less: creditors < one year	3,780 + 400 (i) + 45 (v)	4,225		*2*
Net current assets			1,490	
			164,436	
Creditors > one year				
Recycled capital grant fund	1,500 – 1,000 (vii)		500	*1*
Loans	116,570 + 2,250 (ii)		118,820	*2*
			119,320	
Provisions	350 – 30 (viii)		320	*1*
Capital and reserves				
Share capital			1	
Designated reserves			4,350	
Restricted reserves			1,525	
Revenue reserves			38,920	
			164,436	

1 additional mark for overall presentation of I&E account and balance sheet

(25)

Note: The recycled capital grant fund is included in long term creditors since under the regulations governing the fund it is repayable if not utilised after 3 years.

Provisions have been included in the lower part of the balance sheet because it has been assumed that they will not be drawn upon within 1 year. Inclusion in the current liabilities section of the balance sheet is also acceptable.

Question 5

(a) **AMRA**

	£000		**£000**
Depreciation ½	21,570	Capital Charges: *1*	
Interest Paid ½	11,646	Education	46,506
Consolidated revenue a/c *1*	**69,594**	Social Services	29,983
		Environment Services	12,784
		Community Development Services	8,955
		Corporate and Support Services	4,432
		Government Grants (Working 1) *1*	150
	102,810		102,810
			(4)

Working 1

Government grant £3,000k; asset life 20 years = £150k pa amortisation in AMRA;
Grant balance = £2,850k

(b) **Consolidated revenue account for the year ended 31 March 2002**

	£000	**£000**	**£000**	
Education (397,487 + 46,506)	443,993	(112,459)	331,534	½
Social Services (92,146 + 29,983)	122,129	(12,569)	109,560	½
Environment Services (67,252 + 12,784)	80,036	(6,539)	73,497	½
Community Development Services (17,915 + 8,955)	26,870	(2,684)	24,186	½
Corporate and Support Services (3,339 + 4,432)	7,771	(523)	7,248	½
Net cost of services	**680,799**	**(134,774)**	**546,025**	
Corporate income and expenditure				
Precepts paid to other public bodies			18,358	½
Interest received			(14,124)	½
Asset management revenue account			(69,594)	½
Net operating expenditure			**480,665**	
Appropriations				
Contributions to earmarked reserves			13,421	½
Direct revenue financing			723	½
MRP adjustment [{(367,000–24,000) x 4%} – 21,570]			(7,850)	*1*½
Government grant deferred			150	½
Amount to be met from local taxpayers			**487,109**	
Council tax			(184,859)	½
Revenue support grant			(152,228)	½
NNDR			(152,033)	½
(Surplus)/deficit for the year			**(2,011)**	
General fund balance brought forward			**(17,155)**	½
General fund balance carried forward			**(19,166)**	

Presentation 1
(10)

(c) **Consolidated balance sheet as at 31 March 2002**

	£000	£000	
Net tangible fixed assets			
(858,121 – 111 – 21,570)		836,440	*1*
Long term debtors		59,432	
		895,872	
Current assets			
Stock and WIP	1,161		
Debtors (30,730 + 3,000 + 120 – 53)	33,797		*2*
Short term investments	149,846		
Cash in hand	26,669		
	211,473		
Creditors due within one year (92,697 – 53)	(92,644)		½
Net current assets		**118,829**	½
Total assets less current liabilities		**1,014,701**	
Long term borrowing		(141,737)	
Government grants deferred (3,000 – 150)		(2,850)	*1*
Provisions for liabilities and charges		(13,787)	
Net assets		**856,327**	
Financed by:			
Fixed asset restatement reserve (473,976 – 111)		473,865	½
Capital financing reserve (275,344+723+7,533+24(working 2)–7,850+150)		275,924	*2½*
Useable capital receipts (66,136 – 7,533 + 96(working 2))		58,699	*1*
Earmarked reserves		28,673	½
Balances:			
General fund		19,166	½
		856,327	
		Presentation	*1*
			(11)
			(25)

Working 2

Reserved capital receipt = £120k x 20% = £24k
Usable capital receipt = £120k x 80% = £96k

Question 6

(a) **Reconciliation of operating (deficit) to net cash flow from operating activities**

	£000	
Operating deficit (Working A)	(2,850)	*1½*
Buildings depreciation (Working B)	3,400	*1*
Equipment depreciation (Working B)	1,050	*1*
Profit on disposal of land (Working B)	(150)	½
Profit on disposal of buildings (Working B)	(700)	½
Loss on disposal of equipment (Working B)	400	½
Decrease in stock (750-700)	50	½
Increase in debtors (300-450)	(150)	½
Increase in creditors [(600-200)-(850-250)]	200	*1*
Net cash inflow from operations	**1,250**	
		(7)

(b) **Cash flow statement for Southern Procurement Agency for the year ended 31 March 2002**

	£000	£000	
Net cash inflow from operating activities		1,250	
Returns on investment and servicing of finance			
Interest received	300		½
Interest paid (1,150+200-250)	(1,100)	(800)	*1*
Capital expenditure and financial investment			
Payments to acquire land (working B)	(500)		*1*
Payments to acquire buildings (working B)	(9,000)		*1*
Payments to acquire equipment (working B)	(3,000)		*1*
Receipts from disposal of land (working B)	800		½
Receipts from disposal of buildings (working B)	5,200		½
Receipts from disposal of equipment (working B)	200	(6,300)	½
Cash outflow before management of liquid resources and financing		(5,850)	
Management of liquid resources			
Short-term investments made (3,000 + 900 – 3,150)	(750)		*1*
Short-term investments realised	900	150	½
Financing			
Loans raised (23m + 3m – 18m)	8,000		*1*
Loans repaid	(3,000)	5,000	½
Net cash flow		(700)	
Presentation			*1*
			(10)

