

# Mark Scheme (Results) Summer 2008

GCE

## GCE Accounting (6002) Paper 01

- 6002/01 Mark Scheme Summer 2008

Question Number	Answer	Mark
1(a)(i)		(24)

**Q1 Mark Scheme (a) (i)**

Profit and Loss Account for Rainbow plc for Year Ended 31st March 2008

Turnover	1678000	✓
Cost of sales	578000	✓ o/f
Gross profit	1100000	✓ o/f
Distribution costs	311000	✓ o/f
Administrative expenses	49000	✓ o/f
Interest payable	35000	✓ o/f ✓ C
Profit on ordinary activities before tax	705000	✓ o/f
Corporation tax	72000	✓
Profit on ordinary activities after tax	633000	✓ o/f ✓ C

11

**W1 Cost of Sales**

Direct Labour	225000	✓
Direct materials	312000	✓
Factory Depreciation	32000	✓✓
Stock Adjust	9000	✓✓
	<u>578000</u>	<b>6</b>

**W2 Distribution Costs**

Advertising	53000	✓
Warehouse Rent	60000	✓✓
Lorry Drivers Wages	86000	✓
Warehouse Staff	112000	✓
	<u>311000</u>	<b>5</b>

**W3 Administrative Expenses**

Bad Debts Written Off	1000	✓
Office Expenses	48000	✓
	<u>49000</u>	<b>2</b>

Question Number	Answer	Mark
1(a)(ii)		(16)

Balance sheet of Rainbow plc as at 31 March 2008				
<b>B Fixed assets</b>				
<i>I Intangible assets</i>				
Goodwill *		120000	✓✓	
<i>II Tangible Assets</i>				
Buildings (1600000 ✓ - 32000 ✓ o/f)	1568000	✓✓		
Motor Lorries	250000	✓		
		1818000		
				1938000
<b>C Current Assets</b>				
<i>I Stocks</i>				
Stocks of Finished Goods	65000	✓		
<i>II Debtors</i>				
Trade debtors	41000	✓		
Prepayments **	5000	✓		
<i>IV Cash at bank and in hand</i>				
Bank	96000	✓		
				207000
<b>D Prepayments and Accrued Income</b>				
<b>E Creditors: Amounts falling due within one year</b>				
Trade Creditors	75000	✓		
Bank interest	3000	✓		
				78000
<b>F Net current assets (liabilities)</b>				
				129000
<b>G Total assets less current liabilities</b>				
				2067000
<b>H Creditors: amounts falling due after more than one year</b>				
Bank loan				400000 ✓
<b>I : Provisions for liabilities and charges</b>				
Taxation Provision ***				72000 ✓
				1595000
<b>K :Capital and reserves</b>				
<i>I Ordinary share capital called up</i>	500000	✓		
<i>V Profit and loss account (462000 ✓ + 633000 o/f ✓)</i>	1095000	✓✓		
				1595000

\*Goodwill gets 1 tick only if not separate from fixed assets/not shown under 'intangible' assets

\*\* Prepayments can be shown in CII Debtors or D Prepayments

\*\*\* Taxation provision can be shown under I Provisions or E Creditors

<ul style="list-style-type: none"> <li>• Question</li> <li>• Number</li> </ul>	<ul style="list-style-type: none"> <li>• Answer</li> </ul>	<ul style="list-style-type: none"> <li>• Mark</li> </ul>
<ul style="list-style-type: none"> <li>• 1(b)</li> </ul>	<ul style="list-style-type: none"> <li>• Max 8 ✓ for arguing one side</li> <li>•</li> <li>• <b><u>Case For Importance of Director’s Report</u></b></li> <li>•</li> <li>• Report gives information to e.g. shareholders ✓ which they could use to make a decision ✓ e.g. invest more funds in the company. ✓</li> <li>• Directors may use the report to try to inform shareholders that the company is acting in an ethical manner ✓ e.g. renewable fuel sources ✓</li> <li>• Other stakeholders e.g. pressure group ✓ may use information in the Report to bring about change in company policy ✓ e.g. treatment of disabled ✓</li> <li>• Disclosures may be required under Stock exchange regulations ✓, which may be appropriate in the Directors Report e.g. legislation pending ✓</li> <li>• Information is given to shareholders which allows them to see in some detail how the company is performing ✓ <ul style="list-style-type: none"> <li>▪ E.g. principal activities, ✓ review of position of business ✓</li> <li>▪ Post balance sheet events, ✓ future developments ✓</li> <li>▪ Names of directors, ✓ interests of directors ✓</li> <li>▪ Employee involvement, ✓ disabled employees policy ✓</li> <li>▪ Political ✓ and charitable donations ✓</li> <li>▪ Creditor payment policy, ✓ creditor payment days ✓</li> </ul> </li> <li>•</li> <li>• <b><u>Case Against Importance of Directors Report</u></b></li> <li>•</li> <li>• Report costs personnel time ✓ to prepare and money to print etc ✓</li> <li>• Directors may use Report to give an unrealistic, positive view of the company, ✓ as it is in their interest to do so. ✓</li> <li>•</li> <li>•</li> <li>• <b><u>Conclusion</u></b></li> <li>•</li> <li>• Should relate to above points. E.g. Directors Report is important. ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>• (12)</li> </ul>

