



A-level ACCOUNTING 7127/2

Paper 2 Accounting for analysis and decision-making

Mark scheme

June 2025

Version: 1.0 Final



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 the explanation.

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 14.4 & 15.4

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	A	$\frac{\text{Current market price}}{\text{Earnings per share}}$
02	C	Indirect and fixed
03	D	L Boulton Discount received
04	B	£445 Favourable
05	B	Irrecoverable debts J Pawel
06	A	$\frac{\text{Dividend per share}}{\text{Market price per share}} \times 100$
07	B	Importance is placed on earlier cash flows.
08	B	£29 200
09	D	30 030 kg
10	A	£22 050

[1 mark for each correct answer]

Qu	Part	Marking Guidance	Total marks
11		Explain one role of the Financial Reporting Council (FRC) in relation to audit and accounting.	3

AO1 – 3 marks

Level	Marks	Description
3	3	A clear and thorough explanation showing understanding of one of the roles of the Financial Reporting Council.
2	2	A partial explanation showing understanding, but lacking detail and/or minor inaccuracies.
1	1	Fragmented points made.
0	0	Nothing written worthy of credit.

Answers may include:

- Setting accounting (technical) and ethical standards to take into consideration industry changes/to ensure prevent technical loopholes from being exploited.
- Monitor ethical behaviour of accountants by providing an independent investigation and discipline scheme for matters relating to accountancy firms or members of the accountancy professional bodies which raise or appear to raise important issues affecting the wider public interest.
- Monitoring and investigating statutory auditors and their audit work and setting and enforcing appropriate sanctions for any failures found during these audits.
- Setting criteria for determining the eligibility of persons for appointment as statutory auditors (eligibility criteria and approved persons) and provide a public oversight of these auditors via a register.
- Independent oversight of the regulation of the accountancy profession by the professional accountancy bodies such as CCAB and CIMA to ensure consistency in approach.

Qu	Part	Marking Guidance	Total marks
12	1	Calculate the total contribution if Stella makes the 100 garage doors for the contract.	6

AO1 – 6 marks

Make	
Non-overtime units	£
Selling price	300
Direct labour (3 hours)	60
Direct materials (5 metres)	80
Contribution per unit	160 (1)
× 12 units W1	× 12 units (1)
	1 920 OF
Overtime units	£
Selling price	300
Direct labour (3 hours)	90 (1) W2
Direct materials (5 metres)	80
Contribution per unit	130 (1)
× 88 units W3	× 88 units (1) OF
	11 440 OF
Total contribution	13 360 (1) OF* W4

Alternative answer	
	£
Sales	30 000 (1) W5
Labour – normal rate of pay	720 (1) W6
Labour – overtime	7 920 (2) W7 OF
Materials	8 000 (1) W8
Total contribution	13 360 (1) OF* W9

Workings

- W1** 36 hours / 3 hours per unit = 12 units **(1)**
12 units can be made at usual labour rate
- W2** £60 / 3 hours = £20 per hour × 1.5 (overtime rate) = £30 per hour
£30 × 3 hours = £90 per unit
- W3** 100 units – 12 units = 88 units **(1) OF**
88 units can be made at overtime rate
- W4** £1920 **OF** + £11 440 **OF** = £13 360 **(1) OF**
- W5** £300 × 100 = £30 000 **(1)**
- W6** 12 × £60 = £720 **(1)**
- W7** 88 **(1) OF W3** × £90 = £7 920 **(1) OF**
OR (300 hours – 36 hours) = 264 hours **(1)**
264 hours **OF** × £30 per hour = £7 920 **(1) OF**
- W8** 100 × £80 = £8 000 **(1)**
- W9** £30 000 – £720 – £7 920 – £8 000 = £13 360 **(1) OF**

Marker note:

*To award OF total contribution costs must be deducted from sales.

Qu	Part	Marking Guidance	Total marks
12	2	Calculate the total contribution if Stella buys the 100 garage doors for the contract.	3

AO1 – 3 marks

Buy in	
	£
Selling price	300
Less purchase price	160 (1) W1
Less delivery charge	8 (1) OF W2
Contribution per unit	132 W3
Total contribution	13 200 (1) OF W4

Alternative answer	
	£
Sales	30 000 W5
Less purchases	16 000 (1) W6
Less delivery charge	800 (1) W7
Total contribution	13 200 (1) OF* W8

Workings**W1** £200 × 80% = £160**W2** 5% of £160 = £8**W3** £300 – £160 **OF** – £8 **OF** = £132**W4** £132 **OF** × 100 units = £13 200 **(1) OF****W5** 100 × £300 = £30 000**W6** £200 × 0.8 = £160 × 100 = £16 000**W7** (5% of £160) = £8 × 100 = £800**W8** £30 000 – £16 000 **OF** – £800 **OF** = £13 200 **(1) OF****Marker note:**

*To award OF total contribution costs must be deducted from sales.

