

A



A-level

ACCOUNTING

Paper 2 Accounting for analysis and decision-making

7127/2

Insert

Insert for use in answering Questions 14, 16 and 17.

[Turn over]

BLANK PAGE

14.1

Ebau Ltd manufactures two products. The Finance Director of Ebau Ltd provides the following information about Product A.

In May 2022 Ebau Ltd expected to be able to make and sell 2 850 units, but it actually made and sold 3 100 units.

	PRODUCT A	
	STANDARD COST (PER UNIT)	ACTUAL (TOTAL)
	£	£
Selling price/Revenue	80	241 800
Direct materials	18	51 150
Direct labour	24	75 950

[Turn over]

14.2

The Finance Director of Ebau Ltd provides the following information about Product B.

In May 2022 Ebau Ltd expected to be able to make and sell 6 000 units, but it actually made and sold 5 500 units.

	PRODUCT B STANDARD COST (PER UNIT)
	£
Selling price	55.00
Direct materials	18.20
Direct labour	3.50

	PRODUCT B ACTUAL	
	£	
Revenue	319 000	
Direct materials	103 125	
Direct labour	<u>17 061</u>	
Contribution	198 814	
Fixed overheads	<u>(48 000)</u>	
Profit	150 814	
VARIANCES:		
Sales price	16 500	Fav
Sales volume	27 500	Adv
Total direct material	3 025	Adv
Total direct labour	2 189	Fav

Fixed overheads for the month were as budgeted.

[Turn over]

16

D2 plc produces two products, Basic and Premier. The selling price of each product is based on a 50% mark-up on variable costs.

	BASIC	PREMIER
Units produced each week	1 500	120
Variable cost (per unit)	£60	£100
Contribution (per unit)	£30	£50

There is no opening or closing inventory of either product.

After fixed overheads of £32 772 per week D2 plc makes a profit of £18 228.

A director is concerned about falling profitability, which he thinks is due to making less profit per unit on sales of the Basic. He has suggested that the company changes to activity-based costing and setting the selling price of each product on a 12.5% mark-up on total cost. He has provided the following calculation of total cost per unit.

	BASIC	PREMIER
Units produced each week	1 500	120
Batches produced each week	1	1
Variable cost (per unit)	£60	£100
Fixed overheads (per unit)		
Machine set-ups	£8.30	£103.75
Quality control	£4.20	£13.10
Total cost (per unit)	£72.50	£216.85

Each new batch requires the machinery to be reset.

The company trades in a competitive market. It has a loyal customer base, a mix of wholesalers and retailers. Fe3 Ltd purchases over 80% of all Premiers produced.

For many years D2 plc has rented a large factory and warehouse.

[Turn over]

1	7
---	---

Tuor plc is a property development company that specialises in the renovation of luxury houses in London. Eight years ago it purchased 95 acres of farmland on the outskirts of a small city in South West England. The land cost £15 million and a further £0.5 million was spent on site clearance before submitting a planning application for 1 600 houses. There were many objections to the planning application from the local community. Many of the locals were either not in work or in minimum wage jobs and feared that the development would result in people moving in from out of the area or that the houses would be bought by landlords. It was argued the local hospital and schools would not cope with such a large increase in the population.

Due to the objections the planning application for the housing development was rejected. However, the council has stated it will approve ONE of the following alternative developments.

DEVELOPMENT A

To build a county stadium, to be used as the home ground for the city's non-league football club, the county's rugby team and the local college. It will also be used as a conference and music venue. Tuor plc will operate the stadium and hope to employ up to 160 part-time staff.

DEVELOPMENT B

To build a large out-of-town shopping complex, along with a smaller development of 150 houses. The houses will be large executive family houses starting at £900 000. The shopping complex will be the largest enclosed shopping area in South West England. The city centre, which can be reached by a park and ride scheme, has a mix of small independent shops and traditional high street shops.

The Finance Director of Tuor plc, who is also a non-executive director of the city's football club, has provided the following information.

	DEVELOPMENT A	DEVELOPMENT B
Cost (excluding land)	£16 million	£60 million
Net present value	£824 000	£3.6 million
Life of project	35 years	20 years
Payback period	20 years	12 years

The cost has been based on similar developments in London.

The net present value was calculated using a discount rate of 12% which is used for current operations.

END OF INSERT

BLANK PAGE**Copyright information**

For confidentiality purposes, all acknowledgements of third-party copyright material are published in a separate booklet. This booklet is published after each live examination series and is available for free download from www.aqa.org.uk.

Permission to reproduce all copyright material has been applied for. In some cases, efforts to contact copyright-holders may have been unsuccessful and AQA will be happy to rectify any omissions of acknowledgements. If you have any queries please contact the Copyright Team.

Copyright © 2022 AQA and its licensors. All rights reserved.

IB/M/NC/Jun22/7127/2/E1