

NVQ/SVQ Level 4 in Accounting Drafting Financial Statements (Local Government) (DFSL) 2003 Standards

Wednesday 5 December 2007 (morning)

Time allowed – 3 hours plus 15 minutes' reading time

Important:

This exam paper is in two sections. You should try to complete every task in both sections.

We recommend that you use the 15 minutes' reading time to study the exam paper fully and carefully so that you understand what to do for each task. However, you may begin to write your answers within the reading time, if you wish.

We strongly recommend that you use a pen rather than a pencil.

You may not use programmable calculators or dictionaries in the exam.

Do NOT open this paper until instructed to do so by the Supervisor.

This exam paper is in TWO sections.

You must show competence in BOTH sections. So, try to complete EVERY task in BOTH sections.

Section 1 contains 6 tasks and Section 2 contains 2 tasks.

You should spend about 125 minutes on Section 1 and about 55 minutes on Section 2.

Please use the answer booklet provided.

You should include all your workings and essential calculations in your answers.

Section 1

You should spend about 125 minutes on this section.

You are the Central Services Accountant for Port Feet District Council.

Data

Port Feet District Council has extracted the following information from its financial information system for the year ended 31 March 2007.

	Expenditure £000	Income £000
Environment		
Salaries and related employee costs	1,200	
Running expenses	600	
Support services	800	
Customer and client receipts		50
Highways		
Salaries and related employee costs	2,200	
Running expenses	3,600	
Support services	1,300	
Customer and client receipts		200
Leisure Services		
Salaries and related employee costs	5,200	
Running expenses	3,900	
Support services	2,600	
Customer and client receipts		1,900
Corporate Democratic core	150	
Un-apportioned overhead	0	
Other items		
General government grant		8,500
Demand on Collection Fund		7,800
Non domestic rate redistribution		6,100
FRS17 interest on liabilities	3,700	
FRS17 interest on pension assets		2,900
Actual interest charges on loans	2,100	
Transfer from pension reserve		1,100
Minimum revenue provision	700	

No adjustments have yet been made for the following:

1. The capital charges have not yet been computed but the following information is available:

Operational assets

	Property valuation or cost 1 April 2006 £000	Average economic life years	Average land value % of value
Environment (value)	30,000	60	40
Highways (cost)	50,000	80	80
Leisure (value)	30,000	30	50
Other Services (value)	3,500		

Capital charges are calculated on the opening values only, no adjustment being made for additions during the year. Notional interest being 0% for Environment and Leisure services, and 0% for highways. Depreciation is based on the opening asset property value over the economic life. (Straight line).

2. Other Service Assets were all sold during 2006-07. They had been valued at £3,500,000. The proceeds amounted to £4,100,000.
3. The credit balance on the General Fund brought forward as at 31 March 2006 was £1,700,000.
4. Environment has received notification that a revenue grant of £30,000 has been approved towards 2006/07 expenditure, but the grant has not been included in the above data.
5. Leisure Wages costs for 2006/07 of £20,000 has not been included in the above data but has been consumed.
6. Environment services prepaid rent included in the above data amounted to £40,000.

Task 1.1

Using the proforma provided in your answer booklet prepare the Port Feet District Council Income and Expenditure Account for the year ended 31 March 2007.

Task 1.2

Prepare the Asset Management Revenue Account for 2006/07.

Task 1.3

Using the proforma provided in your answer booklet prepare the Port Feet District Council subjective analysis of expenditure for the year ended 31 March 2007.

Data

You have received the following memo from the Chief Accountant.

Memo

To: Central Services Accountant
From: Chief Accountant
Date: 3 December 2007
Subject: Preparation of the Income and Expenditure Account

We have an Environment Services Manager who has been elected as a member with Sinkwaste District Council (a neighbouring authority). The Environment Services Manager has asked me to explain the following issues and I would be grateful for any advice you can offer. I have set out the questions exactly as he asked them.

- 1 Briefly explain the relevance of FRS17 in local government accounting.
- 2 Within the context of FRS17 can you explain the following terms?
 - current service costs
 - past service costs
 - interest costs
 - expected return on assets
- 3 What is the difference between a defined benefit scheme and a defined contribution scheme, and which would the local authority be most likely to be operating?
- 4 What is the reason for the capital charge notional interest being set at 0%?

Task 1.4

Write a memo to the Chief Accountant answering his queries.

