

**Chapter 6 : Q.5 - Page 98 (Volume III - PM)**

**Query 1 : Can we treat the Profit of Contract BX as an Opportunity cost for AX?**

**Solution 1 :**

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.

**Query 2 : Can we treat the hiring charges of Rs. 15,000 (income of AX) as opportunity cost for Contract BX?**

**Solution 2 :**

If you take hiring charges as 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 take **any one** of them and not both.

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