

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

Wednesday 18 June 2008 (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 1 task.

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 essential calculations and workings in your answers.

The answer booklet includes the following pro-formas:

- Revenue account
- Personal accounts
- Draft housing revenue account
- Journal
- Balance sheet

## Section 1

This section is in three parts.

### Part A

You should spend about 35 minutes on this part.

### Data

The Joint Partnership Scheme Consortium (the Consortium) was formed to provide benefits administration and guidance to its members, which are three local authorities:

- Vertical District Council
- Triangle Town Council
- Block District Council

You have been given the following information relating to the revenue activities of the Consortium.

### Joint Partnership Scheme Consortium Balances for the year ended 31 March 2008

	£000
Employer's superannuation contributions	300
Training costs	55
Income from training materials	111
Salaries	1,480
Wages	144
Business rates	67
Rent	59
Maintenance of equipment	36
Energy costs	41
Computing services	2,234
Car allowances	116
Subscription charges	11
Stationery	22
Telephone costs	46
Employer's national insurance	140
Small equipment for premises	50

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

1. The Consortium members share the net cost of running the services based on the total number of benefit claims in the previous financial year. These deficiency contributions should be calculated using the following audited data

	<b>Number of benefit claims</b>
Vertical District Council	2,082,135
Triangle Town Council	2,379,584
Block District Council	2,473,281

2. Cash received from each Consortium member is not recorded in the data above but is as follows:

	<b>£000</b>
Vertical District Council	1,450
Triangle Town Council	1,620
Block District Council	1,536

3. Balances on the personal accounts of the Consortium members as at 1 April 2007 were as follows:

	<b>Dr £000</b>	<b>Cr £000</b>
Vertical District Council	110	
Triangle Town Council		120
Block District Council		130

4. Vertical District Council has provided some training materials for the Consortium. The cost to Vertical District Council is £12,000, and this cost will be borne by the Consortium.
5. The Consortium provided Triangle Town Council with equipment on 2 February 2008, at an agreed cost of £20,000. The Consortium did not raise the invoice until April 2008. The contribution from Triangle Town Council will reduce the consortiums costs.
6. The rent charges in the list of balances include a half-year cost of £19,000 for the period ending 30 September 2008.

### **Task 1.1**

**Using the pro-forma in your answer booklet, prepare the revenue account for the Consortium for the year ended 31 March 2008. The format should follow the standard classification of income and expenditure.**

### **Task 1.2**

**Prepare the personal accounts for the three contributing authorities.**

## Part B

You should spend about 30 minutes on this part.

### Data

Nowhere District Council has extracted the following information from its financial information system relating to the housing service for the year ended 31 March 2008.

#### Income

	<b>£000</b>
HRA subsidy receivable (Including Major Repairs Allowance)	6,000
Rents	29,000
Supporting People grant	1,600

#### Expenditure

<b>General management costs</b>	
Employee related	9,600
Premises related	400
Transport	200
Supplies and services	1,430
<b>Rents, rates, taxes and other charges</b>	
Related to administrative buildings	90
Landlord responsible for council tax	10
<b>Repair and maintenance</b>	
Planned works	11,100
Day to day works	7,500
Emergency works	680
Minor works	2,420
<b>Capital financing costs</b>	
Depreciation on housing stock	5,100
Depreciation on other assets	510
<b>Right To Buy (RTB) administration costs</b>	
Processing sales	120
Processing abortive applications	30
<b>Special management costs</b>	
Cleaning materials	390
Communal lighting	190
Grounds maintenance	210
Caretaking	510
Lifts	410
Sheltered units	1,530

## Notes of clarification

1. The Capital financing costs heading includes the following items.
  - The depreciation on the housing stock, which was based on asset lives.
  - The Major Repairs Allowance (MRA) for the year was £4,500,000.
2. The balance on the HRA brought forward into 2007/08 was £1,800,000.
3. Right To Buy (RTB) administration costs, which are not related to abortive sales, should be charged to the General Fund directly through the income and expenditure account. Abortive costs will be charged to the Housing General Fund.

## No adjustments have yet been made for the following:

1. General management costs for transport wrongly include a payment made to a contractor for a repair to a council swimming pool of £10,000.
2. A General Fund contribution of £900,000 is required for sheltered housing costs.
3. The general management costs above relate to the centralised housing department. These have not yet been allocated to the different activities performed by the housing department. The following information will allow apportionment to be made (with amounts rounded to the nearest £000) on the basis of the following percentages of staff time spent on each activity.

### Staff time data

	%
Special management costs	10
General management of council stock	40
Travellers' sites	10
Housing advice centre	10
Enabling activities with housing associations	10
Homelessness (Bed & Breakfast)	10
Repairs and maintenance	<u>10</u>
	<u>100</u>

4. A letter has just been received from Someplace County Council. The letter is regarding a Supporting People grant to Nowhere District Council in March 2008 that was overpaid by £30,000.
5. The HRA appropriation section needs to record the adjustment for depreciation comparative to the MRA.

