LRN International A Level: Accounting (7151)

Paper 3: Accounting

(1 Hour 45 minutes)

May / June 2024

Marking Scheme

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Question 1: Explain the significance of management accounting in aiding decision-making processes within BrightStar. (4 marks)

Criteria: Assessing understanding of management accounting and its role in decision-making, with application to BrightStar's challenges.

Mark Bands and Descriptors:

- **1-2 marks:** Basic understanding of management accounting. Limited or generic relevance to BrightStar.
  Example: "Management accounting provides information for decision-making."

- **3-4 marks:** Clear explanation of management accounting's significance, directly applied to BrightStar's issues (e.g., cost allocation, profitability challenges).
  Example: "Management accounting helps BrightStar allocate overhead costs more accurately, aiding in pricing strategies and resource allocation."

Question 2: Evaluate the advantages and disadvantages of budgeting as a planning and control tool for BrightStar. (8 marks)

Criteria: Ability to discuss the benefits and limitations of budgeting with specific reference to BrightStar.

Mark Bands and Descriptors:

- **1-3 marks:** Limited evaluation of budgeting, mostly theoretical, with little application to BrightStar.
  Example: "Budgeting helps plan expenses but can be rigid."

- **4-6 marks:** Balanced evaluation with some reference to BrightStar's context, such as inconsistent performance and cost control.
  Example: "Budgeting can standardise operations across BrightStar's locations, but rigid budgets might hinder adaptability to fluctuating consumer demand."

- **7-8 marks:** Comprehensive evaluation with detailed application to BrightStar's operational challenges, including its financial strain and managerial training initiatives.
  Example: "While budgeting supports performance consistency and cost control, BrightStar's dynamic retail environment may render fixed budgets impractical, requiring flexible approaches."

Question 3: Assess the impact of ethical behaviour on the budgeting and budgetary control system at BrightStar. (6 marks)

Criteria: Evaluation of ethical considerations in budgeting and their effects on BrightStar's operations.

Mark Bands and Descriptors:

- **1-2 marks:** Superficial mention of ethics in budgeting. Limited or no link to BrightStar.
  Example: "Ethics ensures budgets are fair."

- **3-4 marks:** Moderate assessment with some application to BrightStar's budgeting practices.
  Example: "Unethical practices, like inflating budgets, could lead to resource misallocation at BrightStar."

- **5-6 marks:** Thorough assessment with detailed linkage to BrightStar's operational goals and ethical considerations.
  Example: "Ethical budgeting fosters trust among BrightStar's managers, ensuring fair allocation of resources and preventing favouritism in store performance reviews."

Question 4: Discuss the objective of investment appraisal and its relevance to BrightStar. (4 marks)

Criteria: Understanding of investment appraisal objectives and relevance to BrightStar's decision-making.

Mark Bands and Descriptors:

- **1-2 marks:** General discussion of investment appraisal with minimal relevance to BrightStar.
  Example: "Investment appraisal evaluates potential projects."

  3-4 marks: Clear discussion with relevance to BrightStar's financial challenges and proposed investments.
  Example: "Investment appraisal enables BrightStar to assess profitability of new methodologies, aiding in informed decision-making amidst cost pressures."

Question 5: Evaluate capital investment appraisal techniques and their applicability to BrightStar. (6 marks)

Criteria: Evaluation of techniques such as payback period, NPV, and IRR in BrightStar's context.

Mark Bands and Descriptors:

- **1-2 marks:** Limited evaluation of techniques.
  Example: "NPV calculates project value."

- **3-4 marks:** Moderate evaluation with partial linkage to BrightStar's context.
  Example: "NPV helps BrightStar prioritise investments with higher returns, but it assumes consistent cash flows."

- **5-6 marks:** Comprehensive evaluation with detailed application to BrightStar's financial constraints.
  Example: "NPV is ideal for BrightStar to analyse profitability amidst tight cash flows, while IRR helps compare multiple investment options."

Question 6: Analyse the use of discounting techniques in accounting and how they can be applied to evaluate potential investments within BrightStar. (8 marks)

Criteria: Understanding discounting techniques (e.g., NPV, discounted cash flow) and their application to BrightStar's investment decisions.

Mark Bands and Descriptors:

- **1-3 marks:** Limited understanding of discounting techniques. Little or no application to BrightStar.
  Example: "Discounting accounts for the time value of money."

- **4-6 marks:** Moderate analysis of discounting techniques with some connection to BrightStar's cash flow challenges.
  Example: "Discounting ensures BrightStar considers future cash flows when evaluating potential product lines."

- **7-8 marks:** Detailed analysis of discounting techniques applied to BrightStar's context, including examples of how these techniques address profitability and resource allocation.
  Example: "Using NPV, BrightStar can assess whether investments in advanced costing methodologies will generate sufficient future returns to justify current expenses."

Question 7: Outline the components of a production budget which would be applicable for BrightStar. (6 marks)

Criteria: Identification of production budget components and their relevance to BrightStar's operations.

