



A-level
ACCOUNTING
7127/2

Paper 2 Accounting for analysis and decision-making

Mark scheme

June 2024

Version: 1.0 Final



2 4 6 A 7 1 2 7 / 2 / M S

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.

No student should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

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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 each benefit.

Read each answer 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	C	Purchases journal
02	D	Increase capital, increase current assets
03	B	They have full control over decision making
04	B	Direct and variable
05	B	Consistency
06	D	£35.20
07	D	$\frac{\text{Profit after interest and tax}}{\text{Ordinary share dividends paid}}$
08	B	11 000
09	C	$\frac{\text{Cost of sales}}{\text{Average inventory}}$
10	B	45 500

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Explain two benefits of using incremental budgeting.	6

AO1 – 6 marks

Apply the levels of response mark scheme to each benefit. Award a maximum of 3 marks for each answer.

Level	Marks	Description
3	3	A clear and thorough explanation showing a benefit to a business of using incremental budgeting.
2	2	A partial explanation showing a benefit to a business of using incremental budgeting.
1	1	Fragmented points made.
0	0	Nothing written worthy of credit.

Answers may include:

- It is easy to calculate which means it could be done by more junior staff which may give more senior employees time to focus elsewhere in the business.
- It is quick to complete. Less time spent calculating the budgets reduces the cost of preparing the budgets which could boost profitability.
- Prevents conflict between departmental managers since a consistent approach is adopted throughout the organisation rather than trying to have the biggest budget for prestige purposes.
- Easier for staff to understand and work with as the concept is simple to use which could help staff buying into working with the budget.
- Managers can operate their departments on a consistent basis as they know what their budget is likely to be in subsequent accounting periods.

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

Qu	Part	Marking Guidance	Total marks
12		Prepare the budgeted trading section of the income statement for the year ended 30 April 2025.	10

AO1 – 10 marks

Zhou
Budgeted trading section of the income statement
for the year ended 30 April 2025

	£	£	
Revenue		181 440	(2) OF W1
Opening inventory	23 120		(1)
Purchases	73 644		(3) OF W2
Carriage inwards	<u>2 166</u>		(1) OF W3
	98 930		
Closing inventory	<u>14 280</u>		(2) OF W4
Cost of sales		<u>84 650</u>	
Gross profit		96 790	(1) OF*

Marker note:

Workings
W1 Revenue

	Units	Selling price	Revenue
Revenue	12 600 unit × 1.2 = 15 120 units (1)	£16 × 0.75 = £12 (1)	15 120 units × £12 = £181 440

W2 Purchases

	Units	Purchase price	Purchases
Purchases	Sales	15 120	
	Opening inventory	(3 400)	
	Closing inventory	<u>2 720</u> W4	
	Purchase	14 440 (1)	14 440 OF × £5.10 OF = £73 644 (1) OF
		£6.80 × 0.75 = £5.10 (1)	

W3 Carriage inwards

	Units	Delivery charge	Carriage inwards
Carriage inwards	Purchase 14 440 OF W2	£0.15	£2 166 (1) OF

W4 Closing inventory

	Units	Purchase price	Closing inventory
Closing inventory	3 400 × 0.8 = 2 720 units (1)	Purchase price £5.10 OF W2 + £0.15 = £5.25#	2 720 OF × £5.25 OF = £14 280 (1) OF

Marker note:

Where purchases and carriage inwards are combined on the face of the trading section a figure of £75 810 is worth 4 marks.

*Do not accept GP for gross profit. The OF gross profit mark can only be awarded when revenue and cost of sales is shown.

Must include the £0.15 carriage inwards to get the OF closing inventory mark.

Qu	Part	Marking Guidance	Total marks
13		Prepare the labour budget for August. Show clearly the number of hours required and the total labour cost.	4

AO1 – 4 marks

	August
Total labour hours	375 (1) W1
Total labour cost	£5 340 (3) OF W2

Marker note:

Workings

W1 Labour hours

500 units × 0.75 hours	375 hours (1)
------------------------	---------------

W2 Labour cost

	£
200 hours × £12	2 400
375 hours OF W1 – 200 hours = 175 hours OF £12 OF × 1.4 = £16.80 (1) OF 175 hours × £16.80 =	2 940 (1) OF
Total labour cost	5 340 (1) OF

Marker note:

To award the OF for total labour cost the basic cost of £2 400 must be included.

