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Query : There seems to be some error in calculation of Material Z.

OR

The answer given for Material Z is not understandable, please explain.

Solution :

- (1) First of all, you are not asked to find out the relevant cost or solve the numerical question.
- (2) ICAI had already prepared a table and it is asking you to just fill the last two columns in the table already given. You cannot change the first 2 columns. It was already printed in the given question.
- (3) About Material Z : ICAI has provided the following two information :

Material Z : 550 kg. x ₹ 580 per kg.

This is stock in hand and it was already purchased @ ₹ 580 per kg. Hence, it is a sunk cost and hence irrelevant.

Material Z : 550 kg. x ₹ 650 per kg.

It is about the same material in stock again. But, it is the replacement cost of material i.e. current purchase price. As this material can be used in other projects, its replacement cost is relevant for decision making and not the historical cost.

- (4) Then what about balance 650 kg. of Material Z ? (i.e. 1,200 kg. - 550 kg. = 650 kg.)
Balance 650 kg. material has to be purchased at the current market price of ₹ 650 per kg. for completing the order. It is relevant. But it was not asked by ICAI at all. Please remember, you don't have to calculate the relevant cost of this contract, but you have to only fill in the blanks.

I hope it is clear to you now.