Hardy Fiber, Company is the creator of Y-Go, a technology that weaves silver into its fabrics to kill bacteria and odor on clothing while managing heat. Y-Go has become very popular as an undergarment for sports activities. Operating at capacity, the company can produce 1,000,000 undergarments of Y-Go a year. The per unit and the total costs for an individual garment when the company operates at full capacity are as follows.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Per Undergarment** | | **Total** | |
| Direct materials | $2.00 |  | $2,000,000 |  |
| Direct labor | 0.50 |  | 500,000 |  |
| Variable manufacturing overhead | 1.00 |  | 1,000,000 |  |
| Fixed manufacturing overhead | 1.50 |  | 1,500,000 |  |
| Variable selling expenses | 0.25 |  | 250,000 |  |
| Net income | $5.25 |  | $5,250,000 |  |

The U.S. Army has approached Hardy Fiber and expressed an interest in purchasing 200,000 Y-Go undergarments for soldiers in extremely warm climates. The Army would pay the unit cost for direct materials, direct labor, and variable manufacturing overhead costs. In addition, the Army has agreed to pay an additional $1 per undergarment to cover all other costs and provide a profit. Presently, Hardy Fiber is operating at 70 percent capacity and does not have any other potential buyers for Y-Go. If Hardy Fiber accepts the Army's offer, it will not incur any variable selling expenses related to this order.

Using incremental analysis, determine whether Hardy Fiber should accept the Army's offer.***(If answer is zero, please enter 0. Do not leave any fields blank. If amount decreases the income, use either a negative sign preceding the number eg -45 or parentheses eg (45).)***

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Reject Order** | **Accept Order** | **Net Income Increase (Decrease)** |
| Revenues | $ | $ | $ |
| Variable costs: |  |  |  |
| Direct materials |  |  |  |
| Direct labor |  |  |  |
| Variable overhead |  |  |  |
| Total variable costs |  |  |  |
| Net income | $ | $ | $ |

Should Hardy Fiber accept the Army's offer?

