Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME		
CENTRE NUMBER		CANDIDATE NUMBER

8123830582

ACCOUNTING **9706/42**

Paper 4 Cost and Management Accounting **May/June 2024**

1 hour

You must answer on the question paper.

You will need: Insert (enclosed)

INSTRUCTIONS
- 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.

INFORMATION
- 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.

This document has **12** pages. Any blank pages are indicated.

1 Read Source A in the insert.

(a) Prepare the production budget (in units) for **each** of the months April, May, June and July 2025.

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.... [4]

Additional information

The budgeted cost structure of **each** unit is as follows:

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Direct materials	25	These are purchased on credit in the month of production. • One fifth (20%) is paid for in the month following purchase after a 5% discount. • Another fifth (20%) is paid for in the month following purchase but without any discount. • The remainder (60%) is paid for in the second month after purchase.
Direct labour	30	This is all paid in the month of production.
Other costs	40	These are all paid in the month after production, with the exception of a $4 per unit charge for depreciation.

(b) Prepare an extract from the cash budget for **each** of the months June and July 2025 to show the payments related to production.

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Workings:

[7]

Additional information

The company usually makes all its sales on a cash basis for a selling price of $150 per unit. It expects to operate with a bank overdraft throughout 2025.

The company has received an order from a prospective new customer who is based overseas. This order is for 900 units to be supplied in June 2025. The customer is prepared to pay $156 per unit, paying in six equal monthly instalments starting in August 2025.

(c) Calculate the **change** in the expected bank overdraft at the end of **each** of the months June, July and August 2025 if the order was accepted. Assume that all the extra production would take place in the month in which the units are supplied.

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(d) Advise the directors whether or not the company should accept the order. Justify your answer.

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[Total: 25]

2 **Read Source B in the insert.**

(a) State why cost drivers are used in the application of activity based costing (ABC).

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(b) Calculate the selling price of **one** unit of **each** product.

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Workings:

[9]

Additional information

Sooraj is considering using machine hours rather than carrying values to allocate the depreciation cost.

(c) Calculate the **change** in selling price of **one** unit of **each** product if Sooraj uses machine hours as the cost driver for depreciation cost.

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(d) Explain the relationship between the choice of cost driver and profit.

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Additional information

In recent months, actual results have been unfavourable in comparison with the budgeted figures. On one occasion, the manufacture of Product A had been stopped and sales lost because the sole supplier of some of the components of that product had been unable to fulfil Sooraj's orders.

Sooraj is considering manufacturing these components in his own factory instead of buying them in. He estimates that the total direct material cost of Product A would fall to $30 per unit and that the labour requirement for Product A would increase to 5 hours per unit, with the wage rate unchanged.

The budgeted depreciation cost would increase by $8000 per annum. Sooraj is unclear whether overheads other than depreciation would be affected.

(e) Advise Sooraj whether or not he should manufacture these components for Product A in his own factory. Justify your answer. Your answer should include any effect on the costs of Product B.

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[Total: 25]

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