



A-level
ACCOUNTING
7127/2

Paper 2 Accounting for analysis and decision-making

Mark scheme

June 2023

Version: 1.0 Final



Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Marking guidance question 11

This question is only testing Assessment Objective 1.

You should apply the level of response mark scheme to one advantage.

Read the description as a whole and decide if it is clear, partial, fragmented or nothing worthy of credit.

When you have made your decision, award the appropriate level by using L3, L2, L1 or L0 and show this on the answer by using the drop-down comment box.

Then put the appropriate mark for the question in the mark box.

Marking guidance for questions 14.3 & 15.3

These questions are testing Assessment Objectives 2 and 3.

Be clear on the focus of the question.

Read the whole question and decide which level should be awarded, then add the appropriate level to the script from the comment box, eg L3, L2, L1 or L0.

Then put the marks awarded for the question in the mark box.

Remember that the indicative content provides possible answers but there may be others that are equally valid, and you should give credit to other lines of argument.

A good response does not need to include all the indicative content.

Marking guidance for questions 16 & 17

Be clear on the focus of the question.

When you have decided on the level to be awarded add the appropriate comment which best describes the response to the end of the answer.

- L5** Convincing judgement/recommendation fully supported by evaluation and analysis of a wide range of evidence with a strong chain of reasoning.
- L5** Astute judgement/recommendation which takes limitations of evidence into account.
- L4** Judgement/recommendation is supported by evaluation and analysis of a range of evidence.
- L4** Judgement/recommendation is supported after some consideration of limitations of evidence.
- L3** Judgement/recommendation is incomplete but supported by analysis of a range of evidence.
- L3** Judgement/recommendation is developed but analysis and application are limited.
- L2** Judgement/recommendation is given but with limited analysis and weak application.
- L2** Limited range of evidence is analysed and limited chain of reasoning.
- L1** Fragmented points of little/unclear relevance.
- L1** No conclusion/recommendation/judgement with poor application.
- L1** Conclusion unsupported.
- L0** Has not attempted the question.
- L0** Has not produced an answer of any value.

Then review the script and annotate using the following comments:

Where you identify:	Situation	Comment to use
Application knowledge of principles/concepts/techniques	Application is fragmented or descriptive or not adequately applied to the context	Weak application
	Application is relevant and applied fully to the context	Clear application
Analysis	A limited attempt at analysis	Weak analysis
	Analysis is logical/considered	Reasoned analysis

Evaluation	An attempt at assessment/evaluation with little or no supporting evidence	Weak evaluation
	Evaluation/assessment is logical and supported by evidence	Supported evaluation
	Evaluation/assessment considers the relative significance and limitations of the evidence	Astute evaluation
Judgement or Conclusion or Recommendation	An attempt at judgement is made but unsupported by evidence or argument	Judgement/conclusion – unsupported
	A judgement is made and is supported but the support is weak or evidence used is limited	Judgement/conclusion – limited/weak support
	The judgement is supported by evidence and argument but may not be fully balanced	Judgement/conclusion – supported
	Judgement is supported by evidence and considers the limitations of the evidence in context	Judgement/conclusion – fully justified

Remember that the indicative content provides possible answers but there may be others that are equally valid and you should give credit to other lines of argument.

A good response does not need to include all the indicative content.

Consider the question as a whole, together with the annotations made, and decide on the level to be awarded.

Show the Level awarded, eg L2 using the relevant comment from the drop-down list and then enter the mark in the total box reflecting where in the level the answer sits.

If in doubt about an answer or if you are unsure of the validity of the content then contact your Team Leader. Please make sure that you follow the guidance in the standardisation scripts as we need to have a consistent approach across all marking.

Be positive in your marking and look to reward what is there.

The own figure rule

General principle

The own figure rule is designed to ensure that students are only penalised once for a particular error at the point at which that error is made, and suffer no further penalty as a consequence of the error. The error could be in an account, a calculation, financial statement, or prose explanation. Where the own figure rule is to be applied in a mark scheme, the symbol **OF** is used.

