**Business Report on Case Study**

*Read the case study below and prepare a Business Report as per the below requirements;*

UAE Trekker LLC produces Travel Hiking Backpacks in three different colours, Black, Grey and Orange, which are all manufactured from the same form of raw material. The Company has used traditional full costing to allocate overheads to its products using direct labour hours. The Company is now considering using an activity-based costing system to improve its profitability. Information for the three Backpacks is given below for your analysis:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Black** | **Grey** | **Orange** |
| Production Volume (Units) | 30,000 | 24,000 | 36,000 |
| Raw Materials Per Unit (kg) | 1.5 | 2.4 | 3.0 |
| Direct Materials Costs Per Unit ($) | 3.6 | 5.76 | 7.2 |
| Direct Labour hours Per Unit (Hrs) | 0.2 | 0.3 | 0.4 |
| Direct Labour Cost Per Unit ($) | 5.92 | 8.88 | 11.84 |
| **Other Operational Data** | | | |
| Machine Hours Per Unit (Hrs) | 0.5 | 0.7 | 0.9 |
| Production Runs | 32 | 24 | 16 |
| Number of Purchases | 48 | 56 | 84 |
| Number of Deliveries | 96 | 60 | 124 |
| Selling Price Per Unit ($) | 18.5 | 35 | 40 |

The price for raw materials per kilogramme is $2.40 and the direct labour cost per hour is $29.60.

The annual overhead costs along with the relevant cost drivers have been analysed below:

|  |  |  |
| --- | --- | --- |
| **Overhead Cost Centre** | **Cost Driver** | **$** |
| Machine Set Up Costs ($) | Production Runs | 74,000 |
| Machine Running Costs ($) | Machine Hours | 120,000 |
| Purchasing Costs ($) | Number of Purchases | 94,000 |
| Delivery Costs ($) | Number of Deliveries | 112,000 |
| **Total** |  | **400,000** |

**Required:**

1. Calculate the full cost per unit for products Black, Grey and White under traditional absorption costing, using direct labour hours as the basis for absorption.

Also Calculate the full cost per unit of each product using ABC (activity-based costing). **[10%]**

1. Discuss the reasons for the changes in cost per unit when the costing system are changed from traditional absorption costing to ABC. **[20%]**
2. Discuss the potential cost management implications of switching to an ABC system.

**[25%]**

1. Discuss the effects on pricing and product profitability from switching from traditional absorption costing to an ABC system. **[25%]**
2. Explain the steps and possible pitfalls to avoid when introducing an ABC system into a business such as the one above. **[20%]**

**Prepare a Business report on Case study based on all questions above. Max word limit is 1750 words**

*Library Resources given by the professor:*

*Atrill, P. & McLaney, E. (2012) Accounting: An introduction. 6th Ed. UK, FT Prentice Hall.*

*Atrill, P. & McLaney, E. (2013) Financial Accounting for Decision Makers. 7th Ed. UK, FT Prentice Hall.*

*Gowthorpe, C. (2005) Business Accounting and Finance. 3rd Ed. UK, Cengage Learning.*

*McKenzie, W. (2009) FT Guide to Using and Interpreting Company Accounts. 4th Ed. UK, FT Prentice Hall.*

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