

**UNIVERSITY OF THE PHILIPPINES MANILA  
COLLEGE OF PHARMACY**

**PHAR 125: Pharmaceutical Accounting  
1st Semester AY 2020-2021**

**Differential Analysis  
CASE ANALYSIS**

Lea and Ron Santos are a married couple. They both worked for a restaurant chain for 30 years. At age 60, Douglas and age 58, Pamela retired and moved to the small town of Evilla, TX, which has a population of approximately 4,600 residents. When the Santos moved to the town, they decided to start a childcare business in their home called Lo-la's House.

Lo-la's House is licensed by the city. The city charges an annual fee of \$225 to maintain the license. Insurance is required at a cost of \$3,840 annually. The facility is licensed to care for a maximum of six children. The Santos charge a fee of \$800 per month for each child. The monthly fee is based on a full day of care, from 8:00 a.m. to 4:00 p.m. If additional time is required beyond 4:00 p.m., parents must pay an additional charge of \$15 per hour for each child. The couple provides two meals and a snack for the children. The cost of the meals and snack is \$3.20 per child per day. There are six children currently enrolled.

The facility is an 820 square foot addition to their home that was built in 1964. The Santos purchased the home and completed the renovations for \$79,500 and they believe the addition has a useful life of 25 years. The facility has a large open space for play, reading, and other activities. There is a section for sleeping which contains small cots. The facility is equipped with a small kitchen, two bathrooms and a small laundry area. The daycare increased the Santos' utility cost by \$50 each month.

During the first week of operations, the washer and dryer stopped working. Both appliances were old and had been used by the couple for many years. The old appliances cost a total of \$440. While a laundry room was not initially a necessity, it became increasingly important for laundering the soiled clothes of the children, blankets, and sheets. A company nearby, Labadabango Laundry and Dry Cleaning, can launder clothing for the Santos, including pick-up and delivery, for \$52 per month. Alternatively, the Santos can take clothes to the laundromat once a week, which is three km away (one way). The applicable mileage rate is \$0.56/km. They can launder the clothes themselves at a cost of \$8 per week. The self-service laundry does not include detergent or fabric sheets. The couple would need to purchase these items in order to use the laundromat. Purchasing laundry supplies in bulk from MegaMart would cost \$35 every quarter. The final alternative is for the Santos to purchase a washer and dryer. The cost of the appliances is: washer \$420 and dryer \$380. The additional accessories for both appliances, needed for installation, cost \$43.72. The store will deliver the appliances at a total cost of \$35. The cost of installing the appliances is free. Both appliances are expected to last 8 years. According to the manufacturer the washer will increase energy costs by \$120 per year. The dryer will increase energy costs by \$145 per year.

The Santos need some assistance in decision making and evaluation. They have contacted Emily Smith, their accountant, to provide some advice. Assume the role of Emily Smith and conduct differential analysis to answer the following guide questions:

1. Based on the information provided, what information is relevant to the decision to purchase the appliances? What information is irrelevant to the decision to purchase the appliances? Why?
2. As Emily Smith, prepare a letter to the Santos advising them on their laundry needs. What is your recommendation and why?
3. The Santos' home can accommodate a maximum of nine children. They can move the daycare from their home to rented space in town, which can accommodate up to 14 children. The space will cost \$650 per month and the utilities will cost \$125 per month. Additionally, insurance will now cost the Santos \$5,000 per year. Per state regulations, each adult can supervise no more than three children. As Emily Smith, prepare a letter to the Santos advising them on their space options. Should they continue to operate the facility at home or should they rent space in town?