CAMBRIDGE
International Education

Cambridge International AS & A Level

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CENTRE NUMBER | | | | | |

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ACCOUNTING **9706/42**

Paper 4 Cost and Management Accounting **February/March 2026**

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. Do **not** use correction fluid or tape.
- 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 **12** pages. Any blank pages are indicated.

Source A for Question 1

Capital intensive

P Limited manufactures two products, Alpha and Beta. Alpha is a machine-intensive product, and Beta is a labour-intensive product. The company has been using absorption costing, and fixed overheads are absorbed by each product on the basis of direct labour hours. The selling price of each product is set at a mark-up of 50%. Cost ×50% = Profit

Budgeted information for the coming year is as follows:

	Alpha	Beta
production and sales (units)	2000	4000
direct materials per unit	$32	$36
direct labour per unit ($20 per hour)	2Hrs $40	4Hrs $80
machine hours per unit	1.60	0.7
fixed overheads	$360 000	

Labour Hours

Alpha [2000 units × 2Hrs] 4000 Hrs
Beta [4000 units × 4Hrs] 16000 Hrs
20000 Hrs

Machine Hours

Alpha [2000 × 1.6Hrs] 3200 Hrs
Beta [4000 × 0.7Hrs] 2800 Hrs
6000 Hrs

OAR = $360000 / 20000 Hrs = $18 Per Labour Hour

	$
Alpha = [2Hrs × $18]	36 Per unit
Beta = [4Hrs × $18]	72 Per unit

1 Read **Source A** in the insert.

(a) Prepare a costing statement to show the unit selling price for **each** product, using absorption costing.

	Alpha	Beta
	$	$
Direct Material	32	36
Direct Labour	40	80
Prime Cost	72	116
Add: Fixed overheads	36	72
Total cost Per unit	108	188
Add: Profit 50%	54	94
Selling Price	162	282

Workings:

[5]

(b) Assess if it is appropriate for P Limited to use direct labour hours to allocate the fixed overheads to each product.

Both the products Alpha and Beta are using different cost drivers and therefore using the same driver to charge or allocate overheads is not appropriate as Product Alpha is using lesser labour hours and overheads charged to this product is lower hence the selling price set for Alpha will not be able to earn desire able amount of profit. Product B uses more labour hours and overheads allocated are higher leading to higher selling price which can make the product less demanding.

Labour hours would have been appropriate if Labour is a major cost driver and overheads cost are smaller proportion of total cost.

[3]

	Alpha	Beta
Machine Set up	56000	48000
Material Requisition	25600	36400
machine op expenses	36400	33600
Supervisor Salaries	24000	96000
	144000	216000
	$144000 / 2000 units	$216000 / 4000 units
using ABC =	$72	$54
using Absorption =	$36	$72
	$36 ↑	$18 ↓

Additional information

A new competitor selling similar products entered the market recently. The sales director found that the unit selling prices of Alpha and Beta are different from the competitor's products.
The management accountant has suggested using activity based costing (ABC) to apportion the component fixed overheads with the appropriate cost drivers.

Further information is also available:

1 Budgeted fixed overheads are analysed as follows:

	$	cost drivers
machine set-up	104 000	number of machine set-ups
materials requisition	64 000	number of materials requisitions
machine operating expenses	72 000	number of machine hours
factory supervisors' salaries	120 000	number of labour hours
total budgeted fixed overheads	360 000	

2 Information on the activity usage is as follows:

	Alpha	Beta
number of machine set-ups	28	24
number of materials requisitions	12	18

(c) Define the term 'cost driver'.

Cost driver are the activities or factors that causes the cost to incur

..... [1]

(d) Define the term 'activity based costing' (ABC).

It is the advance and technical method of charging overheads to the product. This method assign cost to the activities and based on usage of activities assign cost to the product.

..... [2]

(e) Calculate the fixed overheads per unit for **each** product using ABC.

See working on Page 3

Alpha = $72

Beta = $54

Workings:

[5]

(f) Calculate the unit selling price for **each** product, using ABC.

	Alpha	Beta
	$	$
Prime cost	72	116
+ overheads	72	54
Cost Per unit	144	170
+ Profit 50%	72	85
Selling Price	216	255

[2]

(g) Advise the directors whether or not ABC should be used in the coming years. Justify your answer, and support it with reference to **1(a)** and **1(f)**.

