



A-level
ACCOUNTING
7127/2

Paper 2 Accounting for analysis and decision-making

Mark scheme

June 2022

Version: 1.0 Final Mark Scheme



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 limitation.

Read the explanation 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 standardised 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	D	Ordinary shares							
02	D	$\frac{\text{Trade Payables}}{\text{Credit Purchases}} \times 365$							
03	B	£6 750							
04	C	$\frac{\text{Profit after tax (in pence)}}{\text{Number of issued ordinary shares}}$							
05	D	Professional competence and due care							
06	A	Budgets help calculate the actual profit							
07	C	It is produced within a regulatory framework							
08	C	£185 credit							
09	A	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Book of Prime Entry</th> <th style="text-align: center;">Debit Account</th> <th style="text-align: center;">Credit Account</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Three Column Cash Book</td> <td style="text-align: center;">Discount Allowed</td> <td style="text-align: center;">Abu</td> </tr> </tbody> </table>		Book of Prime Entry	Debit Account	Credit Account	Three Column Cash Book	Discount Allowed	Abu
Book of Prime Entry	Debit Account	Credit Account							
Three Column Cash Book	Discount Allowed	Abu							
10	D	125 units							

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Explain one limitation of using ratios to analyse business performance.	3

AO1 – 3 marks

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

Answers may include:

- Ratios may be based on out of date data which may not reflect the current position eg trade receivables days calculated on data at the date of the statement of financial position.
- Different accounting policies make it difficult to compare either between businesses or between years if not comparing like with like eg a business using the reducing balance method for depreciation would have a higher depreciation charge in early years compared to a business using the straight line method which would mean a lower profit in relation to revenue ratio in the early years.
- Window dressing eg creating provisions for irrecoverable debts to reduce profit for the year.
- Ratios only considers financial factors – do not consider non-financial factors, eg customer satisfaction, product quality.
- Ratios do not consider external factors that could impact business performance eg a recession.
- Ratios do not show the cause, therefore further work is needed to accurately assess business performance eg a low gross profit margin could be caused by deliberately reducing the price to increase sales volume.
- Ratios need to be compared with either past performance/other businesses/industry averages in order to make an assessment eg a low acid test ratio may not be low when compared with the industry average.

Marker note:

Award marks for one limitation only.

The indicative content is not exhaustive; other creditworthy material should be rewarded.

Qu	Part	Marking Guidance	Total marks
12		Prepare an extract from the statement of financial position of Keverne Penn at 31 May 2022 showing the non-current assets section only.	9

AO1 – 9 marks

Keverne Penn
Statement of financial position (extract) at 31 May 2022

Non-current assets	Cost £	Accumulated depreciation £	Net book value £
Motor vehicles	68 600 (1) W1	32 700 (3) W3	35 900
Equipment	48 400 (1) W2	31 050 (3) W4	17 350
			53 250 (1) OF

Workings

W1 Cost of motor vehicles

$$£95\,000 - £26\,400 = £68\,600 \text{ (1)}$$

W2 Cost of equipment

$$£36\,400 + £12\,000 = £48\,400 \text{ (1)}$$

W3 Accumulated depreciation - motor vehicles

$$£35\,350 \text{ (1)} - £19\,800 \text{ (1)} + £17\,150 \text{ (1) OF} = £32\,700$$

Accumulated depreciation on motor vehicle sold

$$(£26\,400 \times 25\%) = £6\,600 \times 100/25 \times 3/4 = £19\,800$$

Depreciation charge for year - motor vehicles

$$£68\,600 \text{ W1} \times 25\% = £17\,150$$

W4 Accumulated depreciation- equipment

$$£20\,700 \text{ (1)} + [£36\,400 \times 25\% = £9\,100 \text{ (1)}] + [£12\,000 \times 25\% \times 5/12 = £1\,250 \text{ (1)}] = £31\,050$$

Marker note:

Calculations where the workings are not transferred or are transferred but in the wrong direction into the extract will not be fully rewarded.

For example, a figure for motor vehicles - accumulated depreciation of £32 700 would be awarded 2 marks if not transferred into the extract or if the £32 700 is shown as an addition in the extract.