(c) **Reconciliation of net cash flow to movement in net debt/funds**

	£000	
Decrease in cash	(700)	½
Long term loan	(5,000)	½
Short-term investments	(150)	½
Change in net debt during the year	(5,850)	
Net debt at 31 March 2001	(14,750)	
Net debt at 31 March 2002	(20,600)	

Analysis of changes in net debt/funds

	At 1/4/01 £000	Cash flows £000	At 31/3/02 £000	
Cash in hand and at bank	100	(100)	0	
Overdrafts	0	(600)	(600)	
	100	(700)	(600)	½
Current asset investment	3,150	(150)	3,000	½
Debt due>1 year	(18,000)	(5,000)	(23,000)	½
Net debt	**(14,750)**	**(5,850)**	**(20,600)**	

(3)

(20)

Workings

A. Operating deficit for the year

	£000
Income & expenditure 31/3/02	(2,900)
Income & expenditure 31/3/01	(800)
Movement in the year	(3,700)
Interest payable	1,150
Interest receivable	(300)
Operating deficit for the year	(2,850)

B. Fixed Assets	**Land**	**Buildings**	**Equipment**
Cost or Valuation	**£000**	**£000**	**£000**
Balance 1/4/01	2,250	15,000	9,000
Additions (balance)	500	9,000	3,000
Revaluation	400		
Disposal	(650)	(6,750)	(1,500)
Balance 31/3/02	2,500	17,250	10,500
Accumulated Depreciation			
Balance 1/4/01		4,500	5,250
Depreciation charge (balance)		3,400	1,050
Disposal		(2,250)	(900)
Balance 31/3/02		(5,650)	(5,400)
Net book value			
Balance 1/4/01	2,250	10,500	3,750
Balance 31/3/02	2,500	11,600	5,100
(iii) Proceeds of Disposals			
Cash proceeds	800	5,200	200
Net book value on disposal	(650)	(4,500)	600
Profit/(loss) on disposal	150	700	(400)

Question 7

(a) **Reconciliation of operating (deficit) to net cash flow from operating activities**

	£000	
Operating deficit (Working A)	(2,550)	*1½*
Buildings depreciation (Working B)	3,400	½
Equipment depreciation (Working B)	1,050	½
Profit on disposal of land (Working B)	(150)	½
Profit on disposal of buildings (Working B)	(700)	½
Loss on disposal of equipment (Working B)	400	½
Decrease in stock (750-700)	50	½
Increase in debtors (300-450)	(150)	½
Increase in creditors [(600-200)-(850-250)]	200	*1*
Net cash inflow from operations	**1,550**	
		(6)

(b) **Cash flow statement Northern Region Higher Education College for the year ended 31 July 2002**

	£000	£000	
Net cash inflow from operating activities		1,550	
Returns on investment and servicing of finance			
Interest received	300		½
Interest paid (1,150+200-250)	(1,100)	(800)	½
Taxation			
Tax paid (300 + 150 – 250)		(200)	½
Capital expenditure and financial investment			
Payments to acquire land (working B)	(500)		*1*
Payments to acquire buildings (working B)	(9,000)		*1*
Payments to acquire equipment (working B)	(3,000)		*1*
Payments to acquire an endowment investment	(2,000)		½
Receipts from disposal of land (working B)	800		½
Receipts from disposal of buildings (working B)	5,200		½
Receipts from disposal of equipment (working B)	200		½
Endowment received	3,000	(5,300)	½
Cash outflow before management of liquid resources and financing		(4,750)	
Management of liquid resources			
Short-term investments made (3,000 + 900 – 3,150)	(750)		½
Short-term investments realised	900	150	½
Financing			
Loans raised (23m + 3m – 19m)	7,000		½
Loans repaid	(3,000)	4,000	½
Net cash flow		(600)	
Presentation			*1*
			(10)

Workings

A. Operating deficit for the year

	£000
Income & expenditure 31/3/02	(2,900)
Income & expenditure 31/3/01	(800)
Movement in the year	(3,700)
Taxation	300
Interest payable	1,150
Interest receivable	(300)
Operating deficit for the year	(2,550)

B. Fixed Assets	**Land**	**Buildings**	**Equipment**
Cost or Valuation	**£000**	**£000**	**£000**
Balance 1/4/01	2,250	15,000	9,000
Additions (balance)	500	9,000	3,000
Revaluation	400		
Disposal	(650)	(6,750)	(1,500)
Balance 31/3/02	2,500	17,250	10,500
Accumulated Depreciation			
Balance 1/4/01		4,500	5,250
Depreciation charge (balance)		3,400	1,050
Disposal		(2,250)	(900)
Balance 31/3/02		(5,650)	(5,400)
Net book value			
Balance 1/4/01	2,250	10,500	3,750
Balance 31/3/02	2,500	11,600	5,100
(iii) Proceeds of Disposals			
Cash proceeds	800	5,200	200
Net book value on disposal	(650)	(4,500)	600
Profit/(loss) on disposal	150	700	(400)

