

WEEK 6_WS_3: ABM_ SOLUTION Qn2_Duck Hat Limited

a)

Cost pool analysis: Sales order acquisition & processing Purchasing & storage of materials Production of products Distribution Total	£000 840 (150+500+190) 720 (220 + 410 + 90) 3600 1010 (150 + 300 + 560) 6170
Cost driver transaction rates: Sales order processing = 840,000/3200 Purchasing & storage = 720,000/14,400,000 Production = 3,600,000/600,000 Distribution = 1,010,000/5050	= £262.50 per order = 5% of material value = £6 per direct labour hour = £200 per despatch

Product costs: Material Direct labour Production o'head at £6/DLH Purchasing at %5 of material Total Selling price Gross Margin	Product A 7.20 4.00 3.00 0.36 14.56 16.00 £1.44	Product B 15.00 12.00 9.00 0.75 36.75 45.00 £8.25
Profits earned on customers: Gross Profit : (5,000*£1.44 + 12,000*£8.25) (24,000*£1.44 + 10,000*£8.25) SOP costs: (85*262.50) (170*262.50) Distribution costs: (190*£200) (450*£200) Net profit	Shilling the Builder 106,200 22,31250 38,000 £45,887.50	Krown Constructors 117,060 44,625 90,000 £(17,565)

b)

Consider stop selling to Krown

Constructors, but:

- Contribution to gross profit level
- Availability of SOP and distribution costs
- Likely non linearity of the cost drivers in relation to the cost pools