



A-level

ACCOUNTING

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

7127/2

Insert

**Insert for use in answering Questions 12,
13, 14, 15, 16 and 17.**

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1	2
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**Source material for answering
Question 12.**

**Zhou runs a retail business. He provides
the following information taken from the
income statement for the year ended
30 April 2024.**

	£
Revenue (12 600 units at £16)	201 600
Purchases (13 100 units at £6.80)	89 080
Opening inventory (2 900 units at £6.80)	19 720
Closing inventory (3 400 units at £6.80)	23 120

Additional information used in planning the budgeted income statement for the year ended 30 April 2025:

- 1. To remain competitive Zhou plans to reduce the selling price of each unit by 25%. This is expected to increase the number of units sold by 20%.**
- 2. Zhou intends to switch suppliers. He has found a company willing to supply goods for 25% less than his current supplier. However, there will be a delivery cost of £0.15 for each unit purchased.**
- 3. The number of units held at the end of the year is expected to reduce by 20%. Closing inventory should be valued at the most recent purchase price.**

[Turn over]

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**Source material for answering
Question 13.**

**Naomi is preparing her labour budget for
August. She has provided the following
forecasted information:**

Production	500 units
Labour hours per unit	45 minutes
Standard labour rate	£12 per hour

**After allowing for holidays only
200 labour hours are available at the
standard rate. Any additional hours
used will have to be paid at a premium of
40% extra per hour.**

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**Source material for answering
Question 14.**

**Rixmead Ltd budgeted to produce
48 000 units in March.**

BUDGETED INFORMATION

Direct labour cost	£1 536 000
Direct material cost	£672 000
Labour hours per unit	2.5 hours
Material quantity per unit	4 kilograms

Actual production in March was 51 000 units.

ACTUAL INFORMATION

	PER UNIT	£
Direct labour	3 hours	12.00 per hour
Direct material	4.25 kilograms	2.90 per kilogram

[Turn over]

15

Source material for answering Question 15.

Books Online is a digital business selling audiobooks. The directors are considering a technology upgrade to improve customer experience and have provided the following information in relation to the project:

	£
Cost of hardware	2 380 000
Delivery and installation of hardware	45 000
Software (annual cost)	120 000
Staff training (annual cost)	50 000
Fixed costs per year excluding depreciation	80 000

Purchase, delivery and installation of the hardware is expected at the end of 2024 and the technology will be implemented in 2025. The hardware will be depreciated over three years using the straight line method. The project will last three years, after which a further upgrade in technology will be needed. The hardware will then be sold for an estimated £400 000.

The software will be used from 2025 and must be updated each year. The staff must be trained on each update.

FORECAST SALES

	2025	2026	2027
Units	500 000	12% increase	12% increase

[Turn over]

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

Throughout the 3 years the selling price per book is £6.50, and the variable cost per book is £2.80.

Books Online uses a cost of capital of 14%. The discount factors are:

YEAR	DISCOUNT FACTOR
0	1.000
1	0.877
2	0.769
3	0.675

1	6
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Source material for answering Question 16.

Mel runs a business which makes bracelets. The market for bracelets is very competitive. She plans to start making and selling earrings to help widen her product range and increase her customer base.

Mel is considering what price to sell her new earrings for. She is considering using either marginal or absorption costing to set the selling price of the earrings. She has not decided what percentage would be appropriate to use when setting the price. Her competitors use an average mark up of 130% on the marginal cost.

[Turn over]

The following information is for the next year. The forecast is based on the production and sales of 10 000 pairs of earrings.

EXTRACT OF FINANCIAL INFORMATION

Raw materials per unit	£4
Direct labour per unit	£9
Fixed costs per annum	£190 000

The fixed costs will be absorbed on a labour hour basis. However, Mel is aware that the earrings will be largely made by machines rather than labour. The fixed costs include marketing costs of £80 000 which would only be incurred in year one. The remaining fixed costs

are for renting additional factory space to produce the earrings.

Mel has used her raw material supplier for many years and has established a good working relationship. Raw material prices are fixed for the next twelve months with this supplier.

A pay rise has already been factored into her direct labour costs. Mel is aware her rates of pay are only slightly above the current minimum wage.

The sales manager has suggested they use marginal costing as it allows flexibility when setting prices. This could allow him to continue making one-off deals with larger customers. However, the finance manager would like to ensure that all costs are covered.

[Turn over]

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**Source material for answering
Question 17.**

Piastri Ltd prints customers' images onto plain T-shirts and sells them at an average price of £20 each. Its existing T-shirt supplier has gone into liquidation. Piastri Ltd therefore needs a new supplier before it runs out of plain T-shirts. An initial order of 5 000 T-shirts is needed within the next three months to meet customer demand.

The plain T-shirts Piastri Ltd uses are available from a number of different suppliers and are identical in their material, quality and garment fit. Astun and Mertin have been identified as potential suppliers and have provided the following information:

	ASTUN	MERTIN
Cost price per T-shirt (including delivery charges)	£6.20	£5.70
Factory location	UK	China
Years of trading	5	30
Current ratio	1.1:1	1.9:1
Liquid capital ratio	0.8:1	1.1:1
Trade payable days	42	42
Trade receivable days	77	180
Rate of inventory turnover (days)	15	120

[Turn over]

Astun is considering introducing new machinery that would produce its T-shirts more efficiently. This would significantly reduce Astun's staffing costs and material wastage.

Mertin has recently won an award for fair treatment of its employees. All Mertin's employees are given high quality training and a higher hourly wage than the average in China.

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