Question Number	Answer	Mark
2(a)		(20)

To obtain tick, entry must show correct figure and narrative.

Ordinary Share Capital Account

			Apr 1	Balance b/d	500 000 ✓
			May18	Application & Allotment	40 000 ✓
			June30	Application & Allotment	100 000 ✓
Mar31	Balance c/d	<u>700 000</u>	Sept30	First & Final Call	<u>60 000 ✓</u>
		<u>700 000</u>			<u>700 000</u>
			Apr 1	Balance b/d	700 000

+ ✓ if balanced off correctly o/f  
5

Share Premium Account

			Apr 1	Balance b/d	100 000 ✓
Mar31	Balance c/d	<u>180 000</u>	May18	Application & Allotment	<u>80 000 ✓</u>
		<u>180 000</u>			<u>180 000</u>
			Apr 1	Balance b/d	180 000

+ ✓ if balanced off correctly o/f  
3

Application and Allotment Account

May18	Ordinary Share Capital	40 000 ✓	May18	Bank	174 000 ✓
	Share Premium	80 000 ✓	June30	Bank	70 000 ✓✓
May25	Bank	24 000 ✓			
June30	Ordinary Share Capital	<u>100 000 ✓</u>			
		<u>244 000</u>			<u>244 000</u>

7

First and Final Call Account

Sept30	Ordinary Share Capital	<u>60 000 ✓</u>	Sept30	Bank	<u>60 000 ✓</u>
		<u>60 000</u>			<u>60 000</u>

2

+ ✓ if these two accounts closed off correctly, showing no balance

+ 2 ✓ if ALL dates correct OR

+ 1 ✓ if SOME dates correct

Question Number	Answer	Mark
2(b)		(4)

Oct 1	Buildings Revaluation reserve	£ 50 000 /	£ 50 000 /
Nov 1	Profit and Loss General reserve	40 000 /	40 000 /

Question Number	Answer	Mark
2(c)		(12)

Profit available for distribution:

$$\begin{aligned} \text{Profit and Loss Reserve} &= 312 / - 40 / + 246 / = 518 \\ \text{General Reserve} &= 80 / + 40 / = 120 \\ \text{Total available} &= 638 / \text{ o/f } / 2 = 319 / \text{ o/f } / C \end{aligned}$$

$$\text{Number of Ordinary shares} = 500 / + 200 / = 700$$

$$\text{Dividend per share} = \frac{319}{700} = 45.57 / \text{ o/f pence (per share) } /$$

Question Number	Answer	Mark
2(d)		(4)

$$\begin{aligned} \text{Dividend Yield} &= \frac{\text{Dividend Per share}}{\text{Market Price of share}} \times 100 / \\ &= \frac{45.6 / \text{ o/f}}{185 / \text{ o/f}} = 24.6 \% / \text{ o/f} \end{aligned}$$

