Exercise 13-15 (20 minutes)

The costs that are relevant in a make-or-buy decision are those costs that can be avoided as a result of purchasing from the outside. The analysis for this exercise is:

	Per Unit Differential Costs		*30,000 Units*	
	Make	*Buy*	*Make*	*Buy*
Cost of purchasing		$21.00		$630,000
Cost of making:				
Direct materials	$ 3.60		$108,000	
Direct labor	10.00		300,000	
Variable overhead	2.40		72,000	
Fixed overhead	3.00 *		90,000	
Total cost	$19.00	$21.00	$570,000	$630,000

* The remaining $6 of fixed overhead cost would not be relevant, since it will continue regardless of whether the company makes or buys the parts.

The $80,000 rental value of the space being used to produce part S-6 represents an opportunity cost of continuing to produce the part internally. Thus, the completed analysis would be:

	Make	*Buy*
Total cost, as above	$570,000	$630,000
Rental value of the space (opportunity cost)	80,000	
Total cost, including opportunity cost	$650,000	$630,000
Net advantage in favor of buying	$20,000	