Barney Toy Company manufactures large and small stuffed animals. It has a long term contract with a large chain of discount stores to sell 3000 large and 6000 small stuffed animals each month. The following cost information is available for large and small stuffed animals.

Item Large Small

Price per unit $32 $21

Variable costs per unit

Direct material $12 $10

Direct labor 6 2

Variable support 2 1

Fixed Costs per unit 3 3

Total Unit Costs $23 $16

Estimated demand 15,000 25,000

(inclusive of long term contract)

Production occurs in batches of 100 large or 200 small stuffed animals. Each batch takes a total of 10 machine hours to manufacture. The total machine hour capacity of 3000 machine hours cannot be increased for at least a year.

1. Determine the contribution margin per unit for each of the two sizes of stuffed animals.
2. Determine which size is more profitable to produce. How many units of each size should Barney produce?
3. Because of an unexpected high demand for stuffed dinosaurs, the discount store chain has requested an additional order of 5000 large stuffed dinosaurs. It is willing to pay $37 per dinosaur for this special order. Determine the opportunity costs associated with this order.
4. Should Barney Toy Company accept the order described in C.