<ul style="list-style-type: none"> <li>• Question</li> <li>• Number</li> </ul>	<ul style="list-style-type: none"> <li>• Answer</li> </ul>	<ul style="list-style-type: none"> <li>• Mark</li> </ul>
<ul style="list-style-type: none"> <li>• 2(e)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Maximum of 8 x ✓ for arguing one side</b></li> <li>•</li> <li>• Answers may include:</li> <li>•</li> <li>• <b><u>Case for Ordinary shares</u></b> <ul style="list-style-type: none"> <li>• Shareholders do not have to be paid dividends, ✓ useful when short of funds. ✓</li> <li>• No “outside” parties having any influence on running of company ✓ eg place on Board ✓</li> <li>• No interest has to be paid, ✓ so profits of company higher. ✓</li> <li>• No assets offered as security, ✓ so no claims on assets by banks, if loan not repaid, or company fails. ✓</li> <li>• Do not have to be paid back ✓ so are a permanent/long term source of finance. ✓</li> <li>• Bank loans result in higher gearing, ✓ which increases risk to company. ✓</li> </ul> </li> <li>•</li> <li>•</li> <li>• <b><u>Case for Bank Loans</u></b> <ul style="list-style-type: none"> <li>• Interest is allowable for tax, ✓ so company may be able to retain more funds than if paying dividends. ✓</li> <li>• Bank may bring expertise and experience to company, ✓ and maybe Board. ✓</li> <li>• Bank may be flexible ✓ regarding repayments, length of loan etc. ✓</li> <li>• Issue of shares may dilute ✓ control of existing shareholders ✓</li> <li>• Issue of shares results in share price fall ✓ so existing shareholders are unhappy. ✓</li> <li>• Shares take a longer time to issue ✓ e.g. completing forms etc. ✓</li> <li>• Shares are costlier to issue ✓ e.g. handling applications ✓</li> </ul> </li> <li>•</li> <li>• <b><u>Conclusion</u> 2 x ✓</b> <ul style="list-style-type: none"> <li>• Should relate to above points made.</li> <li>• Eg Ordinary shares are a preferable source of finance. ✓✓</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• (12)</li> </ul>

Question Number	Answer	Mark
3(a)		(12)

Reconciliation of operating profit to net cash flow from operating activities

Net Operating Profit	56 600	£
Add Interest : Bank overdraft	3 800	£
Debenture	8 000	££
Loss on Sale of fixed asset	6 000	£
Depreciation	20 000	££
Decrease in Stock	9 600	£
Increase in Debtors	(600)	£
Decrease in Creditors	(2 000)	£
Net Cash Inflow from Operating Activities	101 400	£ o/f £C

Question Number	Answer	Mark
3(b)		(22)

Cash Flow Statement for the Year ended 31<sup>st</sup> March 2008

Wording is required to obtain the mark(s). Item also needs to be in correct place.

<u>Net Cash Inflow from Operating Activities</u>		101 400 £ o/f
<u>Returns on Investment and Servicing of Finance</u> £		
Interest Paid		(11 800) £ o/f
Preference Dividend Paid		(7 200) £
<u>Taxation</u> £		
Tax Paid		(17 000) £
<u>Capital Expenditure + Financial Investment</u> £		
Payments to acquire tangible fixed assets	(90 000) £	
Receipts from sales of tangible fixed assets	19 000 £	
Net Cash Flow from Investing Activities		(71 000) £ o/f
<u>Equity Dividends Paid</u> £		
Final Dividend 2007	5 000 £	
Interim Dividend 2008	8 400 ££	(13 400)
Net Cash Outflow before Financing		(19 000) £ o/f
<u>Financing</u> £		
Issue of Ordinary Shares	100 000 £	
Redemption of Preference shares	(80 000) £	
Net Cash Inflow from Financing		20 000 £ o/f
Increase in Cash £		1 000 £ o/f £ C

Question Number	Answer	Mark
3(c)		(6)

Analysis of Changes in Cash and Bank Balances during year ended 31 March 2008

	31 March 2007	31 March 2008	Change in Year
Cash	4 000	1 000 ✓	(3 000) ✓
Bank	(22 000)	(18 000) ✓	4 000 ✓
Total	(18 000)	(17 000) ✓	1 000 ✓

Need first two columns for first ✓  
Other layouts for reconciliation are acceptable.

• Question Number	• Answer	• Mark
• 3(d)	<ul style="list-style-type: none"> <li>• <b><u>Answers may include the following:</u></b></li> <li>•</li> <li>• <b>8 ✓ available for arguing only one side.</b></li> <li>•</li> <li>• <b>Profit most important</b></li> <li>• Without profit, business would close down ✓ in the long run. ✓</li> <li>• If short term liquidity problem, ✓ many sources are available as source of finance ✓</li> <li>• e.g. banks, shareholders, debt factoring etc (need two sources). ✓</li> <li>• No/low profits may result in firm unable to attract finance ✓ or investors/shareholders. ✓</li> <li>• No/low profits may see share price fall, ✓ as investors lose confidence. ✓</li> <li>•</li> <li>• <b>Liquidity most important (or both equally important)</b></li> <li>• Liquidity problems result in unable to pay daily bills ✓ eg wages, electricity (need two) ✓</li> <li>• Unable to pay some bills may result in closure of business ✓ e.g. tax bill ✓</li> <li>• Unable to pay some bills may mean business unable to operate ✓ e.g. electricity cut off ✓</li> <li>• Can survive short term losses ✓ if previous profits have been built up ✓</li> <li>•</li> <li>• <b>2 ✓ for Conclusion e.g. Profit more important</b></li> </ul>	• (12)

