

Cambridge International AS & A Level

ACCOUNTING

9706/43

Paper 4 Cost and Management Accounting

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INSERT

1 hour

INFORMATION

- This insert contains all of the sources referred to in the questions.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.



This document has 4 pages. Any blank pages are indicated.

Source A for Question 1

G Limited has a long history of manufacturing a standardised product, Essential. The company plans to develop a new line of product, Premier, which is a personalised product. The mark-up for Essential is 20%, and G Limited targets a mark-up for Premier of 25%.

A director heard about activity based costing (ABC) and asked the management accountant to prepare the information for the purpose of pricing both products.

The following budgeted information for the coming year is available:

	Essential	Premier		
production and sales (units)	4000	1000		
direct costs per unit	\$	\$		
direct materials	20	30		
direct labour	25	40		
budgeted fixed overheads	cost driver	usage		
		Essential	Premier	
	\$			
purchasing	72 000	number of purchase orders	30	50
machine maintenance	125 000	machine hours	8000	2000
machine setup	54 000	number of machine setups	20	40
designing	75 000	designing hours	50	100
	<u>326 000</u>			

Source B for Question 2

M Limited produces one product AB. The company is currently renting a machine to produce product AB. The directors of M Limited are now considering buying a new machine instead of renting the machine.

Further information is available.

1 For both the rented machine and the purchased machine:

- annual sales 5000 units
- selling price per unit \$100
- manufacturing costs per unit \$78

2 For the rented machine:

- annual charge \$50 000
- maximum capacity 4000 units

To satisfy all the sales, the shortfall would be purchased from another manufacturer at the unit purchase cost of \$85.

3 For the purchased machine:

- machine cost \$120 000
- useful life 4 years with no residual value
- maximum capacity 6000 units
- training cost in the first year \$42 000
- machine maintenance fee \$31 000 per annum

The company's cost of capital is 12%. The relevant discount factors are:

year 1	0.893
year 2	0.797
year 3	0.712
year 4	0.636

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