

Cambridge International AS & A Level

ACCOUNTING**9706/41**

Paper 4 Cost and Management Accounting

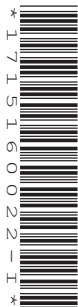
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INFORMATION

- 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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