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Other Names _____

Centre Number _____

Candidate Number _____

Candidate Signature _____

A-level

ACCOUNTING

Paper 2 Accounting for Analysis and Decision-making

7127/2

Thursday 13 June 2019 Morning

Time allowed: 3 hours

For this paper you must have:

- a calculator.

At the top of the page, write your surname and other names, your centre number, your candidate number and add your signature.

[Turn over]



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INSTRUCTIONS

- Use black ink or black ball-point pen.
- Answer ALL questions.
- You must answer the questions in the spaces provided. Do not write on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- Do all rough work in this answer book. Cross through any work you do not want to be marked.

INFORMATION

- The marks for each question are shown in brackets.
- The maximum mark for this paper is 120.

DO NOT TURN OVER UNTIL TOLD TO DO SO



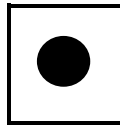
SECTION A

Answer **ALL** questions in this section.

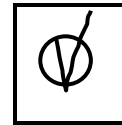
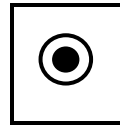
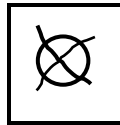
Only **ONE** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

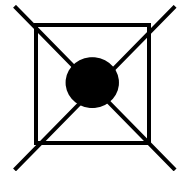
CORRECT METHOD



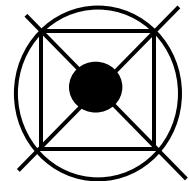
WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.



If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.



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Which costing technique uses cost pools and cost drivers? [1 mark]

A Absorption costing

B Activity-based costing

C Marginal costing

D Standard costing

[Turn over]



02

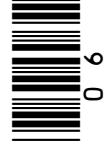
Which of the following is the correct formula (all expressed in units) to calculate budgeted units of production? [1 mark]

A Sales – closing inventory – opening inventory

B Sales – closing inventory + opening inventory

C Sales + closing inventory – opening inventory

D Sales + closing inventory + opening inventory



03

A business paid £12 650 for rent and rates for the year ended 31 May 2019. This included rent paid in advance of £3 165. Rates outstanding at 31 May 2019 were £2 530.

How much is the rent and rates expenses to be included in the income statement for the year ended 31 May 2019? [1 mark]

A £6 955

B £12 015

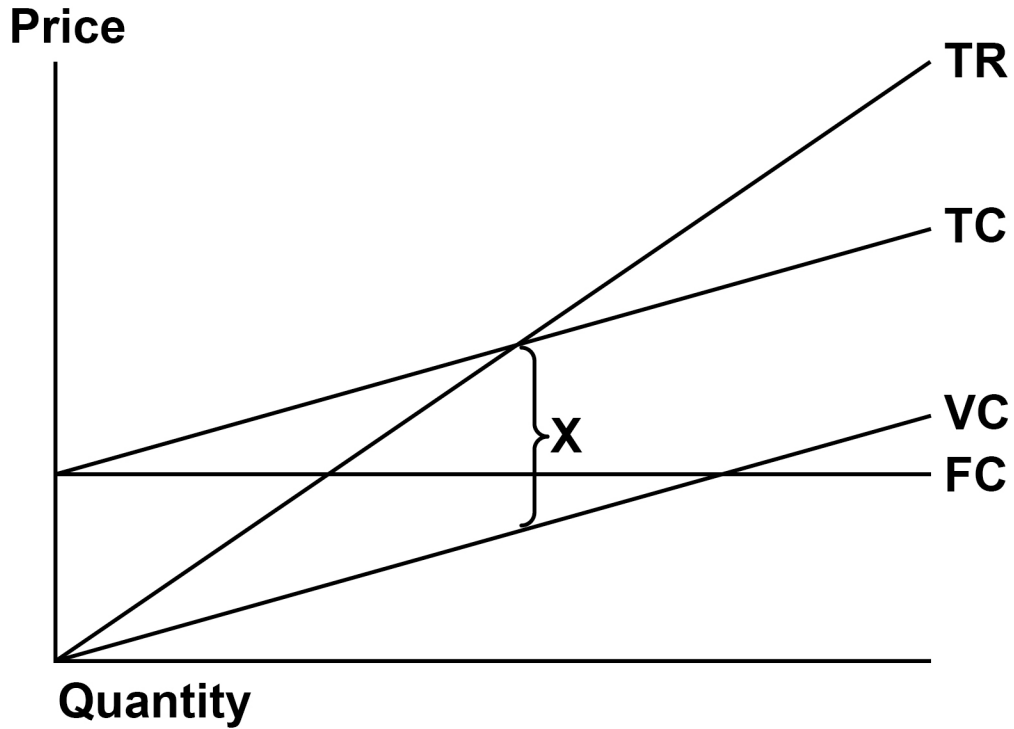
C £13 285

D £18 345

[Turn over]



0 4 What is represented by X on the break-even chart shown below? [1 mark]



A Fixed costs

B Margin of safety

C The area of loss

D The area of profit

0 5 Which of the following variances may require the calculation of flexed information?
[1 mark]

A Labour efficiency and material price

B Labour efficiency and material usage

C Labour rate and material price

D Labour rate and material usage

[Turn over]



0 6 The balance on the sales ledger account of Mrs Jones is £42 875.

