FINANCIAL REPORTING AND ACCOUNTABILITY

Professional 2 examination
13 June 2002

From 10.00 am to 1.00 pm,
plus ten minutes reading time from 9.50 am to 10.00 am.

Instructions to candidates

Answer ***five questions*** *in total;*
One *question from* ***Section A****;*
One *question from* ***Section B****;*
One *question from* ***Section C****;*
One *question from* ***Section D****; and*
One *question from* ***Section E***

Candidates have a free choice in each of Sections A, B and C as to which sector (Central Government; Further and Higher Education; Health Service; Housing Associations; Local Government) they choose to base their answer on. For the question in Section C, candidates must state the sector that their answer relates to.

All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.

Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.

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SECTION A (Answer one question)

1

(Central Government)

The National Appointments Agency is an on-Vote executive agency of the Department of Appointments. The Agency administers the process of advertising for interviewing and selecting appointees to a wide variety of public bodies. It is funded primarily by its parent department although it does generate a small amount of income from the sale of advisory material on making appointments to private sector organisations.

The following information has been extracted from the books and records of the Agency:

(i) Information relating to fixed assets:

Fixed assets (at valuation 1/4/00):	**£000**
Land and buildings	2,040
Computers	720
Vehicles	132
Accumulated depreciation (at 1/4/00):	
Land and buildings	153
Computers	384
Vehicles	44

The valuation of land at 1 April 2000 was £850,000. There were no additions or disposals of fixed assets during the year.

(ii) The following price indices were published by HM Treasury during the year:

	At 31/3/00	**At 31/3/01**
Land and buildings	102	108
Computers	96	94
Vehicles	110	115

(iii) The Agency depreciates its assets on a fixed line basis assuming nil residual values and the following estimated useful economic lives:

Buildings	50 years
Computers	5 years
Vehicles	10 years

(iv) Working capital balances were:

	At 31/3/00	**At 31/3/01**
	£000	**£000**
Debtors	5	8
Creditors	21	18

The opening and closing creditors figures relate entirely to operating costs. Debtors relate to sales of advisory material.

(v) The following payments were made during the year ended 31 March 2001:

	£000
Staff costs	1,377
Operating costs	729

During 2000/01 a total of £26,000 was received in respect of sales of advisory material. All of this is classified as Appropriations-in-aid. The amounts received have been offset against operating costs paid during 2000/01.

(vi) Revaluation Reserve:

As at 31 March 2000 the revaluation reserve stood at £570,000 of which £530,000 related to land and buildings and £40,000 to vehicles.

(vii) The estimated grant for 2000/01 from the parent department was:

	£000
Current expenditure	2,300
Appropriations-in-Aid	50

(viii) Notional charges are to be calculated on the following basis:

Charge	**Basis**
Return on capital	6% of the average of the opening and closing total net assets
Insurance	0.5% of the total of staff and operating costs
Audit fee	£18,000

- **Requirement for question 1**

Using the information given above prepare the operating costs statement and the statement of general fund for the National Appointments Agency for the year ended 31 March 2001, together with the balance sheet for the Agency as at that date. *(25)*

(NB. All calculations should be rounded to the nearest thousand pounds.)

2

(Further and Higher Education)

Dreams and Inspirations Limited (DIL) is a company which was established on 1 August 1996 by the University of Mindpower (UM). DIL undertakes commercial research, development and consultancy activities for an increasing range of external clients (and, to a lesser extent, internal clients within the University) and generates increasing profits for the University.

At 31 July 2001 the following balances were contained in the ledger of DIL:

	£000	£000
Share capital (issued ordinary shares @ 20p each)		1,000
Debtors	340	
Fees and charges		2,700
Land (at valuation 31 July 2000)	500	
Buildings (net valuation 31 July 2000)	1,500	
Machinery, plant and equipment		
- at cost	480	
- cumulative depreciation (at 1 August 2000)		150
Profit and loss account (at 1 August 2000)		620
Staff costs	1,350	
Bank	50	
Other operating costs	730	
Revaluation reserve		320
Creditors (all payable during 2001/02)		160
	4,950	4,950

DIL's staff have the same conditions of service as those of the University and it also applies the same policies with regard to fixed asset revaluation and depreciation. DIL estimates its corporation tax liability to be £78,000 and it has proposed a dividend of 1.2p per share.

