A

A-level

ACCOUNTING

Paper 2 Accounting for analysis and decision-making

7127/2

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Insert for use in answering Questions 12, 13, 14, 16 and 17.

[Turn over]

1 2

Keverne Penn, a sole trader, provided the following information.

STATEMENT OF FINANCIAL POSITION (EXTRACT) AT 31 MAY 2021

Non-current assets	Cost	Accumulated depreciation	Net book value
	£	£	£
Motor vehicles	95 000	35 350	59 650
Equipment	36 400	20 700	15 700
			75 350

ADDITIONAL INFORMATION

1. On 1 June 2021, a motor vehicle, purchased on 1 June 2018 for £26 400, was sold.

2. On 1 January 2022, equipment costing £12 000 was purchased.
3. Non-current assets are depreciated at 25% per annum using the straight-line method on a month-by-month basis. A full month's depreciation is charged in the month of purchase and none in the month of disposal.

[Turn over]

1 3

Michael will start trading on 1 August 2022, introducing £18 500 of his own cash into the business.

He has produced the following forecast.

	AUGUST 2022	SEPTEMBER 2022
	£	£
Sales	11 400	26 600
Purchases	18 000	20 200
Operating expenses	1 100	1 200

ADDITIONAL INFORMATION

1. **25% of sales will be on a cash basis with the remainder on a one-month credit basis.**

2. 60% of purchases will be on a cash basis and the remainder on credit. Trade payables will be paid in the month following purchase after taking a 5% early payment discount.

3. Operating expenses will be paid in the month they are incurred.

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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	17 061
Contribution	198 814
Fixed overheads	(48 000)
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 Quality control	 £8.30 £4.20	 £103.75 £13.10
Total cost (per unit)	£72.50	£216.85

[Turn over]

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.

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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.

[Turn over]

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.

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