The following information has not yet been included in the sales ledger account of Mrs Jones:

Dishonoured cheque for non-payment by Mrs Jones: £2 495

Contra in the purchase ledger account of Mrs Jones: £355.

What is the balance on the sales ledger account of Mrs Jones after these adjustments have been included? [1 mark]

A £40 025

B £40 735

C £45 015

D £45 725



07

As a result of output increasing, an additional warehouse is required.

Which type of cost describes the total cost of warehousing? [1 mark]

A Fixed cost

B Semi-variable cost

C Stepped cost

D Variable cost

[Turn over]



0 8 Which is the correct formula to calculate the interest cover ratio? [1 mark]

A $\frac{\text{Interest payable}}{\text{Profit before tax}} \times 365$

B $\frac{\text{Interest payable}}{\text{Profit from operations}} \times 365$

C $\frac{\text{Profit before interest and tax}}{\text{Interest payable}}$

D $\frac{\text{Profit before tax}}{\text{Interest payable}}$



0 9 Which is NOT a fundamental principle of ethical behaviour? [1 mark]

A Confidentiality

B Integrity

C Objectivity

D Subjectivity

[Turn over]



1 0 The following information has been provided:

Total fixed costs £120 000

Unit variable cost £10

Unit selling price £40

What is the break-even quantity? [1 mark]

A 2 400 units

B 3 000 units

C 4 000 units

D 12 000 units



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[Turn over]



1 1

Describe TWO limitations of using break-even analysis. [6 marks]



[Turn over]



1 2

Thab Ltd is considering upgrading the production facility by investing in a new hi-tech machine.

The following information is available about the machine:

| | |
|---------------------------------|-----------------|
| Cost | £194 675 |
| Estimated residual value | £34 675 |
| Estimated life | 4 years |

Profit for the year at the end of year 1 is expected to be £35 000 and is estimated to then increase by 10% per annum year on year.

The machine will be depreciated using the straight line method.

The discount factors for a 12% cost of capital are:

| | |
|---------------|--------------|
| Year 1 | 0.893 |
| Year 2 | 0.797 |
| Year 3 | 0.712 |
| Year 4 | 0.636 |



1 2 . 2 Calculate the payback period for the machine. [2 marks]

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[Turn over]



1 | 3

The following information is available for two production departments for Theprom Ltd:

| | Dept A | Dept B |
|----------------------------|-----------------------------|-----------------------------|
| Machinery cost | £279 600 | £378 150 |
| Floor area | 10 000 m² | 15 000 m² |
| Labour hours | 36 000 | 20 000 |
| Machine hours | 22 000 | 28 250 |
| Number of employees | 30 | 15 |

The following overhead costs have been provided:

| | |
|-------------------------------|-----------------|
| Rent | £87 700 |
| Machinery depreciation | £131 550 |
| Supervisor salaries | £39 000 |

1 | 3

Calculate the overhead absorption rate for EACH department and state the basis of the OAR method used. [6 marks]



SECTION B

Answer ALL questions in this section.

1 4 Nodlam Ltd has provided the following information about different products:

| | A | B | C |
|---------------------------|--------------|--------------|--------------|
| Demand (units) | 5 500 | 6 200 | 7 400 |
| | | | |
| Per unit: | £ | £ | £ |
| Selling price | 126 | 112 | 90 |
| Direct materials | 24 | 20 | 22 |
| Direct labour | 18 | 15 | 8.50 |
| Variable overheads | 6 | 5 | 4.50 |
| Fixed overheads | 28 | 25 | 32 |

Materials cost £2 per kilogram.

The supplier of direct materials has experienced some technical problems and has been unable to supply the usual quantities required by the business. Due to this material shortage, only 176 840 kilograms are available during the production period.



1 | 4 | . | 1 Calculate the maximum profit that can be made allowing for the optimum use of the scarce material resource. [14 marks]

[Turn over]





[Turn over]



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Materials are usually purchased from a single supplier. This supplier is based in the UK and so delivery has previously been reliable. Due to the established trading relationship, the business is able to negotiate a trade discount which is reflected in the cost per kilogram. The material is also of a very high quality which has enabled the business to develop a good reputation with customers. This reputation is extremely important because competition is strong in an increasingly crowded market.