A figure for motor vehicles - cost of £68 600 would be awarded zero marks if it is not transferred into the extract.

Motor vehicle accumulated depreciation – if you see £52 500 or £15 550 in the statement of financial position (extract) without workings you can award 2 marks.

Equipment accumulated depreciation – if you see £30 800 or £21 950 in the statement of financial position (extract) without workings you can award 2 marks.

Qu	Part	Marking Guidance	Total marks
13		Prepare the cash budget for Michael for the months of August 2022 and September 2022.	8

AO1 – 8 marks

Michael
Cash Budget for August 2022 and September 2022

	August 2022	September 2022
	£	£
Receipts		
Capital introduced: Michael	18 500 (1)	
Cash sales	2 850 *	6 650 * (1) both W1
Trade receivables (credit sales)	<u>-</u>	<u>8 550</u> (1) W2
	21 350	15 200
Payments		
Cash purchases	10 800 **	12 120 ** (1) both W3
Trade payables (credit purchases)	-	6 840 (1) W4
Operating expenses	<u>1 100</u> ***	<u>1 200</u> *** (1) both
	11 900	20 160
Opening balance	-	9 450
Net cash flow	<u>9 450</u>	<u>(4 960)</u>
Closing balance	<u>9 450</u> (1) OF	<u>4 490</u> (1) OF

Workings

W1 Cash sales

August £11 400 × 25% = £2 850

September £26 600 × 25% = £6 650 (1) for both

W2 Trade receivables

September £11 400 × 75% = £8 550 (1)

W3 Cash purchases

August £18 000 × 60% = £10 800

September £20 200 × 60% = £12 120 (1) for both

W4 Trade payables

September £18 000 × 40% × 95% = £6 840 (1)

Marker note:

To award marks for the closing balances these must have an acceptable label for example: balance carried forward (could be abbreviated); cash at end of month; cash at 31/8 and 30/9; budgeted cash at end of August/September.

If the label is Total; cash profit; closing capital – do not award the closing balance marks.

The **OF** for closing balance will only be awarded if no extraneous items in the budget eg discount received.

To award the closing balance mark for September the closing balance from August 2022 must be carried forward.

Workings that are not used in the cash budget should not be awarded any marks.

Students may combine cash and credit sales: £2 850 in August and £15 200 September award 2 marks.
Students may combine cash and credit purchases: £10 800 August and £18 960 September award 2 marks.

If Capital Introduced £18 500 is shown as the opening balance for August award 1 mark.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Calculate the following variances for Product A .	8

AO2 – 8 marks

Total direct materials

$(3\ 100 \times \text{£}18) - \text{£}51\ 150 = \text{£}4\ 650$ **(1) Favourable (1)**

Total direct labour

$(3\ 100 \times \text{£}24) - \text{£}75\ 950 = \text{£}1\ 550$ **(1) Adverse (1)**

Sales price

$3\ 100 \times (\text{£}80 - \text{£}78) = \text{£}6\ 200$ **(1) Adverse (1)**

Sales volume

$\text{£}80 \times (3\ 100 - 2\ 850) = \text{£}20\ 000$ **(1) Favourable (1)**

Marker note:

Accept reasonable abbreviation labels for variances instead of adverse or favourable.

For total direct materials and sales volume, the variance must be favourable to be awarded the 1 mark and be attached to a figure.

For total direct labour and sales price, the variance must be adverse to be awarded the 1 mark and be attached to a figure.

Qu	Part	Marking Guidance	Total marks
14	2	Prepare a statement reconciling the actual profit achieved with the budgeted profit for 6 000 units for Product B for the month of May 2022.	6

AO2 – 6 marks

Statement to reconcile actual profit with budgeted profit for Product B for May 2022

	£
Actual profit	150 814
Direct material total variance	3 025 (1)
Direct labour total variance	(2 189) (1)
Sales price variance	(16 500) (1)
Expected profit for actual production	135 150
Lost contribution	16 650 (2) W1
Budgeted profit	151 800 (1)

W1

$$£55.00 - £18.20 - £3.50 = £33.30 (1) \times 500 (1) = £16 650 \text{ OF}$$

Marker note:

Lost contribution – if the lost contribution has been calculated correctly but is treated incorrectly (eg deducted) or not included in the reconciliation then award 1 mark.

