

ACCOUNTING in the headlines

Should the original cost of the leftover 10 million pounds of Mighty Wings matter to McDonald's decision makers ?

In the first half of 2013, McDonald's bought and stockpiled about 50 million frozen chicken wings for a promotion it was planning for fall 2013. In the fall 2013, McDonald's debuted Mighty Wings, a menu item that would be available only through the end of November 2013.

When Mighty Wings came out, McDonald's did not sell as many as it had planned. The main issue seemed to be the pricing of the wings; McDonald's priced the wings higher than its competitors. The pricing for Mighty Wings was \$3.69 for three wings, \$5.59 for five wings, and \$9.69 for ten wings.

As of the middle of December 2013, McDonald's has about 10 million pounds of the frozen chicken wings in storage and the Mighty Wings promotion is completed. Now McDonald's is making plans for how to best get rid of this stockpile of wings.

Questions

1. Assuming that McDonald's paid \$1.20 per pound for the frozen chicken wings, what is its cost of the 10 million pounds of frozen chicken wings in inventory?
2. The average chicken wing weighs 29 grams, which means that there are about 15 wings in a pound. What is the cost per wing in McDonald's inventory?
3. Should McDonald's cost of the leftover chicken wings heavily influence what course of action McDonald's should take to get rid of the wings? Why or why not? What type of cost is the original cost of the chicken wings?
4. What other costs should McDonald's consider when deciding what to do with its 10 million pounds of leftover chicken wings? Which of these other costs are fixed and which are variable?
5. The Wall Street Journal reports that McDonald's expects to reintroduce the Mighty Wings with new pricing of \$2.99 for three wings. How much will McDonald's make per three-wing order when comparing the sales price to its cost per chicken wing as calculated previously? Will it truly make this amount? Why or why not?