Mark Bands and Descriptors:

- **1-2 marks:** Basic mention of production budget components with no link to BrightStar.
  Example: "A production budget includes planned production units."

- **3-4 marks:** Clear outline of components with some relevance to BrightStar's retail operations.
  Example: "The production budget includes sales forecasts and inventory levels, crucial for BrightStar's inventory management."

- **5-6 marks:** Comprehensive outline of components tailored to BrightStar's needs, such as inventory turnover and supplier terms.
  Example: "Components like opening stock, required production, and closing stock can help BrightStar optimise its inventory levels and reduce cash flow strain."

Question 8: Determine the approach to calculate the net present value of a proposed investment in a new product line for BrightStar. (6 marks)

Criteria: Understanding of NPV calculation steps and their application to BrightStar's investment decisions.

Mark Bands and Descriptors:

- **1-2 marks:** Basic description of NPV without detailed steps or relevance to BrightStar.
  Example: "NPV compares cash inflows and outflows."

- **3-4 marks:** Moderate explanation of NPV calculation steps with some reference to BrightStar.
  Example: "NPV involves estimating cash flows from the new product line and discounting them to present value using a chosen rate."

- **5-6 marks:** Detailed explanation of NPV calculation tailored to BrightStar's context, including cash flow issues and profitability goals.
  Example: "BrightStar should project cash inflows from the product line, subtract initial costs, and discount at a rate reflecting its cost of capital to assess feasibility."

Question 9: Analyse the financial data of BrightStar and recommend strategic business decisions using management accounting tools such as budgeting, investment appraisal, and cost analysis. (8 marks)

Criteria: Ability to analyse financial data and recommend decisions using management accounting tools.

Mark Bands and Descriptors:

- **1-3 marks:** Limited analysis of financial data or generic recommendations.
  Example: "BrightStar should reduce costs."

- **4-6 marks:** Moderate analysis with some application of tools to BrightStar's challenges.
  Example: "Using budgeting, BrightStar can control promotional expenses and allocate resources more effectively."

- **7-8 marks:** Comprehensive analysis with specific, strategic recommendations addressing BrightStar's challenges.
  Example: "Budgeting can standardise store operations, while NPV can help BrightStar assess long-term profitability of investments in training and costing methods."

Question 10: Explain how BrightStar can distinguish between fixed and variable costs in its operations. (4 marks)

Criteria: Understanding fixed and variable costs and their identification in BrightStar's context.

Mark Bands and Descriptors:

- **1-2 marks:** Basic explanation of fixed and variable costs without BrightStar's context.
  Example: "Fixed costs don't change with output."

- **3-4 marks:** Clear explanation with specific examples from BrightStar.
  Example: "Fixed costs, like store rents, remain constant, while variable costs, such as inventory purchases, vary with sales volume."

Question 11: Explore the advantages and disadvantages of absorption costing for BrightStar. (8 marks)

Criteria: Evaluation of absorption costing with application to BrightStar's cost allocation challenges.

Mark Bands and Descriptors:

- **1-3 marks:** Limited discussion of absorption costing, mostly theoretical.
  Example: "Absorption costing allocates overheads to products."

- **4-6 marks:** Moderate evaluation with some reference to BrightStar.
  Example: "Absorption costing helps BrightStar allocate overheads but may distort product costs if overheads are inaccurately estimated."

- **7-8 marks:** Comprehensive evaluation addressing BrightStar's operational complexities and need for cost accuracy.
  Example: "Absorption costing ensures all costs are accounted for, but its reliance on arbitrary overhead rates might hinder BrightStar's efforts to control expenses."

Question 12: Analyse the causes of overhead expenditure at BrightStar. (6 marks)

Criteria: Identification and analysis of factors contributing to BrightStar's overheads.

Mark Bands and Descriptors:

- **1-2 marks:** Basic mention of overhead causes with little or no application to BrightStar.
  Example: "Overheads include indirect costs."

- **3-4 marks:** Moderate analysis with some linkage to BrightStar's operations.
  Example: "BrightStar's expanding network increases overheads, including administrative and training costs."

- **5-6 marks:** Detailed analysis with clear application to BrightStar's context.
  Example: "High overheads stem from training store managers and promotional expenses, exacerbated by inconsistent performance across locations."

Question 13: Assess the advantages and disadvantages of breakeven charts. (6 marks)

Criteria: Evaluation of breakeven charts with application to BrightStar's financial planning.

Mark Bands and Descriptors:

- **1-2 marks:** Limited discussion of breakeven charts, mostly theoretical.
  Example: "Breakeven charts show costs and revenues."

- **3-4 marks:** Moderate evaluation with some application to BrightStar's financial challenges.
  Example: "Breakeven charts can help BrightStar identify profitability levels but may oversimplify costs like promotional expenses."

- **5-6 marks:** Comprehensive evaluation addressing BrightStar's needs for visualising profitability amidst fluctuating demand.
  Example: "Breakeven charts clarify profitability thresholds, but BrightStar must account for variable factors like consumer demand and inventory issues."