## Task 1.3

Using the pro-forma in your answer booklet, prepare a draft Housing Revenue Account for the year ended 31 March 2008.

## Part C

You should spend about 60 minutes on this part.

### Data

Cloudnine District Council has produced the following list of balances:

#### Cloudnine District Council List of balances as at 31 March 2008

	<b>Dr</b>	<b>Cr</b>
	<b>£000</b>	<b>£000</b>
Accumulated depreciation		50,000
Bank	9,000	
Creditors		11,100
Debtors	16,000	
Provision for doubtful debts		500
Usable capital receipts		28,000
Investments	15,000	
County / General Fund balance		6,100
Operational fixed assets	180,000	
Stocks	800	
Fixed asset restatement account		156,000
Capital financing reserve		42,100
Non-operational assets	73,000	
Cloudnine pension fund balance	45,000	
Cloudnine pension under funded		45,000
<b>Total</b>	<b>338,800</b>	<b>338,800</b>

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

1. A parcel of land surplus to requirements and valued at £5,000,000 has been included in operational fixed assets, and should be classified as non-operational.
2. Stock of £55,000 should be written off.
3. Grant income received in April 2008 included £700,000 for services provided in the period January to March 2008.
4. Proceeds from the sale of a General Fund operational building amounted to £770,000. The capital receipt needs to be recorded as well as the removal of the asset, which is shown in the accounts at a cost of £800,000 depreciated by £30,000. Assume 0% of the capital receipt is required to be set aside.
5. The pension fund balances have been provided for in accordance with FRS17.

### **Task 1.4**

Using the pro-forma provided in your answer booklet, prepare journal entries for note numbers 1, 2, 3 and 4. In the journal for note 4, show the impact on the income and expenditure account.

**Note:**

You do not need to give narratives.

### **Task 1.5**

Using the pro-forma provided in your answer booklet, prepare a balance sheet as at 31 March 2008 for Cloudnine District Council.

**Note:**

You must show a working separating operational and non-operational assets.

### **Task 1.6**

- (a) Explain whether a profit or loss was made on the asset sold in note 4, and whether the guidance in the SORP 2006 may have influenced the outcome.
- (b) Consider the accounting required if an asset that had a book value of £500,000 were to be sold for £2 million.

## Section 2

You should spend about 55 minutes on this section

### Data

Bytheriver District Council has decided to respond to criticism over its failure to meet domestic violence performance indicators by building 15 self-contained flats to meet the needs of women and their children fleeing domestic violence.

However, the council does not want to manage the facility internally and has sought expressions of interest from various potential management organisations. The facility will have an expenditure budget of approximately £400,000 per year.

Attheseaside Women's Aid (AWA) has expressed an interest and has provided the following information.

#### Attheseaside Women's Aid Balance sheets as at 31 March

	2008			2007		
	£000	£000	£000	£000	£000	£000
<b>Fixed assets</b>						
Tangible fixed assets, operational property at valuation			700			550
<b>Current assets</b>						
Investments	720			0		
Stock	25			50		
Debtors	100			18		
Cash in hand	5	850		5	73	
<b>Creditors: amounts falling due within one year</b>						
Trade creditors	40			10		
Bank overdraft	130			0		
Taxation	0	170		5	15	
<b>Net current assets</b>			680			58
<b>Total assets less current liabilities</b>			1,380			608
<b>Creditors: amounts falling due after more than one year</b>						
Long-term loan			202			260
			1,178			348
<b>Capital and reserves</b>						
£0.20 ordinary shares			1			1
Profit and loss account			1,167			337
Revaluation reserve			10			10
			1,178			348



**Attheseaside Women's Aid Ltd**  
**Profit and loss account extract for the year ended 31 March 2008**

	<b>£000</b>
Turnover	2,450
Cost of sales	450
Gross profit	<u>2,000</u>
Net operating expense	1,020
Operating profit	<u>980</u>
Interest	150
Profit on ordinary activities before tax	<u>830</u>
Taxation	0
Profit after tax	<u>830</u>
Dividends	0
Retained profit for the year	<u>830</u>

**Task 2.1**

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

- (a) A calculation of the following ratios for AWA for 2007/08:
- (i) gearing ratio as at 31 March 2008
  - (ii) current ratios with and without investments
  - (iii) gross profit %
  - (iv) net profit on ordinary activities before tax
  - (v) acid test ratio with and without investments
- (b) An explanation of each ratio
- (c) A comment on the significance of each ratio calculated in (a) related to AWA's ability to provide the service for which they have expressed an interest
- (d) Other issues that you feel should be considered in deciding whether AWA should be accepted as an applicant for the management contract
- (e) Other information that might be sought from AWA to help the District Council build knowledge about the suitability of AWA.

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**NVQ/SVQ qualification codes**

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