The University is the sole shareholder of DIL and its investments include 5 million shares acquired at par. The following balances have been extracted from the ledgers of UM at 31 July 2001:

	£000	£000
Income and expenditure account (surplus at 31 July 2000)		2,150
Staff costs	13,650	
Land (at valuation 31 July 2000)	6,375	
Buildings (net valuation 31 July 2000)	26,250	
Machinery, plant and equipment		
- at cost	8,250	
- cumulative depreciation (at 1 August 2000)		3,425
Income from fees, charges and grants		16,591
Investments (long term)	2,965	
Creditors (all payable during 2001/02)		3,226
Other operating costs	3,517	
Stock (at 1 August 2000)	982	
Revaluation reserve		15,250
Investment income received		213
Debtors	3,372	
Long term loans		20,500
Bank		82
Other income		4,668
Interest paid	1,145	
Suspense account		401
	66,506	66,506

Additional information:

(i) At the beginning of August 2001 pay negotiations were concluded and a pay award was agreed. The pay award is to be to be backdated to 1 April 2001 and it is estimated that the full year effect would be to increase staff costs by 4%.

(ii) The suspense account comprises the proceeds of the sale of fixed assets by UM during 2000/01 namely:

- land previously valued at £350,000 was sold to a developer for £395,000; and

- equipment with a net book value of £25,000 (cost £70,000) was sold for £6,000.

The only entries recorded in the ledger related to the sale proceeds in the bank and suspense accounts.

(iii) The land owned by UM on 31 July 2001 was valued at £6,400,000; the buildings owned by UM were revalued on the same date and should be increased by 8%. The land and buildings owned by DIL are to be revalued by 10% on 31 July 2001.

(iv) Depreciation in respect of the year ended 31 July 2001 should be provided on a straight line basis as follows:

- buildings based on most recent valuation over their remaining life of 40 years; and

- equipment and machinery based on cost over 10 years.

In all cases residual values are ignored. It is UM's policy to charge a full year's depreciation in the year of acquisition and none in the year of disposal.

(v) UM's stocks at 31 July 2001 were valued at cost amounting to £830,000. However, this amount includes catering and stationery stocks which had been damaged in floods in late July. These stocks which originally cost £53,000 had subsequently been sold in August to local farmers for swill and to a recycling firm for a total of £4,000.

(vi) On 1 August 2000 UM entered into a lease agreement with HE Finance plc in respect of the supply and installation of machinery in UM's Engineering Department. The fair value of the machinery was £400,000 and the University made the first of ten annual lease payments of £51,000 on 31 July 2001. The only entries in the ledger have been to record the payment of £51,000 in the bank account and in operating costs. Under the terms of the lease, the University is responsible for maintaining the machinery which is expected to be scrapped at the end of the lease period.

(vii) During 2000/01 DIL undertook commercial activities amounting to £450,000 for its internal clients (ie departments within the University). This amount has been included in the balances above.

- **Requirement for question 2**

Prepare the consolidated income and expenditure account of the University of Mindpower for the year ended 31 July 2001, together with the consolidated balance sheet as at that date. *(25)*

(NB. All calculations should be rounded to the nearest thousand pounds.)

3

(Health Service)

The following trial balance relates to Rayford NHS Trust for the year ended 31 March 2001:

	£000	£000
NHS patient care income		55,750
Private patient income		2,300
Other income		12,500
Salaries and wages	35,250	
Supplies and services	10,830	
Maintenance costs	7,250	
Miscellaneous expenditure	6,270	
Dividends paid	2,700	
Interest	300	35
Land (at 1 April 2000)	8,700	
Buildings (at 1 April 2000)	73,100	
Equipment – NHS (at 1 April 2000)	8,600	
Equipment – donated (at 1 April 2000)	2,500	
Equipment – Accumulated depreciation – NHS (at 1 April 2000)		4,600
Equipment – Accumulated depreciation – donated (at 1 April 2000)		1,100
Short-term investments	85	
Stock	500	
Capital expenditure (see (i) below)	1,630	
Capital receipts		27
Creditors: amounts due within one year		5,350
Debtors	6,800	
Cash	205	
Public dividend capital		68,678
Revaluation reserve		10,550
Donation reserve		1,400
Income and expenditure reserve		2,430
	164,720	164,720

Additional information

(i) The following capital acquisitions occurred during 2000/01.

Item	£000	Notes
Land	230	Purchased July 2000
Buildings	1,100	Purchased May 2000
Equipment	300	Purchased January 2001
Equipment	150	Donated November 2000
	1,780	

No entries have been made relating to the donated assets.

(ii) After the trial balance had been completed, the year-end reconciliation of debtors' and creditors' balances took place. As a consequence it was necessary to issue credit notes to the value of £25,000 to commissioners.

(iii) Equipment which had been donated in January 1997 and which had a gross current cost on 31 March 2000 of £40,000 was sold in November 2000. The only entries recorded in the ledger relate to the capital receipt which appears in the trial balance.

(iv) No account has been taken of a backdated pay award. The amount relating to the year 2000/01 is £51,000 and will be paid with the May 2001 salaries and wages.

