SMA
WEEK 6_WS_3
Activity based Management

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ORZAN MANUFACTURING COMPANY: DATA (1)

The sales division of Orzan is treated as a profit centre. The company's products are sold to the sales division at a transfer price bet by senior management. The sales director is responsible for the profit generated by sales of the 3 products (A, B, C) into the three regions (Metropolis, Middle Reach and Outer Kingdom) into which the country is divided. The three regions have different characteristics:

- Metropolis (M): is a large conurbation area in which 50% of the country's population live;

- Middle Reach (MR): is the hinterland to Metropolis where most of the country's manufacturing is undertaken;

- Outer kingdom (OK): is sparsely populated area.

The sales division has 7 salespersons. Two of them are allocated to Metropolis, two to Middle Reach and three to Outer Kingdom. The sales director has a feeling that the regions are not equally profitable for the division and has made a request of using an activity-based approach to assess the profitability of each regions. The following data which are referred to the most recent trading period are provided (see tables next slides).

Required:

A) Prepare a statement, for the sales director, to show the amount of profit generated in total and by each region;

B) Using your answer to part a), discuss some of the courses of actions available to the division.

ORZAN COMPANY: DATA (1)

PRODUCT DATA		A	B	C
SELLING PRICE		10	8	12
TRANSFER PRICE		8	5	11
AVERAGE UNIT W		3	4	6
SALES VOLUME				
	M	195000	105000	36000
	MR	45000	90000	54000
	OT	60000	45000	90000
N° of sales orders				
	M	150	100	50
	MR	80	150	120
	OT	180	120	250

ORZAN COMPANY: DATA (2)

COST POOLS	
SELLING	280
ADVERTISING	150
WAREHOUSING-DISTRIBUTION	450
ORDER AND INVOICE ADMI	370

ORZAN COMPANY: SOLUTION (1)

1° FIRST: CALCULATE CONTRIBUTION FOR EACH REGIONS

		M	MR	OT
CMu product= (SP-TP)	A: 10-8= 2 B: 8-5= 3 C: 12-11= 1			
CMt= (CMu*SV)		A:195000*2 B: 105000*3 C: 36000*1	A: 45000*2 B:90000*3 C: 54000*1	A: 60000*2 B:45000*3 C: 90000*1
TOTAL REGION		**741000**	**414000**	**345000**

ORZAN COMPANY: SOLUTION (1)

2°: CALCULATE SELLING COST FOR EACH REGIONS

	M	MR	OT
SELLING COST	2/7*280=80	2/7*280=80	3/7*280=120
TOTAL REGION	**80**	**80**	**120**

Sales director has suggested that the selling cost is related to the number of salespersons

ORZAN COMPANY: SOLUTION (1)

3°: CALCULATE ADVERSTISING FOR EACH REGIONS

	M	MR	OT
SALES REVENUE	A:10*195000 B:8*105000 C: 12*36000	A:10*45000 B:8*90000 C: 12*54000	A:10*60000 B:8*45000 C: 12*90000
SALES REVENUE TOTAL	3,222,000	1,818,000	2,040,000
SHARE OF ADV COST	(3222000/7080000)*150=68.26	(1818000/7080000)*150=38.51	(2040000/7080000)*150=43.22

Sales director has suggested that the advertising cost is related to the value of sales

ORZAN COMPANY: SOLUTION (1)

4°: CALCULATE WAHEHOUSING FOR EACH REGIONS

	M	MR	OT
WEIGHT	A:3*195000 B:4*105000 C: 6*36000	A:3*45000 B:4*90000 C: 6*54000	A:3*60000 B:4*45000 C: 6*90000
WEIGHT TOTAL	1215000	819000	900000
SHARE OF WARE DISTR	(1215/2934)*450=186.34	(819/2934)*450=125.61	(900/2934)*450=138.03

Sales director has suggested that the warehousing and distribution cost is related to the weight of products sold

ORZAN COMPANY: SOLUTION (1)

5°: CALCULATE ORDER ADMINISTRATION FOR EACH REGIONS

	M	MR	OT
N of orders	A: 150 B:100 C: 50	A:80 B:150 C: 120	A:180 B:120 C: 250
WEIGHT TOTAL	300	350	550
SHARE OF WARE DISTR	(300/1200)*370 =92.5	(350/1200)*370 =107.91	(550/1200)*370 =169.58

Sales director has suggested that the order and invoice cost is related to the number of sales orders processed.

ORZAN COMPANY: SOLUTION (1)

6°: CALCULATE PROFITABILITY FOR EACH REGIONS

	M	MR	OT
CONTRIBUTION	**741000**	**414000**	**345000**
SELLING COST	**80000**	**80000**	**120000**
ADVERTISING	68260	38510	43220
WAREHOUSING	186340	125610	138030
ADMINISTRATION	92500	107910	169580
PROFIT	**313900**	**61970**	**-125830**