Exercise 13-15 (15 minutes)

The target production level is 40,000 starters per period, as shown by the relations between per-unit and total fixed costs.

	"Cost" Per Unit	*Differential Costs Make*	*Differential Costs Buy*	*Explanation*
Direct materials......	$3.10	$3.10		Can be avoided by buying
Direct labor...........	2.70	2.70		Can be avoided by buying
Variable manufacturing overhead............	0.60	0.60		Can be avoided by buying
Supervision...........	1.50	1.50		Can be avoided by buying
Depreciation	1.00	—		Sunk Cost
Rent......................	0.30	—		Allocated Cost
Outside purchase price..................			$8.40	
Total cost..............	$9.20	$7.90	$8.40	

The company should make the starters, rather than continuing to buy from the outside supplier. Making the starters will result in a $0.50 per starter cost savings, or a total savings of $20,000 per period:

$0.50 per starter × 40,000 starters = $20,000