**1.**

Peluso Company, a manufacturer of snowmobiles, is operating at 70% of plant capacity. Peluso's plant manager is considering making the headlights now being purchased from an outside supplier for $11 each. The Peluso plant has idle equipment that could be used to manufacture the headlights. The design engineer estimates that each headlight requires $4 of direct materials, $3 of direct labor, and $6.00 of manufacturing overhead. Forty percent of the manufacturing overhead is a fixed cost that would be unaffected by this decision. A decision by Peluso Company to manufacture the headlights should result in a net gain (loss) for each headlight in what amount?  Why?