(c) **Reconciliation of net cash flow to movement in net debt/funds**

	£000	
Decrease in cash	(600)	½
Long term loan	(4,000)	½
Endowment investment	2,000	½
Short-term investments	(150)	½
Change in net debt during the year	(2,750)	
Net debt at 31 July 2001	(15,750)	
Net debt at 31 July 2002	(18,500)	

Analysis ofchanges in net debt/funds

	At 1/8/01 £000	Cash flows £000	At 31/7/02 £000	
Cash in hand and at bank	100	(100)	0	
Overdrafts	0	(500)	(500)	
	100	(600)	(500)	½
Endowment investment	0	2,000	2,000	½
Current asset investment	3,150	(150)	3,000	½
Debt due>1 year	(19,000)	(4,000)	(23,000)	½
Net debt	**(15,750)**	**(2,750)**	**(18,500)**	

(4)

(20)

Question 8

(a) Note 1- Reconciliation of operating surplus to net cash flow from operating activities

	2001/02 £000	
Operating surplus [working 1]	6,460	*2½*
Add: depreciation [working 2]	4,350	*2*
Movement in stock [decrease 97 - 83]	14	*½*
Movement in debtors [decrease 6,380 - 5,320]	1,060	*½*
Movement in creditors [increase 3,270 - 2,560]	710	*½*
Net cash inflow from operating activities	12,594	*(6)*

(b) Cash flow statement for the year ended 31 March 2002

	£000	£000	
Operating activities			
Net cash inflow from operating activities		12,594	*½*
Returns on investments & servicing of finance			
Interest received [80 + 60 – 70]	70		*1*
Interest paid [70 – 10]	(60)		*½*
Net cash inflow from returns on investments & servicing of finance		10	
Capital Expenditure			
Payments to acquire fixed assets [11590+2830–3770]	(10,650)		*1½*
Receipts from sale of fixed assets [342 + 40]	382		*1*
Net cash outflow from capital expenditure		(10,268)	
Dividends paid [6,970 + 5,320 – 6,970]		(5,320)	*1*
Net cash outflow before financing		(2,984)	
Financing			
New PDC [100,905 – 97,075 + 13]	3,843		*1*
PDC repaid	(13)		*½*
Principal element of finance leases [2,800–1,680–560]	(560)		*1½*
Net cash inflow from financing		3,270	
Net cash inflow		286	*½*
Presentation			*1*
			(10)

		£000
NB	Opening bank	237
	Closing bank	523
	Increase	286

(c) Note 2 - Reconciliation of net cash flow to the movement in net funds/(debt)

	£000	
Increase in cash for period	286	½
Finance lease	(2,800)	½
Finance lease repaid	560	½
Changes in net debt	(1,954)	
Net funds at 1 April 2000	237	½
Net debt at 31 March 2001	(1,717)	
		(2)

Note 3 – Analysis of changes in net debt

	1 April 2001 £000	Cash Flows £000	Non cash Flows £000	31 March 2002 £000	
Cash at bank and in hand	237	286		523	½
Finance lease	0	560	(2,800)	(2,240)	*1½*
	237	846	(2,800)	(1,717)	*(2)*
					(4)
					(20)

Working 1: Operating surplus

	£000	
I&E reserve @ 31/3/01	(86)	½
Add back: I&E reserve @ 31/3/00	(374)	
Deficit for the year	(460)	
Add back: dividends payable	6,970	½
Add back: interest payable	70	½
Less: interest receivable	(80)	½
Less: profit on disposal of FA	(40)	½
Operating surplus	6,460	

Working 2: Tangible fixed assets (NBV)

	£000		£000
Balance 1/4/01	103,780	Disposal (iv)	342
Additions (iv)			
Buildings - donated	900		
Buildings – other (diff'ce)	11,590		
Equipment – finance lease	2,800	Depreciation (balance)	4,350
Revaluation/indexation (iii)	1,460	Balance 31/3/02	115,838
	120,530		120,530

Question 9

Locus Housing Association

Cash flow statement for the year ended 31 March 2002

	£000	£000	
Net cash (outflow) from operating activities		(463)	
Returns on investments and servicing of finance			
Interest received (working 3)	15		½
Interest paid (working 2) (includes 100 capitalised)	(192)		½
		(177)	
Capital expenditure and financial investment			
Acquisition of housing properties (working 4)	(2,500)		½
Social housing grants received (working 5)	1,600		*1*
Purchase of other fixed assets (working 4)	(395)		*1½*
Sale of fixed assets[800 (iii) + 15 (ix)]	815		*1*
		(480)	
Net cash outflow before financing		(1,120)	
Financing			
Housing loans received	1,000		*1*
Housing loans repaid	(100)		*1*
		900	
Decrease in cash (190 – 410) (iv)		(220)	*(7)*

Note (1) Reconciliation of operating surplus to net cash flow from operating activities

	£000	
Operating surplus (Working 1)	42	*4*
Depreciation (Working 4)	100	*2*
Impairment (i)	50	½
Add: loss on sale of computer equipment (20 – 15) (ix)	5	½
Less: profit on sale of housing 800 – [350 (working 4) – 25] (iii)	(475)	*1*
Increase in debtors (810 – 490) (iv)	(320)	½
Increase in creditors (505 – 370) (iv)	135	½
Net cash outflow from operating activities	(463)	*(9)*

Note 2- Reconciliation of net cash flow to the movement in net funds/(debt)

	£000	
Decrease in cash for period	(220)	½
Loans raised	(1,000)	½
Loans repaid	100	½
Changes in net debt	(1,120)	
Net debt at 1 April 2000	(1,740)	½
Net debt at 31 March 2001	(2,860)	
		(2)