Correct calculations for total labour hours and total labour cost which are not labelled will not be fully rewarded. For example, figures of 375 and £5 340 would be awarded 3 marks.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Calculate the following variances:	10

AO2 – 10 marks

Material price variance

$216\,750 \text{ W1} \times (\text{£}3.50 \text{ W2} - \text{£}2.90) = \text{£}130\,050 \text{ (1) Favourable (1)}$

$\text{W1 } 51\,000 \times 4.25 = 216\,750$

$\text{W2 } \text{£}672\,000 / (48\,000 \times 4) = \text{£}3.50$

Alternative:

Standard	Actual	Variance
AQ × SP	AQ × AP	
$216\,750 \times \text{£}3.50$	$216\,750 \times \text{£}2.90$	
£758 625	£628 575	£130 050 (1) Fav (1)

Material usage variance

$\text{£}3.50 \times (204\,000 \text{ (1) W1} - 216\,750) = \text{£}44\,625 \text{ (1) Adverse (1)}$

$\text{W1 } 51\,000 \times 4 = 204\,000$

Alternative:

Standard	Actual	Variance
SQ × SP	AQ × SP	
$204\,000 \text{ (1)} \times \text{£}3.50$	$216\,750 \times \text{£}3.50$	
£714 000	£758 625	£44 625 (1) Adv (1)

Labour rate variance

$153\,000 \text{ (W1)} \times (\text{£}12.80 \text{ (W2)} - \text{£}12.00) = \text{£}122\,400 \text{ (1) Favourable (1)}$

$\text{W1 } 51\,000 \times 3 = 153\,000$

$\text{W2 } \text{£}1\,536\,000 / (48\,000 \times 2.5) = \text{£}12.80$

Alternative:

Standard	Actual	Variance
AH × SR	AH × AR	
$153\,000 \times \text{£}12.80$	$153\,000 \times \text{£}12.00$	
£1 958 400	£1 836 000	£122 400 (1) Fav (1)

Labour efficiency variance

$\text{£}12.80 \times (127\,500 \text{ (1) W1} - 153\,000) = \text{£}326\,400 \text{ (1) Adverse (1)}$

$\text{W1 } 51\,000 \times 2.5 = 127\,500$

Alternative:

Standard	Actual	Variance
SH × SR	AH × SR	
127 500 (1) × £12.80	153 000 × £12.80	
£1 632 000	£1 958 400	£326 400 (1) Adv (1)

Marker note:

For material usage variance, award 2 marks for £86 625 adverse (used 192 000 for standard quantity).

For labour efficiency variance, award 2 marks for £422 400 adverse (used 120 000 for standard hours).

For material price and labour rate, the variance must be favourable to be awarded the 1 mark and attached to a figure

For material usage and labour efficiency, the variance must be adverse to be awarded the 1 mark and attached to a figure and workings shown

Accept reasonable alternative or abbreviated labels for variances instead of adverse or favourable.

Qu	Part	Marking Guidance	Total marks
14	2	Prepare a reconciliation of the budgeted cost to actual cost.	4

AO2 – 4 marks

	£
Budgeted cost	2 346 000 (1) OF #
Material price variance	(130 050) (1) OF both
Material usage variance	44 625
Labour rate variance	(122 400) (1) OF both
Labour efficiency variance	326 400
Actual cost	2 464 575 (1)

Workings

Budgeted cost: £714 000 + £1 632 000 = £2 346 000

Actual cost: £628 575 + £1 836 000 = £2 464 575

Marker notes:

A budgeted cost of £2 208 000 can be awarded 1 mark if **both** the material usage variance of £86 625 and the labour efficiency variance of £422 400 have been used in Question 14.1.