Data

Crystalham District Council (CDC) has been able to produce the following list of balances:

List of balances 31 March 2007 Crystalham District Council

	Dr £000's	Cr £000's
Crystalham pension fund balance	45,000	
Crystalham pension under funded		45,000
Usable capital receipts		10,000
Investments	6,000	
General Fund balance		1,400
Tangible fixed assets	190,000	
Accumulated depreciation		114,050
Bank	300	
Creditors		9,100
Debtors	5,000	
Provision for doubtful debts		210
Stocks	160	
Deferred grant account		2,000
Fixed asset restatement account		59,300
Capital financing account		40,500
Intangible fixed assets	35,100	
Totals	281,560	281,560

The following additional information is relevant and no adjustments have yet been made:

1. An error has been discovered – a capital receipt of £2,100,000 from an asset sale has been included in Creditors.
2. Intangible fixed assets should be amortised by £1,200,000 during the year ended 31 March 2007.
3. The provision for doubtful debts should be increased by £10,000.
4. Usable capital receipts have not yet been reduced for the Right To Buy (RTB) admin charges of £220,000 to be transferred to the income and expenditure account.
5. Proceeds from the sale of a General Fund building amounted to £970,000 were not recorded. The capital receipt needs to be recorded as well as the removal of the asset which is shown in the accounts at a value of £5,000,000 depreciated by £4,450,000. Assume 0% of the capital receipt is required to be set aside, due to the availability of a capital allowance. The entries required in the income and expenditure account must be shown.

Note:

the pension fund balances are the proportions for CDC provided as a result of FRS17.

Task 1.5

Prepare journal entries for points 1–5 above. You do not need to give narratives.

Task 1.6

Using the proforma provided in your answer booklet, prepare a balance sheet as at 31 March 2007 for Crystalham District Council.

Section 2

You should spend about 55 minutes on this section.

Data

You have received the following memo from the Chief Accountant:

Memo

To: Central Services Accountant
From: Chief Accountant
Date: 3 December 2007
Subject: Review of Central Services costs

At a meeting held today with the Audit Commission, some issues were raised on accounting for Central Services. My background in the private sector did not help me to understand the questions, could you please advise me on the following:

1. Where can the definitive guidance on accounting for Central Services be found, and what types of statutory disclosures are based on this guidance?
2. Can you please define these terms
 - corporate management costs
 - non-distributable costs
3. Please advise on what category the following costs would be considered to be in, and why:
 - the statutory external audit costs
 - pension costs for early retirement of past employees
 - consultants employed producing the final accounting statements
 - allowances paid to Council members
4. Finally, costs were identified regarding a bank account held by the Decentralised Leisure Manager. The Audit Commission has suggested that the treatment of bank accounts depends on the purpose, and county councils have similar issues with school bank accounts. Where should we charge all of the Council's costs of bank accounts?

Task 2.1

Write a memo to the Chief Accountant answering his queries.

Note:
Please turn over for Task 2.2

Data

Port Feet District Council has included in the balance sheet as at 31 March 2007 an investment related to the Port Feet Industrial Unit Association Ltd. The investment has been in the balance sheet at £50,000 for a number of years.

The Audit Commission has requested an investigation into the balance related to this investment. The following information is available from the accounts of Port Feet Industrial Unit Association Ltd.

Port Feet Industrial Unit Association Ltd Balance sheets as at 31 March

	£000	2007 £000	£000	£000	2006 £000	£000
Fixed assets						
Tangible fixed assets						
Operational property at valuation			100			150
Current assets						
Stock	10			50		
Debtors	20			30		
Cash in hand	<u>0</u>	30		<u>10</u>	90	
Creditors						
Amounts falling due within one year:						
Trade creditors	60			20		
Bank overdraft	20			0		
Taxation	<u>0</u>	80		<u>10</u>	30	
Net current assets			(50)			60
Total assets less						
Current liabilities			50			210
Creditors						
Amounts falling due after more than one year:						
Long term loan			<u>50</u>			<u>200</u>
			<u>0</u>			<u>10</u>
Capital and reserves						
£1 ordinary shares			300			300
Profit and loss account			(310)			(300)
Revaluation reserve			<u>10</u>			<u>10</u>
			<u>0</u>			<u>10</u>

Port Feet Industrial Unit Association Ltd
Profit and loss account extract for the year ended 31 March 2007

	£000
Turnover	145
Cost of sales	45
Gross profit	<u>100</u>
Net operating expense	100
Operating profit	<u>0</u>
Interest	10
Loss on ordinary activities before tax	<u>(10)</u>
Taxation	0
Loss after tax	<u>(10)</u>
Dividends	0
Retained loss for the year	<u>(10)</u>

Task 2.2

Prepare a report for the Chief Accountant that includes the following:

- (a) a calculation of the following ratios for Port Feet Industrial Unit Association Ltd for the year ended 31 March 2007.
- (i) gearing ratio
 - (ii) current ratio
 - (iii) gross profit percentage
 - (iv) net profit percentage
 - (v) interest cover
 - (vi) acid test ratio
- (b) comment on the value you have calculated for each ratio.
- (c) advice on the action to be taken by the Council regarding its recording of an investment in Port Feet Industrial Unit Association Ltd.

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NVQ/SVQ qualification codes

Technician (2003 standards) – 100/2942/4 / G794 24
Unit number (DFSL) – R/101/8111



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