

**Exercise 13-4** (15 minutes)

Only the incremental costs and benefits are relevant. In particular, only the variable manufacturing overhead and the cost of the special tool are relevant overhead costs in this situation. The other manufacturing overhead costs are fixed and are not affected by the decision.

	<i>Per Unit</i>	<i>Total for 20 Bracelets</i>
Incremental revenue .....	<u>\$169.95</u>	<u>\$3,399.00</u>
Incremental costs:		
Variable costs:		
Direct materials .....	\$ 84.00	1,680.00
Direct labor .....	45.00	900.00
Variable manufacturing overhead .....	4.00	80.00
Special filigree .....	<u>2.00</u>	<u>40.00</u>
Total variable cost .....	<u>\$135.00</u>	<u>2,700.00</u>
Fixed costs:		
Purchase of special tool .....		<u>250.00</u>
Total incremental cost .....		<u>2,950.00</u>
Incremental net operating income .....		<u>\$ 449.00</u>

Even though the price for the special order is below the company's regular price for such an item, the special order would add to the company's net operating income and should be accepted. This conclusion would not necessarily follow if the special order affected the regular selling price of bracelets or if it required the use of a constrained resource.