AAT Accounting Qualification
NVQ/SVQ
Level 4
Drafting Financial Statements
(Central Government) (DFSC)
2003 Standards

3 December 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.
Note:
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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 5 tasks and Section 2 contains 3 tasks.
You should spend about 130 minutes on Section 1 and about 50 minutes on Section 2.

Please use the answer booklet provided.
You should include all your workings and essential calculations in your answers.
Several workings pages have been allocated to some tasks. You may not need to use all of them.

The answer booklet includes the following pro-formas:
- Journal entries
- Operating cost statement
- Balance sheet
- Cash flow statement
- Note on commitments under operating leases

Section 1
You should spend about 130 minutes on this section.
This section is in two parts.

Part A
You should spend about 85 minutes on this part.

Data
You work in the Finance Division of the Office of Public Administration (OPA) within central government. The OPA's expenditure, which includes both administration costs and programme costs, is split between two Requests for Resources (RfRs) as follows:

- RfR 1 covers all the OPA's administration costs.
- RfR 2 covers programme costs associated with the award of honours in recognition of services to the community. It also includes income earned by the OPA from assisting with the award of honours in other countries. This is the only income the OPA receives.

You have been asked to help prepare the OPA's annual resource accounts.

The trial balance at 31 March 2008 is set out on page 4.
**Office of Public Administration**  
**Trial balance at 31 March 2008**

<table>
<thead>
<tr>
<th>Account code</th>
<th>Dr £000</th>
<th>Cr £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>51111100</td>
<td>3,895</td>
</tr>
<tr>
<td>National insurance</td>
<td>51111200</td>
<td>324</td>
</tr>
<tr>
<td>Pension contributions</td>
<td>51111300</td>
<td>925</td>
</tr>
<tr>
<td>Accommodation costs</td>
<td>51211000</td>
<td>1,851</td>
</tr>
<tr>
<td>Depreciation charge for the year</td>
<td>51311000</td>
<td>180</td>
</tr>
<tr>
<td>Cost of capital</td>
<td>51405130</td>
<td></td>
</tr>
<tr>
<td>Audit fee</td>
<td>51409100</td>
<td></td>
</tr>
<tr>
<td>Other administration costs</td>
<td>51410900</td>
<td>2,290</td>
</tr>
<tr>
<td>Honours expenditure (RfR 2)</td>
<td>51620400</td>
<td>792</td>
</tr>
<tr>
<td>Income from award of honours (RfR 2)</td>
<td>41203000</td>
<td>79</td>
</tr>
<tr>
<td>General fund</td>
<td>31010000</td>
<td>1,997</td>
</tr>
<tr>
<td>Supply financing</td>
<td>31070000</td>
<td>9,754</td>
</tr>
<tr>
<td>Consolidated Fund extra receipts</td>
<td>31101400</td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>21040000</td>
<td>398</td>
</tr>
<tr>
<td>Consolidated Fund creditors</td>
<td>21091400</td>
<td></td>
</tr>
<tr>
<td>Furniture and fittings at valuation*</td>
<td>13711000</td>
<td>1,315</td>
</tr>
<tr>
<td>Accumulated depreciation (furniture and fittings)</td>
<td>13721000</td>
<td>712</td>
</tr>
<tr>
<td>IT equipment at valuation*</td>
<td>13911000</td>
<td>306</td>
</tr>
<tr>
<td>Accumulated depreciation (IT equipment)</td>
<td>13921000</td>
<td>134</td>
</tr>
<tr>
<td>Stocks</td>
<td>18111000</td>
<td>986</td>
</tr>
<tr>
<td>Debtors and prepayments</td>
<td>18310000</td>
<td>73</td>
</tr>
<tr>
<td>Cash at Paymaster</td>
<td>18530000</td>
<td>137</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>13,074</td>
</tr>
</tbody>
</table>

* There have been no additions or disposals of fixed assets during the year.
The following entries and adjustments have yet to be made:

(a) Income of £79,000 has been received, but only £55,000 was approved as appropriations-in-aid in the Estimate. The excess needs to be recorded.

(b) Expenditure of £113,000, which was paid in March 2008 in respect of the June 2008 honours list, is included in RfR 2 expenditure for the year.

(c) Office rental of £748,000 for the six-month period 1 January to 30 June 2008 is included in accommodation costs.

(d) The cost of capital of £70,000 needs to be included as a non-cash cost.

(e) The audit fee of £48,000 needs to be included as a non-cash cost.

(f) The provision for doubtful debts needs to be increased by £9,000.

Task 1.1

Using the pro-forma in your answer booklet, draft the journal entries necessary for the above items (a) to (f). Use account codes to identify each account and show your workings in £000.

Note:
You do not need to give narratives.

Task 1.2

Using the pro-formas in your answer booklet, draft the following primary financial statements for the Office of Public Administration for the year ended 31 March 2008:

(a) Operating cost statement

(b) Balance sheet.

Show your workings in £000, together with account codes.

Note:
You do not need to give comparative figures.
Data

The OPA’s opening balance sheet as at 31 March 2007 is shown below. You have already prepared the operating cost statement and closing balance sheet for the year ended 31 March 2008 in Task 1.2, and you have now been asked to help prepare the cash flow statement.