Qu	Part	Marking Guidance	Total marks
13		Calculate the budgeted profit for each year of the project.	8

AO1 – 8 marks

Year	£
2026	98 700 (4) W1
2027	39 125 (1) W2
2028	38 750 (3) W3

Workings

	W1 2026	W2 2027	W3 2028
	£	£	£
Projected net cash flow	48 200	53 125	75 250
Purchase of machinery	64 500 (3) OF # W4		
Depreciation	(14 000)	(14 000)	(14 000) (1)*
Expected disposal proceeds			(22 500) (1)
Budgeted profit	98 700 (1) OF	39 125 (1) OF	38 750 (1) OF

W4 £54 280 **(1) W5** + (£6 250 + £3 970) **(1)** = £64 500 **(1) OF**

W5 £59 000 × 92% = £54 280

Marker note:**# Purchase of machinery**

To award £64 500 OF the purchase must be added to net cash flows.

Award two marks where discount has been missed ie £59 000 + £6 250 + £3 970 = £69 220 and the purchase has been added to net cash flows.

Depreciation

*Award one mark where depreciation of £14 000 has been deducted each year.

Budgeted profit

The own figure for budgeted profit is awarded for adjusting the projected net cash flow. It can still be awarded if a profit or loss on disposal is included or £4 720 is added as discount received.

Section B

Qu	Part	Marking Guidance	Total marks
14	1	Prepare the sales revenue budget for each of the four months from September to December.	4

AO2 – 4 marks

Sales revenue budget

	Sep	Oct	Nov	Dec
Sales in units	30 000	30 000	45 000	55 000
Price per unit (£)	40.00	48.00	48.00	43.20
Sales revenue (£)	1 200 000 (1) W1	1 440 000 (1) W2	2 160 000 (1) OF W3	2 376 000 (1) OF W4

Workings

W1 $30\,000 \times £40.00 = £1\,200\,000$ **(1)**

W2 $30\,000 \times (£40.00 + 20\%) = £1\,440\,000$ **(1)**

W3 $45\,000 \times £48.00$ **OF** = £2 160 000 **(1) OF**

W4 $55\,000 \times (£48.00$ **OF** – 10%) = £2 376 000 **(1) OF**

Qu	Part	Marking Guidance	Total marks
14	2	Prepare the production budget for each of the four months from September to December.	8

AO2 – 8 marks**Production budget**

	Sep	Oct	Nov	Dec
Sales in units	30 000	30 000	45 000	55 000
Opening inventory	(6 000)	(6 000)	(9 000)	(11 000)
Closing inventory	6 000 (1)	9 000 W2 (1)	11 000 W4 (1)	6 000 W6 (1)
Production	30 000 W1 (1) OF	33 000 W3 (1) OF	47 000 W5 (1) OF	50 000 W7 (1) OF

OF marks should be awarded where opening and closing inventory have been correctly treated.

Workings

W1 $30\,000 - 6\,000 + 6\,000 = 30\,000$ **(1) OF**

W2 $45\,000 \times 20\% = 9\,000$ **(1)**

W3 $30\,000 - 6\,000 + 9\,000 = 33\,000$ **(1) OF**

W4 $55\,000 \times 20\% = 11\,000$ **(1)**

W5 $45\,000 - 9\,000 + 11\,000 = 47\,000$ **(1) OF**

W6 $30\,000 \times 20\% = 6\,000$ **(1)**

W7 $55\,000 - 11\,000 + 6\,000 = 50\,000$ **(1) OF**

Qu	Part	Marking Guidance	Total marks
14	3	Calculate any shortfall in the production required for November and December if production cannot exceed 35 000 units.	2

AO2 – 2 marks

	Nov	Dec
Shortfall	12 000 (1) W1 OF	15 000 (1) W2 OF

Workings**W1**

November $47\,000 \text{ OF} - 35\,000 = 12\,000$ **(1) OF**

W2

December $50\,000 \text{ OF} - 35\,000 = 15\,000$ **(1) OF**

Qu	Part	Marking Guidance	Total marks
14	4	Assess the usefulness of the production budget for Mattol Ltd.	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.

Reasons for preparing the production budget

- Assists with the budget for materials and labour.
- Helps identify issues with production capacity e.g. shortfall of 12 000 **OF** units for November and 15 000 **OF** units for December.
- Helps schedule the shortfall in the months before as there is capacity in July–October. Total sales are 195 000 units which can be made 32 500 each month and stay within factory capacity.