Question Number	Answer	Mark
4(a)		(12)

#### High Quality Jacket

$$\begin{aligned} \text{Variable cost for one jacket} &= (11 \times 3) + (15 \times \text{£}4) \\ &= \text{£}33 \text{ /} + \text{£}60 \text{ /} = \text{£}93 \text{ / o/f} \end{aligned}$$

$$\text{Break Even Point} = \frac{\text{£}2\,300 \text{ /}}{149 - 93 \text{ / o/f}} = 42 \text{ jackets / o/f}$$

#### Low Quality Jacket

$$\begin{aligned} \text{Variable cost for one jacket} &= (8 \times 3) + (13 \times \text{£}3) \\ &= \text{£}24 \text{ /} + \text{£}39 \text{ /} = \text{£}63 \text{ / o/f} \end{aligned}$$

$$\text{Break Even Point} = \frac{\text{£}2\,000 \text{ /}}{99 - 63 \text{ / o/f}} = 56 \text{ jackets / o/f}$$

Question Number	Answer	Mark
4(b)		(4)

#### Margin of Safety

$$\text{High Quality Jacket} \quad (160 - 42) \text{ / o/f} = 118 \text{ jackets / o/f}$$

$$\text{Low Quality Jacket} \quad (210 - 56) \text{ / o/f} = 154 \text{ jackets / o/f}$$

Question Number	Answer	Mark
4(c)		(8)

		High Quality		Low Quality
Sales Revenue	149 X 160	23840/	210 x 99	20790/
Material Costs	11 x 3 x 160	5280	8 x 3 x 210	5040
Labour Costs	15 x 4 x 160	9600	13 x 3 x 210	8190
Fixed Costs		2300		2000
Total Costs		17180/		15230/
Profit		6660/o/f / C		5560/o/f / C
<b>OR</b>				
Contribution per Unit		56 o/f	(o/f from (a))	36 o/f
Sales Units		160		210
		8960/ o/f		7560/ o/f
Less Fixed Costs		2300/		2000/
Profit		6660/o/f / C		5560/o/f / C

<ul style="list-style-type: none"> <li>• Question</li> <li>• Number</li> </ul>	<ul style="list-style-type: none"> <li>• Answer</li> </ul>	<ul style="list-style-type: none"> <li>• Mark</li> </ul>
<ul style="list-style-type: none"> <li>• 4(d)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Case for one side of argument only 4 x ✓</b> <b>maximum</b></li> <li>•</li> <li>• <b><u>Case for High Quality Jacket</u></b></li> <li>• Profit is higher✓ by £1100 o/f✓</li> <li>• Break Even point in units is lower✓ by 14 units. ✓ o/f</li> <li>• Contribution is higher✓ by £20 ✓o/f</li> <li>• Profit margin is higher✓ so less risky✓</li> <li>•</li> <li>• <b><u>Case for Low quality jacket</u></b></li> <li>• Margin of Safety is higher✓ by 36 units ✓ o/f</li> <li>• Figures are only estimates✓, e.g. may actually sell fewer high quality jackets ✓</li> <li>• Costs are lower✓ so less risky ✓ (or stated as high quality costs higher)</li> <li>•</li> <li>• <b><u>Conclusion</u></b></li> <li>• Should relate to above points. e.g. high quality jacket is best choice. ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>• <b>(8)</b></li> </ul>

Question Number	Answer	Mark
5(a)		(16)

Budgeted Profit and Loss Account for June 2008				Any 2 figures for first ✓
OUTPUT	2000	2500	3000	
Materials	9600	11400	12996	✓✓
Labour	52000	65000	78000	✓✓
Transport	2400	2800	3200	✓✓
Water + Electric	1825	2125	2425	✓✓
Fixed Costs	11500	11500	11500	✓✓
Total Costs	77325	92825	108121	
Sales Revenue	110000 ✓	123750 ✓	133650 ✓	
Profit	32675 ✓ o/f	30925 ✓ o/f	25529 ✓ o/f	

Question Number	Answer	Mark
5(b)(i)	(As output increases), profits are falling. ✓✓ o/f	(2)

