

The craddock cup essay sample



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The purpose of this case is to illustrate the importance of understanding cost behavior in calculating the profit/contribution of the Craddock Cup. Within this context, the case asks whether the tournament should be continued, expanded or dropped. In addition, the case provides a vehicle to discuss allocation procedures and the concept of sunk costs. Finally, the case furnishes an opportunity to develop cost-volume-profit analysis within the context of relevant costs and revenues. Questions:

1. In determining whether to keep or drop the Craddock Cup, review in detail the overhead expense allocations currently used by the CYSL. Should the overhead allocations be revised, eliminated or retained? What are the financial results to the profit/loss to CYSL of the existing (32 team) Craddock Cup with any adjustments to allocations? With this analysis, should the Craddock Cup be retained?

*Please see Figure 1. 1 in Appendix for profit statement and relevant figures. After looking at the numbers we decided to eliminate Rivaldo's salary, we determined that the overhead expense allocations currently in place are not appropriate. The city field rent should be eliminated from the allocated costs as the soccer league will be renting the field regardless of whether or not the Craddock Cup occurs; it is a sunk cost. This also applies to the CYSL office rent and utilities, which will be used by the employees whether or not the tournament is held. We needed to revise the salary allocation, because we do not need to allocate Rivaldo's salary to the Craddock Cup as it is not relevant. Thus, we only need to account for the \$12, 000 salary of Renee Jantsen, who works only on the Craddock Cup. Using that allocation method, our profit was \$6, 502 instead of the previously calculated \$3, 698 loss.

2. Calculate in detail the expected financial impact of adding an incremental 32 teams to the tournament schedule. What are the relevant revenues and costs? Provide a proposal for the expansion to the Cup to 64 teams, including ancillary revenues and costs.

*Please see Figure 1. 2 for profit tables and relevant figures. After adding an additional 32 teams to the tournament schedule, the relevant revenues including t-shirts, concessions, and soccer clinics doubled while the corporate contribution revenue remained the same. This brought anticipated revenue for the field of 64 teams to \$85, 680. The relevant expenses that don't change include the tournament registration with the YSL, recruiters' hotels, the face books, marketing and advertising costs, as well as the salary of Renee Jantsen; these costs are either fixed (salary, tournament registration fee, no additional marketing required) or unaffected by the introduction of the 32 new middle school teams (no additional recruiters because they're uninterested in the middle school players, face books aren't made for the middle school players).

The relevant expenses that do change include the cost of the t-shirts, concession, the soccer clinic, the player insurance, referees, and trophies; all of these are variable costs, and thus double when the amount of competing teams doubles. There is also a new cost for the rental of the 6 additional fields from the local school necessary to host 64 teams ($(\$150/\text{field} + \$60 \text{ goalposts/field}) * 6 \text{ fields} * 2 \text{ days} = \$2, 520$). All of those costs add up to \$69, 046 for our total expenses category. Using our new revenue and expenses, the profit on the field of 64 teams is \$16, 634. Compared to the

profit of \$6, 502 on the field of 32 teams, it makes financial sense to increase the field to 64 teams as it increases profits by \$10, 132.