

Q. 56 - Page 212 - Chapter 6 :

Query : The treatment of disposal cost of toxic material 'R' ₹ 1,250 and Replacement cost ₹ 6,000 is not understood properly. Why disposal cost is treated as savings? Why replacement cost is not considered?

Solution :

- (1) Please always quote Q. No., Page No. and Volume No. of the notes for easy reference.
- (2) In question it is given that “it would cost them Rs. 1250 to dispose off R”. It means, to dispose off the TOXIC material, you need to SPEND Rs. 1,250 for disposal in a safe manner.
- (3) But, if you use this material in the special job, then you don't have to dispose it off. Hence, we save Rs. 1,250 disposal cost.
- (4) Replacement cost is the LATEST PURCHASE PRICE of this toxic material. It is not a REALIZABLE VALUE. As you already have the stock of toxic material, you don't need to buy it. Hence, replacement cost is irrelevant.
- (5) Please refer page no. 179. Please read the small text given below the table of Relevant & Irrelevant Cost and above Q.20, for better clarity. You may refer Q.20 also for revision purpose.