Please write clearly in block capitals.

Centre number | | | | | | Candidate number | | | | |

Surname _____

Forename(s) _____

Candidate signature _____

I declare this is my own work.

A-level
ACCOUNTING

Paper 2 Accounting for analysis and decision-making

Tuesday 6 June 2023 Morning Time allowed: 3 hours

Materials

For this paper you must have:
- a calculator.

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- 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.

For Examiner's Use	
Section	Mark
A	
B	
C	
TOTAL	

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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 is the source document for a payment by direct debit?

[1 mark]

A Bank statement ⬭

B Cash receipt ⬭

C Cheque counterfoil ⬭

D Purchase invoice ⬭

0 2 Which is the formula for markup?

[1 mark]

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

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

C $\frac{\text{Gross profit}}{\text{Revenue}} \times 100$ ⬭

D $\frac{\text{Revenue}}{\text{Gross profit}} \times 100$ ⬭

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0 3 Which is a benefit of marginal costing?

[1 mark]

A It helps to apportion fixed costs accurately.

B It helps to cover fixed costs fully.

C It helps to maximise profits when resources are scarce.

D It helps to minimise variable costs.

0 4 A business has the following budgeted information:

Direct labour	2 240 hours	£15 680

Product M uses direct material at a cost of £11.72 per unit and 30 minutes of labour.
Overheads are absorbed on a direct labour hours basis at a cost of £11.80 per hour.

What is the standard cost of manufacturing one Product M?

[1 mark]

A £15.22

B £21.12

C £27.02

D £30.52

Turn over for the next question

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0 5 Which is the formula for dividend yield?

[1 mark]

A $\frac{\text{Dividend per share}}{\text{Market price per share}} \times 100$ ⬭

B $\frac{\text{Market price per share}}{\text{Dividend per share}} \times 100$ ⬭

C $\frac{\text{Ordinary share dividends paid}}{\text{Profit after interest and tax}} \times 100$ ⬭

D $\frac{\text{Profit after interest and tax}}{\text{Ordinary share dividends paid}} \times 100$ ⬭

0 6 Product W has a budgeted materials cost of £578 per unit based on a monthly budgeted production of 4 920 units.

For the month of April 2023, actual production was 5 110 units and the following variances were calculated:

Variance	**£**	
Material price	48 710	Favourable
Material usage	56 630	Adverse

What is the actual total cost for materials for April 2023?

[1 mark]

A £2 835 840 ⬭

B £2 851 680 ⬭

C £2 945 660 ⬭

D £2 961 500 ⬭

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0 7 The draft accounts of a sole trader were prepared for the year ended 30 April 2023.

The closing balance for the bank was £6 370 debit, and the draft profit for the year was £126 300.

On 5 May 2023, it was discovered that a cheque from a credit customer for £490 had not been entered in the accounts. The cheque is in full and final settlement of an invoice totalling £535.

What are the adjusted balances?

[1 mark]

A Bank £5 880 and profit for the year £126 255 ⬭

B Bank £5 880 and profit for the year £126 345 ⬭

C Bank £6 860 and profit for the year £126 255 ⬭

D Bank £6 860 and profit for the year £126 345 ⬭

0 8 A manufacturer provides the following information:

	May	**June**
Budgeted sales (in units)	5 300	5 400
Opening inventory (in units)	1 325	1 350

For each unit of production, 5 kg of material is needed.

What is the budgeted purchases of material for May?

[1 mark]

A 26 375 kg ⬭

B 26 500 kg ⬭

C 26 625 kg ⬭

D 27 000 kg ⬭

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0 9 The following information is provided by Bee Ltd for February 2023:

	Budgeted	Actual
Production overheads	£507 000	£510 500
Machine hours	253 500 hours	258 375 hours

Bee Ltd absorbs overheads using machine hours.

What is the over- or under-absorption of overheads for February 2023?

[1 mark]

A £3 500 over absorbed ⬭

B £3 500 under absorbed ⬭

C £6 250 over absorbed ⬭

D £6 250 under absorbed ⬭

1 0 The following information is available for corporation tax for a company for the year ended 31 March 2023.

	£
Taxation owed at 1 April 2022	18 670
Payments via bank	23 840
Taxation charge entry on the income statement	24 530

What is the balance brought down on the corporation tax account at 1 April 2023?

