**5.** Nichols Company, which manufactures a single product, is operating at full capacity of 20,000 units per month. The follow unit costs relate to the manufacture of this product:

|  |  |
| --- | --- |
| Manufacturing: |   |
| Direct materials | $2.00 |
| Direct labor | 4.00 |
| Variable overhead | 1.00 |
| Fixed overhead | 1.80 |
| Selling and administrative: |   |
| Variable | 3.00 |
| Fixed | 1.20 |

The company has 100 units left over from last year which have small defects and which will have to be sold at a reduced price as scrap. This would have no effect on the company's other sales. The variable selling and administrative costs would have to be incurred to sell the defective units. What cost is relevant as a guide for setting a minimum price on these defective units?