

Please write clearly, in block capitals.

Centre number

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Candidate number

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Surname

Forename(s)

Candidate signature

A-level ACCOUNTING

Paper 2 Accounting for analysis and decision-making

Specimen

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.
- Do all rough work in this answer book. Cross through any work you do not want to be marked.

Advice

- The marks for each question are shown in brackets.
 - The maximum marks for this paper is 120.
-

Section A

Answer **all** questions in this section.

For the multiple-choice questions, 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 formula is used to calculate the overhead absorption rate?

A Actual overheads / actual activity

B Actual overheads / budgeted activity

C Budgeted overheads / actual activity

D Budgeted overheads / budgeted activity

[1 mark]

0 2

Which one of the following is **not** an example of a cost driver in activity based costing?

A Number of direct labour hours

B Number of machine set-ups

C Number of production runs

D Number of quality inspections

[1 mark]

0 3

A business is considering investing in new machinery. The machinery will cost £850 000. The cash flows are shown below and are assumed to accrue evenly during the year.

Year	Cash inflow £	Cash outflow £
1	450 000	200 000
2	650 000	200 000
3	650 000	200 000

What is the payback period for the machine?

- A 1 year 89 days
- B 1 year 324 days
- C 2 years 33 days
- D 2 years 122 days

[1 mark]**0 4**

Which best describes the net present value method of investment appraisal?

- A The amount of the discounted return on an investment
- B The amount of the discounted value of inflows from an investment
- C The investment required to produce a positive return on an investment
- D The rate to produce a positive return on a proposed investment

[1 mark]

0 5

Standard cost is best defined as which of the following?

- A** The actual unit cost of a product produced in a period of time
- B** The actual average unit cost of a product produced in a period of time
- C** The planned unit cost of a product produced in a period of time
- D** The planned average cost of a product produced in a period of time

[1 mark]**0 6**

The following information is available for the sale of Product X for June 2016.

Standard selling price per unit	£26.00
Budgeted sales	8400 units
Actual sales	8600 units
Actual sales revenue	£219 300

What is the sales price variance for June 2016?

- A** £4300 Adverse
- B** £4300 Favourable
- C** £5200 Adverse
- D** £5200 Favourable

[1 mark]

0 7

A business operates a system of absorption costing. The business apportions factory administration overheads to the four departments: Cutting; Welding; Finishing and Stores based on the number of employees in each department.

Department	Cutting	Welding	Finishing	Stores
Number of employees	25	20	15	10

The factory administration overheads are forecast to be £175 770.

How much of the factory administration overheads will be apportioned to the Finishing department?

- A** £12 555
- B** £37 655
- C** £43 942
- D** £58 590

[1 mark]**0 8**

The following budgeted information is available for Product Y for August 2016.

Standard material usage per unit	5 kg
Budgeted sales	3000 units
Decrease in raw material inventory	1800 kg
Increase in finished goods inventory	400 units

How many kg of material will be purchased during July 2016?

- A** 11 200 kg
- B** 13 000 kg
- C** 15 200 kg
- D** 17 000 kg

[1 mark]

0 9

The following information is available for the single product manufactured by a business.

Selling price per unit	£24.50
Variable costs per unit	£13.80
Fixed costs	£90 000
Budgeted production	18 000 units

How many units must the business sell to produce an annual profit of £80 000?

- A** 7 477 units
- B** 14 036 units
- C** 15 888 units
- D** 29 825 units

[1 mark]**1 0**

The following information is available for Product Z.

Overhead absorption rate	£5.00 per labour hour
Standard labour hours per unit	6 hours
Finished goods inventory at 1 May 2016	50 units
Finished goods inventory at 31 May 2016	100 units

What would be the difference between the profit for the month using absorption costing and the profit for the month using marginal costing?