(v) Depreciation for 2000/01 is not included in the trial balance. Buildings are to be depreciated using a remaining life of 37 years and all equipment is to be depreciated over a 10 year standard life.

(vi) Additional dividends in respect of Public Dividend Capital amounting to £2,100,000 are still owing at 31 March 2001.

(vii) £7,000 was collected during 2000/01 from the sale of ultrasound photographs of unborn babies; this amount had been netted off against miscellaneous expenditure.

(viii) Indexation has not yet been applied; the following indices should be used:

Land	3%
Buildings	4%
Equipment	1%

(ix) An analysis of the outstanding debtors has identified that £9,000 relating to private patient income is unlikely to be received.

(x) Included in miscellaneous expenditure is £300,000 in respect of interest payable.

- **Requirement for question 3**

Prepare the income and expenditure account for the year ended 31 March 2001, together with the balance sheet as at that date. *(25)*

(NB. All calculations should be rounded to the nearest thousand pounds.)

4 **(Housing Associations)**

The following list of balances as at 31 March 2001 relates to High Rise Housing Association which is located in England:

	£000	£000
Interest receivable		7
Land (at cost)	7,300	
Operating costs	4,437	
Housing properties under construction (at cost)	1,550	
Housing properties - at cost	32,800	
- cumulative depreciation at 1 April 2000		1,650
Social housing grant (SHG) - housing properties under construction		800
- other housing properties		19,300
Interest paid	981	
Provisions for liabilities and charges		83
Turnover		6,315
Share capital		1
Depot stocks at 31 March 2001	137	
Loans		10,638
Accumulated surplus at 1 April 2000		51
Depot buildings - at cost	280	
- cumulative depreciation at 1 April 2000		56
Office building - at cost	320	
- cumulative depreciation at 1 April 2000		72
Furniture, equipment and vehicles		
- at cost	200	
- cumulative depreciation at 1 April 2000		90
Cash	15	
Bank		152
Creditors: amounts due within one year		761
Properties disposals account		1,350
Capital financing reserve at 1 April 2000		7,228
Debtors	534	
	48,554	48,554

The following information needs to be taken into account in producing the financial statements for 2000/01:

(i) The depreciation policies of the Association are based on the following fixed asset lives:

Housing property	50 years, based on net cost *
Other property	40 years, based on cost
Other	5 years, based on cost

* Net cost is the difference between the cost of the properties and the related SHG.

In all cases the straight line method is employed and residual values are assumed to be nil. The Association charges a full year's depreciation on its fixed assets in the year in which they come into use (housing property) or are acquired (other assets). No depreciation is charged in the year of disposal. Land is not depreciated.

(ii) Operating costs include £200,000 in respect of repairs to empty properties which were completed by September 2000. These repairs have enabled the Association to charge higher rents for these properties, all of which were occupied by December 2000. The Association intends to comply with the SORP with regard to the financial treatment of these repairs.

(iii) The Association has decided to create and build up a designated reserve – the repairs reserve – by transferring £100,000 per annum to that reserve with effect from 31 March 2001.

(iv) Housing properties under construction include £27,000 in respect of overheads. A recent external audit report in a neighbouring association (which has the same external auditors as the High Rise Housing Association) has indicated that similar overheads no longer qualify for capitalisation.

(v) During 2000/01 the Association disposed of housing properties for £750,000 which had originally cost £420,000, £20,000 of which relates to the land on which the properties stood. The properties have been depreciated by £40,000. This disposal will necessitate the repayment of SHG amounting to £100,000 in June 2001. The sale proceeds have been entered in the bank and properties disposals accounts, but no other entries have yet been recorded.

(vi) On 1 December 2000 the Association moved from the offices which it had owned to leased accommodation more appropriate to its needs. The rental on this operating lease is £180,000 which is payable annually in advance. The old offices were sold for £600,000. The sale proceeds have been entered in the bank and properties disposals accounts, but no other entries have yet been recorded.

(vii) On 1 April 2000 the Association entered into a leasing agreement to acquire a new bespoke computerised system for managing and costing the repairs and maintenance. The system is expected to be operational for five years by which time it will be obsolete. Under the terms of the lease the Association will make five annual payments of £26,000, the first payment having taken place on 1 April 2000 and is included under operating costs. The fair value of the system is £100,000.

(viii) The Association has a policy of transferring an amount equivalent to any profits on the disposal of fixed assets to the capital financing reserve.

- **Requirement for question 4**

Prepare the income and expenditure account of the High Rise Housing Association in respect of the financial year ended 31 March 2001, together with the balance sheet as at that date. *(25)*

(NB. All calculations should be rounded to the nearest thousand pounds.)