Question Number	Answer	Mark
5(b)(ii)	<p>Reduce material costs ✓ for larger output by negotiating better discounts ✓</p> <p>Reduce labour costs ✓ eg by introducing piecework, bonus, etc ✓</p> <p>Improve transport efficiency ✓ eg ensure lorries only travel when full ✓</p> <p>Reduce electric bill ✓ eg turn off lights when not needed etc ✓</p> <p>Negotiate better price with customers ✓ eg reduce discount given. ✓</p> <p>Produce 2000 units (o/f) ✓ as this gives the highest profit level ✓.</p> <p>Investigate figures for a lower output level ✓ eg 1500 ✓.</p>	(6)

<ul style="list-style-type: none"> <li>• Question</li> <li>• Number</li> </ul>	<ul style="list-style-type: none"> <li>• Answer</li> </ul>	<ul style="list-style-type: none"> <li>• Mark</li> </ul>
<ul style="list-style-type: none"> <li>• 5(c)</li> </ul>	<ul style="list-style-type: none"> <li>• For argument one side only max = 4 x ✓</li> <li>•</li> <li>• Answers may include</li> <li>•</li> <li>• <b><u>Case For flexible budgets</u></b></li> <li>• Allow good decision making ✓ as “like compared to like” eg similar output levels ✓.</li> <li>• May save time and money ✓ by allowing “Management by Exception” ie action only if a variance ✓.</li> <li>• Allows choice of optimum output ✓ eg 2000 units ✓.</li> <li>• Meeting the targets ✓ leads to motivation of workforce ✓.</li> <li>•</li> <li>• <b><u>Case Against flexible budgets</u></b></li> <li>• Labour time ✓ which means money in preparation ✓.</li> <li>• Figures are only estimates ✓ so some variances may be misleading/action inappropriate ✓.</li> <li>•</li> <li>• <b><u>Conclusion</u></b></li> <li>• Should relate to points made above. Eg Flexible budgets are a very useful tool ✓✓.</li> </ul>	<ul style="list-style-type: none"> <li>• (8)</li> </ul>

Question Number	Answer	Mark
6(a)(i)		(10)

Package A	£ million	Interest Rate/ Expected return	Interest £	
Debenture	5	16%	800 000	✓ Both figures needed
Bank Loan	5	14%	700 000	
Preference Shares	5	12%	600 000	✓ Both figures needed
Ordinary Shares	15	10%	1 500 000	
Total	30		3 600 000 ✓	o/f

$$\text{Weighted Average Cost of Capital} = \frac{3\,600\,000 \text{ o/f}}{30\,000\,000} \times 100 \checkmark = 12\% \text{ o/f } \checkmark$$

Package B	£ million	Interest Rate/ Expected return	Interest £	
Debenture	12	15%	1 800 000	✓ Both figures needed
Bank Loan	3	13.5%	405 000	
Preference Shares	3	12.5%	375 000	✓ Both figures needed
Ordinary Shares	12	11%	1 320 000	
Total	30		3 900 000 ✓	o/f

$$\text{Weighted Average Cost of Capital} = \frac{3\,900\,000 \text{ o/f}}{30\,000\,000} \times 100 \checkmark = 13\% \text{ o/f } \checkmark$$

Question Number	Answer	Mark
6(a)(ii)	Directors should choose Package A o/f (if correct reason) ✓ as it has the lowest WACC. ✓	(2)

Question Number	Answer	Mark
6(b)		(12)

Year	Sales	Running Costs Less Depreciation	Net Cash Flow	Discount Factor	Discounted Net Cash Flow
0			(30 000 000)	1.0	(30 000 000)
1	300 000	(500 000) ✓	(200 000) *	0.893	(178 600) ✓ o/f
2	500 000	(600 000) ✓	(100 000) ✓ o/f	0.797	(79 700) ✓ o/f
3	1 200 000	(1 200 000) ✓	0 **	0.712	0 ✓ o/f
4	60 000 000	(5 000 000) ✓	55 000 000 ✓ o/f	0.636	34 980 000 ✓ o/f
				NPV	4 721 700 ✓ o/f ✓ C

