

INTERNATIONAL
BACCALAURÉAT
BACHILLERATO



BACCALAUREATE
INTERNATIONAL
INTERNACIONAL

N03/370/H(1)M+

MARKSCHEME

November 2003

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

SECTION A

1. (a) **With reference to the case study select, with justification, *three* key characteristics that you believe should be included in a mission statement for *Rainbow Club Ltd.***

[6 marks]

Key characteristics may include:

- working with the community, *e.g.* local schools
- commitment to junior ice hockey and developing individual talent
- equal opportunities *e.g.* disabled groups, male and female
- global outlook and international players competing on the world stage
- aiming to be the best ice hockey team in the country and possibly the World – national and international excellence
- exploring the boundaries of technology and access to multimedia platforms
- entertainment and value for the fans of the club.

Mission statements need to be rooted in real action and evidence of intention. The ideals must be put into practice.

There is good supporting evidence for the *Rainbow Raiders* claiming that they are a positive force in the community. They work with males and females and the disabled and integrate within the local community, through work with local schools.

They can certainly claim they are in search of excellence as they have been winners of the League four times out of the last six years. They are definitely aspiring to reach a global market and are employing internationals in their teams. They have signed agreements with multinational media and Internet companies to provide multimedia access to the club and its activities.

The guiding hand or philosophy would be to develop these further through all their activities.

[5 to 6 marks]

Three relevant and important characteristics are identified and justified by reference to the case study. The choices would be appropriate as the basis for a mission statement and philosophy of action.

[3 to 4 marks]

The answer is relevant but one characteristic may be missing, undeveloped or unjustified. For ***[4 marks]*** two characteristics should be fully justified and related directly to the facts of the case study.

[1 to 2 marks]

The answer is brief and may only cover one key characteristic in any depth. For ***[1 mark]*** there may be little reference to the case study, but there must be some basis for the choice.

- (b) **Analyse how the development of a mission statement would benefit *Rainbow Club Ltd.***

[6 marks]

A mission statement should provide a “guiding hand” or vision for all the club’s activities and for its stakeholders, providing a distinct culture. The mission statement should underpin all the long-term activities and be put into practice. It should provide a common purpose and framework to develop common standards and behaviour for employees, managers, staff and players (and possibly the fans). The club should develop its strategic policy, and its corporate aims and objectives from the mission statement.

The creation of a mission statement would provide potential employees, investors and fans with an unequivocal statement of the club’s values. Employees and players are more likely to be motivated by a statement of core values rather than a profit or sales targets.

The ultimate aim will be to unite various stakeholders of the club, recognizing their individual and shared interests.

[5 to 6 marks]

A detailed analysis showing a comprehensive understanding of a mission statement, its purpose and the benefits it would bring to the club. The answer should highlight the role of the mission statement in setting corporate aims and objectives and discuss stakeholder interests.

[3 to 4 marks]

The analysis shows an understanding of the meaning and purpose of a mission statement with some reference to several stakeholders, although not necessarily overtly. If the answer refers only to aims and objectives a maximum of ***[3 marks]*** should be awarded.

[1 to 2 marks]

The answer is brief and rather descriptive. The concept of a mission statement may not be clear.

2. (a) **Assess the effectiveness of *Rainbow Club Ltd's* communication with its internal and external stakeholders.** **[8 marks]**

Internal stakeholders are: employees, managers and players.

External stakeholders are: the fans, the media, potential investors and partners, the local community, suppliers, trade unions and the local government.

Communication and its effectiveness differ according to the personnel involved and the purpose of the communication.

The organization chart is quite hierarchical and probably cements Joe's position through a rigid chain of command. Clearly his influence is at the heart of poor communications. Joe Swale's method of communicating is very "top down", exercising an autocratic approach to relationships. He orders and humiliates and is unaware and/or unconcerned as to the effect he is having. His approach is culturally insensitive. However, he can also be charismatic and exudes charm. His passion and willingness to mix with fans means that he is at present very popular with at least the club supporters, but his belief in running the club as a business and contemplating moving the club to Carlton is also risking the alienation of fans as evidenced through the editorial in *The Roar* entitled, "Betrayed".