Applications

In an account: a student could still achieve a mark for balancing an account with their own figure, rather than the correct figure, if they had made an error in the account (such as the omission of an entry, or the inclusion of an incorrect figure for an otherwise valid entry). However, it should be noted that an own figure would not be awarded for the balance of an account, if the account contained any item which should not have appeared (often referred to as an 'alien' item).

In a complex calculation to which several marks are allocated: a student could achieve an own figure mark for the result of a complex calculation, if an error has been made in one of the steps leading to the final result. The complex calculation could be a separate task, or an aspect of a larger requirement (such as workings to provide details for a financial statement).

In a financial statement: a student could still achieve a mark for calculating an own figure for a key subtotal within a financial statement where an error had already occurred in the data making up the subsection (such as the omission of an item, or an incorrect figure for an otherwise valid entry). Again, the own figure for a subtotal would not be given if the subsection included any 'alien' item.

In a prose statement: a student who is explaining or interpreting some financial statements or data that they have prepared but which contains errors, would be credited with an appropriate interpretation of their own figures.

Workings

A '**W**' next to a figure in the mark schemes means that the figure needs to be calculated by the student to which workings are shown for reference. If the figure the student has given in their answer is wrong and the marks given for that calculation are more than 1 then the marker must refer to the working for that item. The working will show the steps of the calculation to which the marks are attributed and the student should be allocated the marks for the steps they completed correctly.

Financial Statements

Where questions require students to prepare financial statements (or extracts of these), the indicative mark schemes will include the standard wording that we have suggested in our statements resource. Students may use slightly different wording for entries in statements, which should not be penalised if it is clear that the meaning is the same.

Section A

Multiple Choice Questions

Question Number	Answer	
01	A	Bank statement
02	B	$\frac{\text{Gross profit}}{\text{Cost of sales}} \times 100$
03	C	It helps to maximise profits when resources are scarce.
04	B	£21.12
05	A	$\frac{\text{Dividend per share}}{\text{Market price per share}} \times 100$
06	D	£2 961 500
07	C	Bank £6 860 and profit for the year £126 255
08	C	26 625 kg
09	C	£6 250 over absorbed
10	C	£19 360 Credit

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Explain one advantage of a sole trader in a growing business becoming a private limited company.	3

AO1 – 3 marks

Level	Marks	Description
3	3	A clear and thorough explanation showing understanding of an advantage.
2	2	A partial explanation showing understanding of an advantage but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing worthy of credit.

Answers may include:

- Limited liability – the owner is protected from the risk of losing personal possessions in the event the business fails as a result of the attempt to grow.
- Access to capital – shares can be sold in the company to raise the capital invested.
- Sole ownership – the owner can continue to be the sole owner by holding all the shares in the company meaning all dividends can be given to the owner and they can continue to make all the decisions.
- Access to borrowing – companies are often viewed more favourably by banks and other financial institutions leading to increased access to loans and credit.

This list is not exhaustive and other valid advantages must be credited.

Qu	Part	Marking Guidance	Total marks
12		Calculate the total monthly production cost of Product A .	7

AO1 – 7 marks

	£
Materials	7 400
Labour	2 750
Setup costs	11 000 (2) W1
Purchasing overheads	1 840 (2) W2
Other fixed overheads	<u>12 000</u> (2) W3
Total cost	<u>34 990</u> (1) OF*

Workings

W1 Setup

$3\,000 / 150 = 20$ batches and $2\,500 / 250 = 10$ batches

$20 + 10 = 30$ batches

$(£16\,500 / 30) = £550$ **(1)** $\times 20 = £11\,000$ **(1) OF**

W2 Purchasing

$10 + 15 = 25$ purchase orders

$(£4\,600 / 25) = £184$ **(1)** $\times 10 = £1\,840$ **(1) OF**

W3 Other fixed overheads

$3\,000 + 2\,500 = 5\,500$ units

$(£22\,000 / 5\,500) = £4$ **(1)** $\times 3\,000 = £12\,000$ **(1) OF**

*The **OF** mark can only be awarded if materials and labour are included in the calculation.