Either the actual or budgeted cost must be shown in the reconciliation to award marks for the variances. Accept reconciliation in reverse direction (starting with actual cost and ending with budgeted cost). The direction of the variances must be clearly shown (added or deducted). It is **not** sufficient to just show favourable or adverse unless the budgeted and actual costs are the correct figures.

Accept a figure of £85 425 for the material price and usage variances combined.

Accept a figure of £204 000 for the labour rate and labour efficiency variances combined.

Qu	Part	Marking Guidance	Total marks
14	3	The directors of Rixmead Ltd believe the variances are linked. Assess whether the directors are correct, using your answers from Question 14.1.	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 in favour of directors opinion

- The £130 050 **OF** favourable material price variance could be due to changing supplier, resulting in the price per kilogram falling from £3.50 to £2.90. However, the quality of the new material could be lower resulting in more wastage as each product produced actually required 4.25 kilograms compared to a budgeted 4 kilograms. This could have caused the £44 625 **OF** adverse usage variance meaning these two variances are linked.
- The £122 400 **OF** favourable labour rate variance could be due to new members of staff on a lower rate who are taking longer to complete tasks to the required standard (maybe also be caused by poor quality material) which would also explain the £326 400 **OF** adverse labour efficiency variance.
- The £326 400 **OF** adverse labour efficiency variance could be due to the change in material quality therefore linking with material usage and price variances.

Answers against the directors opinion

- The £130 050 **OF** favourable material price variance could be due to new contract with the same supplier offering discount to loyal customers.
- The £44 625 **OF** adverse material usage variance could be due to machinery faults.
- The £326 400 **OF** adverse labour efficiency variance could be due to new working practice laws that dictate longer breaks.
- There are reasons for all variances that do not link.

Qu	Part	Marking Guidance	Total marks
15	1	Calculate the net present value of the project, clearly showing the cash inflows and outflows.	10

AO2 – 10 marks

Year	Cash inflows W1 £	Cash outflows W2 £	Net cash flow £	Discount factor	Present values £
2024		(2 425 000) (1)	(2 425 000)	1.000	(2 425 000) (1)*
2025	3 250 000	(1 650 000) (2)#	1 600 000	0.877	1 403 200
2026	3 640 000 (1) OF	(1 818 000) (1)	1 822 000	0.769	1 401 118
2027	4 476 800 (2) OF	(2 006 160) (1)	2 470 640	0.675	1 667 682
				NPV	2 047 000 (1) OF

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

W1 Cash inflows

$500\,000 \times £6.50 = £3\,250\,000$

$500\,000 \times 12\% = 560\,000 \times £6.50 = £3\,640\,000$ **(1) OF**

$560\,000 \times 12\% = 627\,200 \times £6.50 = £4\,076\,800$ **(1) OF**** + £400 000 **(1)** = £4 476 800

W2 Cash outflows

$£2\,380\,000 + £45\,000 = £2\,425\,000$ **(1)**

$500\,000 \times £2.80 = £1\,400\,000$ **(1) OF** + $(£120\,000 + £50\,000 + £80\,000) = £250\,000$ **(1)** = £1 650 000 **OF**

$560\,000 \times £2.80 = £1\,568\,000$ **(1) OF** + £250 000 **OF** = £1 818 000 **OF**

$627\,200 \times £2.80 = £1\,756\,160$ **(1) OF**** + £250 000 **OF** = £2 006 160 **OF**

Marker notes:

Accept reasonable rounding for present values.

1 mark for NPV is only awarded if all discounted cash flows are correctly totalled.

Award 1 mark where fixed costs of £250 000 is correctly included in cash outflows in each of the years 2025–2027

** **OF** can be awarded where increase in units is based on calculation of units in 2026.

Qu	Part	Marking Guidance	Total marks
15	2	Calculate the payback period for the project without and with this increase in cost.	4

AO2 – 4 marks

Without increase in cost

$\text{£}2\,425\,000 \text{ OF} - \text{£}1\,600\,000 \text{ OF} = \text{£}825\,000 \text{ OF} \times (12 / \text{£}1\,822\,000 \text{ OF}) = 5.44 \text{ (1) OF}$
 1 year and 5.44 months or 1 year 166 days or 1.45 years **(1) OF**

With increase in cost

$\text{£}2\,425\,000 \text{ OF} + \text{£}500\,000 - \text{£}1\,600\,000 \text{ OF} = \text{£}1\,325\,000 \text{ OF} \times (12 / \text{£}1\,822\,000 \text{ OF}) = 8.73 \text{ (1) OF}$
 1 year and 8.73 months or 1 year 266 days or 1.73 years **(1) OF**

Marker note:

Accept reasonable roundings for payback period.

