Flower pharmaceuticals essay

Case Study: Flower Pharmaceuticals A. The table below lists each category and states whether the cost is relevant, if it is an implicit or explicit cost, and if the cost has been properly calculated (note: company is currently operating at 65% capacity). Cost category| Relevant| Implicit/Explicit| Calculated correctly? | Fully allocated capital cost1| N| Explicit| Y| Direct labor cost2| Y| Explicit| Y| Materials Purchased3 | Y| Explicit| Y| Materials Inventoried4| Y| Implicit| N: 25, 000 lbs x $9/per lb = $225, 000| Managerial overhead5| N| Implicit| Y| Profit margin6| N| Implicit| Y| 1.

Fully allocated capital cost * Relevant— This cost is not relevant since it cannot be avoided if the company decides against this project. * Explicit— This cost is explicit since it is an out of pocket cost that the company would pay regardless of whether or not they accepted the project. * Calculated correctly—Yes. 2. Direct labor cost * Relevant—Yes. This cost is relevant to the project since it can be avoided by not undertaking the project. * Explicit — This cost is explicit since it is an out of pocket cost that the company would pay regardless of whether or not they accepted the project (i. . —hire back the workers, or keep paying the workers severance). * Calculated correctly—Yes. 3. Materials Purchased * Relevant— Yes. This cost is relevant to the project since the company can avoid using the materials by not undertaking the project. * Explicit—This is an out of pocket cost that the company would have to pay for to take on the project to purchase additional materials. * Calculated correctly—Yes. 4. Materials Inventoried * Relevant—Yes. This cost is relevant to the project since the company can avoid using the materials by not undertaking the project. Implicit—The company is not spending additional money to acquire the powder to take on the project, since it was purchased prior to undertaking the project (and can be sold at current market value, see calculation below). * Calculated correctly—No. The correct calculation would equal what the material can be sold for at the current market value: 25, 000 lbs x $9/per lb = $225, 000 5. Managerial overhead * Relevant—No. The firm is operating at 65% capacity, so the company would not have to turn away any other work. Implicit—This cost is implicit since it is not money out of the company's pocket, but it is not applicable since the cost is not relevant. * Calculated correctly—Yes, but the cost is not applicable since it is not relevant. 6. Profit margin * Relevant—No. The firm is operating at 65% capacity, so the company would not have to turn away any other work. * Implicit—This cost is implicit since it is not money out of the company's pocket, but it is not applicable since the cost is not relevant. * Calculated correctly—Yes, but the cost is not applicable since it is not relevant. B.

Calculate the relevant cost of the project for Flower. What is the lowest amount the firm should accept for the contact? Explain. Relevant Costs| | Direct labor cost| $1, 860, 000| Materials Purchased| $500, 000| Materials Inventoried| $225, 000| Total Relevant Costs| $2, 585, 000. 00| The lowest amount the firm should accept for the contract is $2, 585, 000. This is the total of all of the relevant costs for the project. C. Explain how your answers in Parts A and B would change if the firm was currently operating at full capacity. Be specific and recalculate the relevant cost of the project.

Cost category| Relevant| Implicit/Explicit| Calculated correctly? | Fully allocated capital cost1| N| Explicit| Y| Direct labor cost2| Y| Explicit| Y| Materials Purchased3 | Y| Explicit | Y| Materials Inventoried4| Y| Implicit| N:

25, 000 lbs x $9/per lb = $225, 000| Managerial overhead5| Y| Implicit| Y| Profit Margin6| Y| Implicit| Y| 1. Fully allocated capital cost * Relevant— No. This cost is not relevant since it cannot be avoided if the company decides against this project. * Explicit—This cost is explicit since it is an out of pocket cost that the company would pay regardless of whether or not they accepted the project. Calculated correctly—Yes. 2. Direct labor cost * Relevant—Yes. This cost is relevant to the project since it can be avoided by not undertaking the project. * Explicit— This cost is explicit since it is an out of pocket cost that the company would pay workers for labor. * Calculated correctly—Yes. 3. Materials Purchased * Relevant— Yes. This cost is relevant to the project since the company can avoid purchasing new materials by not undertaking the project. * Explicit—This is an out of pocket cost that the company would have to pay for to take on the project to purchase additional materials. Calculated correctly—Yes. 4. Materials Inventoried * Relevant— Yes. This cost is relevant to the project since the company can avoid using the materials by not undertaking the project. * Implicit—The company is not spending additional money to acquire the powder to take on the project, since it was purchased prior to undertaking the project (and can be sold at current market value, see calculation below). * Calculated correctly—No. The correct calculation would equal what the material can be sold for at the current market value: 25, 000 lbs x $9/per lb = $225, 000 5.

Managerial overhead * Relevant—Yes. If the firm was operating at 100% capacity, it would have to turn away other work, and missed opportunity costs equal unrealized revenue. * Implicit—This is an implicit cost since it would be an opportunity cost, and the company would forgo revenue from other projects that it turns down as a result of being at full capacity * Calculated correctly—Yes. 6. Profit margin * Relevant—Yes. If the firm was operating at 100% capacity, it would have to turn away other work, and missed opportunity costs equal unrealized revenue. Implicit—This is an implicit cost since it would be an opportunity cost, and the company would forgo revenue from other projects that it turns down as a result of being at full capacity. * Calculated correctly—Yes Relevant Costs under 100% Capacity| Direct labor cost| $1, 860, 000| Materials Purchased| $500, 000| Materials Inventoried| $225, 000| Managerial Overhead| $1, 240, 000| Profit Margin| $3, 100, 000| Total Relevant Costs| $6, 925, 000| If the firm were operating at 100% capacity, the minimum acceptable bid price for the contract would be $6, 925, 000 which is the sum of all the relevant costs.