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ACCOUNTING **9706/42**

Paper 4 Cost and Management Accounting **October/November 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.

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Source A for Question 1

G Limited manufactures two products: M1 and V1.

The company is going to prepare the budget for the coming year. Currently one single overhead absorption rate is used which is based on direct labour hours. Each product will have a mark-up of 50% in order to improve the setting of selling prices. In a recent budgeting meeting, the finance director proposed to adopt an activity based costing (ABC) system in the future.

The annual budgeted data for each product is as follows:

	M1	V1
Sales and production (units)	5 000	8 000
Direct materials (per unit)	$35	$26
Direct labour hours (per unit)	4	1.50
Direct labour rate per hour	$15	$15
Number of inspections	20	30
Number of purchase orders	20	25
Number of machine set-ups	12	18

The annual budgeted fixed overheads are as follows:

	$
Handling the purchase of direct materials	43 200
Inspecting and testing of products	28 800
Supervising factory workers	96 000
Setting up and testing of machines	48 000
Total budgeted fixed overheads	216 000

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Source B for Question 2

T Limited manufactures a single product. The budgeted information for March is as follows:

1 The selling price will be fixed at $20 per unit. March sales are expected to be 20 000 units. There will be a 10% increase in sales volume in every month up to June and the sales of subsequent months will remain at the sales level of June.

2 Credit sales are 75% of the total sales.

40% of credit customers will pay in the first month after the sale and receive a 5% cash discount. The remainder of the credit customers will pay in the second month after the sale.

3 The finished goods inventory level is budgeted to be 25% of the following month's sales volume.

4 Each unit requires 4 kg of direct material, which costs $1.50 per kg. The closing inventory of direct material is expected to meet 50% of the production requirement in the following month.

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