

## **Chapter 6 : Q.4 - Page 46**

**Query : There is a confusion in solving this question. Answer not fully understood. Specially Opportunity cost.**

### **Solution :**

A decision making question can be solved using two approaches :

(1) Total Profit and Total Cost Approach

OR

(2) Incremental Approach

The solution given in the question is developed using Total approach i.e. we have calculated total profit of both the Contracts and chosen the contract with higher profit.

If you treat profit of BX as opportunity cost for AX, you will get incremental profit i.e.  $(2,36,000 - 2,19,000) = \text{Rs. } 17,000$ . Either way it is correct.

Secondly, if you take hiring income for AX and also treat it as Opportunity cost also for BX, then you will create a total difference of Rs. 30,000 in the answer using total approach.

You can do it in the incremental approach, where we do only one calculation.

As you go ahead and solve few more questions, you will understand this concept better.

Note : The concept of Total V/s Incremental Approach is discussed in detail in Q. No. 44/180 (Volume I Notes). If you wish, you can see that video first.