To award marks for the variances they must be applied to either the actual or budgeted profit.

If the actual profit of £150 814 is not used in the reconciliation then the maximum mark that can be awarded is 5.

It is not sufficient to just show favourable or adverse it must be clear that the variance is being added/taken away, unless the budgeted and actual profits are the correct figures.

Accept reconciliation in reverse direction (starting with budgeted profit and ending with actual profit).

	£
Budgeted profit	151 800 (1)
Lost contribution	(16 650) (2)W1
Direct labour total variance	2 189 (1)
Direct material total variance	(3 025) (1)
Sales price variance	16 500 (1)
Actual profit	150 814

Qu	Part	Marking Guidance	Total marks
14	3	Assess whether the budgeted figures produced by the current standard costing system are motivational.	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 written worthy of credit.

Answers may include:

- Sales variances – are significant.
Product A: the volume variance is £20 000 (OF) favourable which could mean that the targeted volume of 2850 units is unrealistic and too easily attainable; or the variance is caused by the reduced selling price.
- Product B: the sales volume variance of £27 500 adverse could mean that the targeted sales volume of 6 000 units is unrealistic. or this could have been due to increases in the sales price causing a £16 500 favourable price variance.
- To motivate employees to achieve the targets set, the standards set should be attainable, based on achievable but not perfect operating conditions. However, Ebau Ltd does not regularly update the standards meaning they may be too easy, or too difficult, to attain so will not motivate the managers. As they are not being regularly updated then the managers will not be encouraged to look at how existing operating conditions could be improved on to make efficiency savings.
- Variances should be split between controllable and non-controllable and managers should only be held accountable for those costs that they can control. Being held accountable for non-controllable costs would be demotivating.
- The variances may have been caused by factors outside the control of the business, eg external factors which would be demotivating. In the case of sales variances the selling price may be beyond the control of the sales department and thus any resulting volume variance may be demotivating.

- The information provided to the managers needs to be more detailed. It would seem that currently the standards are set by the Finance Director with little input from the managers who are responsible for them, which would be demotivating. However, involvement of the managers could be time consuming and hence costly and could result in them trying to make the standards easier to achieve.
- Variances should be split into their component parts. The £3 025 adverse total material variance could be caused by a larger adverse price variance being offset by a favourable usage variance.

Marker note:

Not all indicative content needs to be covered to gain full marks.

The indicative content is not exhaustive; other creditworthy material should be rewarded.

Qu	Part	Marking Guidance	Total marks
15	1	Calculate Rebecca's target profit.	7

AO2 – 7 marks

	£	£
Direct material (54 metres at £2.50)		135.00 (1)
Direct labour – cutting department (2 hours × £12)	24.00 (1)	
– assembly department (4 hours × £16.50)	<u>66.00</u> (1)	<u>90.00</u>
Marginal cost per unit		225.00
Contribution 10%		22.50 (1) OF
Total contribution £22.50 × 16 000		360 000 (1) OF
Fixed overheads		<u>(268 000)</u> (1)
Target profit		<u>92 000</u> (1) OF

Alternative answer:

	£	£
Sales 16 000 × £247.50		3 960 000 (1) OF
Direct costs:		
Material	2 160 000 (1)	
Cutting labour	384 000 (1)	
Assembly labour	<u>1 056 000</u> (1)	<u>(3 600 000)</u>
Contribution		360 000 (1) OF
Fixed overheads		<u>268 000</u> (1)
Target profit		<u>92 000</u> (1) OF

Alternative answer (using adapted break-even formula):

16 000 units × £22.50 (4) contribution per unit = £360 000 (1) OF total contribution – £268 000 (1) fixed costs = £92 000 (1) OF

Qu	Part	Marking Guidance	Total marks
15	2	Calculate the selling price per tent required to maintain the same target profit. Your answer must show the marginal cost per tent .	7

