

### Chapter 3 : Q. 4 - Page 70

**Query No. 1 :** For Supplier 'Z', when there is a stock out of 360 units, then we should consider the purchase cost of only remaining 12,640 units (i.e. 13,000 - 360) and not all 13,000 units.

Similarly, inspection cost should also be considered only on 12,640 units and Sales Return of 2% should also be calculated on 12,640 units. But you have calculated it on 13,000 units. Please explain why?

#### **Solution :**

- (1) In the given case, we are unable to sell 360 packages due to **late deliveries** and not due to **non-delivery**. It means, we have purchased these units, but delivery was received after the customer left our shop. Hence, purchase cost of entire 13,000 units has to be considered. But we should also consider the opportunity cost (i.e. loss of contribution) on these 360 packages.
- (2) Inspection cost shall be taken on all 13,000 units because we are going to receive all 13,000 units, out of which 360 will be received late i.e. after the customer has left our shop.
- (3) As far as 2% customer returns are concerned, it should be taken on actual sale of (13,000 - 360) = 12,640 units. I agree with this argument.

But ICAI has calculated it on 13,000 units and hence I also took it on 13,000 units. As the impact is immaterial for decision making, I thought of going with ICAI. Else, I have to face another question from students (who read ICAI study material), that why my answer is different from ICAI answer.

#### **Query No. 2 :**

**Calculation of Insurance, Material Handling cost not understood.**

#### **Solution :**

- (1) Please refer the EOQ model studied in CA IPCC or Intermediate Costing Syllabus again for better understanding. Specially, calculation of total inventory carrying cost p.a.
- (2) Insurance, Material Handling etc. is one of the type of Inventory Carrying Cost. It is always given as Per Unit Per Annum. However, as the inventory (i.e. stock level) never remains constant, it is always calculated on Average Inventory.
- (3) Similarly, you should also differentiate between "Carrying Cost Per Unit Per Annum" and "Total Carrying Cost Per Annum."
- (4) Total Carrying Cost p.a. = Average Inventory x Carrying Cost p.u.p.a.