Joe's willingness to intervene in player affairs is alienating the coach Dan Carderelli, which may be affecting morale among players. The high staff turnover may also be indicative of poor communications with administrative staff.

However, Joe is a typical "wheeler-dealer" and is able to communicate effectively with other companies and managers. The future development of the club may rest on this skill.

George believes in employee participation and is more sensitive to the nature of communication, but there is an impression that he is less significant than Joe and unable to rectify the poor communications engendered.

Nancy deals with corporate communications and these appear to be effective with the local community with her excellent use of promotion and PR opportunities. She clearly has good relationships with the local media. However, *Target Data* have criticized the club and Nancy for confused market messages and a lack of focus of its promotional activities.

[7 to 8 marks]

There is a detailed assessment of the range of communication within the club by reference to the personnel involved and the purpose. Some good points are highlighted, and the lack of effectiveness is identified and explained.

[3 to 6 marks]

The assessment is sound and appropriate to the case study. There is a recognition of the key areas of concern, but at the lower end of the band these may lack detail and reference to effectiveness and key individuals.

[1 to 2 marks]

A brief, generalized answer, which tends to description or listing, and/or fails to identify the key areas of concern.

- (b) **Evaluate methods for improving communication with the club's stakeholders and recommend *three* improvements which you feel will be most successful. Explain your recommendations fully.** **[10 marks]**

Key recommendations would relate to the nature of the organization, the style and openness of management and the desire to allow staff participation. There may be use of communication nets.

Possible improvements include:

- staff training, especially for senior managers, including Joe, on improving communication techniques
- changes in the organization structure to make it less hierarchical. This could be setting up of all channel communication nets or wheel groups
- the increased participation of administrative staff and players in decision-making. This could be through quality circles, representatives on the board or autonomous work group
- the meeting structure of the company could be reviewed. Communication could become a specialist function of a senior manager
- more delegation of tasks and a greater introduction of theory “Y” approaches
- more effective communications with employees, fans and players, e.g. company magazines and newsletters. Better links with fans through public meetings and possible partnership with the fan magazine through interviews and press releases
- the use of new communication and information technologies, such as Internet sites to encourage more two way communication and discussion forums
- a trade union, such as PACKICE could be encouraged to develop a joint committee with the club, or staff associations could be formed.

The question has to be whether Joe has the desire to address the communication issue. Given his autocratic nature, he may wish the situation to remain as it is. He probably wants the club to remain his “personal possession”, through the preservation of a “power culture”. It is likely that Joe may accept the introduction of new information technologies and training for staff apart from himself! Approached sensitively George may be able to increase the participation of staff and players, but probably this will be at a tactical level rather than a strategic one. As Joe spends less time at the club, George and Nancy may be able to address some of the issues.

[8 to 10 marks]

The methods evaluated are broad, developed and relevant, relating to the facts of the case. Some judgments are made. The three recommendations are fully explained and appropriate.

[3 to 7 marks]

The methods are discussed and are relevant and relate directly to the case study at the upper end of the band. At least two recommendations are made and explained for **[6 marks]**, but the recommendations may lack detail and explanation at the lower end. Evaluation may be missing or limited.

[1 to 2 marks]

The answer may be little more than a list and recommendations may be limited or omitted.

3. (a) **Discuss whether *Rainbow Club Ltd* should redevelop its present site (option A) or relocate to Carlton (option B).** **[10 marks]**

Reasons for redeveloping in its present site:

- local history of the club in its existing location and general inertia
- opposition from disgruntled local fans and the consequent loss of future revenue if they are not prepared to travel the extra distance to Carlton and switch to the *Jets*. There is no guarantee that new fans will replace the existing loyal fans
- the effect of opposition to the relocation from the local and national media and business interests
- possible boycotts and demonstrations which will adversely affect the reputation and image of the club
- the availability of derelict industrial sites nearby to construct the retail units and cinema complex
- car parking at the nearby hotel
- general resistance to change
- environmental pressure group activities, opposing environmental damage and risk to rare insects if the firm relocates to Carlton
- lack of finance to support the move to Carlton
- the merger with the local Carlton club may affect the identity of *Rainbow Club Ltd* and may lead to control issues.