[1 mark]

A £17 980 Credit ⬭

B £17 980 Debit ⬭

C £19 360 Credit ⬭

D £19 360 Debit ⬭

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1 1 Explain **one** advantage of a sole trader in a growing business becoming a private limited company.

[3 marks]

Turn over for the next question

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1 2

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.

Calculate the **total** monthly production cost of **Product A**.

[7 marks]

Total monthly production cost of Product A

	£

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Workings

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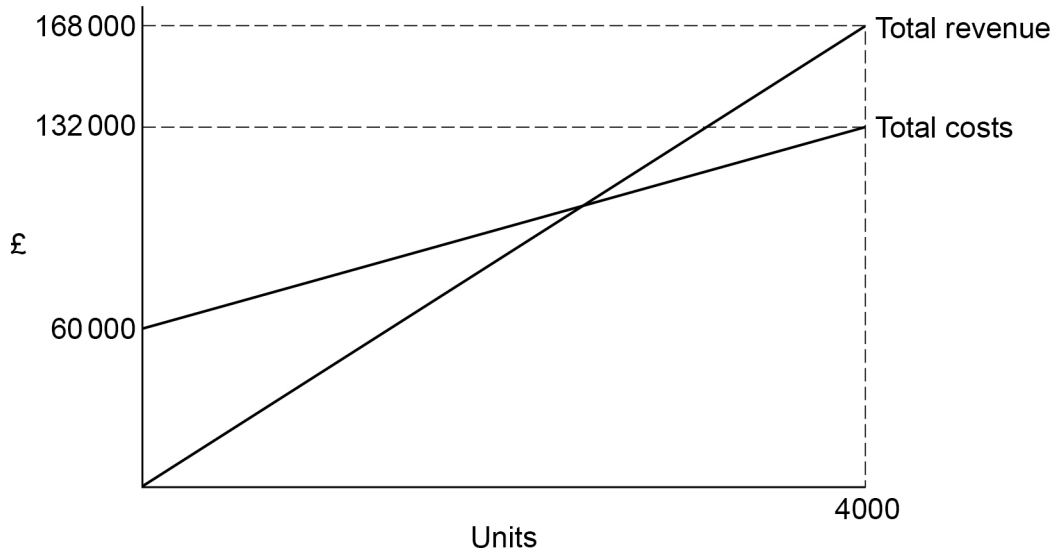
1 3 A business provides the following break-even graph. Note: the graph is not drawn to scale.



1 3 . 1 Calculate the break-even point in units.

[5 marks]

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1 3 . 2 Calculate the margin of safety as a percentage of output if the business makes and sells 4 000 units.

[2 marks]

1 3 . 3 Calculate the profit or loss made if the business makes and sells 2 800 units.

[3 marks]

30

Turn over for the next section

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Section B

Answer **all** questions in this section.

1 4

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 £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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1 4 . 1 Prepare a budgeted income statement for the year ended 31 December 2024 for Bev.

[6 marks]

Do not write outside the box

1 4 . 2 Prepare a budgeted statement of financial position as at 31 December 2024 for Bev using the bank balance as the balancing figure.

[8 marks]

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1 4 . 3 Bev has experience in a wholesale environment but she does not have financial experience. She knows that the UK ceramic pot industry can be quite unpredictable because clay suppliers are mostly based in Europe.

Assess the usefulness of preparing a budgeted statement of financial position for Bev.

[6 marks]

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1 5

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

	£
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

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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1 5 . 1 Calculate the Net Present Value of the project, clearly showing the cash inflows and outflows. Round all figures to the nearest pound.

[12 marks]

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1 5 . 2 Calculate the payback period for the project.

[2 marks]

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1 5 . 3 The finance director of ABD Manufacturing Ltd believes that if a project has a payback period of more than 2 years, it should be rejected. The company has experienced some cashflow difficulties in the most recent financial year.

Assess the finance director's opinion, using your answers from Questions **15.1** and **15.2**.

[6 marks]

40

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Section C

Answer **all** questions in this section.

1 6

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.

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.

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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1 6 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 marks]

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1 7

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.

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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1 7 Evaluate the managing director's opinion that the main reason for the difference between budgeted and actual profit is lower priced materials.

Consider both financial and non-financial factors.

[25 marks]

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END OF QUESTIONS

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