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Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

5124103926

ACCOUNTING **9706/42**

Paper 4 Cost and Management Accounting **October/November 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 **8** pages. Any blank pages are indicated.

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1 Read Source A in the insert.

(a) Explain **two** reasons why a business may conduct variance analysis.

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[4]

(b) State how to calculate a fixed overhead capacity variance.

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(c) Prepare the flexible budget statement for the month of August.

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(d) Prepare a statement reconciling the flexible budget profit in **(c)** with the actual profit.

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Additional information

The actual labour hour rate in August was $15.50.

(e) Explain the likely reasons for the favourable direct labour variance of $1980 with reference to the analysis of its two sub-variances.

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Additional information

The directors are aware of an upward trend in the direct material price. To keep the current profit level, they have two options.

Option 1 Modify the existing product so that it requires less direct material.

Option 2 Reduce the advertising cost by one-third.

(f) Advise the directors which option they should choose. Justify your answer.

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2 Read Source B in the insert.

(a) Calculate:

(i) the net present value (NPV)

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(ii) the internal rate of return (IRR)

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(iii) the accounting rate of return (ARR).

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Additional information

The directors adopt the NPV method for this investment appraisal and are about to make the decision to buy the machine. The sales manager, however, thinks that the annual estimated sales revenue may be only $380 000. All other information will remain the same.

(b) Discuss whether the directors should be concerned about the uncertainty over the estimated sales revenue. Support your answer with calculations.

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Additional information

The directors are preparing the cash budget for Year 4. They have two options available for an amount of $80 000.

Option 1 Continue to manufacture Product A for two more years by launching a promotional campaign. (Despite the machine being fully depreciated, it can continue to be used for two more years.)

Option 2 Start designing a new product, Product B, to be launched in Year 5.

(c) Advise the directors which option they should choose. Justify your answer.

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