Reasons for relocating to Carlton:

- preferred option of Joe Swale
- higher potential revenues
- popular with club sponsors who see the opportunity for developing corporate hospitality
- limitations of the existing location and the poor facilities and lack of seating at the present rink
- access to transport links, *e.g.* motorway
- the rural environment and local facilities *e.g.* shops, school *etc.* for the employees, the players and their families
- room for further expansion
- the size and demographics of the surrounding populations
- opposition by the local government to the removal of the ski slope and the concern about increased congestion in the existing location
- access to the facilities of the regional capital
- financial necessity, given the parlous state of the club
- merger with the local ice hockey club providing further economies of scale.

From a purely financial and commercial point of view the move to Carlton offers the most potential opportunities, although there is the risk that they will not fill the new rink if fans do not follow them. They also risk alienating their constituent groups. Opposition by environmental groups may prevent the move on legal as well as ethical grounds.

However, qualitative issues such as emotions, trust, tradition and loyalty may prevent the move. The resistors to change may be too great. Redeveloping their existing site is probably less risky, but may not offer the same financial return in the long run.

[8 to 10 marks]

The discussion is balanced with detailed assessment of the benefits and problems of each option. The discussion shows evidence of critical, reflective thinking and employs several examples from the case study. An attempt at reaching a decision is made.

[3 to 7 marks]

The discussion is sound and appropriate to the choice of option, but may lack detail and/or balance, especially at the lower end of the band. A choice may not be arrived at explicitly, but the strength of each argument is assessed.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which tends to description or listing.

(b) Analyse the advantages and disadvantages for *Rainbow Club Ltd* of globalizing its marketing and operations.

[8 marks]

Advantages of globalizing marketing and operations:

- access to larger markets resulting in potentially greater sales revenues and profits through a larger fan base and increased merchandising revenues
- diversification and spreading of risk. Poor interest in the domestic market may be compensated for by an increase in demand overseas
- economies of scale in operation and marketing should lead to lower unit costs
- sponsors, advertisers and investors will be more attracted by the global opportunities afforded by the expansion
- the image and power of the club will be enhanced as will the reputation of Joe Swale who will be achieving his “dreams” for the club
- better players may be attracted to the club and overseas players may bring with them significant additional merchandising opportunities
- access to new information and communication technologies makes the process of globalization easier.

Disadvantages of globalizing marketing and operations:

- globalizing marketing and operations may be fraught with additional problems, such as those of culture, language and a lack of understanding by *Rainbow Club Ltd* of the new markets they wish to penetrate.
- legal barriers may exist, which will add extra expenses and risks of failure
- the supply chain is long and expensive and the club may have to rely on local agents or multinational companies which have their own agendas
- exchange rate fluctuations may adversely affect forecasted revenues and profits
- the finance required for the expansion may lead to further liquidity problems
- the expansion may be unrealistic with insufficient interest in an “unknown club” overseas. This could bring ruin to the club.

The choice of expansion and of globalizing, or not, rests on the likely attractiveness of the club in overseas markets and the marketing opportunities available. The financial benefits of globalizing marketing and operations are self evident, but risks of failure and ruin are too. Detailed market research would have to be carried out to support the judgment further. It may be that gradual exposure and limited globalization in the short-run may open the door to greater globalization at a later date.

[7 to 8 marks]

The analysis is balanced with detailed assessment of the advantages and disadvantages of the globalization of marketing and operations and an attempt to consider the relative merits. The analysis is supported by clear references to facts in the case study and an intelligent appreciation of the barriers and dangers involved.

[3 to 6 marks]

The analysis is sound and appropriate to *Rainbow Club Ltd*, but may lack detail and/or balance, especially at the lower end of the band.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which tends to description or listing.

