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ACCOUNTING **9706/43**

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

T Limited manufactures a single product and uses absorption costing. The fixed budget and the actual results for the month of April are as follows:

	Fixed budget	Actual results
Production and sales (units)	2 000	2 180
	$	$
Sales revenue	184 000	196 200
Direct materials	84 000	113 796
Direct labour	60 000	55 590
Fixed overhead	18 000	18 400
Total cost	162 000	187 786
Profit	22 000	8 414

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Source B for Question 2

The directors of W Limited are considering the purchase of a specialised machine, IM, to manufacture a product which has a product life of three years. They have two options.

Option 1 To buy an old model, IM3, a used machine. A major improvement on the machine is required if it is bought. W Limited has experience of using this model in the past.

Option 2 To buy the most recent model, IM8, a new machine.

The variable operating cost, $4.80 per machine hour, is the same for either machine. Both machines will be depreciated using the straight-line method with no residual value. The selling price is $52 per unit. The estimated sales, in units, are as follows:

Year 1	Year 2	Year 3
12 000	18 000	10 000

Further information is available:

	IM3	IM8
Maximum annual production capacity (units)	15 000	20 000
Purchase price	$141 000	$420 000
Cost of improvement	$57 000	–
Machine hours per unit	5	4
Annual fixed overheads (including depreciation)	$327 000	$355 000

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