

WEEK 6_WS_3: ABM_ SOLUTION Qn2_Duck Hat Limited

a)

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

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