\* Both (200 000) and (100 000) needed for ✓

\*\* Both 0 and 55 000 000 needed for ✓

<ul style="list-style-type: none"> <li>• Question</li> <li>• Number</li> </ul>	<ul style="list-style-type: none"> <li>• Answer</li> </ul>	<ul style="list-style-type: none"> <li>• Mark</li> </ul>
<ul style="list-style-type: none"> <li>• 6(c)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Maximum for argument one side = 4 x ✓</b></li> <li>•</li> <li>• Apply o/f rule from (b) to all points made</li> <li>•</li> <li>• <b><u>Case For Project</u></b></li> <li>• NPV is positive / large / substantial / profitable ✓ at £4.7m o/f ✓</li> <li>• Figures are estimates ✓ - could be greater profits. ✓</li> <li>• Company could establish reputation, other lines/events ✓ etc and continue after 4 years ✓</li> <li>•</li> <li>• <b><u>Case Against Project</u></b></li> <li>• Figures are only estimates ✓ - could be less profits. ✓</li> <li>• Need to apply other Investment Appraisal techniques ✓ e.g. Payback method ✓</li> <li>• Positive cash flow only arrives in year 4, ✓ with 2 years of a negative cash flow. ✓</li> <li>• Non-financial considerations ✓ e.g. building work, traffic problems ✓</li> <li>• Need to consider alternative use of funds ✓ i.e. opportunity cost or example ✓</li> <li>•</li> <li>• <b><u>Conclusion</u></b> 2 x ✓</li> <li>• Should go ahead with project o/f conclusion.</li> </ul>	<ul style="list-style-type: none"> <li>• (8)</li> </ul>

• Question • Number	• Answer	• Mark
• 7(a)	•	• (8)

<u>Calculation of Goodwill</u>					
Buildings	1600000	√ All 3 requ'd	Purchase Price	2000000	√
Fixtures and Fittings	75000		Value of Net Assets	-1649000	√ o/f
Furniture	30000		Goodwill	351000	√ o/f √ C
Stock	3000	√ Both requ'd			
Debtors	1000				
Short Term Loan	-50000	√ Both requ'd			
Creditors	-10000				
Value of Net assets acquired	1649000	√ o/f			

Question Number	Answer	Mark
7(b)		(4)

$$\text{Cash received per share} = \frac{\text{£}100\,000 \text{ } \text{£}}{1\,000\,000 \text{ } \text{£}} = 10\text{p per share } \text{£} \times 3600 = \text{£}360 \text{ } \text{£}$$

• Question • Number	• Answer	• Mark
• 7(c)	•	• (12)

Balance Sheet of Hotel Maximus	as at 1April 2008	£	£	
Goodwill			351000	// o/f
Buildings	6600000	// for any two // all four		
Fixtures and Fittings	475000			
Furniture	230000			
Vehicles	30000			
			7335000	
Stock	28000	// need both		
Debtors	6000			
Bank	17000	// C		
Cash	32000	//		
		83000		
Short Term Loan	50000	// need both		
Creditors	74000			
		124000		
Working capital			-41000	
<b>Net Assets</b>			7645000	
Ordinary Shares of £1 each	3000000	//		
Share Premium	1900000	//		
Profit & Loss Reserve	2745000	//		
<b>Capital + Reserves</b>			7645000	

<ul style="list-style-type: none"> <li>• Question</li> <li>• Number</li> </ul>	<ul style="list-style-type: none"> <li>• Answer</li> </ul>	<ul style="list-style-type: none"> <li>• Mark</li> </ul>
<ul style="list-style-type: none"> <li>• 7(d)</li> </ul>	<ul style="list-style-type: none"> <li>• An intangible fixed asset on the balance sheet ✓</li> <li>• Correct treatment of goodwill would be to amortize/depreciate/write off ✓ over its useful economic life/over a lengthy time period e.g. over 20 years. ✓</li> <li>•</li> <li>• <b><u>Case For this treatment</u></b></li> <li>• Likely to derive benefits from the expenditure over a number of years, ✓ so spread the cost of this expenditure over a number of years ✓ i.e. matching concept ✓ gives a True and Fair view of the accounts. ✓</li> <li>• To write off immediately may make profit unrealistically low, ✓ and tax charge would be unfairly low. ✓</li> <li>• In line with recommended practice ✓ i.e. FRS 10 ✓</li> <li>•</li> <li>• <b><u>Case Against this Treatment</u></b></li> <li>• If written off over a short(er) time period against reserves, ✓ the prudence concept is followed. ✓</li> <li>•</li> <li>• <b><u>Conclusion</u></b></li> <li>• Writing off over a number of years is required and beneficial as it gives a true and fair view of the accounts. ✓✓</li> </ul>	<ul style="list-style-type: none"> <li>• (8)</li> </ul>

