Solution:

Relevant Cost to Make		Relevant Cost to Buy
		₱ 200 x 600
₱ 127,500	>	₱120,000

Since the relevant cost to make is greater than the relevant cost to buy by ₱ 7,500, it is better that Monica Bing Co. outsource flour from Nestley Toulose.

Question #3: Suppose Nestley Toulose sells the flour at ₱ 210 per kilo instead, and that Monica Bing Co. can rent the machine out for ₱15,000, all other information retained, should the company still outsource?

a. Yes, difference of ₱ 7,500.
b. Yes, difference of ₱ 12,500.
c. No, difference of ₱ 1,000.
d. No, difference of ₱ 3,500.

Answer: D

Solution:

Relevant cost to buy: ₱ 210 x 600 = ₱126,000

Relevant cost to make:

Direct Materials	₱ 60,000
Direct Labor	27,000
Variable Overhead	18,000
Fixed Overhead (Avoidable)	
₱ 12,500 x .20	2,500
Opportunity Cost	15,000
	₱ 122,500

Since the relevant cost to buy is greater than the relevant cost to make by ₱ 3,500, it is better for Monica Bing Co. to make the flour instead of outsourcing.