Note 3 – Analysis of changes in net debt

	1 April 2001 £000	Cash Flows £000	Non cash Flows £000	31 March 2002 £000	
Cash at bank and in hand (iv)	410	(220)		190	
Loans (short term) (iv)	(100)	100	(100)	(100)	
Loans (long term) (v)	(2,050)	(1,000)	100	(2,950)	
	(1,740)	(1,120)	0	(2,860)	*(2)*

(4)
(20)

Working 1: Operating surplus

	£000	
Balance at 31/3/02	470	
Balance at 31/3/01	(430)	
Surplus for year	40	½
Add back: increase in restricted reserves (430 – 320)	110	½
Deduct: decrease in designated reserves (195 – 380)	(185)	½
Add back: interest payable (Working 2)	92	*2*
Deduct: interest receivable (Working 3)	(15)	½
	42	

Working 2: Interest payable

	£000
Loans balance at 31/3/01 (100 s/t + 2,050 l/t) (iv & v)	2,150
Repayment of principal on 30 September	(100)
Loans balance at 31/3/02 [100 s/t + (2,950 l/t – 1,000)(vi)](iv & v)	2,050
Average debt (2,150 + 2,050)/2	2,100
Interest at 7%	147
Interest on new loans (vi) (1,000 * 6% * ¾)	45
Total interest payable	192
Less capitalised (2,500 * 4%) (ii)	(100)
Interest payable charged to revenue a/c	92

Working 3: Interest receivable (viii)

5% on average cash balances = (190 + 410)/2 * 5% = **£15k**

Working 4: Analysis of fixed assets	**Housing properties**	**Offices**	**Office equipment, etc**
	£000	**£000**	**£000**
At cost/valuation			
Balance 31/3/01 (i)	10,550	850	300
Cash additions (ii) (offices = balance)	2,500	100	295
Capitalised interest (ii) (working 2)	100	0	0
Disposals (balance) [equipment = (ix)]	(350)	0	(25)
Impairment (i)		(50)	0
Balance 31/3/02 (i)	12,800	900	570
Depreciation			
Balance 31/3/01 (i)	250	0	200
Charge for year (balance)	75	0	25
Disposals (iii); [equip't = 25 – 20 (ix)]	(25)	0	(5)
Balance 31/3/02 (i)	300	0	220
NBV 31/3/01	10,300	850	100
NBV 31/3/02	12,500	900	300

Working 5: Social Housing Grant	**£000**
Balance 31/3/01	(8,500)
Cash additions (balance)	(1,600)
Transfer to Recycled capital grant fund	500
Balance 31/3/02	(9,600)

Working 6: Analysis of loans outstanding	**£000**
Balance 31/3/01 (v)	2,050
Held as short term creditors 31/3/01 (iv)	100
July raised (vi)	1,000
September repayment (iv & viii)	(100)
Held as short term creditors 31/3/02 (iv)	(100)
Balance 31/3/02 (v)	2,950

Question 10

(a) Reconciliation of net surplus to revenue cash inflow

	£000	£000	
General fund surplus (17,155 – 11,435)		(5,720)	½
Add non-cash items			
Depreciation [ii]	(6,281)		½
Additional MRP (10,840 [iii] – 6,281 [ii])	(4,559)		*1*
Direct revenue financing [iv]	(4,864)		½
		(15,704)	
Less increase in stock (1,358 – 1,014)	344		½
Less increase in debtors (33,302 – 31,737)	1,565		½
Less decrease in creditors (60,765 – 67,085)	6,320		½
		8,229	
Less net interest received (12,080 (W1) – 12,257 [i])		177	*2*
Cash inflow from revenue		(13,018)	*(6)*

Working 1: AMRA

	£000		£000
Depreciation [ii]	6,281	Capital charges	24,905
Interest paid (balance)	**12,080**	(18,624,+ 6,281)[ii]	
Balance to CRA [ii]	6,544		
	24,905		24,905

Working 2: Fixed assets

	£000		£000
Opening balance	565,234	Depreciation [ii]	6,281
Purchases (balance)	**30,535**		
FARR (below)	21,346	Closing balance	610,834
	617,115		617,115

Fixed asset restatement reserve

	£000		£000
		Opening balance	145,603
Closing balance	166,949	**Fixed assets (balance)**	**21,346**
	166,949		166,949

Working 3: Useable capital receipts

	£000		£000
Reserved CFR (11,215*40%)[w4]	4,486	Opening balance	71,489
Applied CFR (iv)	6,396	**Sale proceeds (balance)**	**11,215**
Closing balance	71,822		
	82,704		82,704

Working 4: Capital financing reserve

	£000		£000
		Opening balance	248,821
		DRF	4,864
		UCR Applied (iv)	6,396
Closing balance	269,126	MRP	4,559
		RCR in year (balance)	4,486
	269,126		269,126

