Differential analysis involves knowing which costs are relevant, i.e. future costs that vary among alternatives. It is important to know what information to use and not just how to execute the analysis.

Lewis Company (accounting information provided in the prior module) receives an offer to make a new product, called C, for a new customer. The customer wants to buy 1,100 units. Product C has the same cost structure as product B with three exceptions. The new customer is only willing to pay $245 per unit, direct materials costs will decrease by $15 per unit and Lewis does not have to incur any variable selling and administrative expenses.

Required

Make a list of the expenses and amounts that are relevant for this decision. How much with the sale of this product contribute to the profitability of Lewis?

What if the company only pays $225 per unit? How does this change the contribution towards profitability?

If you were the manager, would you accept this order? What considerations, other than financial would enter into your decision?

Modular SLP Expectations

It is important to answer the questions as posed. The document should be two to four pages and written in a clear and concise manner or present tables as required. Support your discussion or tables with references in APA format. You are encouraged to use Excel or other compatible spreadsheet when computations are involved. You can turn in the spreadsheet instead. The content should be equivalent to the page length suggested for a word processing document.