

# Special Orders

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# Special Orders

- First, understand that many special order requesters are simply shoppers from one vendor to another without any loyalty. Chances of repeat sales are slim.
- Second, if you give a special price once, you are most likely going to be asked to repeat it or beat it the next time.
- Third, there are no secrets. If you give one company a special price, expect others to find out.

# Special Orders

- Here is the setup information for our special order consideration.

|   |              |
|---|--------------|
| Sales price per unit:                             | \$4.75       |
| Variable manufacturing costs per unit:            | \$2.15       |
| Variable operating expenses per unit:             | \$0.45       |
| Fixed manufacturing costs:                        | \$175,000.00 |
| Fixed operating expenses (Selling and admin):     | \$135,000.00 |
| Units sold:                                       | 315,000      |
| Special order units:                              | 35,000       |
| Special order sales price per unit:               | \$3.20       |
| Special order fixed manufacturing costs per unit: | \$3,250.00   |
| Special order operating expenses per unit:        | \$0.25       |

# Special Orders

- This special order will have variable manufacturing costs, fixed manufacturing costs, and variable operating expenses.
- The assumption that you have your labor force standing around, drawing wages, may mispresent reality. If your direct labor force is not making product, why are they your direct labor force?

# Special Orders

- To appreciate how the company is functioning, here is a normal / sample variable costing income statement.

| <b>Variable Costing Income Statement</b>                  |                |
|---|----------------|
| Sales revenues ( $\$4.75 \times 315,000$ units)           | \$1,496,250.00 |
| Less: Variable expenses                                   |                |
| Variable manufacturing costs: ( $\$2.15 \times 315,000$ ) | 677,250.00     |
| Variable operating expenses: ( $\$0.45 \times 315,000$ )  | 141,750.00     |
| Contribution margin:                                      | 677,250.00     |
| Less: Fixed expenses                                      |                |
| Fixed manufacturing costs:                                | 175,000.00     |
| Fixed operating expenses:                                 | 135,000.00     |
| Operating income:   | \$367,250.00   |

# Special Orders

- With the order offering \$3.20 per unit as a selling price for 35,000 units, the total sales revenues are \$112,000.

| <b>Incremental Cost of a Special Order</b>                   |              |
|--|--------------|
| Special order sales revenues ( $\$3.20 \times 35,000$ units) | \$112,000.00 |
| Less: Variable expenses                                      |              |
| Variable manufacturing costs: ( $\$2.15 \times 35,000$ )     | 75,250.00    |
| Variable operating expenses: ( $\$0.25 \times 35,000$ )      | 8,750.00     |
| Contribution margin:   | 28,000.00    |
| Less: Fixed expenses   |              |
| Fixed manufacturing costs:                                   | 3,250.00     |
| Fixed operating expenses: (Not applicable)                   |              |
| Operating income:  | \$24,750.00  |

# Special Orders

- The computed variable manufacturing cost per unit is \$2.15 so the total variable manufacturing costs are \$75,250.

| <b>Incremental Cost of a Special Order</b>                   |              |
|--|--------------|
| Special order sales revenues ( $\$3.20 \times 35,000$ units) | \$112,000.00 |
| Less: Variable expenses                                      |              |
| Variable manufacturing costs: ( $\$2.15 \times 35,000$ )     | 75,250.00    |
| Variable operating expenses: ( $\$0.25 \times 35,000$ )      | 8,750.00     |
| Contribution margin:   | 28,000.00    |
| Less: Fixed expenses   |              |
| Fixed manufacturing costs:                                   | 3,250.00     |
| Fixed operating expenses: (Not applicable)                   |              |
| Operating income:  | \$24,750.00  |

# Special Orders

- This special order has a variable operating expense of \$0.25 per unit to total variable operating expenses are \$8,750.

| <b>Incremental Cost of a Special Order</b>                   |              |
|--|--------------|
| Special order sales revenues ( $\$3.20 \times 35,000$ units) | \$112,000.00 |
| Less: Variable expenses                                      |              |
| Variable manufacturing costs: ( $\$2.15 \times 35,000$ )     | 75,250.00    |
| Variable operating expenses: ( $\$0.25 \times 35,000$ )      | 8,750.00     |
| Contribution margin:   | 28,000.00    |
| Less: Fixed expenses   |              |
| Fixed manufacturing costs:                                   | 3,250.00     |
| Fixed operating expenses: (Not applicable)                   |              |
| Operating income:  | \$24,750.00  |



# Special Orders

- With sales revenues of \$112,000 less variable manufacturing and operating costs of \$75,250 and \$8,750 contribution margin is \$28,000.

| <b>Incremental Cost of a Special Order</b>                   |              |
|--|--------------|
| Special order sales revenues ( $\$3.20 \times 35,000$ units) | \$112,000.00 |
| Less: Variable expenses                                      |              |
| Variable manufacturing costs: ( $\$2.15 \times 35,000$ )     | 75,250.00    |
| Variable operating expenses: ( $\$0.25 \times 35,000$ )      | 8,750.00     |
| Contribution margin:   | 28,000.00    |
| Less: Fixed expenses   |              |
| Fixed manufacturing costs:                                   | 3,250.00     |
| Fixed operating expenses: (Not applicable)                   |              |
| Operating income:  | \$24,750.00  |

# Special Orders

- With a contribution margin of \$28,000 and fixed manufacturing costs associated with this order of \$3,250, the company will benefit by \$24,750 in taking the order.

| <b>Incremental Cost of a Special Order</b>                   |              |
|--|--------------|
| Special order sales revenues ( $\$3.20 \times 35,000$ units) | \$112,000.00 |
| Less: Variable expenses                                      |              |
| Variable manufacturing costs: ( $\$2.15 \times 35,000$ )     | 75,250.00    |
| Variable operating expenses: ( $\$0.25 \times 35,000$ )      | 8,750.00     |
| Contribution margin:   | 28,000.00    |
| Less: Fixed expenses   |              |
| Fixed manufacturing costs:                                   | 3,250.00     |
| Fixed operating expenses: (Not applicable)                   |              |
| Operating income:  | \$24,750.00  |

# Special Orders

The end.