Reasons against preparing the production budget

- All are based on predictions and can be inaccurate. This is a brand new product – is there any further research on sales of similar products or are these figures purely based on the view of the sales team?
- How have the marketing department arrived at their pricing suggestions? The price changes from £40 to £48 **OF** and then £43.20 **OF**. Will this have an impact on sales?

Qu	Part	Marking Guidance	Total marks
15	1	Calculate the total weekly cost for Airplus production using activity based costing.	8

AO2 – 8 marks

	Airplus
	£
Materials	93 030
Labour	196 875 (1) W1
Machinery reset	99 375 (2) W2 OF
Machinery inspection	143 150 (2) W3 OF
Machinery maintenance	9 900 (2) W4 OF
Total cost	542 330 (1) OF*

Workings**W1**

$$£12.50 \times 1.5 = £18.75 \times 10\,500 = £196\,875 \text{ **(1)**}$$

W2

Number of batches per week

$$\text{Airplus } 10\,500 / 70 = 150$$

$$\text{Fryex } 4500 / 90 = 50$$

$$150 + 50 = 200$$

$$\text{Airplus } (£132\,500 / 200) = £662.50 \text{ **(1)**} \times 150 = £99\,375 \text{ **(1) OF**}$$

W3

Number of inspections per week

$$\text{Airplus } 10\,500 / 300 = 35$$

$$\text{Fryex } 4500 / 300 = 15$$

$$35 + 15 = 50$$

$$\text{Airplus } (£204\,500 / 50) = £4\,090 \text{ **(1)**} \times 35 = £143\,150 \text{ **(1) OF**}$$

W4

Total machine hours per week

$$30\,000 + 20\,000 = 50\,000$$

$$\text{Airplus } (£16\,500 / 50\,000) = £0.33 \text{ **(1)**} \times 30\,000 = £9\,900 \text{ **(1) OF**}$$

Alternative mark scheme per unit

	Airplus
	£
Materials	8.86
Labour	18.75 (1) W5
Machinery reset	9.46 (2) W6 OF
Machinery inspection	13.63 (2) W7 OF
Machinery maintenance	0.94 (2) W8 OF
Per unit	51.64 OF
Total cost	542 220 (1) OF*

W5

$£12.50 \times 1.5 \text{ hours} = £18.75$ **(1)**

W6

Number of batches per week

Airplus $10\,500 / 70 = 150$

Fryex $4\,500 / 90 = 50$

$150 + 50 = 200$

Airplus $(£132\,500 / 200) = £662.50$ **(1)** $\times 150 = £99\,375$ **(1) OF** $/ 10\,500 = £9.46$ **OF**

W7

Number of inspections per week

Airplus $10\,500 / 300 = 35$

Fryex $4\,500 / 300 = 15$

$35 + 15 = 50$

Airplus $(£204\,500 / 50) = £4\,090$ **(1)** $\times 35 = £143\,150$ **(1) OF** $/ 10\,500 = £13.63$ **OF**

W8

Total machine hours per week

$30\,000 + 20\,000 = 50\,000$

Airplus $(£16\,500 / 50\,000) = £0.33$ **(1)** $\times 30\,000 = £9\,900$ **(1) OF** $/ 10\,500 = £0.94$ **OF**

Marker note:

*OF mark can only be award if materials are included.

Accept reasonable rounding.

Qu	Part	Marking Guidance	Total marks
15	2	Calculate the selling price per unit for Airplus using activity based costing.	1

AO2 – 1 mark

	Airplus
	£
Per unit	51.65 OF (from 15.1)
Profit	20.66
Selling price	72.31 (1) OF*

*If £51.64 is used the selling price will be £72.30

Qu	Part	Marking Guidance	Total marks
15	3	The Production Manager has asked if absorption costing can be used instead of activity based costing. She requires all fixed production overheads to be assigned using machine hours. Calculate the selling price per unit for Airplus using absorption costing.	5

AO2 – 5 marks

	Airplus
	£
Materials	93 030
Labour	196 875 OF
Fixed production overheads	212 100 (3) W1 OF
Total cost	502 005
Per unit	47.81
Profit	19.12 (1) OF W2
Selling price	66.93 (1) OF*

W1

Total machine hours per week
 $30\,000 + 20\,000 = 50\,000$

Fixed production overheads

$£132\,500 + £204\,500 + £16\,500 = £353\,500$ **(1)**

$(£353\,500 \text{ OF} / 50\,000) = £7.07$ **(1) OF** $\times 30\,000 = £212\,100$ **(1) OF**

W2

$£47.81 \text{ OF} \times 40\% \text{ (1)} = £19.12 \text{ OF}$

*Award OF for selling price if materials and labour are included.

