	A	B
Units produced	12000	4000
Selling price	150	350
less: variable costs		
Direct material =54000/12000 units for A and 320000/4000 units for B	45	80
Direct labour =600000/12000 units for A and 400000/4000 units for B	50	100
less: manufacturing O/H = 695000/12000 units for A and 355000/4000 units for B	57.92	88.75
PROFIT	**-2.92**	**81.25**

Comment:

Hence every unit production of B yields a profit of 81.25, hence profitable to produce
Production of a unit of A yields a loss of 2.92 hence not profitable to produce.
The selling price for A should be atleast 153 to make it feasible to produce
The managers belief of higher selling price would lead to higher profit is incorrect. Although
it appears correct in this case. The profit will have an impact not only by selling price but also the costs and therefore it is
important to understand the elemnts of costs through the ABC in order to decide on the profitability of a product

	Deluxe	Regular
Units produced	5000	40,000
Selling price	100	150
less: variable costs		
Direct material	40	25
Direct labour	14	7
less: manufacturing O/H = 399000/5000 units for Deluxe and 501000/40000 units for Regular	79.80	12.525
PROFIT	**-33.80**	**105.48**

Question: Compare and contrast ABC philosophy with traditional costing methods (8 marks)

Answer:

Under traditional costing methods costs are spread evenly across all products based on an average overhead rate and by using only one appropriate cost driver, such as machine or labour hours. For this reason, determining the cost of a product is easy, but not necessarily accurate. Traditional methods overcharges overheads to cost units that require a high amount of labour/machine hours, and undercharges overheads to cost units that require a low amount of hours.

Contrastingly, the ABC method creates a separation of costs based on different cost drivers and then allocate costs to products accordingly. Therefore, as ABC allocates costs based on usage it is more accurate. Additionally, ABC is more thorough as it considers non-manufacturing expenses as well, such as administrative costs. But for these reasons, ABC is a bit more complicated and time-consuming than traditional costing methods.