

(B) Direct material = 2.75
 Direct labour = 1.75
 other variable = 0.50
 fixed cost = 3.25

8.25

a) manufacture or Buy

$$2.75 + 1.75 + 0.50 = 5 \text{ sh.}$$

$$7.75 - 5 = 2.75 \text{ sh.}$$

The company should manufacture it.
 It's saving Sh. 2.75.

b) Offer = 4 sh

$$5 - 4 = 1 \text{ sh}$$

$$\text{manufacturing} = 5 \text{ sh}$$

The supplier is offering it cheaper and
 the company should accept the supplier's
 offer.

c) contribution margin = 600,000

$$\text{fixed expenses saved} = 800,000 - 640,000 = \underline{160,000}$$

The sunk cost cannot be recovered if discontinued.

$$600,000$$

$$\underline{160,000}$$

$$440,000$$

Negative = Discontinuing department Y would be a
 negative for the company, net income will fall
 by Ksh 440,000