(b) Cash flow statement for the year ended 31 March 2002

Revenue activities	**£000**	**£000**	
Outflows			
Payments to and behalf of employees [i]	322,098		
Other operating payments [i]	310,389	632,487	½
Inflows			
Council tax [i]	(172,363)		
Revenue support grant [i]	(160,037)		
National non-domestic rates [i]	(148,061)		
Government grants [i]	(33,431)		
Other receipts [i]	(131,613)	(645,505)	½
Net inflow from revenue activities		(13,018)	
Returns on investments and servicing of finance			
Outflows			
Interest paid (W1)	12,080		½
Inflows			
Interest received [i]	(12,257)	(177)	½
Capital activities			
Outflows			
Purchase of fixed assets (W2)	30,535		*2½*
Inflows			
Sale of fixed assets (W3 & W4)	(11,215)	19,320	*3½*
Net cash outflow before financing		6,125	
Management of liquid resources			
Net Increase/(decrease) in short term deposits (154,585 – 158,603)		(4,018)	½
Financing			
Inflows			
New increase in loans (267,638 – 249,714)	(19,275)	(17,924)	½
Increase in cash (3,057 – 18,874)		(15,817)	
Presentation			*1*
			(10)

(c) Note 2- Reconciliation of net cash flow to the movement in net funds/(debt)

	£000
Increase in cash for the period	15,817
Cash inflow from increase in debt	(17,924)
Cash inflow from decrease in liquid resources	(4,018)
Movement in net debt	(6,125)
Net debt at 1 April 2001	(109,985)
Net debt at 31 March 2002	(116,110)

2

Note 3 – Analysis of changes in net debt

	2001 £000	Movement £000	2002 £000
Bank overdraft	(18,874)	15,817	(3,057)
Investments	158,603	(4,018)	154,585
Borrowing	(249,714)	(17,924)	(267,638)
	(109,985)	(6,125)	(116,110)

2
(4)

(20)

Question 11

CENTRAL GOVERNMENT

(a) ***Constraints on choice of accounting policies***

- Agencies (on and off-Vote) must comply with accounts direction approved by Treasury which specifies basis of preparation.
- Departments and on-Vote agencies must comply with guidance in Resource Accounting Manual.
- CG bodies generally required to comply with Companies Act, UK GAAP and financial reporting standards where applicable.
- Treasury may require additional disclosures or prohibit choice of certain policies by way of additional guidance.

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

(b) ***Applicability of going concern and accruals central government sector***

Going concern

- Definition: financial statements are prepared on the basis that the entity will continue in operational existence for the foreseeable future and there is no intention or necessity to liquidate or curtail significantly the scale of operation of the entity.
- In private sector mostly concerned with financial viability – not usually a concern for central government entities.
- Central government bodies may be subject to sudden change owing to policy change – not possible to predict.
- Concept crucially affects valuation of assets and liabilities if body is not a going concern – even if body ceases to exist assets will usually continue to be used in other parts of government.

Accruals/Matching

- Definition: revenue and costs are recognised as they are earned or incurred, and matched with one another in the profit and loss account of the period to which they relate.
- Resource accounting and budgeting was introduced from 1 April 2001 – accruals concept therefore applies in full to central government.
- Specific applications include: depreciation, release of capital grants.

1 mark per point made up to a maximum of 4 marks for each of the two topics

(8)

(c) ***Difficulties of applying private sector standards to public sector***

No prescribed marking scheme here but up to three marks available for appropriate example and illustration of the problems.

Might include:

- Lack of the types of transactions referred to (eg FRS 6 Acquisitions and Mergers).
- Different ways in which certain types of activity are conducted means FRS not directly applicable (eg FRS 4 Capital Instruments).
- Much wider application of standards in central government owing to inter-relation of bodies (eg FRS 8 Related Party Transactions).
- Wider accountability issues making exemptions for size not applicable (eg FRSSE Financial Reporting Standard for Small Entities; exemption to FRS 1).

1 mark per point made up to a maximum of 3 marks

(15)

Question 12

(a) Consolidated balance sheet as at 30 September 2002

	Working	£000	
Goodwill	1	85	*3*
Tangible fixed assets	2	2,160	*1½*
Investments	3	346	*1½*
Net current assets	4	532	*1½*
Creditors > one year (debentures)	5	(150)	*½*
		2,973	
Ordinary share capital (Wye only)		500	*½*
Share premium account	6	500	*1*
Revaluation reserve	7	320	*½*
Profit and loss account	8	1,243	*3*
		2,563	
Minority interest	9	410	*2*
		2,973	
Presentation, aggregation and cancellation			*1*
			(16)

Workings

1. Goodwill	**Exe plc**
Proportion of shares owned by Top plc	
Ordinary	2/3rds
Preference	2/5ths
Period as subsidiary	10 years
	£m
Investment at cost	700
Nominal value of share capital	
Ordinary: 200m @ £1	(200)
Preference: 40m @ £1	(40)
Debentures	(50)
Share premium account (pre-acquisition = 150 * 2/3rds)	(100)
Profit & loss a/c: pre-acquisition = 120 * 2/3rds	(80)
Increase in fair value of tangible fixed assets (90 * 2/3rds)	(60)
Goodwill	170
Amortisation period	20 years
	£000
Annual goodwill amortisation	8.5
Amortisation for previous 10 years	85
Balance to consolidated balance sheet	85

2. Tangible fixed assets

	£000
Wye plc balance	1,100
Exe plc balance	1,000
Increase in fair value	90
Increased depreciation (90/30 years * 10 years as subsidiary)	(30)
Balance to consolidated balance sheet	2,160