Qu	Part	Marking Guidance	Total marks
13	1	Calculate the break-even point in units.	5

AO1 – 5 marks

Sales price £168 000 / 4 000 = £42 (1)

Variable cost £132 000 – £60 000 = £72 000 (1) / 4 000 (1) = £18

Contribution per unit £42 – £18 **OF** = £24 **OF**

Break-even £60 000 (1) / £24 **OF** = 2 500 units (1) **OF**

Qu	Part	Marking Guidance	Total marks
13	2	Calculate the margin of safety as a percentage of output if the business makes and sells 4 000 units.	2

AO1 – 2 marks

$(1\ 500 \times (1) \text{ OF} / 4\ 000) \times 100 = 37.5\% (1) \text{ OF}^{**}$

*Mark can be awarded using the break-even point calculated in Question 13.1

**Mark can be awarded using the margin of safety calculated using the break-even point from Question 13.1

Qu	Part	Marking Guidance	Total marks
13	3	Calculate the profit or loss made if the business makes and sells 2 800 units.	3

AO1 – 3 marks

£42 – £18 = £24 contribution per unit (1) **OF****

2 800 × £24 = £67 200 (1) – £60 000 (1)*** = £7 200 profit

** Mark can be awarded for using the sales price and variable cost calculated in Question 13.1

*** Mark can be awarded for using the fixed costs identified in Question 13.1

Alternative answer:

$[2\ 800 (1) - 2\ 500 (1)] = 300 \times £24 (1) \text{ OF} = £7\ 200$

Alternative answer:

$(£117\ 600 - £50\ 400) (1) \text{ for both} - £60\ 000 (1) = £7\ 200 (1) \text{ OF}$

Revenue – Variable costs – Fixed costs = Profit

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Prepare a budgeted income statement for the year ended 31 December 2024 for Bev.	6

AO2 – 6 marks

Bev
Budgeted income statement for the year ended 31 December 2024

	£	£
Revenue		60 000
Cost of sales		
Purchases	24 000	
Closing inventory	<u>3 800</u>	
		<u>20 200</u>
Gross profit		39 800 (1)*
Less expenses:		
Rent (12 × £1 300)	15 600	(1)
Administration and marketing	2 400	
Wages	18 700	
Depreciation	5 600	(2) W1
Bank interest (£15 000 × 6%)	<u>900</u>	(1)
		<u>43 200</u>
Loss for the year		<u>(3 400)</u> (1) OF**

W1 Depreciation

Delivery Van £12 000 × 30% = £3 600 (1)

Equipment (£9 800 – £1 800) / 4 = £2 000 (1)

£3 600 + £2 000 = £5 600 **OF**

Marker Note:

*Mark can be awarded only if revenue and cost of sales are shown.

**Mark can be awarded only if administration & marketing and wages are included and there are no extraneous items eg loan repayment..

Marks are awarded for correct placement and direction.

Do not accept GP for gross profit.

Label of profit for the year allowed if amount in brackets (indicating loss).

Qu	Part	Marking Guidance	Total marks
14	2	Prepare a budgeted statement of financial position as at 31 December 2024 for Bev using the bank balance as the balancing figure.	8

AO2 – 8 marks

Bev
Budgeted statement of financial position as at 31 December 2024

	£	£	£
Non-current assets	Cost	Accumulated depreciation	Net book value
Delivery van	12 000	3 600	8 400
Equipment	<u>9 800</u>	<u>2 000</u>	<u>7 800</u>
	<u>21 800</u>	<u>5 600</u> OF	16 200 (1) OF
Current assets			
Inventory		3 800 (1)	
Trade receivables		<u>5 000</u> (1) W1	
			<u>8 800</u>
Total assets			<u>25 000</u>
Capital			
Opening capital			7 200
Loss for the year			<u>(3 400)</u> OF
			3 800
Drawings			<u>(1 600)</u>
Closing capital			2 200 (1) OF
Non-current liabilities			
Loan			9 000 (1)**Both
Current liabilities			
Bank		7 500 (1) OF*	
Trade payables		2 000 (1) W2	
Other payables (loan with 1 year)		3 000 **	
Other payables (rent accrual)		<u>1 300</u> (1)	
			<u>13 800</u>
Total capital and liabilities			<u>25 000</u>

