



Surname _____

Other Names _____

Centre Number _____

Candidate Number _____

Candidate Signature _____

I declare this is my own work.

A-level

ACCOUNTING

Paper 2 Accounting for Analysis and Decision-Making

7127/2

Tuesday 2 June 2020 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.**
- **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

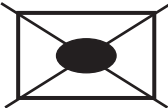
Answer **ALL** questions in this section.

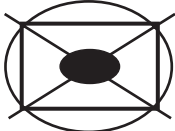
Only **ONE** answer per question is allowed.

For each question 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. 



0 1

Which transaction has a cheque counterfoil as the source document? [1 mark]

A Cheque deposited in a business bank account.

B Cheque paid to a supplier

C Cheque returned due to being out of date

D Dishonoured cheque from a customer

0 2

J Jones received a payment from D Smith, whose debt had previously been written off as irrecoverable.

What is the correct double entry to record this transaction? [1 mark]

A

Debit

Bank

Credit

Irrecoverable debt recovered

B

Bank

D Smith

C

Irrecoverable debt recovered

Bank

D

D Smith

Bank

[Turn over]



0 3

What is the correct formula to calculate mark-up? [1 mark]

A $\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$

B $\frac{\text{Gross profit}}{\text{Revenue}} \times 100$

C $\frac{\text{Profit from operations}}{\text{Cost of sales}} \times 100$

D $\frac{\text{Profit from operations}}{\text{Revenue}} \times 100$

0 4

Which are all credit entries in the cost of sales section of an income statement? [1 mark]

A Carriage inwards, closing inventory and purchases

B Carriage inwards, opening inventory and purchases

C Closing inventory, goods for own use and returns outwards

D Goods for own use, opening inventory and returns outwards



0 5

Fred is a sole trader and is converting his business into a private limited company. He will be the only shareholder of the company.

Which of the following would be a consequence of this change to ownership status? [1 mark]

A Loses limited liability

B Ownership is diluted

C Profits are subject to corporation tax

D Receives more capital

[Turn over]



0 6

Donovan Ltd is planning to expand and will require additional finance. Its statement of financial position includes non-current liabilities of £750 000 and equity of £1 300 000.

Which method of funding will decrease the capital gearing ratio? [1 mark]

A Debenture

B Long-term bank loan

C Mortgage

D Ordinary shares

0 7

Eloc runs a sweet shop. He has taken several boxes of chocolates as gifts for friends.

What are the ledger account entries to record these transactions? [1 mark]

A

Debit	Credit
Closing inventory	Drawings
Drawings	Closing inventory
Drawings	Purchases
Purchases	Drawings

B

C

D



0	8
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A business paid £18 250 for wages and salaries during the year ending 31 March 2020. Wages and salaries owing at 1 April 2019 were £2 190 and owing at 31 March 2020 were £2 740.

What is the amount to be included for the wages and salaries expense in the income statement for the year ending 31 March 2020?
[1 mark]

A £13 320

B £17 700

C £18 800

D £23 180

[Turn over]



0	9
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A business has calculated draft profit for the year ending 30 April 2020 as £43 950.

The profit was calculated before the following information had been provided:

- wages and salaries of £5 625 were owing at 30 April 2020
- insurance of £2 175 was paid in advance at 30 April 2020.

What is the final profit for the year ending 30 April 2020 after adjusting for this additional information? [1 mark]

A £36 150

B £40 500

C £47 400

D £51 750



1	0
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In the books of Maria, the credit balance on the payables ledger account for Peach Traders is £21 850.

The following information has NOT yet been included in the payables ledger account for Peach Traders:

- interest of £125 charged on a late payment
- a contra entry of £580 with the receivables ledger account for Peach Traders.

What is the balance on the updated payables ledger account for Peach Traders? [1 mark]

A £21 145

B £21 395

C £22 305

D £22 555

[Turn over]



1	1
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Lee Ming is a sole trader and has annual accounts prepared to 31 March 2020.

The following information has been supplied:

- **a non-current asset was sold on 30 November 2019 for £7 000**
- **the non-current asset had been purchased on 1 July 2017 for £16 000**
- **non-current assets are depreciated using the reducing balance method at a rate of 25% per annum**
- **annual depreciation is time apportioned based on the number of months an asset is held by the business.**



1	1
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1

Calculate the profit or loss on the disposal of the non-current asset to be included in the accounts of Lee Ming for the year ending 31 March 2020.

**Your answer must clearly state if the disposal results in a profit OR loss.
[6 marks]**

[Turn over]





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[Turn over]



The following balances have been taken from the draft accounts for Lee Ming for the year ending 31 March 2020:

	£
Drawings	30 000
Profit for the year	42 817
Capital at 31 March 2019	168 950

The depreciation charge for the year ending 31 March 2020 has been included in the draft profit for the year BUT the profit or loss on the disposal of the non-current asset has not been included.

1 1 . 2 Complete the capital section extract from the statement of financial position of Lee Ming at 31 March 2020. [2 marks]

Lee Ming
Statement of Financial Position (extract) at
31 March 2020

Capital	£



Workings _____

[Turn over]



1	2
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Scica plc had the following balances at 31 December 2017:

	£
Ordinary shares	740 000
Reserves	85 000
9% Debentures 2019	200 000
8% Debentures 2019	75 000

1	2
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1

Calculate the capital gearing ratio and state the formula used. [2 marks]



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[Turn over]



1 2 . 2

During the year ending 31 December 2019, Scica plc refinanced the company's non-current liabilities. All debentures previously issued were repaid, in full, from the proceeds of a new debenture issue as follows:

Date	Action	£
1 March 2019	Issued – 6% Debentures 2040	300 000
31 March 2019	Repaid – 9% Debentures 2019	200 000
30 April 2019	Repaid – 8% Debentures 2019	75 000

Interest is paid on a monthly basis.
The interest cover for the year ending 31 December 2019 was 4.75 times.