5 **(Local Government)**

The following balances relate to Gringots Unitary Authority for the year 31 March 2001:

	£000	£000
Service expenditure and income		
Education & Libraries	305,800	140,400
Social Services	195,125	91,200
Highways & Traffic	15,000	6,500
Environmental Services	45,000	2,300
Leisure & Recreation Services	42,500	17,850
Other Services	29,000	14,000
Housing Revenue Account	235,000	265,000
Net fixed assets (operational)	1,121,640	
Fixed assets restatement reserve		301,715
General fund reserve		8,275
Long term investments	35,000	
Stocks & WIP	5,000	
Short term borrowing		3,000
Long term borrowing		559,000
Creditors due within one year		70,000
Usable capital receipts		15,000
Capital financing reserve		196,500
Revenue support grant		165,000
Debtors	33,000	
Cash in hand	2,675	
Proceeds of sale of fixed assets		1,325
Interest	84,675	8,100
Housing revenue account reserve		6,750
Earmarked reserves		18,500
Precepts paid to other bodies	1,000	
Council tax		153,000
National non-domestic rates		107,000
	2,150,415	2,150,415

Additional information:

(i) Capital charges have been calculated and are shown below; no entries have been made in the accounts for these figures.

	Depreciation £000	Notional interest £000
Education & Libraries	4,250	22,250
Social Services	4,150	27,650
Highways & Traffic	1,130	2,875
Environmental Services	1,250	2,975
Leisure & Recreation Services	1,860	3,510
Other Services	500	650

(ii) General Fund opening advances at 1 April 2000 were £252.5m and Reserved Capital Receipts at the same date were £15m.

(iii) Statutory debt charges for the Housing Revenue Account have not been included in either the Housing Revenue Account or the asset management revenue account. The debt charges have been calculated for 2000/01 as £30,550,000. This figure comprises of £4,550,000 MRP and interest of £26,000,000. Depreciation on Housing Revenue Account assets is zero.

(iv) The Education and Libraries service purchased a range of furniture and equipment in December 2000 costing £10,000,000 (included in trial balance). Usable capital receipts of £2,500,000 were used, with the balance being funded from revenue. The financing of this acquisition has yet to be recorded in the accounts but will not affect the 2000/01 asset rentals.

(v) On 30 March 2001, an elderly persons' home was closed and sold. The book value of the home was £875,000 and it was sold for £1,325,000. Gringots Unitary Authority has a voluntary policy to reserve 20% of sale proceeds. The relevant entries for this sale have not yet been included in the accounts, although the cash has been received and recorded as 'proceeds of the sale of fixed assets'.

(vi) A government capital grant of £1,000,000 is due to finance some new environmental assets purchased during the year which have an expected life of 5 years. The new assets are reflected in the trial balance figures and appropriate capital charges have been included in note (i). As at 31 March 2001 the grant has still not been received.

(vii) Fixed assets are revalued on a rolling programme. Where assets are revalued during a month, any necessary revaluations are entered into the accounts as at the end of that month, and so only affect asset rentals from the start of the following month. For March 2001, you have the following details from your valuers:

Asset	**Current book value**	**New valuation**	**Notes**
57-59 Oldham Street (Social Services offices)	£1,860,000	£2,000,000	Valuation likely to fall back in the next couple of months.
Carport Road vehicle maintenance depot	£1,000,000	£1,250,000	Site and buildings only – excludes equipment and plant. Permanent increase.

- **Requirement for question 5**

(a) Prepare the Asset Management Revenue Account for the year ended 31 March 2001. *5*

(b) Prepare the journal entries required for note (v). *2*

(c) Prepare the consolidated revenue account for Gringots Unitary Authority for the year ended 31 March 2001 together with the balance sheet as at that date. *18*

(25)

(NB. All calculations should be rounded to the nearest thousand pounds.)

SECTION B (Answer one question)

6 **(Central Government)**

The National Agency for Reclamation of Contaminated Land is an off-Vote Government trading fund. It produces financial statements to 31 March each year. The balance sheets for the years 1999/2000 and 2000/01 are set out below:

National Agency for Reclamation of Contaminated Land Balance Sheets as at:

	31.3.2000		31.3.2001	
	£000	£000	£000	£000
Fixed assets (net book value)		64,500		78,300
Current assets				
Stock	28,540		31,110	
Debtors	12,450		11,005	
Investments	10,000		-	
Cash	27,730		7,875	
	78,720		49,990	
Current liabilities				
Creditors (due within one year)	(46,940)		(47,220)	
Net current assets		31,780		2,770
Total net assets		96,280		81,070
Financed by:				
Provision for liabilities and charges				
Deferred income	12,000		8,000	
Long term loan (8%)	30,000		10,000	
		42,000		18,000
Reserves				
Share capital	35,000		35,000	
Revaluation reserve	16,000		18,500	
Income & expenditure account	3,280		9,570	
		54,280		63,070
		96,280		81,070

Additional information:

(i) The annual indexation of fixed assets resulted in an increase in their valuation. There were no disposals of fixed assets in 2000/01.