Qu	Part	Marking Guidance	Total marks
15	3	Assess whether the decision to invest in the new technology should be based only on the payback and net present value calculations. Use your answers from 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 using capital investment appraisal techniques

- Capital investment appraisal techniques help decide if projects are financially viable, and this is important to the success of the business. This project is predicted to have a net present value of £2 047 000 **OF** once the timing of cash flows are considered after an investment of £2 425 000 **OF**.
- Payback helps identify projects that may have a lower risk due to being paid back earlier and net present value helps identify the projects with the highest overall return – both measures of a successful project. The payback period is within two years **OF** whether the additional investment of £500 000 is made or not.

Arguments against using capital investment techniques

- Other factors should be considered eg the impact on customer experience as a result of the introduction of new technology. The reputation of the business is a major contributor to success.
- Capital investment techniques use predictions that are not guaranteed eg the 12% increase in sales may not happen and this has an impact on the financial return on the investment.
- The cost of capital used in the net present value calculation may be too low and therefore show a higher net present value than is likely.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate whether Mel should use marginal or absorption costing in order to set the selling price for the earrings.	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.

Indicative content may include:

AO2 – Application:

- Marginal cost is (£4 + £9) = £13 per pair of earrings.
- Absorption cost is (£4 × 10 000) + (£9 × 10 000) + £190 000 = £320 000 / 10 000 = £32 per pair of earrings.
- Based on a similar marginal cost to their competitors Mel could be selling the earrings at around (£13 × 230%) = £29.90
- This would mean making a loss of £2.10 on each pair of earrings.

AO3 – Analysis and Evaluation:

Arguments for using absorption costing

- Adding on any percentage on to the total cost of £32 should result in a profit being made (as long as costs do not change and demand is as expected).
- An awareness of all costs could help them to try to reduce costs going forward.
- Fixed costs take a larger proportion of its total costs in the first year so it is arguably more important to consider the larger figures.

Arguments against using absorption costing

- Fixed costs are very large and are likely to change next year once the earrings become established to a cost of £110 000 which would mean that the selling price would change considerably. This could prevent them gaining market share in the first year and could confuse customers with any substantial change in the selling price in the second year.
- A selling price of £32 would make it more expensive than its competitors which could mean it struggles to meet the sales target of 10 000 pairs of earrings.
- Fixed costs are being charged on labour hours which may not lead to an accurate cost price if the product is predominately capital intensive.

Arguments for using marginal costing

- A more consistent selling price can be used going forward. The company can consider selling the earrings at a loss in its early life to establish market share before gaining profit once it becomes established.
- May be more flexible to use should there be special order contracts – for example if a large retailer offers to buy a large number of earrings as a one-off purchase.
- After the first year the amount of fixed costs should fall substantially so the marginal cost of the earrings becomes of greater relevance.

- Simple and straightforward to use so more time can be spent in the business.

Arguments against using marginal costing

- A large percentage will need to be added on to achieve the selling price. Otherwise the company may not cover its fixed costs each year (which are high in the first year). Mel might not be happy to make a loss in the first year.
- An increase in the minimum wage could result in Mel having to give pay rises to comply with the minimum wage laws. This, coupled with future rises in raw material costs (after the price fix ends), could result in selling prices having to rise to prevent profits from being eroded.

Wider issues

- What pricing method does she currently use for other products? She may wish to use the same methodology she is already comfortable using.
- ABC costing may be more appropriate given the production is capital intensive.