- A** Absorption costing profit would be £1500 higher
- B** Absorption costing profit would be £1500 lower
- C** Absorption costing profit would be £3000 higher
- D** Absorption costing profit would be £3000 lower

[1 mark]

1	1
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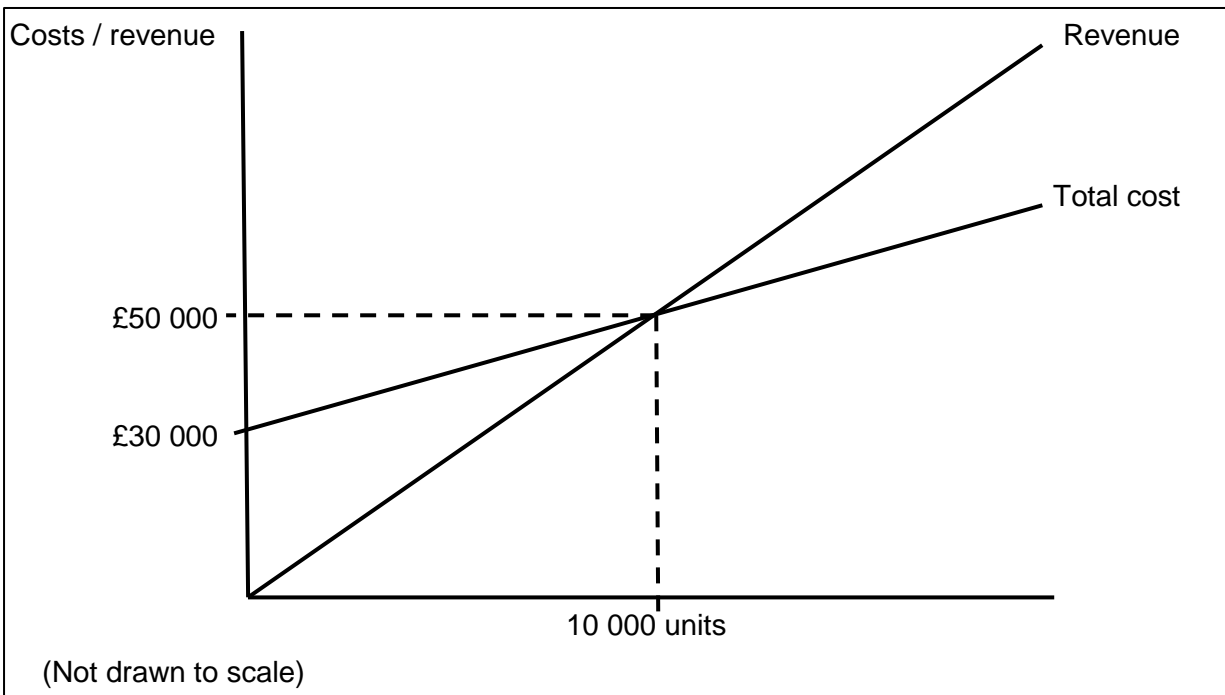
Describe **two** main differences between management accounting and financial accounting.

[6 marks]

Extra space

1 2

Below is a break-even chart for a firm producing one product.



1 2 . 1

Calculate the selling price of the product.

[1 mark]

1 2 . 2

Calculate the variable cost per unit.

[1 mark]

1 2 . 3

State the formula used to calculate contribution per unit.

[1 mark]

1 2 . **4** Calculate the contribution per unit.

[1 mark]

1 2 . **5** Calculate the forecast profit if 12 000 units are manufactured and sold.

[2 marks]

Turn over for next question

Extra space

Turn over for next question

Section B
Answer **all** questions in this section

1	4
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Alan and Bashar are partners in a firm of solicitors. On 1 July Chun will be admitted as a partner.

The partners agreed:

- Interest on capital will be credited on a monthly basis at the rate of 5% per annum on the agreed capital figures
- the agreed capital figures are: Alan £30 000; Bashar £30 000 and Chun £15 000. Chun will pay his capital into the partnership bank account on 1 July.
- to limit their monthly cash drawings to a maximum of 20% of their individual fee income in that month.
- the partnership will purchase a car for Chun on 1 July. The car will cost £45 000.

The partners are in the process of drawing up a cash budget for July and August to see the effect on the bank balance of Chun joining the partnership and the purchase of the car.

Additional information

(1) Income

The firm's income is in the form of fees charged to clients. The actual and forecast fee income is:

	Actual		Forecast		
	April	May	June	July	August
	£	£	£	£	£
Fee income Alan	24 000	22 000	20 000	15 000	12 000
Fee income Bashar	23 000	25 000	18 000	16 500	10 000
Fee income Chun				5 000	6 000
	47 000	47 000	38 000	36 500	28 000

The clients are invoiced as soon as the work is completed and 25% will pay immediately; 50% will pay within 30 days. The remaining clients will pay within 60 days. However, 2% of these will not pay and should be regarded as bad debts.

