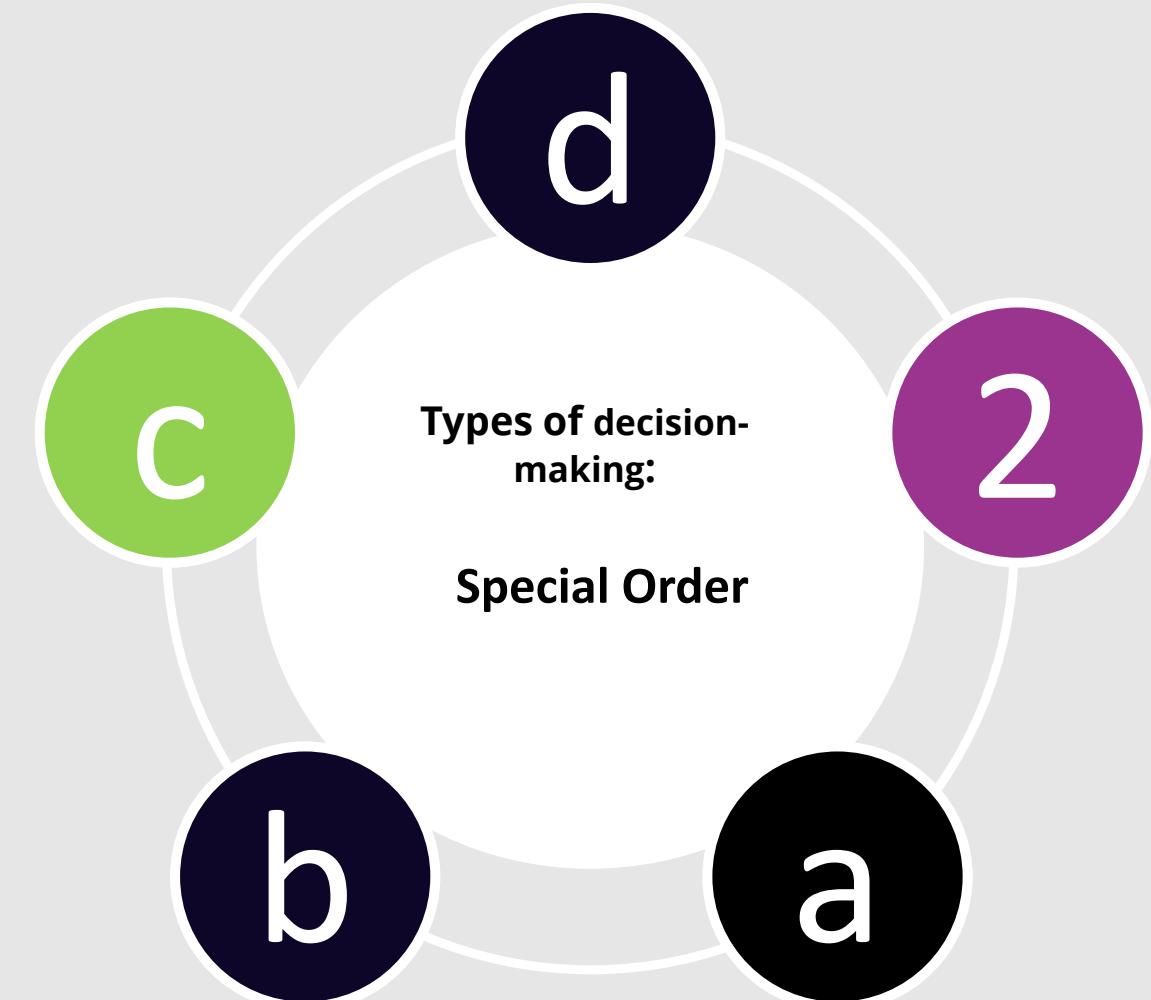


RELEVANT COSTS AND SHORT-TERM DECISION-MAKING

Special Order is the situation in which the company has spare capacity but cannot increase its current demand.

A special order by a special client might be considered as long as the outcome is a contribution towards a recovery of overheads, as well as increase in profits, as a whole.



RELEVANT COSTS AND SHORT-TERM DECISION-MAKING

Aamili Hati Sdn Bhd produces 1000 bottle of yogurt drink everyday to meet the demand for the same number of bottles.

The production capacity of the plant is 1500 bottles per day. The cost of making a bottle of yogurt is RM0.35. Manufacturing overheads are all fixed at RM300 per day.

Clovet has made a special offer of buying the yogurt at a price of RM0.60/bottle to brand and sell. He wants to order 300 bottles/day.

Required: Advise if the special offer should be accepted.

Solution:

Offered price	RM0.60
Variable cost	(RM0.35)
Contribution	RM0.25

Total contribution = RM0.25 x 300 = RM75

It should be noted that the contribution will help to recover the fixed cost.

Decision:

The special order should be accepted as there is contribution realized.