# **QUESTION 1**

**Gandon plc** has been approached by a customer with a special order for 100,000 units of product X at a price of £250 per unit. The following information is available:

# **RAW MATERIAL**

Each unit of product X would require three different types of raw materials, designated A, B and C. Quantities required, current stock levels and cost of raw materials are as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Raw material** | **Units required per unit of Prod.X** | **Current level (unit)** | **Original cost (unit)** | **Current replacement cost (unit)** | **Current realisable value (unit)** |
| A | 1 | 200,000 | £21 | £25 | £18 |
| B | 2 | 60,000 | £33 | £28 | £11 |
| C | 2 | Nil | - | £55 | - |

Material A is used continuously by the company and stocks are always replenished. The current stock of material B is surplus to the company’s requirements and, unless used on the special order, would be sold. Material C is not in stock and would have to be purchased.

# **LABOUR**

Each unit of product X would require one hour of labour. The current wage rate is £30 per hour. If this special order is not accepted, the company expects to have 120,000 surplus labour hours available in the coming year. The directors have decided not to dismiss any workers in the foreseeable future.

# **OVERHEADS**

Variable overhead is absorbed at a rate of £20 per direct labour hour and fixed overhead is absorbed at a rate of £10 per direct labour hour.

**SPECIAL EQUIPMENT.**

The company possesses equipment which could be adapted for use on the special contract at a cost of £10,000. The equipment cost £50,000 several years ago and has a written down value of nil. If this equipment is not used on the special contract it would be sold for £2,000. Assume that after the contract is fulfilled, the equipment will have no value.

**Required:**

State whether or not the special order should be accepted, supporting your conclusion with appropriate figures. Any assumptions made should be clearly stated.