Alternative mark scheme

	Airplus
	£
Materials	8.86
Labour	18.75
Fixed production overheads	20.20 (3) W1 OF
Total cost per unit	47.81 OF
Profit	19.12 (1) OF W2
Selling price	66.93 (1) OF

W1

Total machine hours per week
 $30\,000 + 20\,000 = 50\,000$

Total fixed production overheads

$£132\,500 + £204\,500 + £16\,500 = £353\,500$ **(1)**

$(£353\,500 \text{ OF} / 50\,000) = £7.07$ **(1) OF** $\times 30\,000 = £212\,100$ **OF**

$£212\,100 / 10\,500 = £20.20$ **(1) OF**

W2

$£47.81 \text{ OF} \times 40\% \text{ (1)} = £19.12 \text{ OF}$

Qu	Part	Marking Guidance	Total marks
15	4	Assess whether Byal plc should use absorption costing to calculate the selling price of Airplus .	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 absorption costing when calculating selling price

- Some costs are not caused by any activity so need to use absorption costing to arrive at an accurate selling price.
- Absorption costing is a straightforward system that can be used quickly so it is easier to calculate selling price.
- Costing is often not the only method of setting a selling price e.g. competitor prices are often a contributory factor. Will the price of £72.31 **OF** generated by ABC be tolerated by customers or would £66.93 **OF** challenge competitors?

Arguments against absorption costing when calculating selling price

- ABC is a more accurate way of assigning costs that are caused by an activity e.g. Airplus needs more batches and therefore uses more machine preparation time. Absorption costing does not identify this so could mean the selling price is set too low.
- ABC leads to a more accurate total cost and a selling price that covers the cost of that unit i.e. the ABC method assigns higher costs to Airplus which leads to a higher selling price.
- Byal plc already use activity based costing which staff are familiar with.

Section C

Qu	Part	Marking Guidance	Total marks
16		Evaluate both products (Primeria and Entrio) and advise the directors of Estocon Ltd which product they should buy. 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	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. 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
0	0	Nothing written worthy of credit.

Indicative content may include:**AO2 – Application:****Primeria**

- NPV is positive at £19 084 and considerably higher (£17 749) than Entrio.
- Payback period is 5 years and 122 days. With a potential lifespan of 20 years it could generate cash for the remaining 14 years and 243 days.
- Primeria uses latest technology and appears to be produced in an environmentally responsible way.

Case for Entrio

- NPV is positive at £1 335.
- Payback period is 4 years and 292 days. With a lifespan of 8 years it could generate cash for the remaining 3 years and 73 days.
- Payback is quicker by 195 days which is better for liquidity.
- Lifespan of Entrio falls within the planned timescale for relocation.

AO3 – Analysis and Evaluation:**Case for Primeria**

- Primeria is state of the art and cost savings may become greater if energy prices rise.
- The NPV is considerably higher (£17 749) than Entrio so it is providing a far better return on investment.
- Uses recycled materials in a carbon neutral factory. The panels being more environmentally friendly could help promote the image of Estocon Ltd.
- Estocon Ltd plans for expansion are ambitious. If these growth plans are not achieved, they may not need to relocate.
- There could be a cost of moving the panels to a new premises. However, if they move and re-use the panel they could continue to provide further cost savings for the lifetime of the panels.
- Panels may be able to be sold when the company relocates to recoup some of the investment.

Case against Primeria

- Initial cost is expensive. This is important as they currently have cash flow problems in the short term. Can they source the £32 000 of funds to purchase the Primeria?

- Annual servicing cost is only included for first three years so additional costs could be incurred which could prove expensive. However solar panels usually have minimal maintenance costs so this may be less of an issue.
- Technology of solar panels might have improved by the time they wish to move to a new premises so the panels might not be needed.
- Cost of moving the panels to a new premises could be expensive and may not be worthwhile.
- Environmental impact of shipping the panels across the world may negate the fact they are produced in a carbon neutral factory.

Case for Entrio

- Amount needed to purchase the Entrio at £12 000 is significantly lower (£20 000) than Primeria.
- Maintenance costs are included for the lifetime of the lease which reduces the risk of unexpected costs occurring and helps budgeting.
- Shorter life approximately matches the timescale of the plan to move factories so the panels can be disposed of/sold and newer technology could be used in the new factory.
- Payback is quicker than Primeria by 195 days. Since cash flow is currently an issue this is important. However, the cash flow may be short term, and the payback period is still almost 5 years.
- Items are produced in the UK which helps reduce its carbon footprint in terms of delivery.