Office of Public Administration

Balance sheet as at 31 March 2007

<table>
<thead>
<tr>
<th></th>
<th>£000</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible assets</td>
<td>955</td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>867</td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>422</td>
<td></td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>132</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,421</td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors (amounts falling due within one year)</td>
<td>(379)</td>
<td></td>
</tr>
<tr>
<td><strong>Net current assets/(liabilities)</strong></td>
<td>1,042</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td>1,997</td>
<td></td>
</tr>
<tr>
<td><strong>Taxpayers’ equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General fund</td>
<td>1,997</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,997</td>
<td></td>
</tr>
</tbody>
</table>

Task 1.3

Using the pro-forma in your answer booklet, draft the cash flow statement for the OPA for the year ended 31 March 2008.

Show your workings in £000.

**Note:**
You do not need to give comparative figures.
Part B

You should spend about 45 minutes on this part.

Data

The Department of Housing has recently appointed a non-executive director to the board. The non-executive
director has examined the department’s resource accounts, and has asked for an explanation of the entries
in the note analysing the General fund relating to Parliamentary funding drawn down and Consolidated Fund
extra receipts. The finance director has asked you to prepare a memo for the non-executive director.

Task 1.4

Write a short memo (with appropriate headings) to the non-executive director in which you:

(a) give FOUR facts about what is Parliamentary funding

(b) explain the TWO types of Consolidated Fund extra receipts.

Data

The Department of Housing rents its office accommodation on a 12-year lease agreement, which expires on
31 December 2013. The rental is due in two half-yearly instalments on 1 January and 1 July. The half-yearly
rents during the period of the lease are as follows:

• 1 January 2002 to 31 December 2004: £592,000
• 1 January 2005 to 31 December 2007: £634,000
• 1 January 2008 to 31 December 2010: £676,000
• 1 January 2011 to 31 December 2013: £730,000

The department also rents certain items of office equipment. There are two 5-year lease agreements as
follows:

• the first 5-year lease expires on 31 March 2009. The annual rental is £85,000.
• the second 5-year lease expires on 31 March 2011. The annual rental is £91,000.

You have been asked by the Finance Director to prepare the note on commitments under operating leases
for the department’s resource accounts. He has also asked you to be ready to explain to colleagues the
difference between an operating lease and a finance lease.

Task 1.5

(a) Using the pro-forma in your answer booklet, prepare the note on commitments under
operating leases for the resource accounts for the year ended 31 March 2008. Show your
workings in £000. You must give comparative figures.

(b) Write a brief note to explain the difference between an operating lease and a finance lease,
and any differences in accounting treatment between the two types. You should include
FOUR points, which must include a reference to the relevant accounting standard.
Section 2

You should spend about 50 minutes on this section.

Data

The Department for Business Enterprise and Efficiency, a central government department, has appointed a non-executive director from the private sector to sit on the board. The non-executive director does not have a financial background and has raised several questions about the department’s resource accounts. One of the questions relates to the two primary financial statements in the resource accounts that do not appear in company accounts. The non-executive director wants to know what purpose they serve.

Task 2.1

Write a short memo to the non-executive director in which you:

(a) name the TWO primary financial statements in the resource accounts that are specific to central government accounts
(b) explain the purpose of the TWO primary financial statements. You should give FOUR points for each primary financial statement.

Data

Another question raised by the non-executive director relates to provisions and contingent liabilities. The department’s resource accounts show:

- provisions for health-related issues for former employees totalling about £500,000
- unquantifiable contingent liabilities relating to claims made by former employees in respect of industrial injuries.

Task 2.2

Write a short memo (with appropriate headings) to the non-executive director explaining the difference between provisions and contingent liabilities and how to treat them in the accounts. You should give SIX points, which must include a reference to the relevant accounting standard.
Data

The Department for Business Enterprise and Efficiency runs a grant programme that provides assistance to private sector businesses that, for example, need to modernise old and inefficient plant and machinery. Under the scheme, companies have to submit detailed applications for grants and, at the end of the project, must submit a final costed report.

EX Limited, an engineering company, has applied under this scheme for a grant to replace worn out plant and machinery. Under the terms of the scheme, the department will pay 25% of the cost. The total cost is expected to be £800,000 and the company will need to borrow from its bank to finance the remaining 75% of the cost. The bank’s terms are that the loan should be repaid over three years at 1.5% over normal bank interest rates.

Once the old plant and machinery has been replaced, EX Limited expects its operating costs to reduce by 10% each year for the following four years.

You work in the Grants Division within the department and your manager has asked you to assess the eligibility of EX Limited’s application for assistance under this scheme.

Task 2.3

(a) Name TWO items that you would expect EX Limited to provide in support of its grant application.

(b) Write a short memo (with appropriate headings) to your manager explaining what you will do to carry out the appraisal of EX Limited’s grant application. You should give FOUR points.

Note: You do not need to carry out a financial appraisal.
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NVQ/SVQ qualification codes

Technician (2003 standards) - 100/2942/4 / G794 24
Unit number (DFSC) – L/101/8110