Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/42**

Paper 4 Cost and Management Accounting **May/June 2025**

INSERT **1 hour**

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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.

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Source A for Question 1

Babar owns a factory producing bottles which he sells to local drinks companies. There is a considerable area in the factory which is not occupied. Babar is considering how to best use this space. He has two options.

Option 1

Babar has good relations with the drinks companies. He thinks he could invest in some machinery, cost $224 000, and produce fruit juice which he would also sell to them. Production would run for four years as this is the expected life of the machinery. It would have no residual value.

His estimates of revenues and costs are as follows:

1 Sales:

Year	Barrels of fruit juice sold	Selling price per barrel $
1	4000	80
2	5000	80
3	5000	82
4	6000	86

2 Variable costs:

Ingredients and labour are expected to be $52 per barrel and selling and distribution costs are expected to be $3 per barrel.

3 Fixed costs (excluding depreciation):

These would amount to $60 000 a year in years 1 to 3 and $64 000 in year 4.

Option 2

Babar is sure that he could rent out the unoccupied space. It would cost him $950 to get the space ready, advertise for a tenant and get the lease prepared. The amounts he would charge are as follows:

Year	Rent $
1	1500
2	1500
3	1500
4	1800

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Source B for Question 2

W Limited manufactures one product and operates at full capacity. It makes and sells 11 000 units every month. Per unit standard data is as follows:

Selling price	$92.50
Direct material	4 metres, costing $4.60 per metre
Direct labour	3 hours, paid at $11 per hour
Fixed overheads	$17.90

The company had always made the product in metal. Its cost rose suddenly to $7.80 per metre due to a worldwide shortage of the metal. The decision had therefore been made to make the product out of plastic instead from April 2025. The directors were unsure whether this would be a short-term or long-term change.

Actual results for April 2025 were as follows:

	$	
Sales	935 000	for 11 000 units
Direct material	115 500	at $2.50 per metre
Direct labour	443 520	for 39 600 hours
Fixed overheads	212 000	

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