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Query : Labour Cost & Opportunity Cost calculation is not understood properly.

Solution :

Direct Labour Cost consists of 2 parts :

(1) Labour Cost : To produce 10,000 units you need total 2,500 hours @ 0.25 hours per unit. Rate per hour is 80. Hence, labour cost is 2,500 hours @ 80 = Rs. 2,00,000.

(2) However, this labour is drawn from another production line. It means, you will lose contribution from another production, due to current production of 10,000 units. It is called opportunity cost. On other production, you can earn Rs. 240 per unit after spending 2 hours on each unit.

It means, you can earn Rs. 120 per hour (240/2).

Hence, on 2,500 hours spend on our current production, the opportunity cost shall be 2,500 hours x 120 per hour = Rs. 3,00,000.

Unskilled Labour is abundant means excess supply. But you cannot retrench (i.e. remove) them as per agreement with labour union.

It means, whether these labour work or don't work, you have to pay them. Hence, it is not an incremental cost.

A piece of Advice :

This subject requires careful study with concentration and patience.

If you are rushing through the subject, then you are likely to make errors.

Please give sufficient time to read and interpret the question.