*Balancing figure

W1 Trade receivables

£60 000 / 12 = £5 000 (1)

W2 Trade payables

£24 000 / 12 = £2 000 (1)

Marker Note:

** The £12 000 must be correctly split for the mark.

The alternative formats of the statement of financial position are acceptable.

Marks are awarded for correct placement and direction.

The mark for the bank (**OF**) can only be awarded if there are no extraneous items in the statement of financial position.

Qu	Part	Marking Guidance	Total marks
14	3	Assess the usefulness of preparing a budgeted statement of financial position for Bev.	6

AO2 – 2 marks, AO3 – 4 marks

Level	Marks	Description
3	5-6	Judgements are fully supported by a wide range of evidence. A clear and balanced analysis of data/information/issues is provided, showing a logical chain of reasoning.
2	3-4	Judgements are partially supported by evidence. A reasoned, but unbalanced analysis of data/information/issues is provided; starts to develop a chain of reasoning. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques has been applied in context.
1	1-2	Judgements may be asserted but are unsupported by evidence. An analysis of discrete points of data/information/issues provided; no chain of reasoning is attempted. Limited but relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
0	0	Nothing worthy of credit.

Answers may include:

Reasons for preparing a budgeted statement of financial position

- The budget provides a comparison for actual results and can help identify areas of improvement for Bev in future years.
- The budgeting process focuses Bev on the real costs involved and adjustments can be made prior to the business starting. This will help Bev as she does not have financial experience and may not be aware of all the costs.
- The budget shows a loss – Bev may decide this venture is not worthwhile.
- The budget shows a bank overdraft (**OF**) in excess of the one arranged with the bank. This gives Bev the opportunity to reassess her financing needs and possibly rearrange the overdraft.
- The statement of financial position can provide supporting evidence to the bank of the viability of the business. The bank may ask for this document before agreeing the loan or the overdraft.

Reasons against preparing a budgeted statement of financial position

- Bev does not have financial experience and may not be able to prepare a budget that is realistic and may lead to poor decisions.
- The industry is volatile due to exchange rates and may mean that actual results are so far away from the budget that it is not useful for comparison.
- Other documents may be more/equally as useful such as a cash flow forecast or a break-even analysis. Bev may be better using her time to prepare these.

Qu	Part	Marking Guidance	Total marks
15	1	Calculate the Net Present Value of the project, clearly showing the cash inflows and outflows. Round all figures to the nearest pound.	12

AO2 – 12 marks

Year	Cash inflows W1 £	Cash outflows W2 £	Net cash flow £	Discount factor	DCF £
2023		(32 000) (1)	(32 000)	1.000	(32 000) (1)*
2024	14 250	6 750 (2) #	7 500	0.893	6 698
2025	15 675 (1) OF	7 125 (1) OF	8 550	0.797	6 814
2026	17 787 (1) OF	8 445 (1) OF	9 342	0.712	6 652
2027	36 780 (2) OF	9 534 (1) OF	27 246	0.636	17 328
				NPV	5 492 (1) OF

***1 mark allocated for the correct application of the discount factor for all years**

W1 Cash inflows

$$1\,500 \times \pounds 9.50 = \pounds 14\,250$$

$$1\,500 + 10\% = 1\,650 \times \pounds 9.50 = \pounds 15\,675 \text{ (1)}$$

$$1\,650 + 10\% = 1\,815 \times \pounds 9.80 = \pounds 17\,787 \text{ (1) OF**}$$

$$1\,815 + 20\% = 2\,178 \times \pounds 10.00 = \pounds 21\,780 \text{ (1) OF**} + \pounds 15\,000 \text{ (1) OF} = \pounds 36\,780$$

