IQM3007

LEVEL 3 · CONTROLLED STAFF DOCUMENT

INTO QUALIFICATIONS

Business and Accounting

Component 2: Paper 2 - Accounting

STAFF ONLY · Mark scheme

Duration
2 hours

Total marks
100

Assessment window
Sample assessment

Assessment set
Set S of 2026

Audience
Staff only

Release timing
exam release

Exam date
_____

Assessment set ID
2026-S

STAFF ONLY · Use only this assessment-specific scheme and approved standardisation decisions.	
Assessment window Sample assessment	**Exam date** _____
Paper P2	**Assessment set** Sample 2026 · ID 2026-S

General marking principles

- Record every awarded mark in the corresponding OCR-readable annotation on the candidate response document.
- Credit equivalent valid answers only where the approved item-specific scheme permits them.
- Do not infer grade boundaries from raw marks; award boundaries are held in programme specifications.
- Award method marks where the approved method is valid even if a later arithmetic error affects the final answer.

Apply the stated point allocations; do not add marks for the same point twice within a part.
Credit equivalent correct methods and terminology. A correct final numerical answer earns the associated method and accuracy marks unless the question explicitly requires a chart, statement or explanation that is absent.
Award a method mark where the method is valid but arithmetic is wrong. Allow consistent consequential working through dependent calculations. Do not give accuracy credit for an invalid accounting principle, and do not penalise the same initial error again in dependent arithmetic.
Mark each part to its own maximum. All sixteen parts are compulsory and sum to 100. Do not convert these raw marks to grade bands.
Accept justified alternative recommendations within the stated context. Administrative identities, moderation outcomes and approval fields remain for authorised staff.

Item ID	Question / requirement	Solution and allocation	Alternatives / notes	Max
A1(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.	2 mark(s): First valid paired difference: award 1 for an accurate financial-accounting characteristic applied to the lender's annual statements and 1 for the contrasting management-accounting characteristic applied to the manager's weekly cost report. 2 mark(s): Second distinct valid paired difference: apply the same 1 + 1 rule. Any two valid differences can earn full marks; users/purpose is not compulsory. Examples include external lender information versus internal production planning/control; aggregated annual performance versus frequent detailed cost information; externally specified reporting conventions versus formats tailored to management needs. Credit other valid paired contrasts. Management reports may include past data and forecasts: do not credit a claim that they contain only future data.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	4

A1(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.	1 mark(s): Five-year entry into a national market: strategic. 1 mark(s): Annual production-capacity plan: tactical. 1 mark(s): Tomorrow's worker allocation: operational. 1 mark(s): The comparison identifies a deviation that can prompt investigation or corrective action; credit a relevant example such as reallocating workers after a bottleneck.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	4
A1(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.	1 mark(s): Wood: direct production material. 1 mark(s): Traced assembly wages: direct production labour. 1 mark(s): Factory supervisor: indirect production overhead. 1 mark(s): Advertising: non-production selling cost.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	4

A1(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.	1 mark(s): Rent: fixed. 1 mark(s): Packaging: variable. 1 mark(s): Supervision: stepped fixed. 1 mark(s): Electricity: semi-variable/mixed.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	4
A1(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.	1 mark(s): Mean method: (800 + 1,000 + 1,200)/3. 1 mark(s): Mean = 1,000 units per month. 1 mark(s): Percentage method: (1,200 − 800)/800 × 100. 1 mark(s): Increase = 50%. 1 mark(s): June index = 1,200/800 × 100 = 150. 1 mark(s): June output is 1.5 times April output, or 50% above it; not 150% above it.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	6

A2(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.	1 mark(s): Part's relevant cost is the £55 sale proceeds forgone. 1 mark(s): Overtime £40 and delivery £15 are additional cash costs. 1 mark(s): Total relevant cost = £55 + £40 + £15 = £110. 1 mark(s): Original £90 is sunk: it has already been incurred and is unchanged by this decision. 1 mark(s): Replacement £110 is excluded because no replacement or alternative internal use is required. 1 mark(s): The £55 is an opportunity cost: accepting the job sacrifices the next-best available sale of the part.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	6
A2(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.	1 mark(s): Contribution = £40 − £24 = £16 per unit. 1 mark(s): Break-even method: fixed costs/contribution per unit. 1 mark(s): Break-even = £12,800/£16 = 800 units. 1 mark(s): Margin of safety = 1,000 − 800 = 200 units. 1 mark(s): Margin of safety percentage = 200/1,000 × 100 = 20%. 1 mark(s): Expected sales could fall by 200 units/20% before an operating loss arises under the stated assumptions; it is not a guarantee that the forecast will occur.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	6

A2(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.	1 mark(s): Contribution per unit = £20 and contribution-to-sales ratio = 20/50 = 0.40 or 40%. 1 mark(s): Target-revenue method: (fixed costs + target profit)/contribution-to-sales ratio. 1 mark(s): Substitution: (£18,000 + £6,000)/0.40. 1 mark(s): Target revenue = £60,000 (equivalent to 1,200 units × £50). 2 mark(s): Higher unit variable cost lowers unit contribution and the actual contribution-to-sales ratio (1), so the old 40% ratio understates the revenue required for the same target profit (1).	Credit equivalent valid wording or method. Apply the general consequential-error rules.	6
A2(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.	1 mark(s): Axes labelled output (units) and costs/revenue (£), with a usable linear scale covering 0–1,000 units and £20,000. 1 mark(s): Total revenue: straight line through (0, £0) and (1,000, £20,000), identified. 1 mark(s): Total cost: straight line through (0, £4,000) and (1,000, £16,000), identified. 1 mark(s): Fixed cost: horizontal line at £4,000, identified. 1 mark(s): Break-even intersection marked at 500 units and £10,000, within sensible plotting tolerance. 1 mark(s): Profit region identified where revenue exceeds total cost, to the right of 500 units.	Graph paper must be supplied within the AB, not as an additional formula/reference sheet. Credit another readable scale and correct labelled coordinates. A bare calculation cannot replace the required chart. Allow small plotting imprecision when the intended coordinates and relationships are clear.	6

