# Minnetonka corporation

[Finance](#)

PART ONE Should the Minnetonka Corporation make or buy the bindings The calculations are provided below: Option To Make the Skis and Bindings

Direct Material

$ 30. 00

Direct Labor

$ 35. 00

Total Overheads

$ 15. 00

Variable Cost/pair of skis and bindings

$ 80. 00

Estimated Demand (pairs)

10, 000. 00

Total Variable Costs

$ 800, 000. 00

Total Fixed Costs

$ 100, 000. 00

Total Cost

$ 900, 000. 00


Option 2 - To Make the Skis and Buy the Bindings

Bindings


Price per pair of bindings

$ 10. 50

Number of pairs to buy

10, 000. 00

Total Cost of buying the bindings

$ 105, 000. 00

Skis

Direct Material (30 * 0. 8)

$ 24. 00

Direct Labor (35 * 0. 9)

$ 31. 50

Total Overheads (15 * 0. 9)

$ 13. 50

Variable Cost/pair of skis

$ 69. 00

Estimated Demand (pairs)

10, 000. 00

Total Variable Costs for Skis

$ 690, 000. 00

Total Fixed Costs

$ 100, 000. 00

Total Cost for Skis and Bindings

$ 895, 000. 00

As shown from the table above, Minnetonka should buy the bindings, as this option results in a savings of $5, 000 as compared to option 1.

2. What would be the maximum purchase price acceptable to the Minnetonka Corporation for the bindings

The maximum purchase price that should be acceptable should be less than or equal to the difference that Minnetonka is saving for not making the products themselves. Any price of the bindings that takes the total cost above $ 900, 000 should be unacceptable; since in that case, the company is better off making the product itself than to go for the purchase option. Hence, the maximum that the company can be willing to pay to purchase 10, 000 pairs of bindings is $ 110, 000. This means that the maximum purchase price per pair of bindings will be 110, 000 / 10, 000 = $11 per pair of bindings = $ 5. 5 per binding.

3. Instead of sales of 10, 000 pair of skis, revised estimates show sales volume at 12, 500 pair. At this new volume, additional equipment, at an annual rental of $10, 000 must be acquired to manufacture the bindings. This incremental cost would be the only additional fixed cost required even if sales increased to 30, 000 pairUnder these circumstances, should the Minnetonka Corporation make or buy the bindings

The fixed costs will be now $100, 000 + $10, 000 = $110, 000; and estimated demand will be 12, 500 instead of 10, 000. The revised estimates are shown in the following table:

Option 1 - To Make the Skis and Bindings

Direct Material

$ 30. 00

Direct Labor

$ 35. 00

Total Overheads

$ 15. 00

Variable Cost/pair of skis and bindings

$ 80. 00

Estimated Demand (pairs)

12, 500. 00

Total Variable Costs

$ 1, 000, 000. 00

Total Fixed Costs

$ 110, 000. 00

Total Cost

$ 1, 110, 000. 00

Option 2 - To Make the Skis and Buy the Bindings

Bindings

Price per pair of bindings

$ 10. 50

Number of pairs to buy

12, 500. 00

Total Cost of buying the bindings

$ 131, 250. 00

Skis

Direct Material (30 * 0. 8)

$ 24. 00

Direct Labor (35 * 0. 9)

$ 31. 50

Total Overheads (15 * 0. 9)

$ 13. 50

Variable Cost/pair of skis

$ 69. 00

Estimated Demand (pairs)

12, 500. 00

Total Variable Costs for Skis

$ 862, 500. 00

Total Fixed Costs

$ 110, 000. 00

Total Costs for Skis and Bindings

$ 1, 103, 750. 00

The above table shows that the company should still buy the bindings, as this option results in a savings of $6, 250 as compared to option 1.

4. What qualitative factors (i. e. issues with vendors, customers, or within the product itself) should the Minnetonka Corporation consider in determining whether they should make or buy the bindings

Some of the qualitative factors that Minnetonka Corporation should consider include the following:

The quality of vendor product

The distribution capability of the vendor and whether the vendor has necessary set up to deliver the product to company within time

The contract with the vendor - its terms and conditions should be carefully laid out

The relationship with the vendor and whether the vendor should be allowed to access company's network

The quality of services provided by the vendors and the risk of vendor unavailability

The market/ customer perception about the vendor's products in general

PART TWO

Balanced Scorecard

Balanced scorecard is a concept for measuring a company's activities in terms of its vision and strategies, to give managers a comprehensive view of the performance of a business.

Implementing the scorecard typically includes four processes:

Translating the vision into operational goals

Communicate the vision and link it to individual performance

Business planning

Feedback and learning and adjusting the strategy accordingly

The system provides a strategic approach and performance management system that enables an organization to translate the company's vision and strategy into implementation, working from four perspectives:

Financial perspective

Customer perspective

Business process perspective

Learning and growth perspective

Economic Value Added

Economic Value Added (EVA) is a financial performance method to calculate the true economic profit of an organization, calculated as net operating profit after tax minus the charge for opportunity cost of the invested capital.

The basic formula is,

EVA = Net Operating Profit After Tax - (Capital)(Weighted Average Cost of Capital)

Since the company has invested capital in the business, that capital can not be used to achieve other gains that the company could have achieved had it not invested the capital in the business. The return that the business is generating on that capita is net operating profit after tax, while the return that could have been generated if the capital was not invested in the business is the second part of above equation. The difference will tell us whether the company is actually getting an economic value from the capital or not.

EVA can be used for:

Setting organizational goals

Performance measurement

Determining bonuses

Communication with shareholders and investors

Capital budgeting

Corporate valuation