Case against Entrio

- NPV is quite low and if there are any unexpected costs this project might not be worthwhile. Panels use ageing technology. If energy bills rise, they will not save as much as with Primeria.
- Maintenance being included is less relevant given maintenance of the panels is expected to be minimal.
- Items made in the UK may not be as environmentally friendly/high tech as the ones made in South Korea. This may not promote the business as being environmentally friendly as it might be using Primeria.
- Does not state if the panels are made from recycled materials so may not be as environmentally friendly.
- Technology may have aged significantly since it was first introduced.

Limitations of the data

- Maintenance cost is unknown. If they break, could they be expensive to repair/replace?
- Can funding be secured with the bank at the quoted rates? Can they borrow up to £32 000? It would be useful to know the gearing ratio.
- As the panels age, they become less effective, but we do not know how much the cost saving will reduce by.
- How much would it cost to install the panels at a new premises? This could be more than the panels are worth.

Other factors

- Are there other ways the company can reduce their energy bills? Better insulation of building, environmentally friendly delivery trucks.
- Are there any government incentives to reduce costs further?
- How realistic are the growth plans? What are they based on?

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 whether Vowles Ltd should accept the contract to supply Pear plc. 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	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. 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.
0	0	Nothing written worthy of credit.

Indicative content may include:

AO2 – Application:

- Based on projected figures.
- After trade discount annual revenue will be $(£180\,000\,000 / 3 = £60\,000\,000 \times 75\%) = £45\,000\,000$
- Revenue could therefore increase by £12 538 000 ($£45\,000\,000 - £32\,462\,000$)
- Gross profit could therefore increase by £5 339 820 ($£18\,000\,000 - £12\,660\,180$)
(40% of £45 000 000 is £18 000 000)
(39% of £32 462 000 is £12 660 180)
- Expenses will remain in proportion to revenue ($39\% - 4\% = 35\%$) so profit will be 5% of revenue
- Profit in relation to revenue will be $£45\,000\,000 \times 5\% = £2\,250\,000$
- Last year's profit was £1 298 480
- Profit for the year could improve by £951 520 ($£2\,250\,000 - £1\,298\,480$)

AO3 – Analysis and Evaluation:

Case for accepting the contract

- Opportunity to work with the largest customer (Pear plc) in the sector which could boost revenue and profits in the long term.
- Revenue, gross profit and profit for the year are all projected to grow substantially.
- If successful it could lead to an ongoing relationship.
- Vowles Ltd appears to have relatively good levels of liquidity based on the current ratio. This contract will increase the trade receivable days (potentially to around 180 days). Will Vowles Ltd have enough cash?
- Growth in profits could lead to job opportunities in an area where unemployment is an issue.

Case for rejecting the contract

- The company is then totally reliant on Pear plc for its success during the contract. If Pear plc decides to end the contract it could leave Vowles Ltd without any customers.
- May alienate its existing customers from working with Vowles Ltd in the future given they would have to stop supplying them.
- Taking the contract from Pear plc will have an impact on the liquidity of the firm with both the current ratio and trade receivable days both declining in terms of its expected liquidity/efficiency.
- Are expenses likely to remain in proportion to revenue? This is quite a generalised assumption.
- Staff working for Vowles are long serving employees. If the contract is ended, they could lose their jobs. It might prove difficult to get employment elsewhere given they are located in a rural area with high unemployment.

- If Vowles Ltd was to shut down the impact on the local community could be significant with other local businesses losing sales/profits due to increased unemployment in the area.
- Will there be additional costs (e.g. new machinery) to meet the demands of this contract and can they be put in place quick enough? This would reduce the profitability of the project.

Limitation of the data

- How have Pear plc treated their suppliers historically? This could heavily influence any decision.
- Will there be costs in ending any other contract early which would reduce profits?
- Will Vowles Ltd have the infrastructure to supply the largest customer in their market?
- Levels of current assets e.g. Bank, Cash, Inventory not known so hard to make judgements on liquidity.
- Are there any storage constraints or geographical/language issues which could affect the decision which we are unaware of?
- Industry averages for ratios are not provided.

Overall

It depends on how keen Vowles Ltd is to work with Pear plc in the future. Vowles Ltd becomes totally reliant on one customer (Pear plc) which is risky. There is an opportunity to increase profits, but it could be disastrous if Pear plc decides not to continue offering contracts to Vowles Ltd.

Marker note:

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