Chapter 14:

Problem 14-56

Winners circle inc manufactures medals for winners of athletic events an other contests. Its manufacturing plant has the capacity to produce 10,000 medals each month. Current month production is 7500 medals. The company normally charges 175 per medal. Varialbe costs and fixed costs for the current activity level of 75 percent of capacity are as follows

Winners Circle has just revieved a special one time order for the 2500 medals at 100 per medal for this particular order no variable marketing costs will be incurred Cathy Donato a management accountant with Winners Circle has been assigned the task of analyzing this order and recommending whether the company should accept or reject it. After examining the costs Donato suggested to her supervisor, Gerard PePenn who is the controller that they request competatitve bids from vendors for the raw materials as the current quote seems high. Lepenn insisted that the prices are in line with other vendors and told her that she was not to discuss her observations with anyone else. Donato later discovered that Lepenn is a brother in law of the owner of the current rw matieral suplly vendor .

1. Identify and explain the costs that will be relevant to Cathy Donatos analysis of the special order being considered by Winners Circle
2. Determine if Winners Circle should accept the special order. In explaining your answer compute both the new average unit cost and the incremental unit cost for the special order
3. Discuss any othe considerations that Donato should include in her analysis of the special order
4. What steps could Donato take to resolve the ethical conflict arising out of the controllers insistence that the company avoid competitive bidding?
5. Build a spreadsheet Construct an excel spreadsheet to solve requirement 2. Show how the solution will change if the sales price is 170.

Chapter 16:

Case 16-59