4. Evaluate the sources of finance that are available to *Rainbow Club Ltd* to fund its redevelopment. [12 marks]

Sources of finance can be classified as internal or external and borrowed for a short, medium or long term. Finance required for the expansion of the fixed assets of the business will need to be of a long-term nature. However, any expansion will also require an increase in the availability of working capital as well to fund additional overheads and expenses.

Internal: profit
additional sales revenue
management of working capital *e.g.* reduction of stocks
sale of assets, such as buildings
private sources from the Swale family

External: sale of shares
debentures
mortgages
loans or overdrafts
debt factoring
credit, hire purchase or leasing
sponsors
government grants

Short-term finance: *Less than one year.* Used for day-to-day expenditure, *e.g.*

- overdraft – flexible, but the money may be demanded back. Interest is only payable on the overdrawn amount
- trade credit – payment for items delayed for say 3 months
- debt factoring – the firm sells its debtors to specialist companies for less than their face value, but for instant liquidity.

Medium-term finance: *One to five years, e.g.*

- bank loan repaid in installments. Security may be required
- hire purchase – used to buy assets and equipment *e.g.* machinery. Installment payments. Ownership changes at last payment
- leasing – equipment is rented with the option to buy later. Ownership remains with lessor, who is responsible for maintenance. Used for technology which needs updating, such as computers or cars.

Long-term finance: *5 years plus.* Used to purchase fixed assets, *e.g.*

- share capital – in the form of ordinary or preference shares. Ownership passes to the shareholders and the original founders may lose control. Shareholders receive a share of profits (dividend) decided on by the directors
- debentures – transferable IOUs. The buyer is paid annual interest, but is not an owner. The debenture may be sold on
- mortgages – loans using property as security or collateral
- government assistance – grants and subsidies
- venture capital – money lent to small, high risk ventures in return for a minority shareholding and a share of the profits.

The club has no long-term borrowings at present but has liquidity problems, so it would be appropriate to seek to fund expansion through long-term loans or mortgages. The issue of new shares, or a flotation is a possibility, but this may affect the family's control. Raising funds through a merger or joint venture could be discussed. However control of working capital and re-investment of funds would be crucial in the long run.

[10 to 12 marks]

The evaluation is comprehensive and shows evidence of critical, reflective thinking and employs examples appropriate to *Rainbow Club Ltd*. Sources of finance are selected, explained and a judgment made.

[7 to 9 marks]

There is a developed and balanced discussion with some application to *Rainbow Club Ltd*. A range of possible sources of finance are analysed.

[3 to 6 marks]

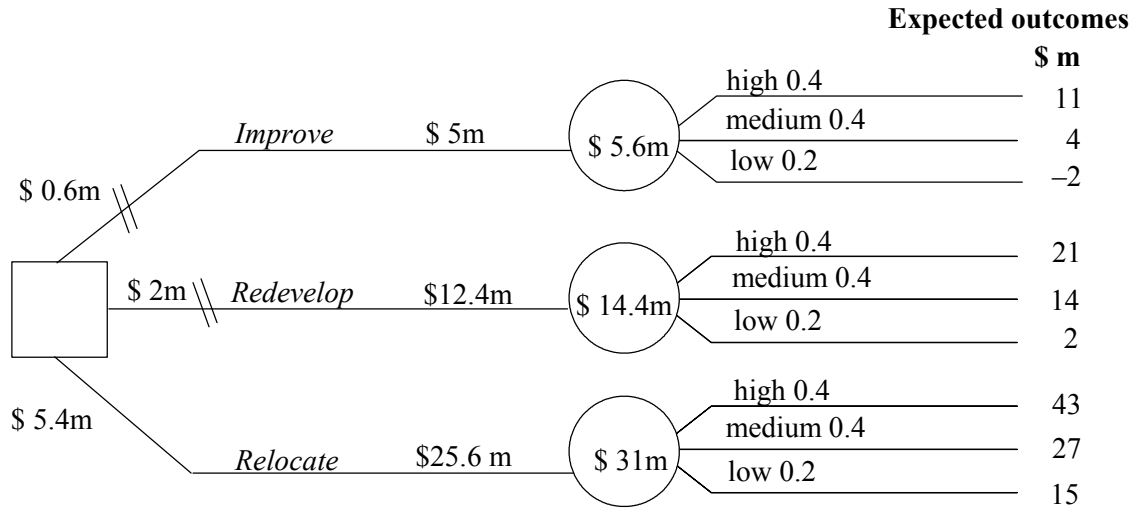
The discussion tends to be descriptive rather than analytical and the sources considered limited, and increasingly inappropriate at the lower end of the band.

