

**Chapter 6 : Q.10 - Page 104 (Volume III - PM)**

**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 numerical solution of this 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.