(ii) The operating account for 2000/01 included the following transactions:

- Annual depreciation charge of £10,000,000; and
- A notional insurance premium of £750,000.

(iii) On 30 September 2000 some of the long-term loan was redeemed early. This resulted in an additional penalty interest payment for early repayment of £800,000. All outstanding interest had been paid by year end. No loans had been raised during 2000/01.

(iv) During 2000/01 the investments were sold for £11,000,000. Total dividends and interest received and receivable on the investments for the year amounted to £1,650,000.

(v) The Agency paid a total of £380,000 in tax during 2000/01.

- **Requirement for question 6**

(a) Reconcile the profit on ordinary activities to the net cash inflow/outflow from ordinary activities for the year ended 31 March 2001. *7*

(b) Prepare the cash flow statement for the year ended 31 March 2001. *6*

(c) Reconcile the movement in cash to movement in net debt for the year ended 31 March 2001. *3*

(d) Give four examples of differences between the financial statements of on-Vote and off-Vote Executive Agencies. *4*

(20)

7 **(Further and Higher Education)**

The following information has been extracted from the financial statements of Skilmore College in respect of the year ended 31 July 2001.

(i) The College has two reserves, namely the income and expenditure account (i.e. the accumulated surplus) and the revaluation reserve. During the year ended 31 July 2001 the accumulated surplus increased from £4,450,000 to £5,350,000, while the revaluation reserve increased from £8,100,000 to £8,300,000 as a result of revaluing land and buildings.

(ii) The net book values (NBV) of fixed assets at the beginning and end of the year were as follows:

	31 July 2001	31 July 2000
	£000	£000
Land and buildings	14,175	13,800
Plant and equipment	4,850	3,700
Motor vehicles	675	800
Investments	2,750	2,500

The College has a policy of revaluing its land and buildings annually.

The investments (which are shown at cost) yielded income amounting to £120,000 during the year, all of which had been received by 31 July 2001.

During 2000/01 the college disposed of surplus land and buildings for £500,000; its net book value at 31 July 2000 had been £400,000. In addition, it sold machinery and vehicles for £150,000 and £10,000, respectively (their net book values at 31 July 2000 had been £200,000 and £50,000, respectively). Investments which had cost £500,000 were sold during 2000/01, resulting in a profit of £100,000.

(iii) The following table shows an analysis of the College's loans (creditors falling due after more than one year):

	At 31 July 2001	At 31 July 2000
	£000	£000
12% loan	-	(250)
10% loan	(6,250)	(6,250)
8% loan	(3,000)	(3,000)
6% loan raised 1 April 2001	(1,250)	-

(iv) An analysis of the income and expenditure account revealed that the following amounts were charged for depreciation during 2000/01: land and buildings £225,000, plant and machinery £450,000 and motor vehicles £175,000. During 2000/01 the College's bank charged £25,000 interest in respect of the periods when there was an overdraft.

(v) Current assets comprise :

	At 31 July 2001 £000	At 31 July 2000 £000
Stocks	900	800
Debtors and prepayments	2,300	1,650
Bank	-	350

(vi) Creditors falling due within one year consist of:

	At 31 July 2001 £000	At 31 July 2000 £000
Creditors and accruals	(1,025)	(1,150)
Accrued interest	(60)	(50)
12% loan repayable on 31 January 2002	(250)	-
12% loan repayable on 31 January 2001	-	(250)
Taxation	(125)	(100)
Bank	(40)	-

- **Requirement for question 7**

(a) Determine the interest payable and paid in respect of the year ended 31 July 2001. *5*

(b) Prepare the cash flow statement for Skilmore College for the year ended 31 July 2001 in accordance with FRS 1 (Revised), together with the appropriate supporting statements. *15*

(20)

8

(Health Service)

The following information relates to Roydale NHS Trust charitable funds.

(i) Balances at 1 April 2000:

	£	£
Investment property (endowment)	150,000	
Endowment funds		154,167
Investments	1,371,000	
Creditors		3,450
Debtors	1,150	
Cash in hand & at bank	12,117	
Suspense account	7,500	
Unrestricted funds		832,500
Restricted income funds		555,000
Stock	3,350	
	1,545,117	1,545,117

