

Q.32 - Page 292 :

Query : The first line of the question says that our company manufactures Product 'Y' in addition to other products. The paragraph given below 2nd table (i.e. on page 293 top of the page) says that Product 'Y' will consume only 40% of the potential capacity. However, for calculation of contribution for Product 'Y', you have considered the entire value of investment in Plant & Machinery. Why not only 40% investment?

Solution :

Very good observation. You are correct.

The investment in Plant & Machinery to be considered for Product Y should be 40% of 40 lakhs. It means, it should be Rs. 16 lakhs plus working capital. Thus, the relevant investment for Product 'Y' shall be Rs. 18,72,800. Contribution @ 25% on 18,72,800 shall be Rs. 4,68,200.

The contribution per unit shall be = $4,68,200 / 24,000$ units p.a. = Rs. 19.51 (approx).

Hence, the correct Selling Price per unit shall be = Variable cost + Contribution
= $151.60 + 19.51 = \text{Rs. } 171.11$.

Note : We will correct this error in our next edition.