A shortage of materials is expected to cause production problems. A potential supplier has been found that is based in Europe. This supplier can immediately fulfil the anticipated shortfall of materials and could supply on a long-term basis.

- 1 4 . 2 Advise whether the business should use another supplier to overcome the expected shortage of material. [6 marks]**





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15

Ekib Ltd has provided the following budgeted information:

| | |
|--------------------------------------|----------------------|
| Budgeted production | 32 000 units |
| Budgeted direct labour cost | £828 000 |
| Budgeted direct material cost | £1 972 000 |
| Labour hours per unit | 4.5 |
| Material quantity per unit | 8.5 kilograms |

Actual production was 30 000 units.

Actual labour per unit is 3.5 hours at a rate of £6.25 per hour.

Actual material per unit is 6.75 kilograms at a cost of £9.45 per kilogram.



1 5 . 1 Calculate the following variances:
[10 marks]

Material price variance

Material usage variance

[Turn over]



Labour rate variance

Labour efficiency variance

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[Turn over]



15.2 Prepare a reconciliation of budgeted to actual cost. [4 marks]

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[Turn over]



1 5 . 3 Management believes the business has controlled costs effectively during the period.

Advise management whether it is correct in its interpretation of the results. Justify your answer. [6 marks]

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[Turn over]



SECTION C

Answer ALL questions in this section.

1 6 Rennur Plc has provided the following information:

| | Department 1 £ | Department 2 £ | Department 3 £ |
|------------------------|-------------------|-------------------|-------------------|
| Contribution | 101 160 | 30 840 | 40 488 |
| Total overheads | 84 300 | 38 550 | 36 150 |

Total overheads include factory rent, machinery depreciation and supervisor salaries. All overheads are apportioned on the basis of floor area. A departmental supervisor does not think that the overheads have been apportioned fairly.

The management wants to ensure that the business maximises profitability and is under pressure from the owners who are increasingly demanding higher returns on their investment. They have demanded at least a 50% increase in overall profit in the next financial period.

As a strategy to make optimum use of the business resources, the management is proposing to close any loss-making



department and to use the space instead to expand the most profitable department by 40%. There is a possibility that some staff could be redeployed to another department following any closure. The existing staff are both experienced and skilled. However, there is a culture where change is opposed and in the past less radical changes have resulted in industrial action being taken. Staff would also need to be retrained at an overall cost of £7 500.

Due to experiencing some cash flow problems, the business has got an existing short-term loan as well as a bank overdraft facility.

[Turn over]



1 6

Recommend whether the management should proceed with its suggested strategy to close any loss-making department and expand the most profitable department by 40%. Consider both financial and non-financial factors. [25 marks]



17

Hannah has recently inherited £60 000. She wishes to invest in the stock market. Hannah needs a reasonable income from her investment but she does not want to risk losing her capital. She has researched the following data about two companies.

Income statement extracts for the year ended 31 January 2019:

| | Company A £ | Company B £ |
|-------------------------------|------------------|------------------|
| Profit from operations | 3 563 750 | 7 821 645 |
| Finance costs | 182 500 | 786 310 |
| Profit before taxation | 3 381 250 | 7 035 335 |
| Taxation | 725 000 | 1 507 835 |
| Profit after taxation | 2 656 250 | 5 527 500 |



**Extracts from the statement of financial position
at 31 January 2019:**

| | Company A £ | Company B £ |
|--------------------------------------|-----------------------|-----------------------|
| Equity | | |
| Issued ordinary share capital | 2 500 000 | 13 750 000 |
| Share premium | 750 000 | 1 350 000 |
| Retained earnings | 5 075 000 | 7 826 430 |
| | 8 325 000 | 22 926 430 |
| Non-current liabilities | | |
| Debenture loans | 3 650 000 | 19 650 000 |

| | Company A | Company B |
|--|-----------------------------|--------------------------|
| Shares nominal value | 50p each | £1 each |
| Listed on the stock exchange in | 2017 | 1982 |
| Operates in | an emerging industry | a stable industry |

[Turn over]



Investment ratios have been calculated as follows:

| Ratio | Company A | Company B |
|-------------------------------------|-------------------|------------------|
| Earnings per share (rounded) | 53p | 40p |
| Price earnings ratio | 15 | 8 |
| Dividend cover | 4.25 times | 4 times |

Hannah needs to know the market price per share and dividend per share before she can make her investment decision.

| | |
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Evaluate the investment potential of the two companies and advise Hannah how she should invest her inheritance. [25 marks]

[Turn over]





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END OF QUESTIONS

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Write the question numbers in the left-hand margin.



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| Section | Mark |
| A | |
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| TOTAL | |

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