Stardom Inc. cans peaches for sale to food distributors. All costs are classified as either

manufacturing or marketing. Stardom prepares monthly budgets. Its March 19X6 budgeted

absorption-costing income statement follows:

Revenues (1,000 crates at $100 a crate) $100,000

Cost of goods sold $60,000

Gross margin $40,000

Marketing costs $30,000

Operating income $10,000

Normal markup percentage:

$40,000 ÷ $60,000 = 66.7% of absorption cost

Monthly costs are classified as fixed or variable (with respect to the cans produced!

Manufacturing costs and with respect to the cans sold for marketing costs):

 **Fixed Variable**

Manufacturing $20,000 $40,000

Marketing 16,000 14,000

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Stardom has the capacity to can 1,500 crates per month. The relevant range in which

monthly fixed manufacturing costs will be "fixed" is from 500 crates to 1,500 crates per

month.

Required:

a) Calculate the markup percentage based on total variable costs.

b) Assume that a new customer approaches Stardom to buy 200 crates at $55 per crate for cash. The customer does not require additional marketing effort. Additional manufacturing

costs of $2,000 (for special packaging) will be required. Stardom believes that this is a onetime-

only special order, because the customer is discontinuing business in six weeks' time.

Stardom is reluctant to accept this 200-crate special order because the $55 per-crate price is

below the $60 per-crate absorption cost. Do you agree with this reasoning? Explain.

c) Assume that the new customer decides to remain in business. How would this longevity

affect your willingness to accept the $55 per-crate offer? Explain