Mead Meals on Wheels Center

The Mead Meals on Wheels Center (MMWC) provides meals every day to the homebound elderly. There is no shortage of demand for MMWC’s services among the elderly citizens of Wabash, and MMWC can find qualified recipients for as many meals as it can deliver. Each person helped by MMWC receives two hot meals per day, 7 days per week, for a total of 14 meals every week. For each person MMWC serves per week (that is, for each elderly resident that is served 14 meals per week), the city of Wabash pays MMWC $32.

To service the contract, MMWC has a central kitchen that has the capacity to produce a maximum of 9,600 meals per day. It costs MMWC an average of $36,000 per week to operate the kitchen and other central facilities regardless of the number of meals that MMWC serves. This covers *all* of MMWC’s fixed costs (e.g., rent, equipment costs, and its personnel including administrative staff) as well as its fixed seasonal service contract costs (utilities, snow removal, etc.).

The first problem that MMWC faces is figuring out how much it can afford to spend per person, per week for food to supply the program. Food is MMWC’s only variable expense. You are MMWC’s only program analyst.

*Question 1: The executive director has come to you to calculate how much MMWC can spend per week, per person and still break even. What do you tell the executive director?*

Using your work to define MMWC’s spending limit, the executive director prepared a request for bids and sent it to all of the food purveyors in and near Wabash. The best bid came in at $.50 (fifty cents) below the number that you have calculated as MMWC’s break-even per person per week. Using the lowest bid and the information given earlier, the executive director wants you to prepare a budget for MMWC in a format that will allow her to monitor MMWC’s performance on a quarterly basis for the coming year.

For budgeting purposes, the executive director has told you to assume that there are 13 weeks in each quarter. You know from your experience that the fixed expenses for the organization vary by season. Fixed costs average $38,000 per week in the winter (1st quarter), $34,000 per week in the second quarter, $35,000 in the third quarter, and $37,000 in the fourth quarter.

*Question 2: Prepare a budget for the next four quarters of operation for the executive director and summarize it for the full year.*

The first quarter of operation was in the midst of a very severe winter. As a result, MMWC was only able to get food to 4,600 people per week on average. In addition, the cold weather and snow caused MMWC to exceed the limits of its snowplowing and heating oil contracts. As a result, MMWC’s fixed costs were $2,000 per week above what you had forecast. Luckily, a food purveyor from outside the Wabash city limits responded to MMWC’s request for bids just before the quarter began and gave MMWC a bid that was $.75 (seventy-five cents) per person-week below the quote that was used in your budget. That is a full $1.25 below the break-even level that you calculated.

The executive director knows that something has happened because the budgeted numbers and the actual results that she sees on her quarterly operating statement don’t match. She wants you to tell her why.