



A-level

ACCOUNTING

**Paper 2 Accounting for analysis and
decision-making**

7127/2

Insert

**Insert for use in answering Questions 12,
14, 15, 16 and 17.**

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**Source material for answering
Question 12.**

**Zed Ltd provides the following monthly
information about their two products:**

| | PRODUCT A | PRODUCT B |
|----------------------------------|------------------|------------------|
| Material costs | £7 400 | £6 800 |
| Labour costs | £2 750 | £3 250 |
| Production (units) | 3 000 | 2 500 |
| Number of units per batch | 150 | 250 |
| Number of purchase orders | 10 | 15 |

The following overheads are absorbed using activity-based costing:

- **each batch requires a setup at the start of the production line. The total setup costs are £16 500 per month**
- **purchasing overheads are £4 600 per month.**

Other fixed production overheads total £22 000 per month and are absorbed per unit.

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**Source material for answering
Question 14.**

Bev plans to start trading as a sole trader on 1 January 2024 as a wholesaler of ceramic plant pots. She needs to prepare budgeted financial statements and has provided the following estimated financial information:

- 1. Revenue for the year is expected to be £60 000. All sales will be made on credit, and trade receivables are expected to pay their accounts one month after the sale is made.**
- 2. Purchases for the year are expected to be £24 000. All purchases will be made on credit, and trade payables are expected to be paid one month after the purchase is made.**

- 3. Revenue and purchases are expected to occur equally across the year.**
- 4. Closing inventory is expected to have a value of £3 800.**
- 5. Rent for the warehouse is expected to be £1 300 per month and will be paid one month in arrears.**
- 6. Other costs per year are expected to be:**
 - a. administration and marketing
£2 400**
 - b. wages £18 700.**
- 7. Bev will purchase a delivery van for £12 000. She will depreciate the van on a reducing balance basis at 30% per year. She will also purchase some equipment for the warehouse for**

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£9 800. She will depreciate the equipment on a straight line basis for 4 years. The equipment is expected to have a scrap value of £1 800. A full year's depreciation will be charged in the year of purchase for all assets.

- 8. Bev will invest £7 200 capital from her own savings and expects to make drawings of £1 600 across the year.**
- 9. A 6% bank loan for £15 000 over 5 years will be taken out on 1 January 2024. Monthly repayments will be made across the period of the loan. Interest will be charged on the balance outstanding at the start of the year.**
- 10. The bank has also agreed an overdraft facility of £5 000.**

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Source material for answering Question 15.

ABD Manufacturing Ltd is considering investing in a new machine and has provided the following information:

| | £ | 000 |
|--|--------|-----|
| Cost of machine | 30 000 | |
| Installation costs | 2 000 | |
| Fixed costs per year (excluding depreciation) | 3 000 | |

Purchase and installation of the machine is expected in 2023 and the project will start manufacturing in 2024.

The machine will be used for 4 years before disposal at the end of 2027 for an estimated £15 000. The company depreciates all non-current assets on a straight line basis.

| | 2024 | 2025 | 2026 | 2027 |
|---|-------|-----------------|-----------------|-----------------|
| Sales (units) based on customer surveys | 1 500 | 10% increase | 10% increase | 20% increase |
| Sales price per unit | £9.50 | £9.50 | £9.80 | £10.00 |
| Variable costs per unit | £2.50 | £2.50 | £3.00 | £3.00 |

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The percentage increase is based on the previous year's sales in units.

ABD Manufacturing Ltd uses a cost of capital of 12%. The relevant discount factors are:

| YEAR | DISCOUNT FACTOR |
|-------------|------------------------|
| 0 | 1.000 |
| 1 | 0.893 |
| 2 | 0.797 |
| 3 | 0.712 |
| 4 | 0.636 |

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Source material for answering Question 16.

Henderson Ltd manufactures scissors in the United Kingdom. The company produces three types of scissors: household, dressmaking and manufacturing. The company has built a strong reputation for high-quality products. The company prides itself on being an ethical employer paying above the minimum wage and is aiming to be a carbon neutral company within 10 years.

Sam, the managing director, is concerned about the declining availability of highly skilled workers. It takes up

to five years to gain the experience required to produce the high-quality blades for the scissors and these skills may be lost in the near future.

This source material continues on pages 14–16.

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The accountant has provided the following information from the current year.

| | Household £ | Dressmaking £ | Manufacturing £ |
|---------------------------|----------------|------------------|--------------------|
| Selling price per unit | 25.00 | 37.00 | 48.00 |
| COST PER UNIT | | | |
| Labour | 7.00 | 9.50 | 17.00 |
| Materials | 5.70 | 5.90 | 7.80 |

Fixed costs for the factory and offices are £84 000 per year.

Due to his concern about the decline in the availability of labour, Sam has approached an overseas company who is very keen to manufacture the household brand of scissors as it has spare capacity within its workforce. The overseas company has a reputation for making quality products and Sam feels that the quality will appear the same as the scissors made by Henderson Ltd. However, the overseas company has previously received negative publicity regarding poor employee working conditions.

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The overseas company has said it can manufacture each unit of household scissors for £11 and the air transport costs would be £3 per unit. Sam has negotiated an order for 2 000 units in the first year of the contract. Demand for the household scissor was 2 500 units last year.

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**Source material for answering
Question 17.**

**Miles Upholstery Ltd manufactures sofas.
The business started 5 years ago and, so
far, has been profitable.**

**A standard costing system was set up
when the company started. The standard
variable cost per sofa is calculated as
follows:**

| | | £ |
|------------------|-----------------------------------|---------------|
| Materials | 4 metres at £30 per metre | 120.00 |
| Labour | 5 hours at £10.20 per hour | 51.00 |
| Total | | 171.00 |

During May 2023, the business produced 490 sofas. The accountant has calculated the direct cost variances as follows:

| VARIANCE | £ | FAVOURABLE/ ADVERSE |
|--------------------------|---------------|--------------------------------|
| Material price | 7 056 | Favourable |
| Material usage | 11 760 | Adverse |
| Labour rate | 7 350 | Favourable |
| Labour efficiency | 12 495 | Adverse |

Profits were £15 000 lower than budgeted for the month.

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The managing director has asked for an investigation into the variances and has discovered the actual amount of material used was 2 352 metres. He has found one invoice from a new supplier for materials at £20 per metre and he is of the opinion that the cause of the difference between budgeted and actual profit is lower priced materials.

The managing director has also gained the following information from the factory supervisor:

- the factory staff complained that the material bought in May 2023 was of a lower quality than usual**
- two new factory staff have recently been employed with no production experience**

- **the machinery used in the factory was purchased 5 years ago and is reaching the end of its useful life.**

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