

**5-33** (a) Assumptions need to be made about the avoidability of the support costs if Kane outsources the component.

(b) If the unit-related, batch-related, and product-sustaining support costs are all avoidable, then Kane will certainly reduce costs by outsourcing the component. Facility costs may be unavoidable if the facility cannot be converted to alternative uses when the component is outsourced. However, even if the facility costs are unavoidable, Kane would reduce costs by outsourcing. In this case, the cost savings per unit if the component is outsourced would be:

Purchase price	\$64.50
Avoidable costs (\$73.10 – \$6.90)	<u>66.20</u>
Savings per unit	<u>\$1.70</u>

(c) Other factors relevant to the decision are the supplier's ability to live up to expected quality and delivery standards, and the likelihood of suppliers increasing prices of components in the near future.

**5-45** (a)

Selling price per unit	\$4.00
Variable cost per unit	3.30
Contribution margin per unit	\$0.70
Number of units	50,000
Increase in operating income	\$35,000

Genis Battery Company should accept the special order because it is operating under capacity and this order can generate \$35,000 in additional operating income.

- (b) Average unit costs can be misleading. The decision must be based on incremental costs.
- (c) Other customers may also demand a reduced price. Therefore, their reaction to the reduced price for the special order must also be taken into account.