W2 Cash outflows

$$\pounds 30\,000 + \pounds 2\,000 = \pounds 32\,000 \text{ (1)}$$

$$1\,500 \times \pounds 2.50 = \pounds 3\,750 \text{ (1)} + \pounds 3\,000 \text{ (1) \#} = \pounds 6\,750 \text{ OF}$$

$$1\,650 \times \pounds 2.50 = \pounds 4\,125 \text{ (1) OF} + \pounds 3\,000 = \pounds 7\,125 \text{ OF}$$

$$1\,815 \times \pounds 3.00 = \pounds 5\,445 \text{ (1) OF**} + \pounds 3\,000 = \pounds 8\,445 \text{ OF}$$

$$2\,178 \times \pounds 3.00 = \pounds 6\,534 \text{ (1) OF**} + \pounds 3\,000 = \pounds 9\,534 \text{ OF}$$

Marker Note:

**** OF** can be awarded where increase in units is based on calculation of units in Year 2.

Award 1 mark where fixed costs of £3 000 is correctly included in cash outflows.

1 mark for NPV is only awarded if all discounted cash flows are correctly totalled and the NPV is rounded to the nearest pound.

An NPV of £2 492, showing cash inflows and outflows will be awarded 11 marks.

Qu	Part	Marking Guidance	Total marks
15	2	Calculate the payback period for the project.	2

AO2 – 2 marks

Accumulated cash flows:

Year 3: £7 500 + £8 550 + £9 342 = £25 392

Cash flow required in year 4: £32 000 **OF** – £25 392 = £6 608 **(1) OF**

£6 608 / £27 246 x 12 = 2.91 months **OF**

£6 608 / £27 246 x 365 = 88.52 days **OF**

£6 608 / £27 246 = 0.25 years **OF**

3 years 2.91 months or 3 years 89 days or 3.25 years **(1) OF**

Alternative answer (where cashflows in 2027 are split):

Accumulated cash flows:

Year 3: £7 500 + £8 550 + £9 342 = £25 392

Cash flow required in year 4: £32 000 **OF** – £25 392 = £6 608 **(1) OF**

£6 608 / £12 246 x 12 = 6.48 months **OF**

£6 608 / £12 246 x 365 = 196.96 days **OF**

£6 608 / £12 246 = 0.54 years **OF**

3 years 6.48 months or 3 years 197 days or 3.54 years **(1) OF**

Alternative answer (where £35 000 is used as initial investment):

Accumulated cash flows:

Year 3: £7 500 + £8 550 + £9 342 = £25 392

Cash flow required in year 4: £35 000 **OF** – £25 392 = £9 608 **(1) OF**

£9 608 / £27 246 x 12 = 4.23 months **OF**

£9 608 / £27 246 x 365 = 128.71 days **OF**

£9 608 / £27 246 = 0.35 years **OF**

3 years 4.23 months or 3 years 129 days or 3.35 years **(1) OF**

Alternative answer (where £35 000 is used as initial investment and cashflows are split in 2027):

Accumulated cash flows:

Year 3: £7 500 + £8 550 + £9 342 = £25 392

Cash flow required in year 4: £35 000 **OF** – £25 392 = £9 608 **(1) OF**

£9 608 / £12 246 x 12 = 9.41 months **OF**

£9 608 / £12 246 x 365 = 286.37 days **OF**

£9 608 / £12 246 = 0.79 years **OF**

3 years 9.41 months or 3 years 287 days or 3.79 years **(1) OF**

Marker Note:

Accept reasonable rounding for payback period.