3. Investments

	£000	£000
Wye plc balance		1,000
Amount relating to Exe plc		(700)
Amount relating to Dee plc (Associate)		300
Less: Goodwill on acquisition of Dee plc amortised		
Investment	300	
OSC in Dee 160m @ 50p shares (ie 40%)	(80)	
SPA in Dee (100 * 40%)	(40)	
Revaluation reserve on acquisition (50 * 40%)	(20)	
Profit and loss account on acquisition (100 * 40%)	(40)	
Goodwill (included in investment)	120	
Goodwill amortised to date (120/20 yrs * 5 yrs post-acq)		(30)
Share of proposed dividend (40 * 40%)		16
Share of post acquisition reval reserve [(100 – 50) * 40%]		20
Share of post acquisition profits [(200 – 100) * 40%]		40
Balance to consolidated balance sheet		346

4. Net current assets

	£000
Wye plc balance	200
Exe plc balance	350
Exe's proposed dividends	
PSC: 100m @ 5% = 5m * 40% (Wye's proportion)	2
OSC: 65m – 5m (preference div) = 60 (ordinary div) * 2/3rds	40
Unrealised profit (vii) = 150m * 40% = 60m	
Wye's proportion = 2/3rds * 60m	(40)
Minority interest proportion = 1/3rd * 60m	(20)
Balance to consolidated balance sheet	532

5. Debentures

	£000
Exe plc balance	200
Acquired by Wye plc	(50)
Balance to consolidated balance sheet	150

6. Share premium account

	£000
Wye plc balance	500
Exe plc balance	150
Pre-acquisition (to Working 1) = 150 * 2/3rds	(100)
Minority interest proportion = 150 * 1/3rd	(50)
Balance to consolidated balance sheet	500

7. Revaluation reserve	**£000**
Wye plc balance	300
Associate co (Dee plc) (Working 3)	
Share of post acquisition reserve [(100m – 50m) * 40%]	20
Balance to consolidated balance sheet	320

8. Profit and loss account	**£000**
Wye plc balance	1,000
Exe plc balance	600
Pre-acquisition (to Working 1) = 120m * 2/3rds	(80)
Minority interest proportion = 600m * 1/3rd	(200)
Goodwill amortised to date (Working 1)	(85)
Fair value additional depreciation (Working 2) group's proportion	(20)
Unrealised profit (Working 4) group's proportion	(40)
Group's proportion of prop divs (Working 4) 2m (PSC) + 40m (OSC)	42
Associate co (Dee plc) (Working 3)	
Goodwill amortised to date (120m/20 yrs * 5 yrs post-acq)	(30)
Share of proposed dividend (40m * 40%)	16
Share of post acquisition profits [(200m – 100m) * 40%]	40
Balance to consolidated balance sheet	1,243

9. Minority interest	**£000**
Share of OSC (1/3 * 300m)	100
Balance of PSC (100m – 40m)	60
Share of share premium a/c (Working 6)	50
Share of P&L a/c (Working 7)	200
Increase in fair value of tangible fixed assets (Working 2)	30
Increased depreciation (Working 2)	(10)
Share of unrealised profit (Working 4)	(20)
Balance to consolidated balance sheet	410

(b) Exe plc is a subsidiary (more than 50% of equity owned by Wye plc). Therefore, consolidate using the acquisition method, showing all net assets controlled by the group (after cancelling out intra group indebtedness). Minority interest represents those net assets not owned by Wye plc.

Dee plc is an associate (between 20% and 50% owned by Wye plc). Therefore, consolidate using the equity method. The investment and P&L a/c show growth arising from post acquisition reserves (offset by the amortised goodwill paid for this growth).

1 mark per valid point to a maximum of 4

(20)

Question 13

(a) Ratios tend to concentrate more on profit and ways of increasing profit – this is more applicable to private sector companies where companies exist to make a profit and consequently, these are easy to measure and analyse.

In public sector, the absence of a profit motive together with the increasing importance given to the quality of services delivered had led to the introduction and development of public sector performance in terms of VFM.

1 mark available for each point made, up to a maximum of 2

(b) Three elements of VFM are :

- Economy
- Efficiency
- Effectiveness

Economy
Acquisition of resources of an appropriate quality for the minimum cost. Economy is often measured in terms of unit costs eg cost per payslip; cost per employee.

Efficiency
Getting the maximum outputs from the resources consumed by the organisation, or, ensuring that the minimum level of resources is devoted to obtaining a particular level of output. This can be measured by comparing actual results with budget, external targets or benchmarks. Number of comparison measures are appropriate here eg comparisons over time, inter-organisation comparisons, comparisons with similar private sector activities. Eg comparisons between Bunchester, Gattox and Cakewell for error rates (being 4%, 0.02% and 5% respectively); year on year comparisons for Cakewell such as the improvement in error correction within the same month from 75% in 00/01 to 90% in 01/02.

Effectiveness
Measures the outcomes and the extent to which they indicate success in the realisation of objectives. Eg correct payment of staff in month money is due – although Bunchester make on average 40 errors per month, they are all corrected in that month whereas Cakewell makes 150 errors per month on average but only manage to correct 90% of these. However, in Cakewell's favour this does represent an improvement on the previous year when they only managed to correct 75% of errors made within the same month.

1½ marks for identification and definition of each element and ½ mark for an example, up to a maximum of 6 marks

(c) A wide range of possible approaches but would expect the calculation of group averages, reference to the national average and some comparison to the private sector organisation. Candidates should recognise the implication of Cakewell paying weekly as well as monthly and the impact this will have on the cost per payslip figure when comparing to those who only pay monthly.