(ii) Receipts and payments for the year ended 31 March 2001

	Unrestricted	**Restricted**	**Endowment**
Receipts	**£**	**£**	**£**
Donations	17,360	15,000	
Legacies	2,000	25,000	
Sponsored tap dance		1,250	
Fete		2,000	
Dividends	53,700	35,800	
Interest	1,410	940	
Rent from property			1,500
Fund-raising		85,330	
Investments	146,700	97,800	
Payments			
Administration	17,300	8,700	900
Grants payable to other NHS Charities			
Patients welfare	95,000		
Staff common room	3,000		
Research		17,000	
Capital projects		126,000	
Other charitable expenditure	10,200		
Fund raising		7,860	
Repairs and maintenance			6,000
Investments	63,000	42,000	

(iii) Investments at 1 April 2000

	Holding No.	**Market value £**
Treasury		250,000
A	7,000	70,000
B	60,000	480,000
C	30,000	450,000
D	20,000	120,000
E	4,000	1,000

(iv) Sales and purchases during the year:

	Market price at sale/ Purchase date	Units sold	Units purchased
	£	**No.**	**No.**
A	12	1,000	-
B	10	15,000	-
B	6	10,000	
C	20	1,000	-
D	5	500	-
F	7	-	15,000

(v) Investments at 31 March 2001

	Market price
	£
Treasury	250,000
A	14
B	5
C	22
D	6
E	0.5
F	9

(vi) The debtor at 1 April 2000 related to dividends receivable, of which £460 related to restricted funds.

(vii) The Fund rents a room from the Trust at a cost of £10,000 per annum. The payment for the year to 31 December 2000 had been paid in January 2000 and is shown as the suspense account balance at 1 April 2000. No payments for rent have been made in the year ended 31 March 2001. The rent is split across the three funds proportionate to the opening balances.

(viii) Creditors 1 April 2000 related to general patients welfare.

(ix) £25,000 was due to the exchequer at end of March 2001 in respect of the capital project.

(x) Property is not depreciated but was re-valued to £170,000 during the year.

(xi) Dividends receivable of £3,350 were still outstanding at the year end and have not yet been taken into account. Of this amount £1,340 related to restricted funds.

(xii) All investments relate to restricted and unrestricted funds, other than the property that is held as an endowment.

(xiii) The realised and unrealised gains/losses for 2000/01 should be apportioned 60:40 between unrestricted and restricted funds.

- **Requirement for question 8**

Prepare the statement of financial activities for Roydale NHS Trust charitable funds for the year ended 31 March 2001 together with the balance sheet as at that date. *(20)*

9 **(Housing Associations)**

The following information has been extracted from the financial statements of the Happy Tenants Housing Association (HTHA) in respect of the year ended 31 March 2001:

(i) HTHA has three reserves, details of which are as follows:

	31 March 2001 £000	**31 March 2000 £000**
Revenue reserve	6,654	5,249
Restricted reserves	625	400
Capital financing reserve	6,770	6,300

- Revenue reserve – this is the cumulative surplus on the income and expenditure account;
- Restricted reserves – this reserve is built up by annual transfers from the income and expenditure account;
- Capital financing reserve – any profits made on the disposal of the Association's fixed assets are transferred to this account.

(ii) Fixed assets consist of:

	31 March 2001 £000	**31 March 2000 £000**
Housing properties held for letting at cost	57,600	51,900
Housing properties - depreciation	(1,450)	(1,250)
Housing properties under construction	8,100	6,750
Offices at cost	1,250	1,250
Offices - depreciation	(225)	(200)
Equipment and fittings	800	550
Equipment and fittings - depreciation	(145)	(110)
Motor vehicles at cost	120	100
Motor vehicles - depreciation	(50)	(40)

(iii) The change in housing properties held for letting was due to:

- the acquisition of stock from another social landlord for £2,500,000;
- disposal of properties - see (v) below;
- capitalised major repair costs amounted to £700,000; and
- schemes under construction reaching completion and transferred from the housing properties under construction account (the remainder).

(iv) HTHA's housing stock has been partly funded from social housing grant (SHG), the balance at 31 March 2001 being £41,850,000 (£38,600,000 at 31 March 2000).

(v) During the year ended 31 March 2001 the Association also disposed of properties, which had previously been held for letting, for £750,000. These properties appeared in the accounts at a cost of £300,000, of which £20,000 had been charged for depreciation. The disposal also resulted in SHG amounting to £180,000 being repaid during the year.

(vi) Net current assets comprise:

	31 March 2001 £000	31 March 2000 £000
Stock	695	625
Debtors	2,100	1,500
Investments	700	500
Cash	(310)	180
Repayments 8% loan principal on 31 March	(500)	(500)
Other creditors falling due within one year (including any accrued interest payable)	(1,285)	(1,055)

(vii) Creditors falling due after more than one year consist of long term loans which amounted to £10.7m at 31 March 2001. At 31 March 2000 the long term loans outstanding were:

- an 8% loan amounting to £3.5m of which £0.5m is repayable on 31 March each year; and
- a 7% loan amounting to £5.4m which is repayable on maturity on 31 March 2011.