Qu	Part	Marking Guidance	Total marks
15	3	Assess the finance director's opinion using your answers to Questions 15.1 and 15.2 .	6

AO2 – 2 marks, AO3 – 4 marks

Level	Marks	Description
3	5-6	Judgements are fully supported by a wide range of evidence. A clear and balanced analysis of data/information/issues is provided, showing a logical chain of reasoning.
2	3-4	Judgements are partially supported by evidence. A reasoned, but unbalanced analysis of data/information/issues is provided; starts to develop a chain of reasoning. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques has been applied in context.
1	1-2	Judgements may be asserted but are unsupported by evidence. An analysis of discrete points of data/information/issues provided; no chain of reasoning is attempted. Limited but relevant knowledge and understanding of principles/concepts/techniques has been applied to the context.
0	0	Nothing worthy of credit.

Answers may include:

Arguments in favour of the finance director's opinion

- The majority of the cash inflows occur later in this project and the company have been experiencing cash flow difficulties so may not be able to survive long enough to see the benefits of the project.
- The uncertainty of forecasting in later years reduces the accuracy of the net cash inflows in later years, possibly resulting in no payback.
- Focussing on projects with a shorter payback means the business would receive cash sooner. This could help with cashflow difficulties.
- Having a benchmark for all investments means that the same criteria is applied to all projects.

Arguments against the finance director's opinion

- The project does pay back the original investment. It takes three years 2.91 months (**OF**) which is within the four-year life of the project.
- The project may still contribute value to the company with an NPV of £5 492 (**OF**) and possibly help the financial position of the company.
- There may not be a better option and rejecting this project may lead to business failure.

- A mixture of capital investment appraisal techniques may give a more balanced view of the project. The use of payback and NPV will offer the decision makers different views and therefore counterbalance any bias of one, singular technique.
- A short payback may not mean low risk and projects with a shorter payback that have a higher risk may be selected over those projects that have a longer payback but are less risky.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate whether Henderson Ltd should move the manufacturing of 2 000 units of the household scissors to the overseas company, or continue manufacturing all scissors in the United Kingdom. Justify your answer. Consider both financial and non-financial factors.	25

AO2 – 5 marks, AO3 – 20 marks

Level	Marks	Description
5	21–25	A clear and balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of a wide range of evidence including other factors relevant to the wider context. There is an insightful assessment of the significance and limitations of the evidence used to support the judgement.
4	16–20	A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that is supported by an evaluation of a wide range of evidence, including a narrow consideration of other factors relevant to the wider context. There is a partial assessment of the significance and limitations of the evidence used to support the judgement.
3	11–15	An underdeveloped judgement and conclusion/solution is presented that is supported by an evaluation of a range of evidence provided in the question; however, there may be inconsistencies and the reasoning may contain inaccuracies. A comprehensive and relevant selection of information is analysed, showing a developed logical chain of reasoning. The results of any appropriate calculation(s) are integrated into the analysis and evaluations offered on most. Comprehensive and relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a thorough selection of relevant calculations is attempted; these may include minor errors.
2	6–10	A basic judgement and conclusion/solution is presented, it is supported by a limited evaluation of evidence provided in the question, containing significant inaccuracies. A limited but relevant selection of information is analysed, starting to develop a logical chain of reasoning. The results of the calculation(s) are integrated into the analysis but with weak evaluations. Limited but relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a limited selection of relevant calculations is attempted; these may include minor errors.

1	1–5	<p>A judgement and conclusion/solution may be asserted, but it is unsupported by any evidence.</p> <p>Responses present a limited selection of information that is not wholly relevant with an attempt at analysis. A chain of reasoning ranges from being barely present to undeveloped.</p> <p>Fragmented items of knowledge and understanding of principles/concepts/techniques relevant to the contexts are present. These are likely to be descriptive, with limited application to the context. Where appropriate, some calculations are attempted; these are likely to contain errors and may not be relevant to the context. Results of the calculations are stated with little or no evaluation.</p>
0	0	Nothing written worthy of credit.

