

Avid pharmaceuticals

Finance



The cost structure with the lower breakable volume has the lower systematic risk. Fluctuations in sales volume has an impact on net income. Because there is no certainty, Waver must be ready for increases and decreases in sales if the new equipment is purchased. It is important for Waver to understand that the company will not always be at normal operating levels. Sometimes more units will need to be produced and oftentimes, less units will need to be produced due to the demand in sales. Fluctuations in demand will affect the bottom line, as seen in the examples above.) What other factors should Waver consider in making this decision? Will the quality of the product remain the same? Is the machine more efficient than the workers? Will time be saved? Can the machine produce more than 60, 000 units per year? How many units can the equipment produce in a year, while maintaining a quality product? Can the company charge more for the product if there is an increase in quality? How will this equipment affect Waver long-term? Short-term? Will upgrades be needed (added expenses)? How quickly will the equipment be outdated? How quickly can the equipment be installed?

Will there be a loss of manufacturing products while the equipment is being setup? Will the company lose money during setup due to lack of production? How will this new piece of equipment show on the company's financial statements? Will it be depreciated? What form of depreciation? Are there new asset conversions that the accounting department will have to record? Do the product costs and/or period costs change? Is it possible to make other areas more efficient, therefore, reducing fixed or variable costs? What

company makes the manufacturing equipment? Is the company successful/reputable?

Is the company new? Is the return on the investment satisfactory to board members and owners? How does the new equipment affect the employees? Will additional training be needed? Who will operate and manage this new equipment? How difficult would it be to get service if repairs were needed? How dependable are the service repair people? Will Waver have to hire a full time employee to fix the repairs? This salary is an additional expense. How dependable is the machine? Will the equipment affect the factory layout, efficiency, create toxic smells or be too loud for workers to be near it?

Will customer satisfaction be increased? Will the employees operating the machine be paid more, therefore, increasing salary Will training occur? This is an added expense. Are there enough Jobs to reassign all employees displaced to new Jobs within Waver? How will Waver communicate this large change to its employees? How much does the machine cost? Are there additional variable costs that will be incurred? (4) What is your recommendation? This does not look like a good investment for Waver. The return on investment is low at the normal 60, 000 operating volume. The fixed costs are large, Jumping by 476, 000.

That is a large increase when the sales at normal operating conditions will only yield an extra \$4, 000. It is not worth the expense. In the beginning, the equipment may be slow to operate at normal volume due to set up, training, glitches, etc. There may be a length of time where Waver is not able to produce and sell 60, 000 units per year, which will hurt Wavers bottom line

(as seen in the 25% volume decrease in example above). The new equipment seems like a risky investment. The choice of production structure (with the new equipment or without) depends on the expected future sales.

If Waver was certain they could produce and sell more than 60, 000 units per year, this may be an investment worth looking into, however, this is an unknown. Making a little less than the 60, 000 units (59, 500 units), would put Waver in the same position had they not purchased the new equipment. This point at which both cost structures intersect is what is relevant. From a management's perspective, this new equipment is really not a good idea. There are too many 'What ifs' and too many personnel and training issues that could be factors. I would not recommend purchasing this new equipment for Waver.