Calculate the profit from operations (profit before interest and tax) of Scica plc for the year ending 31 December 2019. [4 marks]



[Turn over]



1	3
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Sadida Ltd is planning on making an investment in new technology to upgrade the production facilities during 2021.

The following information has been provided about the potential investment:

	£
Purchase cost of new machinery	61 625
Delivery cost of new machinery	7 250
Installation cost of new machinery	3 625

The projected year end profits for the project are as follows:

- **31 December 2022: £38 500**
- **31 December 2023: £48 125**
- **31 December 2024: £57 750**
- **the machinery will be disposed of after three years at an estimated disposal proceeds of £24 500**
- **the company depreciates all non-current assets using the straight-line method of depreciation. A full year's depreciation is charged in the year of purchase and no depreciation is charged in the year of disposal**
- **the installation cost includes a deposit of £500 which will be paid in November 2020.**



1	3
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Calculate the net cash flow for each year.
[6 marks]

Year	£
2021	
2022	
2023	
2024	

Workings _____

[Turn over]



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[Turn over]



SECTION B

Answer ALL questions in this section.

1	4
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Ekin plc uses batch production to manufacture two products, X and Y.

The business uses activity-based costing when calculating the overhead costs to be assigned to each product type.

The following information is available about both products per week.

	X	Y
Production in units	4 500	3 600
Number of units per batch	50	75
Material costs	£33 750	£22 750
Labour costs	£42 500	£55 250
Machine hours	10 500	2 500
Labour hours	5 000	6 500

- Each batch requires machinery to be reset. The fixed production costs for machinery preparation totalled £44 160.
- Quality control procedures for both products are conducted every 300 units. The fixed costs for quality control procedures totalled £68 310.
- All units produced each week are sold.
- The selling prices for each product are based on an 80% mark-up on variable costs.



1 4 . 1

Prepare statements to show revenue, contribution and profit or loss per WEEK for EACH type of product, X and Y. [14 marks]

[Turn over]



[Turn over]



1 5

Webster is a sole trader and has provided the following budgeted information.

	Sales	Purchases
	£	£
November	48 000	24 000
December	55 000	30 000
January	60 000	36 000

1. Sales are made on the following basis: 20% of sales are on a cash basis with a 3% cash discount, 60% are on a one-month credit basis and 15% are on a two-month credit basis.
2. A provision for irrecoverable debts is calculated at 5% on all sales.
3. Half of purchases are on a cash basis with the other half being on a one-month credit basis.
4. Wages were £6 000 in December and are paid in the month incurred. From January, they will be increased by 2.5%.
5. A loan of £45 000 is being repaid in equal monthly instalments over five years. Interest is charged at a rate of 5% per annum and is calculated and paid monthly on the basis of the outstanding balance at the start of each month. The amount still owing at 1 January was £18 000.



- 6. Non-current assets have a cost of £60 000 and an estimated scrap value of £12 000. They are being depreciated at 20% per annum using the straight-line method.
- 7. Expenses (including depreciation) are £15 000 per month and are paid in the month incurred.
- 8. Cash drawings are taken each month based on 8% of monthly sales.
- 9. The bank balance at 1 January was £1 250.

1	5
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1

 Prepare a cash budget for Webster for the month of January. [14 marks]

[Turn over]







The cash balance for Webster has been declining in recent months. Webster is considering delaying paying his suppliers to improve cash flow.

1 5 . 2

Assess whether this would be the most appropriate way to improve the cash flow of Webster's business. [6 marks]



[Turn over]



SECTION C

Answer ALL questions in this section.

1	6
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The management of Keltarf Ltd have provided the following budgeted information:

	£
Total fixed overheads per annum	180 000
Costs per unit:	
Materials	12.50
Labour	9.75
Variable overheads	2.75
Selling price per unit	31.25

Since the start of the current year, Keltarf Ltd has produced and sold 25 000 units.

Keltarf Ltd operates in a very competitive market in which all products are similar but technically complex. The management have set a target profit of £50 000 for this financial year. To help meet targets, they have recently changed to a cheaper supplier of raw materials.

Keltarf Ltd has been contacted by a potential new customer who wishes to place an initial order of 12 000 units of the existing product. However, they have requested a 5.6% trade discount per unit. Any further orders are not guaranteed and would be dependent on product quality being high and a tight deadline for completion being met.





[Turn over]





Handwriting practice lines consisting of 22 horizontal lines spaced evenly down the page.



[Turn over]



1	7
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Sekips Ltd is an established manufacturing business with a track record of profitability. The business operates a manual incremental budgetary system. Although variances are calculated at the end of the year there are no monthly reports or analysis of the variances. Most of the accountancy department have been there for many years and some are happy with the current accounting systems.

In order to develop the business, the Managing Director has decided that the company needs to convert to being a public limited company. In order to attract future investors, the Managing Director knows that the financial controls need to be significantly improved. To achieve this, a new Finance Director has been appointed whose key priorities are to oversee the conversion and to modernise the finance function. The new Finance Director considers that the current budgeting system is not fit for purpose and intends to implement a computerised zero-based budgeting system.



1	7
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Evaluate the impact that the proposed changes might have on Sekips Ltd. [25 marks]

[Turn over]





[Turn over]







[Turn over]



END OF QUESTIONS



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For Examiner's Use	
Question	Mark
A	
B	
C	
TOTAL	

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