Answers may include:

AO2 Application

Contribution per unit if made in the UK:

Household £25.00 – £7.00 – £5.70 = £12.30 per unit

Dressmaking £37.00 – £9.50 – £5.90 = £21.60 per unit

Manufacturing £48.00 – £17.00 – £7.80 = £23.20 per unit

Contribution per unit if bought from overseas:

£25.00 – £11.00 – £3.00 = £11.00 per unit

Cost of the order for the first year $2\,000 \times £14 = £28\,000$

Contribution for the order in the first year $£25 - £14 = £11 \times 2\,000 = £22\,000$

AO3 Analysis and Evaluation

Arguments for manufacturing overseas

- Contribution of £11 per unit is made which can contribute towards the fixed costs of £84 000.
- Spare capacity will be gained that can be used to manufacture different types of scissor with a higher contribution, eg dressmaking or manufacturing.
- Fewer workers may be needed which may lead to redundancies/lower staff costs.
- The overseas company might be able to take on more orders in the future.
- Potential for the other scissor types to be manufactured.

Arguments for manufacturing in the UK

- Higher contribution of £12.30 per pair of household scissor.
- Quality can be controlled and maintained. Sam may be wrong and the quality of the item manufactured overseas may be noticeably lower quality.
- Delivery is guaranteed as there is no reliance on shipping via air from a different country.
- £28 000 is a large financial commitment on one order from a business that is new to them.
- Manufacturing in the UK will avoid using air transport and help meet the carbon neutral target.
- Henderson Ltd can guarantee working conditions for employees.
- Avoids price fluctuations due to currency exchange rates.

Limitations

- How long would it take to make 2 000 pairs of household scissors in the UK? How much spare capacity is being released?
- Will 2 000 pairs be enough to meet demand? Will the UK factory be able to quickly adjust to manufacturing household scissors again if the demand is higher than last year?

- Customers may use the household scissors to judge quality and then buy more expensive pairs. If the quality of the household scissors is not as high, repeat business may be lost.
- What are the current working conditions in the overseas factory? The previously received negative publicity may no longer apply. Could this impact on the corporate social responsibility of the UK business? Do the customers care about this when buying their scissors?
- Shipping by air is bad for the environment. There could be an impact on the reputation of the business and their target of being carbon neutral.
- What is the location of the overseas business? Can the units be delivered by alternative means of transport or even delivered directly to Henderson Ltd's customers?

Overall

- Neither option tackles the problem of the decline of the UK workforce and the possible loss of skills in the near future. Would investment in recruitment be a better option?

Marker note

The indicative content is not exhaustive: other creditworthy material should be awarded marks as appropriate.

Qu	Part	Marking Guidance	Total marks
17		<p>Evaluate the managing director’s opinion that the main reason for the difference between budgeted and actual profit is lower priced materials.</p> <p>Consider both financial and non-financial factors.</p>	25

AO2 – 5 marks, AO3 – 20 marks

Level	Marks	Description
5	21–25	<p>A clear and balanced response that presents a coherent and logically reasoned judgement and conclusion/solution that is supported by an astute consideration of a wide range of evidence including other factors relevant to the wider context.</p> <p>There is an insightful assessment of the significance and limitations of the evidence used to support the judgement.</p>
4	16–20	<p>A reasoned, but in places unbalanced, judgement and conclusion/solution is presented that is supported by an evaluation of a wide range of evidence, including a narrow consideration of other factors relevant to the wider context.</p> <p>There is a partial assessment of the significance and limitations of the evidence used to support the judgement.</p>
3	11–15	<p>An underdeveloped judgement and conclusion/solution is presented that is supported by an evaluation of a range of evidence provided in the question; however, there may be inconsistencies and the reasoning may contain inaccuracies.</p> <p>A comprehensive and relevant selection of information is analysed, showing a developed logical chain of reasoning. The results of any appropriate calculation(s) are integrated into the analysis and evaluations offered on most.</p> <p>Comprehensive and relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a thorough selection of relevant calculations is attempted; these may include minor errors.</p>
2	6–10	<p>A basic judgement and conclusion/solution is presented, it is supported by a limited evaluation of evidence provided in the question, containing significant inaccuracies.</p> <p>A limited but relevant selection of information is analysed, starting to develop a logical chain of reasoning. The results of the calculation(s) are integrated into the analysis but with weak evaluations.</p> <p>Limited but relevant knowledge and understanding of principles/concepts/techniques is drawn together and applied successfully to the context. Where appropriate, a limited selection of relevant calculations is attempted; these may include minor errors.</p>
1	1–5	<p>A judgement and conclusion/solution may be asserted, but it is unsupported by any evidence.</p>