[1 to 2 marks]

A brief, generalized and probably unbalanced answer, which tends to description or listing.

SECTION B

5. (a) Prepare a decision tree to illustrate the *three* options outlined by Robert Graves and calculate the expected values for each. Show your working, fully label your decision tree and include a key. [8 marks]



Key:

- decision node
- chance node
- rejected option

Working:

Expected values

chance node 1:

$$\begin{aligned}
 \$11m \times 0.4 &= \$4.4m \\
 \$4m \times 0.4 &= \$1.6m \\
 \$-2m \times 0.2 &= \underline{\underline{-\$0.4m}} \\
 &= \underline{\underline{\$5.6m}}
 \end{aligned}$$

chance node 2:

$$\begin{aligned}
 \$21m \times 0.4 &= \$8.4m \\
 \$14m \times 0.4 &= \$5.6m \\
 \$2m \times 0.2 &= \underline{\underline{\$0.4m}} \\
 &= \underline{\underline{\$14.4m}}
 \end{aligned}$$

chance node 3:

$$\begin{aligned}
 \$43m \times 0.4 &= \$17.2m \\
 \$27m \times 0.4 &= \$10.8m \\
 \$15m \times 0.2 &= \underline{\underline{\$3.0m}} \\
 &= \underline{\underline{\$31.0m}}
 \end{aligned}$$

[7 to 8 marks]

An accurate decision tree. Working is shown and it is clear where the values have come from. For **[8 marks]** the tree should be fully labelled and with a key.

[5 to 6 marks]

Essentially accurate tree, although some calculations of value are not clear and/or there are up to two errors.

[3 to 4 marks]

The tree contains several errors as do the calculations, which may not be developed or even shown.

[1 to 2 marks]

The diagram is essentially incorrect, but there is some understanding of its form and/or some relevant attempt at working.

- (b) **Select the most desirable option on financial grounds. Show your working.** **[1 mark]**

The most desirable option on financial grounds is the relocation to Carlton. The expected value of this option is \$31m at a cost of \$25.6m, giving a profit of \$5.4m.

Award **[1 mark]** for the correct option backed up by suitable working.

N.B. Do not double penalize. The student should be rewarded for using their own incorrect figures provided the working is correct.

- (c) **Assess the advantages and disadvantages of using a decision tree to support the choice of expansion option for *Rainbow Club Ltd.*** **[7 marks]**

Advantages of using decision trees:

- they set out the alternatives logically and clearly
- they encourage logical thinking and planning
- new ideas can be generated
- they encourage managers to quantify alternative outcomes and force assessments of the chances and the risks of success and failure
- they lead to rational decision making
- they make firms consider the probabilities of events occurring
- they are particularly useful when similar decisions have been made in the past so that the probabilities and outcomes will be based on previous experience
- they are most useful for tactical rather than strategic or policy decisions.

Disadvantages of using decision trees:

- the construction of decision trees is time-consuming, and possibly costly
- information collected may be incomplete or inaccurate as it may be difficult to estimate probabilities or and/or outcomes
- decision trees are not so useful for new problems or those of a strategic nature
- they can lead to a neglect of non-quantifiable factors
- probability is no more than an estimate, but it can be taken as being fact
- they do not take into account the changeability of the business and external environment
- managers could be tempted to manipulate data to support actions they wish to pursue.

The preparation of a tree will require the management of *Rainbow Club Ltd* to consider a range of alternatives and to generate ideas. The decision being undertaken is a strategic one, so a tree on its own may be inadequate. The information available is relatively accessible, especially in terms of cost. A redevelopment like this is quite common. Joe Swale wishes to move, so it is possible that data may be manipulated to support this action.

