1) Consider the following information, prepared based on a capacity of 40,000 units:

|  |  |
| --- | --- |
| **Category** | **Cost per Unit** |
| Variable manufacturing costs  | $5.00 |
| Fixed manufacturing costs | $1.50 |
| Variable marketing costs | $1.00 |
| Fixed marketing costs | $0.50 |

Capacity cannot be added in the short run and the firm currently sells the product for $10 per unit.

Consider each of these scenarios independent of each other.

a) The company is currently producing 30,000 units per month. A potential customer has contacted the firm and offered to purchase 10,000 units this month only. The customer is willing to pay $5.50 per unit. Since the potential customer approached the firm, there will be no variable marketing costs incurred. Should the company accept the special order? Why or why not? Be specific.

b) Assume the same facts as in part a, except that the company is producing 40,000 units per month. Should the company accept the special order? Why or why not? Be specific.

c) List and describe other factors should be taken into consideration when deciding whether to accept a special order**?** Be specific in your responses.