Case Study 07: Zeltronic company – Activity Based Coting

The managers at Zeltronic are seeking a comprehensive review of the company's management practices, including its current costing system. They are almost certain that the existing system does not provide suitable information, given the practical outcomes of certain decisions. For this reason, I proposed to them, during a special meeting with your authority as a management accounting consultant, the establishment of an Activity-Based Costing (ABC) system. After explaining the fundamentals of this approach, they expressed keen interest and tasked you to implement it at one of their factories**.**

Following your inquiries with the company's officials, you managed to gather additional information in addition to the existing data.

Appendix 3: Course purchases according to orders

Item	Quantity	*Number of orders*	Unit Price
X	11000 KG	08	60 Da/KG
Y	27500 KG	12	88 Da/KG
PO	20000 Unit	05	25 Da/ Unit
PL	15000 Unit	10	65 Da/ Unit
PT	50000 Unit	20	125 Da/ Unit

Appendix 4: Information about the production process

Product	*production quantity*	*production batches*	batch size
A	20000	50	400
B	15000	150	100

The maintenance department’s interventions amounted to the following:

- Machining center: 25 times.
- Center installation: 25 times.

Appendix 04: Activities performed in the analysis centers, costs, and cost Drivers

Center	*Canter Cost*	*Activities*	*Activity Cost*	*Cost drivers*	*Cost driver Quantity*
Supply	900000	Materials management	280000	Quantity purchased	?
		Component management	255000	Number of orders	Appendix No. 03
		Management of parts	365000	Quantity purchased	?
Manufacturing	1200000	Setting up machines	180000	Number of production batches	Appendix No. 04
		Planning production orders	264000	Number of production batches	Appendix No. 04
		Machinery management	525000	Machine working hours	?
		Maintenance	231000	Number of interventions	Appendix No. 04 (10 to PIA)
Installation	2500000	Manual installation	437500	Direct working hours	?
		Automated installation	1645000	Machine working hours	1250 hours. Machines (300 for product A)
		Managing production batches	312500	Number of production batches	Appendix No. 04
		Maintenance	105000	Number of interventions	Appendix No. 04 (08 for Product A)
Distribution	350000	Quality control	210000	Time spent monitoring	312.5 hours (01 hour/production batch for product A)
		Delivery	140000	Number of production batches	Appendix No. 04
Administration	800000	General organization	800000	the sales	?

Required:

1. Utilize the ABC method to recompute the total cost for products A and B, and ascertain the outcome for each.
2. Elaborate on the reasons behind the variances observed between the data derived from the traditional departmental approach and that obtained through the ABC method

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