In this case qualitative factors are very important, so these may override the result of the decision tree. A decision tree will definitely be useful in conjunction with other decision-making tools and an assessment of qualitative issues.

[5 to 7 marks]

The assessment is broad and balanced with both advantages and disadvantages being examined. The discussion should refer to the case study and assess the strengths of using a decision tree in isolation or conjunction with other variables.

[3 to 4 marks]

The assessment is adequate but possibly limited in the number of advantages and disadvantages or in the breadth of discussion. References to the case study may be brief and missing for **[3 marks]**.

[1 to 2 marks]

The answer is brief and unbalanced, but must contain some accurate issues.

- (d) Explain what Robert Graves meant when he said that the state of the economy will affect price and income elasticities of demand for ice hockey seats.**

[4 marks]

In the case study demand for ice hockey tickets are said to be relatively price inelastic. This means that demand for seats will change less in proportion than any change in price. However, price elasticity of demand will change as prices rise or fall, which may be the case if economic activity changes. If the economy is experiencing an upturn or boom then incomes will rise and this will mean that consumers will be less sensitive to the prices of luxury items such as ice hockey prices as they will represent a lower proportion of their income. Demand for luxury items, such as ice hockey tickets will rise in greater proportion than the increase in incomes, as they are income elastic.

However, the opposite effects are likely as the economy contracts or goes into recession.

Equations:

Price elasticity of demand $PED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$

Income elasticity of demand $IED = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in income}}$

[4 marks]

The explanation is accurate for both elasticities and referenced to the case study. Equations may be included, but are not required provided the explanation is adequate and illustrated.

[2 to 3 marks]

The explanation should be accurate and illustrated for one of the elasticities, or may be brief and unillustrated for both.

[1 mark]

The explanation may be inaccurate for both the elasticities, but there must be some understanding of the concept.

6. (a) With reference to the accounts of *Rainbow Club Ltd* and through the use of at least *four* ratios, analyse financial trends and comment on whether any of these trends should be of concern to the board of directors. [10 marks]

Profitability:

	<i>2001</i>	<i>2002</i>
1. Gross profit margin		
$\text{GPM} = \frac{\text{gross profit}}{\text{sales}} \times 100$	$\frac{19.2}{19.8} \times 100 = 96.97\%$	$\frac{19.4}{20.2} \times 100 = 96.0\%$
2. Net profit margin		
$\text{NPM} = \frac{\text{net profit}}{\text{sales}} \times 100$	$\frac{3.6}{19.8} \times 100 = 18.18\%$	$\frac{3.1}{20.2} \times 100 = 15.35\%$
3. Return on capital employed		
$\text{ROCE} = \frac{\text{net profit}}{\text{capital employed}} \times 100$	$\frac{3.6}{3.8} \times 100 = 94.74\%$	$\frac{3.1}{4.1} \times 100 = 75.6\%$

N.B. It is possible to calculate capital employed as:
capital + reserves + long term liabilities + current liabilities. If so the ROCE for each year would be: 2001: $\frac{3.6}{4.9} = 73.5\%$ 2002: $\frac{3.1}{6.4} = 48.4\%$

4. Mark-up

$\frac{\text{gross profit}}{\text{cost of goods sold}} \times 100$	$\frac{19.2}{0.6} \times 100 = 3200\%$	$\frac{19.4}{0.8} \times 100 = 2425\%$
--	--	--

Efficiency/activity ratios:

$\text{Asset turnover} = \frac{\text{sales}}{\text{net assets}}$	$\frac{19.8}{3.8} = 5.21 \text{ times}$	$\frac{20.2}{4.1} = 4.92 \text{ times}$
--	---	---

Liquidity ratios:

$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$	$\frac{2.5}{1.1} = 2.27$	$\frac{2.9}{2.3} = 1.26$
---	--------------------------	--------------------------

Sales of tickets and merchandise are slightly up in 2002 over 2001, but advertising and sponsorship have fallen, probably as a result of the main sponsor, *The Dominion Bank*, withdrawing at the end of November 2002. The cost of sales has risen faster proportionately than the increase in revenue from merchandising and catering. Gross profit is relatively static, but net profit has fallen from 3.6 million to 3.1 million as overheads have increased.

