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9706/42

February/March 2024

1 hour

You will need: Insert (enclosed)

- Answer **all** questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any diagrams, graphs or rough working.
- You may use a calculator.
- You should present all accounting statements in good style.
- You should show your workings.

- The total mark for this paper is 50.
- The number of marks for each question or part question is shown in brackets [].
- The insert contains all of the sources referred to in the questions.

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[Turn over

1 Read Source A in the insert.

- (a) Explain why non-financial factors are disregarded by traditional investment appraisal techniques.

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..... [2]

- (b) Suggest **two** non-financial factors which are disregarded by traditional investment appraisal techniques.

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2 [2]

Additional information

The directors of RP plc are considering paying \$100 000 to acquire a licence. This would give the company the right to manufacture and sell a product for the next four years.

The following budgeted information is available.

Year	Units produced and sold	Selling price per unit \$	Variable costs per unit \$
1	6 000	19	11
2	10 000	22	11
3	8 000	18	13
4	4 000	15	14

Fixed costs excluding amortisation (depreciation) are expected to amount to \$19 000 per annum.

- (c) Calculate the net cash flow expected to arise in **each** of the years 1 to 4.

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Additional information

Discount factors are as follows:

Year	10%	15%
1	0.909	0.870
2	0.826	0.756
3	0.751	0.658
4	0.683	0.572

- (d)** Calculate, to **two** decimal places, the internal rate of return (IRR) of the purchase of the licence.

[8]

- (e) Discuss whether it would be better on financial grounds for the company to stop production at the end of year 3. Assume that the fixed costs and the cost of the licence would be unchanged. Calculations are **not** required.

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Additional information

The IRR arising from the purchase of the licence was higher than the company's cost of capital, and so it was decided to go ahead with the purchase.

One of the directors thought that the decision was hasty and that other investment appraisal techniques should also be used.

- (f) Advise the directors whether or not other investment appraisal techniques should also be used. Justify your answer. Calculations are **not** required.

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[Total: 25]

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2 Read Source B in the insert.

- (a) Prepare, for January 2024, in a columnar format, the fixed budget and the flexible budget statement. Your answer should include the fixed budget profit or loss for the month and the flexible budget profit or loss for the month.

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Additional information

Actual results for January 2024 included the following:

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Direct material	82 460	using 3.1 kilos per unit
Direct labour	182 700	paid at \$5.80 per hour

- (b) Calculate the following variances:

- (i) direct material price

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- (ii) direct material usage

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(iii) direct labour rate

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(iv) direct labour efficiency.

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Additional information

The actual fixed overheads for the month amounted to \$78 000.

The fixed overhead expenditure variance was \$2000 favourable, and the fixed overhead volume variance was \$10 000 adverse.

(c) Explain why the fixed overhead volume variance was adverse. Your answer should consider the sub-variances of the fixed overhead volume variance, but calculation of these is **not** required.

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(d) Advise the directors whether or not the company should start to prepare budgets for trade receivables and trade payables. Justify your answer.

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[Total: 25]