	Alpha	Beta
Using Absorption Costing	$162	$282
Using ABC	$216	$255
Change	$54 ↑	$27 ↓

Product Alpha selling price was under charged by $54 because overheads were allocated on labour hours and product Alpha was using lesser labour hours. Whereas product Beta which a labour intensive product selling price was overcharged by $27 due to higher involvement of labour.

ABC provide more realistic and reliable method of charging overheads and helps in setting accurate selling prices specifically when the business is producing more than one product. Using ABC will help directors improved decision making by identifying which product is profitable and which is loss making, which product to continue and which product to be discounted.

For P limited ABC is particularly helpful as they are producing multiple products and overheads plays a greater proportion of total cost.

However implementing ABC is not easier as it is more complex, require services of specialist and also requires staff training. It is not simplified and is time consuming.

In coming years Directors of P limited should adopt activity based costing so the selling prices are more realistic and new entrants are entering into market it is crucial for P limited that the prices stay competitive and at the same time makes desirable amount of profit.

[7]

[Total: 25]

Source B for Question 2

GL Limited manufactures Product Y. A three-month budget, for January to March, was prepared two months in advance. Relevant information for the budget was provided as follows:

1 Sales

Units sold

January	February	March	April	May
1200	1400	1600	1500	1450

Selling price is $190 per unit.

2 Direct costs (per unit)

direct materials	4 kilos at $15 per kilo
direct labour	3 hours at $28 per hour

3 Fixed costs

Overhead absorption rate is $10 per labour hour.

4 Closing inventory

direct materials	10% of the following month's materials required for production
finished goods	30% of the following month's sales

2 Read **Source B** in the insert.

(a) Define the term 'master budget'.

It is a detail comprehensive plan of the business comprises operating budgets such sales, purchases, trade receivables and payables and also financial budgets comprises of cash budget and budgeted financial statements.

[2]

(b) Prepare the following budgets for January, February and March.

(i) production (in units)

	January	February	March	April
Sales in units	1200	1400	1600	1500
+ closing Inventory in units	420	480	450	435
(-) opening Inventory in units	(360)	(420)	(480)	(450)
= Production in units	1260	1460	1570	1485

[4]

(ii) purchases of direct materials (in kilos and dollars).

Dec cl. Inv [5040×10%] 504

	January	February	March	April
Production in units	1260	1460	1570	1485
x Material Per unit in Kg	x4kg	x4kg	x4kg	x4kg
= Raw Material consumed in kg	5040	5840	6280	5940
+ closing Inv of R·M in kg	584	628	594	
(-) opening Inv of R·M in kg	(504)	(584)	(628)	
Purchases in kg	5120	5884	6246	
x cost Per kg	x $15	x $15	x $15	
Purchases in $	$76800	$88260	$93690	

[6]

Additional information

The actual results for the three-month period were as follows:

units produced and sold		4000
		$
sales	$185	740 000 ÷ 4000
direct materials		252 720
direct labour		353 400
fixed overheads		131 000
profit		2 880

Budget 4290

Flexed

4000 units × 3 hrs = 12000 hrs

D·M [4000 × $60] 240000

D·L [4000 × $84] 336000

FOH [12000 hrs × $10] 120000

GL Limited conducted a variance analysis.

(c) Calculate the following variances:

(i) total materials

Flexed - Actual

$240000 - $252720 = $12720 (A)

..... [2]

(ii) total labour

$336000 - $353400 = $17400 (A)

..... [2]

(iii) total fixed overheads.

$120000 - $131000 = $11000 (A)

..... [2]

Additional information

The sales director proposed two options to boost sales:

option A to reduce the selling price to $180
option B to maintain the budget selling price of $190 and incur $40 000 for an advertising campaign.

(d) Advise the directors which option they should choose. Justify your answer, and support it with relevant calculations.

Option A

Currently the selling prices are $185 which is lesser than standard price of $190. Despite the decrease in selling prices demand was lower.

Decreasing selling prices further may boost demand if the prices are genuinely higher however if there is another reason maybe quality decrease in prices may not help boosting demand.

Decreasing selling prices will also decrease contribution and profit and it can also give an impression that the product is of lower quality.

Option B

Maintaining the same price may decrease further demand in future however advertising can help boosting demand and also helps improving brand image and reputation of the product.

Advertising will increase fixed cost hence decreasing profit if demand not increased as expected.

It will help increasing contribution per unit but achieving the selling price of $190 may be difficult as experienced recently.

Advise....

[7]

[Total: 25]