



Cambridge International AS & A Level

ACCOUNTING

9706/41

Paper 4 Cost and Management Accounting

May/June 2025

INSERT

1 hour

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.

Source A for Question 1

Waheed wanted to start a project to tap into the expanding leisure industry.

He decided to buy the fishing rights for a nearby river and then sell the right to fish in that river to individuals via ticket sales. He thought he could also rent out some fishing equipment. He was unsure whether he would sell day tickets or annual tickets.

He provided the following information.

- 1 The fishing rights would cost \$57 000 at the start of the project and last for four years.
- 2 Waheed thought the fishing equipment he would rent out would have a life of two years. Therefore, he would spend \$5000 at the start of the project and \$6000 at the end of year 2.
- 3 Fixed costs, consisting of advertising and the employment of an assistant to handle the sale of the tickets, were expected to amount to \$9800 in each of the years 1 and 2, \$9400 in year 3 and \$9100 in year 4.
- 4 Waheed estimated that the variable administrative costs would be \$0.80 for each day ticket sold in the years 1 to 3, and \$0.90 for each day ticket sold in year 4.
- 5 If he decided to sell day tickets, his estimates for sales were as follows:

Year	Number of day tickets sold	Price per day ticket \$
1	660	30
2	740	40
3	900	40
4	900	40

- 6 Waheed would charge \$10 per day for rental of the fishing equipment. He estimated that 20% of purchasers of day tickets would also require the equipment rental.

Source B for Question 2

Terri trades in one product. She prepares monthly cash and other budgets.

She provided the following budgeted information.

- 1 Budgeted sales and purchases were:

	Sales units	Unit selling price \$	Purchases units	Unit purchase price \$
January	800	50	830	30
February	850	50	840	30
March	910	50	850	32
April	880	52	900	32
May	870	52	860	34
Total	4310		4280	

- 2 Half of sales are expected to be for cash. Credit customers pay in full in the month following sale. There are not expected to be any receipts other than those from customers.
- 3 Cash purchases make up 10% of all purchases. Of the credit purchases, Terri pays half in the month after purchase after deducting 5% cash discount. She pays the remainder in the second month after purchase.

Expenditure, other than payments to suppliers, is all paid in the month in which it is incurred. This is all comprised of fixed costs.

- 4 The inventory at 1 January was expected to be 200 units.
- 5 The month end balances shown by the cash budget were all **overdrawn** by the following amounts.

Month end	\$
February	6 000
March	6 198
April	7 916
May	11 892



1 Read Source A in the insert.

(a) Complete the following table by calculating the net cash flow for **each** year of the project.

Year	Cost \$	Equipment \$	Tickets \$	Rental \$	Fixed costs \$	Administrative costs \$	Net cash flow \$
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.....							
.....							
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Additional information

Waheed has a cost of capital of 10%. The discount factors for this are as follows:

Year	Discount factor
1	0.909
2	0.826
3	0.751
4	0.683

(b) Calculate the net present value (NPV) of the project, assuming that day tickets are sold.

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(c) Advise Waheed whether he should sell day tickets or annual tickets if he goes ahead with the project. Justify your answer. A recalculation of the NPV with annual tickets is **not** required.

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Additional information

Waheed's brother uses the accounting rate of return (ARR) when considering his projects.

(d) State **two** advantages and **two** disadvantages of using ARR.

Advantages

1

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2

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Disadvantages

1

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2

.....

[4]

[Total: 25]



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Question	Answer							Marks
1(a)	Complete the following table by calculating the net cash flow for <u>each</u> year of the project.							10
	Year	Cost	Equipment	Tickets	Rental	Fixed costs	Administrative costs	Net cash flow
		\$	\$	\$	\$	\$	\$	\$
	0	(57 000) (1)	(5 000) (1)					(62 000)
	1			19 800	1 320}	(9 800)	(528)} ^{**}	10 792
	2		(6 000) (1)	29 600	1 480}(1)	(9 800)	(592)} ^{**} (1)	14 688
	3			36 000	1 800}* [*]	(9 400)	(720)} ^{***}	27 680
	4			36 000	1 800}* ⁽¹⁾	(9 100)	(810)} ^{***} (1)	27 890
				(1) column		(1) column		(1)OF column

Question	Answer	Marks																																			
1(b)	Calculate the net present value (NPV) of the project, assuming that day tickets are sold. <table><tr><th>Year</th><th>Net cash flow \$</th><th>Discount factor</th><th>Present value \$</th><th></th></tr><tr><td>0</td><td>(62 000)</td><td></td><td>(62 000)</td><td>(1)OF</td></tr><tr><td>1</td><td>10 792</td><td>0.909</td><td>9 810</td><td>}</td></tr><tr><td>2</td><td>14 688</td><td>0.826</td><td>12 132</td><td>} (1)OF</td></tr><tr><td>3</td><td>27 680</td><td>0.751</td><td>20 788</td><td>}*</td></tr><tr><td>4</td><td>27 890</td><td>0.683</td><td>19 049</td><td>}*(1)OF</td></tr><tr><td></td><td></td><td>NPV =</td><td>(221)</td><td>(1)OF</td></tr></table>	Year	Net cash flow \$	Discount factor	Present value \$		0	(62 000)		(62 000)	(1)OF	1	10 792	0.909	9 810	}	2	14 688	0.826	12 132	} (1)OF	3	27 680	0.751	20 788	}*	4	27 890	0.683	19 049	}*(1)OF			NPV =	(221)	(1)OF	4
Year	Net cash flow \$	Discount factor	Present value \$																																		
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4	27 890	0.683	19 049	}*(1)OF																																	
		NPV =	(221)	(1)OF																																	
1(c)	Advise Waheed whether he should sell day tickets or annual tickets if he goes ahead with the project. Justify your answer. A recalculation of the NPV with annual tickets is <u>not</u> required. Selling day tickets leads to a negative NPV which indicates that this should not be undertaken (1) Selling annual tickets gives higher revenue (1) of \$8 600 (1) from ticket sales which would improve the NPV (1). The increased revenue alone would cause the NPV to become positive (1). Selling annual tickets will cause the variable administrative costs to fall (1) for example staff salaries may reduce (1). The NPV calculations are based on estimates and Waheed has no certainty over how many tickets will be sold of either type (1). If he is less confident about the sales of annual tickets then the risk increases (1). Max 6 Decision supported with a comment (1) Accept other valid responses.	7																																			

Question	Answer	Marks
1(d)	State <u>two</u> advantages and <u>two</u> disadvantages of using ARR. Advantages (Max 2) Simple to calculate and understand (1) It can be compared with present profitability (1) Multiple projects can be compared (1) Easy availability of information needed for the calculation (1) Disadvantages (Max 2) Does not consider cash flows (1) Does not take into account the timing of profits (1) Does not take into account the time value of money (1) Includes non-cash items such as depreciation which can be changed with different methods / subjectivity (1) Ignores the size of the project (1) Accept other valid responses	4