(2) Operating expenses

The forecast operating expenses for the partnership are £31 425 per month, payable in the month they occur.

(3) Drawings

Alan intends to withdraw the maximum amount of cash he is allowed in June, July and August. Bashar intends to withdraw 15% of his fee income in cash in June and July and none in August. Chun does not intend to take any cash drawings.

(4) Overdraft

The bank have agreed to provide an overdraft facility of £40 000. The interest rate charged on the overdraft is variable and is currently 10% per annum. In order to prepare the cash budget the partners have agreed to calculate the interest charged based on the closing bank balance of the previous month.

(5) Bank balance

The partners expect the bank balance at 30 June to be £6860.

1 5

Pezzolo Ltd manufactures two products: Quixo and Zecal.

The direct costs of each product are as follows.

	Quixo	Zecal
	£	£
Direct materials per unit	8.00	6.00
Direct labour per unit	9.00	14.00

The company's total factory overheads are £30 100 per month.

Monthly production is

Quixo	1000 units
Zecal	2400 units

Quixo is sold for £17.20 per unit and Zecal for £36.40 per unit.

The company used activity based costing and has established that it has the following cost pools and cost drivers.

Cost pool	Cost driver	Overhead cost per month	Information about each product
Transfers of partly finished goods	Number of times a product is transferred to another machine during production	£14 500	Quixo: 5 transfers per unit Zecal: 10 transfers per unit
Inspections	Number of times a product is inspected for quality during production process	£15 600	Quixo: 4 inspections per unit Zecal: 7 inspections per unit

1 5 . 1

Calculate the cost of making each unit of Quixo and each unit of Zecal and the profit or loss per unit on each product.

[14 marks]

Turn over for section C

Section C

Answer **all** questions in this section

1	6
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Stancost Ltd manufacture high quality wooden furniture for homes and offices. The company operates a standard costing system.

The managing director is very concerned that the actual profit for the month at £22 770 is significantly less than the budgeted profit of £90 000.

The cost accountant provides the following information.

	Budget		Actual	
Sales and production	800 tables	£650 per table	860 tables	£600 per table
Materials	25 metres per table	£5.50 per metre	35 metres per table	£4.50 per metre
Labour	15 hours per table	£20 per hour	19 hours per table	£17 per hour

The cost accountant has also calculated the relevant variances.

Variance	£	
Sales - price	43 000	Adverse
Sales - volume	39 000	Favourable
Materials - price	30 100	Favourable
Materials - usage	47 300	Adverse
Labour - rate	49 020	Favourable
Labour - efficiency	68 800	Adverse

The managers of the relevant departments have seen the figures above and have made some initial comments.

Manager responsible for sales.

“The price variance was the result of having to lower the price because of increased competition.”

Manager responsible for materials.

“The price variance was the result of negotiating a much better deal with a new supplier.”

Manager responsible for labour

“We have followed other companies in the industry and employed workers on zero hour contracts and this has reduced our wage bill.”

The Managing Director believes that the managers may be covering for each other and the reasons given are not the real causes of the variances but have been caused internally.

TURN OVER FOR NEXT QUESTION
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ANSWER IN THE SPACES PROVIDED

1 7

The directors of Londro plc, a large holding company, are considering two alternative investment projects. Whichever project is chosen, the company will have to borrow the initial investment at a variable interest rate of 4% per annum

Project A

This project involves the exploitation of mineral resources in an under-developed country. The resources would provide cheap raw materials for other companies in the Londro group. It will result in large numbers of local workers being employed on low skilled jobs, bringing a boost to the country's economy.

Project B

This project is to build a shopping and leisure complex on ex-industrial land in the North of England. The land is available due to the closure of the steel works which was the main employer in the area. The complex would provide significant job opportunities in the retail and leisure sector.

The Finance Director has carried out investment appraisals on both projects and this is summarised below

	Project A	Project B
Initial investment	£80 million	£50 million
Net present value	£950 000	£650 000
Payback period	10 years	15 years
Estimated life of project	15 years	25 years

Net present value was calculated using a discount rate of 9% for both projects. This was based on the current return on capital employed of 5% plus the interest rate of 4%.

1 7 . 1 Assess the **two** projects and recommend to the directors the one they should select.

[25 marks]

END OF QUESTIONS

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ANSWER IN THE SPACES PROVIDED**

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22 December 2016