

ACCOUNTING

in the headlines

Should Apple Country Orchards sell Granny Smith apples or make cider from those apples?

Apple Country Orchards in Idalou, Texas, has 6,000 apple trees and offers 30 varieties of apples. The orchard is 29 years old and allows customers to pick their own apples or to purchase pre-picked apples. In addition to apples and apple picking, the orchard offers hayrides, lunch, pumpkins, and a variety of other items.

Apple Country Orchards makes cider from several different apple varieties. One of the varieties used to make cider is the Granny Smith apple, which is known for its ability to be easily preserved in storage for up to a year and for its high antioxidant activity.

Assume that Apple Country Orchards sells Granny Smith apples for \$0.90 per pound. One gallon of fresh-pressed cider at Apple Country Orchards sells for \$8. (On average, ten pounds of Granny Smith apples yield one gallon of fresh-pressed cider.)

Questions

1. Do you need to know the cost per pound that Apple Country Orchards uses for its Granny Smith apples to be able to decide if the Granny Smith apples should be sold as is (as raw apples) or processed further into cider, pie, turnovers, or any other apple product? Why or why not?
2. From a purely quantitative standpoint, should Apple Country Orchards sell raw Granny Smith apples or process those apples further into apple cider? Support your answer with calculations.
3. Assume that it is financially advantageous to sell raw apples rather than process them further into cider. What qualitative factors might influence Apple Country Orchards' decision to offer fresh-pressed cider?