

Chapter 6 : Q.68 - Page 226 [Question of EMO]

Query :

In part (ii) of the answer, we calculated 'Cost BEP' as 4,00,000 empty tubes. Why it doesn't include the first 3,00,000 empty tubes. Why it is considered as extra 4,00,000 tubes over and above the first 3,00,000 empty tubes. Please explain.

Solution :

- (1) The company at present has a capacity to produce 3,00,000 empty tubes. It is given in the first line of last paragraph.
- (2) It is economical to produce first 3,00,000 empty tubes @ 1.275 instead of buying @ 1.35. These will be produced on the existing machine. This decision is already locked by us.
- (3) The decision is now regarding EXTRA tubes in excess of first 3,00,000 empty tubes. If we wish to produce these extra tubes, then only we have to buy a new machine and the incremental cost is Rs. 30,000 per month.
- (4) Otherwise, we can buy these EXTRA tubes from outside @ 1.35 per empty tube.
- (5) While calculating 'Cost BEP' we are now comparing incremental cost of buying or manufacturing on new machine.

Note : You may view the same video again using 80% extra views provided for each lecture, for better understanding.