

B-23.03

GoWay manufacturers and sells a portable battery-powered transportation device that can be stored in a backpack. The device usually sells for \$5,000 per unit. The company normally sells units as quickly as manufactured and does not maintain a finished goods inventory. However, during the most recent year, the company produced 10,000 units, but only sold 9,000. A military customer has requested to buy the other 1,000 units for delivery on December 31 of the year current year. The offered price is \$4,000 per unit for all 1,000 units. Below are absorption-costing based calculations of ending inventory and net income, based on the 9,000 units already sold.

Variable manufacturing costs (\$3,000 X 10,000)		\$ 30,000,000
Fixed manufacturing costs		<u>12,000,000</u>
Cost of goods manufactured		\$ 42,000,000
Cost of goods sold (\$42,000,000 X (9,000/10,000))		<u>37,800,000</u>
Ending inventory (\$42,000,000 X (1,000/10,000))		<u>\$ 4,200,000</u>
Sales (9,000 X \$5,000)		\$ 45,000,000
Cost of goods sold		<u>37,800,000</u>
Gross profit		\$ 7,200,000
Selling, general, & administrative costs		
Variable (9,000 X \$100)	\$ 900,000	
Fixed	<u>5,800,000</u>	<u>6,700,000</u>
Net income		<u>\$ 500,000</u>

Prepare a revised absorption-costing based income statement, assuming acceptance of the 1,000 unit order. Also prepare variable-costing income statements (with and without the order). Compare the results and evaluate whether the order should be accepted.