A2(5)	Explain one purpose of a sales budget and outline two stages that help a business produce coordinated functional budgets.	2 mark(s): One purpose developed: a sales budget forecasts sales volume/value (1), informing a related plan such as production, staffing or cash receipts (1). 1 mark(s): One valid stage, such as communicate objectives/assumptions and prepare the sales or other limiting-factor budget. 1 mark(s): A distinct valid stage, such as prepare interdependent functional budgets, reconcile inconsistencies, then agree and approve the coordinated master budget. Merely naming a second budget without a process is insufficient.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	4
B1(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.	3 mark(s): Cash receipts: January £34,000, February £44,000, March £54,000; 1 for each correctly timed month. 3 mark(s): Payments to suppliers: January £20,000, February £25,000, March £30,000; 1 for each correctly timed month. 1 mark(s): Wages £8,000/£9,000/£10,000 entered in the respective months; all three correct. 1 mark(s): Cash overheads £5,000 in each month; all three correct. 1 mark(s): Machine £20,000 in February only. 1 mark(s): Depreciation excluded from cash payments. 3 mark(s): Net cash flow: January £1,000, February −£15,000, March £9,000; 1 each, with consequential arithmetic from the candidate's receipts/payment schedule. 1 mark(s): Opening January cash £8,000. 3 mark(s): Closing cash: January £9,000, February −£6,000, March £3,000; 1 each for consistent net cash flow and carry-forward. Later opening balances must equal the preceding closing balances. 1 mark(s): Clear monthly budget structure with total payments (£33,000/£59,000/£45,000), opening and closing balances identifiable; allow consequential totals.	An internally consistent alternative layout is valid. Do not penalise an initial timing error again in dependent arithmetic. A negative balance is the unmet funding requirement, not evidence that finance has been arranged. No credit for depreciation exclusion if it is included under another payment label.	18

B1(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.	2 mark(s): Identify the February funding requirement (normally £6,000) (1) and relate it to the timing of the machine payment despite a forecast positive March closing balance (1). 2 mark(s): One feasible response identified and developed, such as arrange a short-term facility before February or negotiate a later/staged machine payment; explain how the timing or funding changes the shortfall. Do not assume that a lender/supplier has agreed. 2 mark(s): One relevant risk developed, such as customer receipts arriving late could deepen/extend the shortfall, or delaying the machine could disrupt planned output. Credit a linked sensitivity or practical constraint. 1 mark(s): A reasoned recommendation connects the response and risk to the forecast figures; checking or updating assumptions before committing is a valid qualification.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	7
B2(1)	Calculate the relevant material cost for the special order and explain your treatment of the historical cost and replacement price.	1 mark(s): Opportunity cost is the £15 per unit sale proceeds forgone. 1 mark(s): Relevant material cost = 400 × £15 = £6,000. 1 mark(s): Historical £18 per unit has already been incurred and is sunk. 1 mark(s): Replacement £24 is not relevant here because no replacement or other internal use is required.	Credit equivalent valid wording or method. Apply the general consequential-error rules.	4
B2(2)	For the special-order decision in B2(1), explain the treatment of the £900 design payment and the £4 per-unit administration allocation.	2 mark(s): Exclude the £900 design payment (1) because it was already paid, cannot be recovered and is unchanged by accepting the order (1). 2 mark(s): Exclude the administration allocation (1) because it does not cause additional total spending; reallocating an existing cost is not an incremental cash flow (1).	Credit equivalent valid wording or method. Apply the general consequential-error rules.	4

B2(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.	1 mark(s): Special-order revenue = 400 × £52 = £20,800. 1 mark(s): Material opportunity cost £6,000. 1 mark(s): Additional labour = 400 × £6 = £2,400. 1 mark(s): Other variable costs = 400 × £8 = £3,200. 1 mark(s): Additional supervision £1,200. 1 mark(s): Contribution forgone from the next-best use £2,400. 1 mark(s): Total relevant costs including opportunity cost = £15,200. 1 mark(s): Incremental advantage of special order = £20,800 − £15,200 = £5,600. 1 mark(s): Special order is financially preferable by £5,600 on the stated figures.	Accept a comparison of £8,000 special-order net benefit before capacity opportunity cost with £2,400 next-best contribution, yielding the same £5,600 advantage. Do not deduct the £2,400 twice. Material sale proceeds are separate from the stated next-best contribution; the problem says the stock has no other internal use.	9
B2(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.	3 mark(s): Analysis of new evidence, up to 3: develop how tight delivery/new design could cause defects, delays or additional costs; how displacing the regular customer could affect future orders/relationships. Award 1 per relevant causal link, including further development of a linked issue; a list of labels alone earns at most 1. 3 mark(s): Weigh the financial advantage against these uncertainties, up to 3: explain what the calculated advantage assumes (1); identify useful decision information such as a trial production time/quality check or the regular customer's acceptable alternative date (1); explain how the information could change the decision or enable a practical mitigation (1). 2 mark(s): Supported final judgement, up to 2: clear decision or conditional decision (1), justified by the size/sign of the calculated advantage and at least one relevant qualitative constraint (1). Both acceptance and rejection can earn full marks.	Do not invent a monetary loss as an observed fact. A clearly stated hypothetical sensitivity is valid. Credit consequential use of B2(3); a correct numerical calculation is not required to demonstrate reasoned evaluation. No automatic cap for choosing a different conclusion.	8