Limitations of the data

- Does the company have a similar cost structure to its competitors? It may need to accept a slightly smaller mark up in order to compete with existing products in the market by using a competitor pricing model.
- How long will raw materials and labour costs be held at their current level? Can the current supplier of raw materials supply enough material to produce the earrings? Raw materials in many industries have become expensive due to shortages.
- How competitive is the industry? Will competitors react to new products entering the market by changing their selling prices?
- How much above the minimum wage is she currently paying? This could impact on whether a further staff pay rise is needed.
- Given that she plans to absorb fixed costs based on labour hours and the process is capital intensive a recalculation of the figures may be required to give a more accurate picture of the absorption cost.

Overall evaluation

Decision made as to which pricing method to use. Summary justification given to support decision.

Marker note:

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

Qu	Part	Marking Guidance	Total marks
17		Evaluate the two suppliers and advise the directors of Piastri Ltd which supplier they should choose. 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. 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.

Indicative content may include:

AO2 – Application:

- The initial order will cost (5 000 × £6.20) £31 000 buying from Astun whilst Mertin will only cost £28 500. This creates a cost saving of 50p per unit or £2 500 in total.
- Astun is UK based and so may be able to deliver the goods faster than Mertin which is in China and will take longer to deliver.
- Astun has a proportionally smaller amount of inventory based on the difference between the current ratio and liquid ratio (0.3:1) compared to 0.8:1 for Mertin suggesting less inventory is held by Astun.
- Astun receives payments from its customers after 77 days whereas Mertin is 180 days suggesting Mertin offers better credit terms.
- Astun has faster inventory turnover (15 days) than Mertin (120 days) again suggesting Astun may hold less inventory.

AO3 – Analysis and Evaluation:

Arguments for purchasing inventory from Astun

- Astun should be able to deliver faster which will enable them to meet the shortfall in inventory over the next three months whereas delivery times from Mertin could affect sales negatively. However does Astun have inventory available or will it need to make the products and how long will this take?
- Astun has faster inventory turnover suggesting its products may be in greater demand which could boost sales if Astun is a desirable brand name. However is brand relevant in this market?
- Delivery may be more reliable if they are based closer to Piastri Ltd. It might also produce less air pollution given the products do not travel as far.
- Given the location returns of any faulty inventory to Astun could be done more quickly ensuring replacements can be received earlier.
- Using new technology may improve the quality of the product further. However there could be teething problems and it appears to involve staff reduction in hours/redundancies.
- There will be no issues with exchange rates.

Arguments for purchasing inventory from Mertin

- Initial order will save £2 500 and each T-shirt should boost contribution per unit by 50p if prices for both companies remain the same. This will boost overall profitability.
- Appears to have more inventory available based on the difference between the current ratio and the liquid ratio as well as the inventory turnover ratio (120 days indicates it has more stock available). This could mean it is able to sell goods from inventory rather than having to make them once orders are placed.

- Mertin has 103 days higher trade receivable days suggesting Piastri Ltd may be able to negotiate longer credit terms from them which boosts liquidity.
- Mertin has better liquidity suggesting it might be less likely to go out of business so supply of goods should be less affected than Astun which could have cash flow problems.
- Mertin appears to behave ethically towards its employees given the recent award it has won.
- Mertin has been trading longer and therefore may be more reliable/established.

Other factors

- Will the prices for each company remain fixed and for how long?
- Although quality is supposed to be identical will this be the case? There could be a fall in the quality of goods if either supplier is trying to maximise its profits.
- Are there any other non-financial factors to consider such as the working conditions, rates of pay for staff etc?
- The ratios are historic data and may not reflect the current position of each company.
- Piastri Ltd might wish to use both suppliers to ensure it has a consistent supply of inventory.

Limitations of the data

- What is the size of each business – can they meet the demand?
- How reliable is the data provided? Could the ratios have been window dressed?
- Would Piastri Ltd be better reviewing each supplier's financial statements rather than just the ratios?
- What are the credit terms (if any) offered by each supplier?
- Are there any industry benchmarks which could be used to provide a better judgement?

Overall evaluation

Decision made as to which supplier to select. Summary justification given to support decision.

Marker note:

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