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Query :

It is given that variable overhead would increase by rupees 1.20 per hour in core making and by 30 paise per hour in cleaning and grinding instead of normal rate.

The doubt is why in the solution we have taken absolute 1.20 and 30 paise per hour instead of increasing it by 1.20 and 30 paise per hour.

Kindly resolve query.

Solution :

(1) First of all, this point is very well discussed in the classroom, because it is an accident spot. If you listen to the lecture again very carefully, then you will find the explanation given in the classroom.

(2) Anyway, I will try to discuss it below by giving some other example.

Suppose, variable cost of a product is Rs. 50 per unit.

If we manufacture 1 unit, the variable cost will increase by Rs. 50

If we manufacture 1 more unit, then the total variable cost will further increase by Rs. 50

Because, variable cost increases with increase in production.

(3) Now, if I say that for 3rd unit produced (i.e. one more unit in addition to first 2 units), the variable cost will increase by Rs. 40 instead of Rs. 50.

Then what shall be the variable cost of producing 3rd unit?

Answer : Should we take variable cost of 3rd unit as = $50 + 40 = \text{Rs. } 90$ OR just Rs. 40?

The correct answer is Rs. 40.

(4) The underlined word in the main question is instead of normal rate. It is not in addition to normal rate.

(5) Another problem is the use of a word 'increase by' in the main question. What to do about it?

Friends, it is given to confuse you. Variable cost always increase due to increase in production.

If you want to only concentrate on the word 'increase by' and would like to ignore the word instead, then your answer will not match with ICAI answer.

Note : If you still think that your interpretation is correct and ICAI interpretation is wrong. No problem, you may write an assumption and solve the question as per your own interpretation.