Exercise 13-3 (30 minutes)

1.

	Per Unit Differential Costs		15,000 units	
	Make	*Buy*	*Make*	*Buy*
Cost of purchasing		$35		$525,000
Direct materials	$14		$210,000	
Direct labor	10		150,000	
Variable manufacturing overhead	3		45,000	
Fixed manufacturing overhead, traceable[1]	2		30,000	
Fixed manufacturing overhead, common				
Total costs	$29	$35	$435,000	$525,000
Difference in favor of continuing to make the carburetors	$6		$90,000	

[1] Only the supervisory salaries can be avoided if the carburetors are purchased. The remaining book value of the special equipment is a sunk cost; hence, the $4 per unit depreciation expense is not relevant to this decision.

Based on these data, the company should reject the offer and should continue to produce the carburetors internally.

2.

	Make	*Buy*
Cost of purchasing (part 1)		$525,000
Cost of making (part 1)	$435,000	
Opportunity cost—segment margin foregone on a potential new product line	150,000	
Total cost	$585,000	$525,000
Difference in favor of purchasing from the outside supplier	$60,000	

Thus, the company should accept the offer and purchase the carburetors from the outside supplier.