AO2 – 7 marks

	£	£
Direct material (£135 × 120%)		162.00 (1)
Direct labour – cutting department (2 hours × £12)	24.00	
– assembly department (4 hours × £16.50)	<u>66.00</u>	<u>90.00</u> (1)
Marginal cost per tent		252.00 (1) OF
Contribution		<u>23.00</u> (3) W1
Selling price per tent		<u>275.00</u> (1) OF

W1 Contribution per unit

	£	
Fixed costs (£268 000 - £38 000)	£230 000	(1)
Target profit	<u>£92 000</u>	(1) OF
Total contribution required	£322 000	
Divided by Production/sales units (16 000 × (100% - 12.5%))	<u>14 000 units</u>	(1)
Contribution per tent	<u>£23 per unit</u>	OF

Marker note:

OF for target profit from Question 15.1

To award a mark for marginal cost per tent it must be clearly labelled.

Qu	Part	Marking Guidance	Total marks
15	3	Assess whether Rebecca should continue to use marginal costing to set her selling price for this potential order.	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 written worthy of credit.

Answers may include:

Arguments for using marginal costing:

- Marginal costing is useful for making decisions such as one-off orders as it will ensure that Rebecca covers the variable costs incurred with the potential order.
- If fixed costs do not change she should make a profit on the order.
- Rebecca has experience of using marginal costing, so should be confident in setting prices that will cover fixed costs and make a profit.

Argument against using marginal costing:

- Fixed costs may increase and she may not make a profit on the order, for example if she has to stay in the current factory and fixed costs are not reduced.
- A change of costing methods could result in increased costs for example for accountants or training.
- It may not be appropriate to continue with marginal costing as she used this method previously and her sales and production were falling.
- The costing method she uses may be irrelevant if selling prices are determined by the market eg in a competitive market.

Marker note:

Not all indicative content needs to be covered to gain full marks.

The indicative content is not exhaustive; other creditworthy material should be rewarded.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate the director's proposal to change to activity-based costing to improve profitability.	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> <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:

The selling price of each unit would be:

	Basic	Premier
Marginal costing	£90	£150
ABC	£81.56	£243.96

Profit per unit

	Basic	Premier
Profit per unit	£8.44	£27.10

Profitability would not be improved by changing the method of setting selling prices. The current profit for the week would fall from £18 228 to £16 847 (if calculations are rounded then profit is approximately £16 843).

Profit falls by £1 381 **OF** per week if new method adopted.

AO3 Analysis and Evaluation:

The selling price of a basic would be £8.44 less using ABC, whilst the price of a premier would rise significantly by £93.96 (63 %).

Would the company be able to increase the selling price of the Premiers? Although Fe3 Ltd are a loyal customer, the company operates in a competitive market so they may look to move their business elsewhere. If Fe3 Ltd and other Premier customers stop buying Premiers, what happens to the fixed overheads? Is it possible to reduce them?

No information on whether Fe3 Ltd also purchase Basics. Sales of Premiers could be a loss leader. Any interdependency between products?

If the current selling price was applied to the total cost per unit of each product then the profit/loss of each unit would be:

	Basic	Premier
Profit / loss (per unit)	£17.50	(£66.85)

Taking into consideration the overhead cost of each unit, it is not the Basic that the director should be concerned about but the Premier, as it is currently making a loss of £66.85 per unit. ABC increases the cost of making a Premier as they are made in small batches, with each batch incurring a set up cost, as there are smaller units in each batch of premiers compared to the larger batches of basics then the cost is spread over a smaller number of units in the batch. The company is currently doing 52 production runs a year for each product which may not be required. If there are fewer production runs of Premiers, so that each production run is a larger batch would this reduce the fixed overhead cost in total? Scheduling of production runs should be investigated as machine set up costs are a significant part of the total cost.

Benefits of using ABC

ABC may be seen as more accurate when setting selling prices.

Loss making product – Premier has been identified, allowing corrective action to be taken – eg either discontinue producing Premier or look at reducing the cost of production eg less production runs, but higher number produced in each batch, only at certain times of the year.

In periods of increasing inventory levels the profit will be higher than if using marginal costing – which could mean shareholders demanding higher dividends/share pricing rising. However, over the longer-term profits will be the same.

Drawbacks of using ABC

There would be a cost incurred in setting up ABC, and as the result of the change would result in profits remaining largely unchanged, is the change in methods worthwhile?

