Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/42**

Paper 4 Cost and Management Accounting **May/June 2023**

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.

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

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Source A for Question 1

Beachside is a village with 320 houses, the continued existence of which is threatened by rising sea levels. The residents approached Hiram, a building contractor, to suggest a project for building a sea wall to protect their village.

The cost to Hiram of building the wall would be $400 000 payable at the start of the project. The local government was prepared to make a grant of $142 000 in year 1.

The residents had together decided that each household would pay Hiram a fee of $200 per annum, for each of the years 1 to 4.

The residents believed that the village would become a more desirable place to live if the wall was in place. They therefore told Hiram that they expected that 80 new houses would be built in **each** of the years 2, 3 and 4, and that the new households would pay the same fee per year as the existing households.

There would be no cash flows after the end of year 4.

Source B for Question 2

QW plc operates a system of standard costing. Standard data for one month in the fixed budget was as follows:

Units produced and sold	1000 units with a selling price of $190 per unit
Direct material	$72 000 for material costing $18 per kg
Direct labour	$36 000 for 3000 hours
Fixed overheads	charged at $16 per direct labour hour

As time went by the company found it increasingly difficult to sell its product as customers were switching to a competitor's product.

Trying to maintain demand, the company reduced its selling price. It kept the existing workforce but reduced the hourly rate it paid.

Its **actual** results for April 2023 were as follows:

Sales revenue	$123 750
Direct material	$47 250 for 3150 kg
Direct labour	$26 775 paid at $10.50 per hour
Fixed overheads	$46 200

In April 2023 the company had only sold 750 units. It prepared a flexible budget statement which showed a **budgeted** profit of $25 500 for April 2023.

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