about 10% of its

PROBLEM 7–19 Sell or Process Further [LO 7–7]

(Prepared from a situation suggested by Professor John W. Hardy.) Abilene Meat Processing Corporation is a major processor of beef and other meat products. The company has a large amount of T-bone steak on hand, and it is trying to decide whether to sell the T-bone steaks as is or to process them further into filet mignon and New York cut steaks.

Management believes that a 1-pound T-bone steak would yield the following profit:

Wholesale selling price ($2.25 per pound)	$2.25
Less joint costs incurred up to the split-off point where T-bone steak can be identified as a separate product	1.70
Profit per pound	$0.55

As mentioned above, instead of being sold as is, the T-bone steaks could be further processed into filet mignon and New York cut steaks. Cutting one side of a T-bone steak provides the filet mignon, and cutting the other side provides the New York cut. One 16-ounce T-bone steak cut in this way will yield one 6-ounce filet mignon and one 8-ounce New York cut; the remaining ounces are waste. The cost of processing the T-bone steaks into these cuts is $0.20 per pound. The filet mignon can be sold for $3.60 per pound, and the New York cut can be sold wholesale for $2.90 per pound.

Required:

1. Determine the profit per pound from processing the T-bone steaks further into filet mignon and New York cut steaks.
2. Would you recommend that the T-bone steaks be sold as is or processed further? Why?

PROBLEM 7–20 Shutting Down or Continuing to Operate a Plant [LO 7–2]

(Note: This type of decision is similar to dropping a product line.)

Hallas Company manufactures a fast-bonding glue in its Northwest plant. The company normally produces and sells 40,000 gallons of the glue each month. This glue, which is known as MJ-7, is used in the wood industry to manufacture plywood. The selling price of MJ-7 is $35 per gallon, variable costs are $21 per gallon, fixed manufacturing overhead costs in the plant total $230,000 per month, and the fixed selling costs total $310,000 per month.

Strikes in the mills that purchase the bulk of the MJ-7 glue have caused Hallas Company's sales to temporarily drop to only 11,000 gallons per month. Hallas Company's management estimates that the strikes will last for two months, after which sales of MJ-7 should return to normal. Due to the current low level of sales, Hallas Company's management is thinking about closing down the Northwest plant during the strike.

If Hallas Company does close down the Northwest plant, fixed manufacturing overhead costs can be reduced by $60,000 per month and fixed selling costs can be reduced by 10%. Start-up costs at the end of the shutdown period would total $14,000. Because Hallas Company uses Lean Production methods, no inventories are on hand.

Required:

1. Assuming that the strikes continue for two months, would you recommend that Hallas Company close the Northwest plant? Explain. Show computations to support your answer.

2. At what level of sales (in gallons) for the two-month period should Hallas Company be indifferent between closing the plant or keeping it open? Show computations. (Hint: This is a type of break-even analysis, except that the fixed cost portion of your break-even computation should include only those fixed costs that are relevant [i.e., avoidable] over the two-month period.)

PROBLEM 7–21 Accept or Reject a Special Order [LO 7–4]