		Responses present a limited selection of information that is not wholly relevant with an attempt at analysis. A chain of reasoning ranges from being barely present to undeveloped.
		Fragmented items of knowledge and understanding of principles/concepts/techniques relevant to the contexts are present. These are likely to be descriptive, with limited application to the context. Where appropriate, some calculations are attempted; these are likely to contain errors and may not be relevant to the context. Results of the calculations are stated with little or no evaluation
0	0	Nothing written worthy of credit.

Answers may include:

AO2 Application:

Material price variance explained:

$2\,352 \times (\pounds30 - \pounds20) = \pounds23\,520$ Favourable but variance is $\pounds7\,056$ Favourable

$\pounds23\,520 - \pounds7\,056 = \pounds16\,464$ still unexplained so not all materials could have been bought at this price

Total labour variance is greater than total material variance:

Labour $\pounds7\,350 - \pounds12\,495 = \pounds5\,145$ Adverse

Material $\pounds7\,056 - \pounds11\,760 = \pounds4\,704$ Adverse

The total impact of the direct cost variances is a reduction in profit of

$\pounds9\,849$ ($\pounds7\,056 - \pounds11\,760 + \pounds7\,350 - \pounds12\,495$). This does not explain the full difference in profit.

$\pounds15\,000 - \pounds9\,849 = \pounds5\,151$ unexplained

AO3 Analysis and Evaluation:

Arguments supporting the managing director's opinion:

- A cheaper supplier (evidenced by the invoice found in the investigation and the favourable material price variance) could mean lower quality material. This could also explain the materials usage variance as lower quality material is likely to lead to wastage.
- A cheaper supplier could also explain the labour usage variance as lower quality material could lead to wastage and the need for reworking products (taking more time).
- Materials are the larger cost (compared to labour) and should therefore be monitored more closely.

Arguments against the managing director's opinion:

- If all material was bought at the lower price it would lead to a favourable material price variance of $\pounds23\,520$. The variance is only $\pounds7\,056$ so this does not fully explain this variance. This could mean there are further/different reasons for the other variances.
- The machinery is due to be replaced. Machinery failure could lead to more waste which could explain both the material usage and labour efficiency variances.
- Inexperienced staff could be part of the reason behind the labour efficiency variance, not lower quality materials. Two new staff have recently been recruited and they could be wasting materials. This may also explain the labour rate variance if staff are paid according to experience (inexperienced staff = lower pay = favourable labour rate variance).
- Labour rate variance cannot be completely explained by the new staff as the amount is too much for one month. Other reasons for the variance could be reduction in overtime or bonus payments and this could lead to a drop in motivation and contribute to the labour efficiency variance.

- The difference in profits between budgeted and actual was £15 000 but the cost variances only explain £9 849 of this. £5 151 is unexplained and therefore materials can't be the sole reason for the difference.

Limitations

- There is no information on overheads. These could be a reason behind the difference in profits.
- There is no information on the amount sold or the sales price. The difference in profits could be due to fewer units being sold/a lower price or both and the sales variances would be useful to help identify any issues.
- How long, if at all, has the equipment been out of use during the year? Just because the equipment is old does not mean it has failed.
- How/when was the budget prepared? The budget could contain out of date information.
- How many metres were bought at £20 per metre?

Overall

- When were the standards last updated given that the standard costing system was set five years ago? Out of date standards will lead to irrelevant variances.
- Were the budgeted profits based on a higher level of output? Does the managing director understand the flexing of budgets?
- Some variances are caused by external factors outside of the control of the business. Are there other factors that need consideration?
- What have been the results for previous months? Has the drop in profits been a trend?

Marker note

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