Calculation of Measures relating to Cakewell for the two years:

		Year Ended 31/3/02	**Year Ended 31/03/01**
P1	Average Cost of a Payroll Officer	£15,000	£14,375
P2	% Payroll Staff Costs/Payroll Costs	33.33%	32.58%
P3	Cost Per Payslip	£12.50	£12.30
P4	Cost per Employee	£300	£293.16
P5	Error Rate	5%	4.68%

	P1	**P2**	**P3**	**P4**	**P5**
Group Average	£16,667	31.66%	£19.86	£288.33	3.07%
Cakewell Vs Group Average	-£1,667	+1.67%	-£7.36	+£11.67	+1.93%
Cakewell Vs National Average	-£1,500	+3.33%	-£10	+£15	+3%
Rank in Group (1 = highest)	3	2	3	1	1
Cakewell Vs Private Sector	-£10,000	+12.5%	-£7.50	+£60	+5%

Up to 8 marks available, awarded for volume and appropriateness of calculations and conclusions drawn

(d) **A wide variety of points could be made. Suggestions are:**

- Further investigations around the reasons for paying some staff on a weekly basis and whether it would be beneficial to the organisation as a whole to just pay monthly. Including the possibility to pay all staff using BACS as opposed to a combination of BACS and cheques (issues around staff having bank accounts; security, cost of BACS vs cheque production etc).

- Analysis of the types of errors being made to establish whether these can be avoided through the introduction of controls/procedures or by staff training (talking to the other organisations and looking at their methods and procedures especially Gattox). Errors would hopefully then be reduced or identified before the payroll is processed.

- Examination of time taken to correct errors and the costs associated with this would prove useful in terms of setting targets to reduce the number of errors and the overall impact that this should have on staff times and costs.

- Reasons for the improvement in the number of errors corrected in the month between 2000/01 and 2001/02 should be investigated to identify whether this can be further improved and to identify why there are still 10% of error which are not corrected in the month.

- Comparison of pay rates for staff – Cakewell's average is considerably lower than both the national average and comparator organisations – further details about staff grades, experience and qualifications used by other organisations may provide an insight into the appropriate qualities required for payroll staff.

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

1 presentation mark available for appropriate style for Payroll Manager, structure of briefing note and clarity of figure work

(20)

Question 14

(a) (i)

Private sector accounting/reporting rules determined by law (Companies Act), ASB & the Stock Exchange *1*

Public sector reporting rules determined by law, the Treasury and Parliament *1*

(2)

(a) (ii)

Private sector	**Public sector**	**Reason for public sector variation from private sector practice**
Calculate a profit or loss	Calculate a surplus or deficit	To emphasise the fact that public sector organisations are not in existence to make a profit
Financial focus Performance measured largely financially	Financial and social focus Performance measured financially and non-financially	To acknowledge that social objectives are as important as financial objectives To acknowledge that social objectives are as important as financial objectives
Focus on the whole organisation	Individual elements of the organisation reported on	To allow users to look at the activities of the organisation rather than just the 'bottom line'
Generally backward looking	Identify forward and backward looking features	Public sector working toward the same goals and not concerned with 'competitors' finding out about future plans
Emphasis on profitability	Emphasis on value for money	To highlight the importance of achieving non-financial objectives

Up to 2 marks for each difference identified and discussed (up to a maximum of 6)

(b)

	NHS Trust	Health Authority	Local Government	Central Government	Housing Associations	Further and Higher Education
I&E or equivalent) Account: Income and expenditure	Clear split into income and expenditure with income split into health and non-health related	Clear split into income and expenditure with income split into that from DoH and non DoH and expenditure split into health and non-health related	Split into individual service revenue accounts I&E for each shown gross and net	Expenditure split into programme and admin and shown before income Expenditure shown as +ve, income shown as –ve	Turnover and operating costs identified separately, but no further split	Clear split into income and expenditure with income split into health and non-health related
I&E: Payments to owners	Public dividend capital dividends payable to DoH	N/A	N/A	N/A	N/A	N/A
I&E: Payments to lenders	Shown separately	N/A	N/A	N/A	Shown separately	Included with income
I&E: Interest payable	Actual interest payable on loans shown	Notional interest on net relevant assets shown (at 6%)	External interest paid shown	N/A	Shown separately	Included with expenses
I&E: Taxation	N/A	N/A	N/A	N/A	Taxation entry & grant receivable against taxation	Taxation entry (FE only)
I&E: Other	N/A	N/A	Provision created for repayment of debt	N/A	N/A	N/A
C/Fs: Summary format	N/A	N/A	N/A	N/A	N/A	Summary format and analysis of headings published

C/Fs: Starting point	Start with cash in / out flow from operating activities	Start with cash in / out flow from operating activities	Start with direct method of calculating cash in / out flow from operating activities	Start with cash out flow from operating activities	Start with cash in / out flow from operating activities	Start with cash in / out flow from operating activities
C/Fs: Inflow and outflow	Inflow shown as +ve and outflow as –ve	Inflow shown as +ve and outflow as – ve	Inflow shown as -ve and outflow as +ve	Inflow shown as +ve and outflow as –ve	Inflow shown as +ve and outflow as –ve	Inflow shown as +ve and outflow as –ve
C/Fs: Dividends received	N/A	N/A	Dividend from joint ventures and associates line	N/A	N/A	N/A
C/Fs: Dividends paid	Dividends paid entry	N/A	N/A	N/A	Dividends paid entry	N/A
C/Fs: Fixed asset investing activities	Capital entries only relate to sales and purchases of fixed assets	Capital entries only relate to sales and purchases of fixed assets	Receipts of capital grants received shown with capital	Capital entries only relate to sales and purchases of fixed assets	Receipts of capital grants received shown with capital	Receipts of capital grants received shown with capital
C/Fs: Acquisitions, joint ventures, subsidiaries	N/A	N/A	Acquisitions in associates, joint ventures, subsidiaries identified	N/A	N/A	N/A
C/Fs: Capital financing	Public Dividend Capital and loan receipts and repayments	Surrender of capital receipts to the DoH	N/A	Only applicable to Trading Funds	N/A	Split into Finance leases and mortgages and loans (HE only)
C/Fs: Taxation	N/A	N/A	N/A	N/A	Taxation applicable	Taxation applicable (FE only)

