IQM3007

LEVEL 3 · CONTROLLED ASSESSMENT

INTO QUALIFICATIONS

Business and Accounting

Component 2: Paper 2 - Accounting

Candidate question paper

Duration
2 hours

Total marks
100

Assessment window
Sample assessment

Assessment set
Set S of 2026

Response instruction
Write all answers in the separate answer booklet.

Release timing
exam release

Paper
P2

Assessment set ID
2026-S

INTO QUALIFICATIONS LEARNER ID

DELIVERY CENTRE ID (OPTIONAL)

EXAM DATE
_____

ASSESSMENT SET
Set S of 2026

Do not open this paper until instructed. Record every answer in the separate answer booklet.

FOR MARKER USE ONLY

Marker initials	**Mark / 100**

Instructions

- Follow the answer route stated at the start of each section.
- Write all answers in the separate answer booklet and identify each question clearly.
- Show all working where relevant.
- A non-programmable, non-graphing scientific calculator is permitted; see the full conditions below.
- The mark allocation is shown beside each question.

Answer all questions in Sections A and B. Section A carries 50 marks and Section B carries 50 marks. Write every answer in the separate answer booklet. Show your working and identify each question and part.
Closed-book examination. No additional materials are permitted.
A non-programmable, non-graphing scientific calculator is permitted. Calculators with CAS, text/image/document storage or internet capability, and phones, tablets and smart watches, are not permitted.
No AI or external assistance is permitted. Figures and organisations are fictional.
Give monetary amounts in pounds unless a table states otherwise. Retain exact values during calculations; give non-integer monetary answers to two decimal places.

Section A · Structured questions

Answer all questions. 50 marks.

Question A1 · 22 marks

(1) A small furniture manufacturer prepares annual financial statements for its external lender and a weekly cost report for its production manager. Explain two differences between financial accounting and management accounting, applying each difference to these reports. 4

(2) The manufacturer plans to enter a new national market over five years, sets a production-capacity plan for the coming year and assigns workers to machines for tomorrow. Identify the strategic, tactical and operational decisions. Explain how comparing tomorrow’s actual output with the plan supports control. 4

(3) A factory makes wooden tables. Classify each cost as direct production, indirect production or non-production: (a) wood traced to each table; (b) wages of assembly staff whose time is recorded for each table; (c) the factory supervisor’s salary; (d) a sales advertising campaign. 4

(4) For each monthly cost, identify its behaviour as fixed, variable, stepped fixed or semi-variable: (a) rent of £3,000 unchanged over the stated output range; (b) packaging at £2 per completed unit; (c) one supervisor costing £2,500 for up to 1,000 units, with a second supervisor required above 1,000 units; (d) electricity costing £400 plus £0.50 per machine-hour. 4

(5) A workshop completed 800 units in April, 1,000 in May and 1,200 in June. Calculate (a) the mean monthly output; (b) the percentage increase from April to June; and (c) the June output index with April = 100. Interpret the index in one sentence. 6

Question A2 · 28 marks

(1) A repair business is deciding whether to accept a one-off job. The job would use a spare part already held in inventory. The part originally cost £90 and has no other use within the business, but it could be sold now for £55. A replacement could be bought for £110, but none would be needed if this job used the part. The job also requires overtime of £40 and an additional delivery payment of £15. Calculate the total relevant cost and explain why the original cost and replacement price are excluded. 6

(2) A business sells one product for £40 per unit. Variable cost is £24 per unit and monthly fixed costs are £12,800. Expected monthly sales are 1,000 units. Assume constant prices and unit variable costs, and no inventory change. Calculate contribution per unit, break-even output, and the margin of safety in units and as a percentage of expected sales. Explain what the margin of safety indicates. 6

(3) A different product sells for £50 per unit and has a variable cost of £30 per unit. Fixed costs are £18,000 per month. Calculate the contribution-to-sales ratio and the monthly revenue required for a target operating profit of £6,000. Explain why using the ratio becomes less reliable if the unit variable cost rises while the selling price stays unchanged. 6

(4) A product sells for £20 per unit. Variable cost is £12 per unit and monthly fixed costs are £4,000. On graph paper in your answer booklet, draw a traditional break-even chart for output from 0 to 1,000 units. Label both axes and draw and identify total revenue, total cost and fixed cost. Mark the break-even point and indicate the profit region. Assume all output is sold. 6

(5) Explain one purpose of a sales budget and outline two stages that help a business produce coordinated functional budgets. 4

Section B · Longer questions

Answer both questions. 50 marks.

Question B1 · 25 marks

Neris Workshop is preparing a three-month cash budget. All figures are constructed for this assessment.

Item (£)	December (preceding month)	January	February	March
Sales	30,000	40,000	50,000	60,000
Purchases	18,000	22,000	28,000	32,000
Wages paid	Not needed	8,000	9,000	10,000

Customers pay 40% of each month's sales in that month and 60% in the next month. There are no bad debts.

Suppliers are paid 50% of each month's purchases in that month and 50% in the next month.

Opening cash at 1 January is £8,000. Earlier receipts/payments are complete except those implied by the December sales and purchases.

Cash overheads of £5,000 are paid every month. A machine is paid for in full in February at a cash price of £20,000.

Depreciation is £1,000 per month and is not included in the stated cash overheads. There are no other cash flows; ignore tax and interest.

Show any negative closing balance as a funding requirement before new financing. Do not invent an overdraft receipt.

(1) Prepare a monthly cash budget for January, February and March showing receipts, payments by category, total payments, net cash flow, opening cash and closing cash/funding requirement. 18

(2) Using your B1(1) budget, recommend how Neris Workshop should respond to the forecast cash position. Explain one practical response, analyse one risk or limitation, and justify your recommendation using the monthly figures. You may use your own calculated figures consistently. 7

Question B2 · 25 marks

Tovan Components must choose between a special order for 400 units at £52 each and its next-best use of the same scarce production slot. It cannot do both. The next-best use would provide £2,400 of additional contribution after all its avoidable costs.

The special order uses one unit of material per finished unit. Exactly 400 units are already held. This stock originally cost £18 per unit, has no other internal use and would otherwise be sold immediately for £15 per unit. Replacement material costs £24 per unit, but none would be bought if this order used the stock.

Special-order labour costs an additional £6 per finished unit and other variable costs are £8 per finished unit. An additional supervisor payment of £1,200 is required only if the special order is accepted. Design work costing £900 has already been paid for and cannot be recovered. Existing administration overhead of £4 per finished unit would be allocated to the order but total administration spending would not change. Ignore tax. All these figures are certain for parts (1)–(3).

(1) Calculate the relevant material cost for the special order and explain your treatment of the historical cost and replacement price.	4
(2) For the special-order decision in B2(1), explain the treatment of the £900 design payment and the £4 per-unit administration allocation.	4
(3) Prepare a statement of the special order's incremental financial benefit compared with the next-best use of the production slot, using all relevant information in B2(1). State which option is financially preferable on the stated figures.	9
(4) Management now learns that the special customer requests a very tight delivery date, the workforce has not made this design before, and the next-best production slot serves a regular customer. No numerical revision is available. Evaluate whether Tovan should accept the special order. Use your B2(3) result, consider these new facts and identify information management should obtain before deciding.	8