(viii) Interest on the above loans is payable half-yearly on 30 September and 31 March each year. A new loan was raised on 1 October 2000 bearing interest at 6% per annum payable on 30 September each year. Interest paid on overdrawn bank balances during the year amounted to £27,000. Interest amounting to £250,000 was capitalised during the year and charged to the housing properties under construction account.

(ix) Interest equivalent to 4.5% on the average investment balances had been received during the year.

(x) Motor vehicles which had cost £30,000 (and had a book value of £16,000) were disposed of during 2000/01 for £5,000.

(xi) The share capital of the Association amounts to £1,000 and has remained unchanged since its establishment.

(xii) HTHA has provisions for liabilities and charges at 31 March 2001 amounting to £800,000 (£750,000 at 31 March 2000).

- **Requirement for question 9**

(a) Calculate the interest payable and paid in respect of the year ended 31 March 2001. *4*

(b) Prepare the cash flow statement for the Happy Tenants Housing Association for the year ended 31 March 2001, together with the supporting notes. *16*

(20)

10 **(Local Government)**

The following information relating to Higrowth County Council's Pension Fund has been extracted from the ledgers at 31 March 2001:

	£000	£000
Employers' contributions		48,928
Employees' contributions		27,500
Investment income		
Fixed interest		4,146
Equity dividends		4,059
Property rentals		1,517
Lump sum benefits	6,719	
Retirement pensions	58,558	
Retirement grants	299	
Additional retirement pensions	162	
Additional retirement grants	518	
Death grants	57	
Additional death grants	5	
Transfer values	1,936	1,769
Administration costs	579	
Refunds of contributions	315	
Cash received from admitted bodies for additional benefits		500
Investments at 1 April 2000		
Fixed interest securities	54,980	
Equity shares	145,729	
Property	39,151	
Purchases of investments during 2000/01		
Fixed interest securities	15,211	
Equity shares	7,840	
Property	12,175	
Sale of investments during 2000/01		
Fixed interest securities		3,162
Equity shares		5,248
Property		4,700
Investment management expenses	1,945	
Debtors	3,733	
Creditors		619
Cash	5,733	
Fund balance at 1 April 2000		253,497
	355,645	355,645

The following information relates to transactions and adjustments, which have not yet been entered into the accounts:

(i) The market value of investments held at 31 March 2001 was:

Fixed interest securities: £113,395,000

Property: £45,182,000

Equities: estimated to be worth 10% more than their book value at 1 April 2000 but shares purchased during the year are only valued at 2.5% above cost.

(ii) Additional benefits paid are to be fully reimbursed by admitted bodies.

(iii) The fund is totally exempt from taxation. Income tax of £1,115,000 has been deducted from fixed interest securities income and a claim for a refund has been made.

(iv) Transfer values still owing to the fund at 31 March 2001 amount to £590,000; it has been identified that £52,000 of this has been incorrectly coded to employer contributions. In addition, transfer values need to be adjusted to take account of a leaver from Logrowth District Council on 30 March 2001 with a transfer value of £24,000.

(v) Retirement pensions include £27,000 of enhancements which should have been reimbursed by the County Fund.

(vi) Investments sold during 2000/01 realised the following profits and losses.

	Profit £000	**Loss £000**
Fixed interest securities	891	138
Equities	126	297
Property	739	256

(vii) Lump sum benefits amounting to £90,000 in respect of 2000/01 have yet to be paid as at 31 March 2001.

(viii) Property sales income of £100,000 has been incorrectly recorded as property rental income.

(ix) 5% of the sum of the annual rental income and the net profit on property sales is owing to the property manager.

(x) The final statement for administration of the fund has just been received from Higrowth County Council which shows the total administration charge due for 2000/01 to be £630,000.

- **Requirement for question 10**

Prepare the Pension Fund Account for year ended 31 March 2001 together with the Net Assets Statement as at date. *(20)*

SECTION C (Compulsory)

11 A key objective of public sector financial reporting in recent years has been that of ensuring accountability of organisations for the resources they utilise and the services they provide. There are many definitions of accountability and various ways in which it can be demonstrated.

- **Requirement for question 11**

(a) Distinguish between financial and managerial accountability in the public sector. *4*

(b) Other than by audit, how do organisations within your sector demonstrate financial and managerial accountability? *6*

(c) To what extent does the role of audit complement the methods described in (b) for demonstrating managerial accountability in your sector? *5*

(15)

Note : You must state the specific sector (Central Government, Further and Higher Education, Health Service, Housing Associations, Local Government) that your answer relates to at the beginning of your answer to this question.