Up to 2 marks for each difference between any of the organisations identified and discussed (up to a maximum of 6)

(c) **NHS Trust**

Public Dividend Capital
Represents the fixed assets financed by the DoH.
May be increased when a Trust has insufficient internally generated funds to finance capital expenditure or decreased when a Trust has surplus internally generated funds.

Revaluation reserve/fixed asset restatement reserve
Represents the unrealised increase in the value of non-donated fixed assets either through revaluation or indexation.
Changes will occur on revaluation or indexation of non-donated assets.

Donation reserve
Represents the net book value of donated assets.
Increases will occur on receipt of new donations, revaluation/indexation of donated assets upwards.
Decreases will occur on disposal of donated assets, depreciation and revaluation / indexation downwards.

I&E reserve
Surpluses or deficits arising from the Trust's activities after payment of any PDC dividends.
Changes will occur when the net surplus or deficit for the year is credited/debited to the reserve.

Health Authority

Capital account
Represents the value of the assets transferred to the Health Authority on their creation plus or minus the purchased price of any acquisitions/disposals and less depreciation since then.
Changes will occur on acquisition/disposal of fixed assets and on charging annual depreciation.

Revaluation reserve
Represents the unrealised increase in the value of non-donated fixed assets either through revaluation or indexation.
Changes will occur on revaluation or indexation of non-donated assets.

Donation reserve
Represents the net book value of donated assets.
Increases will occur on receipt of new donations, revaluation/indexation of donated assets upwards.
Decreases will occur on disposal of donated assets, depreciation and revaluation/indexation downwards.

I&E reserve
Surpluses or deficits arising from the HA's activities.
Changes will occur when the net surplus or deficit for the year is credited/debited to the reserve.

Local Government

Fixed asset restatement reserve
Enables current value of assets to be shown in the balance sheet.
Changes will occur on revaluation or asset disposal.

Capital financing reserve
Represents the transfer of resources between reserves to adjust the CRA so that it reflects the need to generate revenue financing for the year (eg MRP adjustment; Capital expenditure funded from revenue) and also other internal financing of capital eg by Capital receipts; and reserved capital receipts.

Usable capital receipts reserve
Unreserved element of capital receipts.
Changes will occur on sale of fixed assets (non-reserved capital receipt element) and when fixed assets are purchased from capital receipts.

Earmarked reserves
Other reserves held for specific purposes.

Fund balances and reserves
Accumulation of surpluses and deficits form the consolidated revenue account.
Changes occur when the surplus or deficit for the year is credited or debited to the account.

Education

Deferred capital grants
Relates to assets purchased with a grant that have been capitalised.
Changes occur when a new asset is purchased via a capital grant and when the deferred grant is released to the I&E account over the life of the asset.

Endowments
Donations received that have not yet been used.
Changes occur on receipt of new donations and as the endowments are released to the I&E account.

General reserves
Accumulation of surpluses and deficits form the I&E account.
Changes occur when the surplus or deficit for the year is credited or debited to the account.

Housing

Housing property revaluation reserve
Represents the unrealised increase in the value of fixed assets either through revaluation or indexation.
Changes will occur on revaluation or indexation of assets.

Designated reserves
The unrestricted reserves of a social landlord that have been earmarked by the board of a housing association.
Changes will occur when the board designate further funds or reverse a previous decision to designate reserves.

Restricted reserves
Grants received for a specific purpose.
Changes will occur on receipt of new restricted grants or expenditure of the reserves.

Revenue reserves
Accumulation of surpluses and deficits form the I&E account (excluding designated reserves described above).
Changes occur when the surplus or deficit for the year is credited or debited to the account.

Central Government

General fund
Cash voted by parliament and drawn down, other sources of expenditure included in the operating cost statement, realised elements of the revaluation reserve, disposal proceeds of donated assets and assets financed by government grant.
Changes will occur on and drawn down of additional monies voted by parliament, on disposal of assets at a profit or loss realised elements of the revaluation reserve and on disposal of assets originally donated or financed by government grant.

Revaluation reserve
Represents the unrealised increase in the value of non-donated fixed assets either through revaluation or indexation.
Changes will occur on revaluation or indexation of non-donated assets.

Donated asset reserve
Represents the net book value of donated assets.
Increases will occur on receipt of new donations, revaluation/indexation of donated assets upwards.
Decreases will occur on disposal of donated assets, depreciation and revaluation/indexation downwards.

Public Dividend Capital (Trading funds only)
Represents the fixed assets financed by the parent department.
May be increased when there are insufficient internally generated funds to finance capital expenditure or decreased when a there is a surplus of internally generated funds.

Loans from the parent department (Trading funds only)
Represents the fixed assets financed by the parent department.
May be increased when there are insufficient internally generated funds to finance capital expenditure or decreased when a there is a surplus of internally generated funds.

Up to 2 marks for each reserve identified explained to a maximum of 6.

(20)