Limitations:

Are the figures reliable? – Does the Director have the skills needed to calculate the fixed overhead cost?
– There are only 2 cost drivers – is there any inaccuracy combining overheads into just 2 cost pools?

ABC requires more time and effort, does the company have the skills if not then may need staff training – additional cost.

How will customers react to the change in prices? Unless changes are made to production then overall profit would remain the same.

Is D2 plc able to change production to meet any changes in demand, for example an increase in demand for Basic product?

Other factors:

Have other actions been investigated to improve profitability?

Is the large factory and warehouse still needed?

Will the market for Premiers accept a price rise? – Competition / will customers pay more just because they have changed their method of overhead costing?

Would traditional absorption costing be relevant?

Evaluation:

A change to activity-based costing would not improve the profitability of D2 plc. However, what the exercise has highlighted is the inefficiency in how Premiers are produced and the company should look at reducing the number of the production runs and increasing the number made in each run.

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 two developments and advise the directors which one should be selected.</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>

		<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.

AO2 Application:

Development B pays back significantly quicker – 8 years earlier, and has a higher NPV – £2.776 million more. The life of the development is shorter, however project A has 15 years after payback to produce additional cashflow. Development B however is a significantly bigger project than Development A requiring additional finance of £44 million.

AO3 Analysis and Evaluation:

Availability of funds

Development size – will the company be able to raise the funds? Development B being almost 4 times more than the amount required for Development A. Would it be possible to split B into stages, maybe building houses first which will enable cash to be released for stage 2 the retail park? Would it be possible to get grants etc for Development A as being used for the good of the local community?

What are the plans at the end of the project, have cash inflows been considered? Maybe undertake sensitivity analysis if DF was to change.

Cost of land/site clearing etc – not relevant in decision making as sunk costs.

Reliability of cash flows

How reliable are the cashflows over the longer term – 35 years is a long time. What if eg the football team were promoted and were able to build their own stadium, alternative uses, are they dependent on one/all of the suggested users? Is there demand for retail parks – recently more people are shopping online.

Discount factor

Is the discount factor of 12% that is used for the current operations relevant for these developments? The proposed developments are different to what the company currently does both in the nature of the work and the geographical location. What effect will have a higher/lower discount factor have on the results calculated?

Other factors:

Non-financial:

The company currently operates out of London, whereas the proposed developments are geographically many miles away, will this cause issues as the projects are long term, especially if they are going to manage them? Will they manage the shopping complex themselves or will this be sold/leased?

Figures have been provided by the FD – is there any conflict of interest? The FD is also a non-executive of the city's football club. Professional ethics – objectivity.

Development A may be seen as positive for the local community – improve the company standing in the community.

Development B – The company has experience of house building as this is what the company currently does. The out-of-town development could attract customers from the local independents in the city centre, which may cause the city centre shops to close. Would the local infrastructure be able to cope – is the out of town development on the park and ride route?

There were concerns about the initial planning application affecting the local hospitals/schools. The suggested 150 houses would likely be bought by people out of the area as they would not be affordable to locals on minimum wages. This would mean an increase in the population which would put additional strain on hospitals/schools.

Development A would increase employment in the city, which would help to reduce the unemployment levels. However, the proposed work is only part-time jobs, what the city needs is more full-time non-minimum wage jobs.

Are there any other uses of the site?

Could it be resold as it is now the planning been granted for development?

Limitations:

How reliable are the figures provided?

Basing the figures on developments in London might not be realistic for rural developments where wage rates are significantly lower.

The FD has an interest in the football club so the data provided for this development could be biased.

How will funds be raised? Possible impact on gearing or shareholders.

What is the cost of financing the developments? Has this been considered?

Does the company have the skills/experience to complete Development A – do they have the skills to run the venue, if not will they be able to recruit locally?

What are the plans for Development B, who would run this? Will this result in more full time jobs?

What is Tuor plc attitude to risk? This may have a significant impact on the final decision.

Overall evaluation:

Decision made as to which development (if any) to accept. Summary justification given to support decision.

Considered both financial and non-financial factors to reach decision.

Marker note:

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