SECTION D (Compulsory)

12 On 1 January 1996 Top plc acquired 8 million ordinary shares in Middle plc together with 50,000 preference shares for £2,890,000. At that date the balance on Middle plc's share premium account stood at £500,000 (and has remained unchanged since that date) and its profit and loss account balance was £1.5 million. Middle plc has a policy of revaluing its property portfolio annually; however, on 1 January 1996 it was established that the fair value of Middle plc's plant and equipment was £200,000 lower than that recorded in its balance sheet and estimated to have a remaining life of 8 years.

On 1 July 1998 Top plc also acquired at par 40% of the debentures that were issued by Middle plc on that date. In total the debentures had a par value of £750,000 and interest at 8% per annum was payable on 30 June and 31 December each year; the debentures were repayable on 30 June 2013.

Top plc acquired 600,000 ordinary shares in Bottom plc on 1 May 2001 for £1,725,000. Apart from the profit and loss account, Bottom plc has only one other reserve, namely the revaluation reserve. Bottom plc revalues its property at the end of each year and on 31 December 2000 the reserve stood at £400,000. Bottom plc did not acquire or dispose of any property during 2001. There were no fair value adjustments arising on the acquisition of Bottom plc.

The profit and loss accounts of the three companies for the year ended 31 December 2001 are given below:

	Top plc £000	Middle plc £000	Bottom plc £000
Turnover	12,000	8,000	2,400
Cost of sales	(6,300)	(5,400)	(1,350)
Gross profit	5,700	2,600	1,050
Distribution costs	(2,200)	(1,150)	(426)
Administrative expenses	(1,670)	(850)	(240)
Operating profit	1,830	600	384
Investment income	237	0	0
Interest payable	(167)	(70)	(24)
Profit before taxation	1,900	530	360
Taxation	(600)	(118)	(60)
Profit after taxation	1,300	412	300
Dividends – paid	(200)	(6)	0
Dividends – proposed	(300)	(156)	(120)
Retained profit for year	800	250	180
Retained profits brought forward	5,500	2,850	600
Retained profits carried forward	6,300	3,100	780

Additional information:

(i) The share capital of the three companies is as follows:

		£000
Top plc	Ordinary shares @ £1 each	2,500
Middle plc	Ordinary shares @ 10 p each	1,000
	6% Preference shares @ £1 each	200
Bottom plc	Ordinary shares @ £1 each	800

There have been no changes in the share capital of Middle plc and Bottom plc since Top plc acquired its shareholding in these companies.

(ii) No interim ordinary dividends have been paid by either Middle plc or Bottom plc.

(iii) Top plc amortises goodwill over a 20 year period.

(iv) During 2001 Top plc purchased goods from Middle plc for £1,200,000. Of these goods £210,000 worth remained unsold at 31 December 2001. Middle plc has a standard mark up of 40% on its goods.

(v) Bottom plc earned its profits evenly throughout 2001.

- **Requirement for question 12**

(a) Determine separately the goodwill arising on the acquisition of Middle plc and Bottom plc. *6*

(b) Prepare the consolidated profit and loss account for Top plc and its subsidiaries for the year ended 31 December 2001. *14*

(20)

SECTION E (Answer one question)

13 The Chief Executive of your organisation has been invited to a meeting with a number of other public sector organisations to discuss the issues of financial reporting and financing of capital expenditure. He has asked you to prepare a briefing note for him which covers the following:

- **Requirement for question 13**

(a) The purpose and types of regulation in the public sector influencing financial reporting. *7*

(b) Who is responsible for the setting of accounting standards and what is their role with regard to the public sector. *3*

(c) An explanation of FRS 5 and its applicability in the public sector. *2*

(d) An explanation of the main sources of finance available to the public sector for funding capital expenditure. Indicate any restrictions that apply to those sources identified. *8*

(20)

14 As the capital accountant of a public sector body, you have been asked to give a talk on capital accounting to a group of non-financial managers.

- **Requirement for question 14**

Write a draft set of notes for your talk, covering the following areas:

(a) Explain briefly what you understand by the term 'Fixed Asset', and explain the difference between tangible and intangible fixed assets. Give examples of both. *4*

(b) Explain the reason for depreciating fixed assets. Describe two different methods of depreciation and explain the key differences between them. Explain why assets under construction are not depreciated. *4*

(c) Explain the key differences between an operating and a finance lease. Describe the accounting treatment of both. *4*

(d) Explain what you understand by the terms 'economic impairment' and 'market impairment' and describe how each of them would be accounted for. State the effect that each would have on the Statement of Recognised Gains and Losses. *4*

(e) Explain what a revaluation reserve is and what it is used for. Show the accounting entries for the revaluation (upwards) of a building. *2*

(f) Show the accounting entries that would be made on the sale of a fixed asset, assuming a loss, assuming that it had not been revalued in the past. *2*

(20)