The ratios show some worrying trends in terms of profitability, efficiency and liquidity in that they are all worse in 2002 than they were in 2001; net profit has fallen in real terms and the net profit margin is down from 18.18 % to 15.37 %. The gross profit margin has also fallen slightly, affected by a small increase in the cost of goods sold.

The return on capital employed has fallen significantly showing a decline in efficiency of the business in turning the capital invested in the business into profit. Asset turnover and mark up have also fallen. It must be remembered that as a service some of these ratios are unusual in their size.

Liquidity is worrying. The rule of thumb is that the current ratio should be between 1.5 and 2:1. In 2002, it has fallen to 1.26. There is little stock so much of this must be attributed to running the business on a sizeable overdraft.

[8 to 10 marks]

The financial and ratio analysis is detailed and accurate. At least four ratios are calculated and applied for **[10 marks]**. There is a recognition that in 2002 the trend is mainly negative and that the directors should be concerned about profitability, efficiency and liquidity.

[3 to 7 marks]

The financial and ratio analysis is accurate at the upper end of the band. Discussion may be more limited and the number of ratios calculated may be less or the interpretation less detailed at the lower end of the band.

[1 to 2 marks]

Some financial interpretation is attempted, but it is very limited, and possibly inaccurate.

- (b) Discuss why ratios produced for *Rainbow Club Ltd* may differ noticeably from those of a trading company that buys and sells finished products.**

[4 marks]

The ratios for *Rainbow Club Ltd* reflect the fact that it is not a trading company and does not hold stock, except for merchandise and catering. This would make calculating the asset test ratio less important. The cost of goods sold is very low in comparison to total revenues, hence both the gross profit margin and the mark-up ratio are very large. Most of the revenues are generated from services, rather than from selling goods, *i.e.* the games themselves, and from advertising and sponsorship.

In addition, the club has few fixed assets, as these are predominantly owned by the local government. Return on capital employed is likely to be much larger than for a trading company.

[3 to 4 marks]

The discussion includes a recognition of the different financial results of a company with few assets and revenues generated from services rather than from selling goods. There is reference to the effect of these on the ratios calculated.

[1 to 2 marks]

The answer makes some sensible comments about the nature of the business of *Rainbow Club Ltd* without really assessing the impact on the accounts and any ratios calculated.

- (c) **The net worth of *Rainbow Club Ltd* may be greater than recorded in the balance sheet, because of the presence of valuable intangible assets. Explain, with reference to the case study, what is meant by intangible assets and why accountants prefer to remove these from the balance sheet wherever possible.**

[6 marks]

Intangible assets cannot be seen or touched, as they do not have a physical form. They include copyrights, brand names, licences and goodwill. For *Rainbow Club Ltd* most value lies in its name and image and the customer loyalty from fans. A more unusual intangible asset lies in the players who may be able to command significant transfer fees.

Accountants find it difficult to value intangible assets as they are often built up over time, e.g. as the fan base develops in number and becomes increasingly brand loyal. The real value of intangible assets may not be established until the business is sold at a price exceeding the book value of the tangible assets. Sales of businesses are relatively rare so the value of intangible assets is often hidden, understating the value of the entire business.

Accountants prefer to remove these from the balance sheet (write them off) as they often only have a value if the business remains as a “going concern”, e.g. fan loyalty will have no value if the club goes to the wall. The value of players may be adversely affected by injury, especially if this is career threatening.

[5 to 6 marks]

The explanation includes an accurate definition of intangible assets, with case study examples. The difficulty of valuation is well understood and the reason why accountants may wish to write these assets off the balance sheet is discussed.

[3 to 4 marks]

The explanation may include a definition or discussion of intangible assets with examples. The answer is less clear on the effect of these on a balance sheet and the reason for writing them off. For **[3 marks]** the answer may explain intangible assets well without discussing the reason for a write off.

[1 to 2 marks]

The answer is brief and possibly inaccurate, although some understanding of intangible assets must be shown.
