**Question 21**

(a) State items listed in a Memorandum of Association. **4**

(b) Explain the meaning of the following:

(i) Preliminary Expenses **2**

(ii) Financial Reporting Standards **2**

(iii) Goodwill **2**

**Total marks (10)**

**Question 21 — solution**

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| (a) | | **MEMORANDUM OF ASSOCIATION** | | |  |  |
|  | | It contains five clauses:   * name of the company — to include the term PLC if appropriate * address of the UK where its Registered Office is to be situated * statement that the liability of its member is limited * details of the intended amount of Share Equity and types of shares * statement of its objects   **(any four points up to a max of 4 marks)** | | | | |
| (b) | | (i) | | **PRELIMINARY EXPENSES** |  |  |
|  | |  | | These include legal and other expenses incurred when a company is formed (printing, etc). **(1)**  When such expenses are large, they are often capitalised **(1)**, with a proportion being written off each year.  Since the Companies Act 1981 they must **NOT** be shown as  assets. **(1)**  They can be written off against any balance on the Share Premium Account **(1) OR** they should be written off in the Income Statement **(1)**. They can also include expenses incurred in the issue of Debentures. **(1)**  **(max 2 marks)** | | |
|  | | (ii) | | **FINANCIAL REPORTING STANDARDS (FRS)**  The Accounting Standards Board (ASB) replaced the Accounting Standards Committee (ASC) in 1990 **(1),** to continue the work of the ASC in reducing the possibility of accounting principles being differently interpreted by accountants by the issue of FRS. **(1)**  For a FRS to be issued on any topic that might be open to different interpretations **(1)**, the ASB first undertakes a programme of research before preparing a draft for discussion **(1),** which in turn leads to an Exposure Draft. **(1)** This document is published in accounting journals for further discussion **(1)** and amendment before the final FRS is issued. **(1)**  Although a FRS is not binding **(1),** accountants who do not comply with its requirements may be dealt with by their professional associations, if complaints are received. **(1)**  Current UK and EU legislation will result in the issue of further FRS if required. **(1)**  **(max 2 marks)** | | |
|  | (iii) | | **GOODWILL**  Goodwill is the difference between the price paid for a business and the fair value of the net assets acquired. **(1)**  Goodwill results from the ability of a business to earn above normal rates of return. **(1)**  Goodwill should be written off either at once or over a period of time. **(1)**  Goodwill not written off is shown as an intangible non-current asset in the statement of financial position. **(1)**  The only goodwill shown in the accounts of a plc is purchased goodwill. **(1)**  In a Partnership, goodwill should be revalued on each change of partner. **(1)**  Such goodwill may be shown as an asset or written off against the partners’ equity accounts in their profit sharing ratios. **(1)**  When comparing the return on equity employed between firms, goodwill is excluded. **(1)**  Goodwill is calculated by measuring location/patents/reputation/ advertising, etc. **(1)**  Goodwill is a sum of money paid by a new partner on admission to the firm. **(1)**  **(max 2 marks)**  **Total marks (10)** | | | |