

Sell As Is or Process Further

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Sell As Is or Process Further

- The sell as is or process further issue is based on the assumption that you can sell all the units in either condition.
- The best business decision may be to further process some of the product so that your customers have a choice, thereby not alienating the “basic” customers and not limiting your sales facings (products on the shelves).

Sell As Is or Process Further

- Here is the setup for our example company.
- The sales price as is is \$6.75.
- To further process costs \$0.55 per unit.
- The sales price when further processed is \$7.50.
- We are producing and can further process 3,500 units.

Selling price as is:	\$6.75
Selling price after further processing:	\$7.50
Cost per unit to further process:	\$0.55
Units sold:	3,500

Sell As Is or Process Further

- There are common costs that can be ignored.
- All costs up to the sell as is point are common costs – in both products, therefore, they can be ignored in the differential comparison of selling as is or continuing to process the materials.

Selling price as is:	\$6.75
Selling price after further processing:	\$7.50
Cost per unit to further process:	\$0.55
Units sold:	3,500

Sell As Is or Process Further

- When we construct a basic income statement format report, we can see that operating income from sales in the current condition would be \$23,625.

	Sell As Is:	Further Process:	Differences:
Sales revenue in current condition:	\$23,625.00		
Sales revenue after further processing:		\$26,250.00	\$2,625.00
Less: Cost of further processing:		\$1,925.00	\$1,925.00
Operating income:	\$23,625.00	\$24,325.00	\$700.00

Sell As Is or Process Further

- Further processing will increase sales revenues by $(\$26,250 - \$23,625)$ \$2,625.
- However, costs will increase by \$1,925.
- Therefore operating income will increase by $(\$24,325 - \$23,625)$ \$700.

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- Therefore consideration to further processing should be addressed.

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Operating income:	\$23,625.00	\$24,325.00	\$700.00

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- Another way to look at this is –
- Sales price increases by $(\$7.50 - \$6.75)$ \$0.75 while further processing only costs \$0.55 per unit.
- This indicates that further processing should yield $(\$0.20 \times 3,500)$ \$700 for our 3,500 units.

Selling price as is:	\$6.75
Selling price after further processing:	\$7.50
Cost per unit to further process:	\$0.55
Units sold:	3,500

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- If further processing incurs losses due to production or quality assurance inspections these costs need to be accounted for.

Sell As Is or Process Further

- What happens when there is an inspection cost incurred in further processing?
- The \$65 inspection cost is a differential cost within further processing.

	Sell As Is:	Further Process:	Differences:
Sales revenue in current condition:	\$23,625.00		
Sales revenue after further processing:		\$26,250.00	\$2,625.00
Less: Cost of further processing:		\$1,925.00	\$1,925.00
Cost of inspections:		\$65.00	\$65.00
Operating income:	\$23,625.00	\$24,260.00	\$635.00

Sell As Is or Process Further

The end.