Pop-In Burgers owns numerous restaurants and food production facilities. The company routinely evaluates proposals to drive operational efficiency. Four such proposals are currently under review. One entails the suggestion to close the unprofitable store in Canyon City. Another is to outsource the acquisition of onions, rather than growing them. Another proposal is to sell packaged beef to a non-competing restaurant chain under a private label. The final proposal is to scrap packaging material that is printed with an old logo. Michelle Euray is controller for Pop-In Burgers and is reviewing staff-prepared reports for each proposal. The reports are summarized as follows:

Canyon City Proposal: The Canyon City store should be closed. The company is a consistent money loser. Below is an income report for the Canyon City store for the past year. Half of the fixed expenses relate to facilities rent under a 20-year non-cancelable lease. The lease costs cannot be avoided, and the location is not able to be subleased to another user.

Spreadsheet

	A	B	C	D	E
1	Sales	$1,400,000			
2	Variable expenses	1,000,000			
3	Contribution margin	400,000			
4	Fixed expenses	650,000			
5	Income (loss)	$ (250,000)			
6					

Outsource Onions Proposal: The company spent a total of $2,000,000 producing onions during the past year. The onions were grown on a company-owned farm. A vender has offered to supply a similar quantity and grade of onions for $2,200,000. Staff recommends continuing to grow onions because the proposed purchase price is 10% higher than the cost of growing onions. Staff believes it is inappropriate to consider that the onion farm could be leased to another farmer for $350,000, if it is diverted from onion production.

Sell Packaged Beef Proposal: The other company has offered to buy packaged beef at $4 per pound. The packing plant is well below full capacity and can accommodate the request without incurring any additional fixed costs. However, staff believes it would be inappropriate to price the beef below its own internal cost of $4.50 per pound, which consists of raw materials ($2.50), direct labor ($0.75), variable factory overhead ($0.25), and fixed factory overhead ($1.00). This transaction would result in no material amount of added selling, general, or administrative costs.

Scrap Packaging Material Proposal: The company spent $500,000 on packaging material that is imprinted with an old logo. It is unlikely this material will ever be used. However, staff recommends against scraping because this will result in an immediate charge against net income. It costs only $2,000 per year to store the material.

Assume the role of Michelle Euray, and critique each staff prepared analysis.