

Chapter 6 : Q.51 - Page 216 (Volume I)

Query : When number of production runs needed for BEP are 18, then we should take the fixed set up cost of 18 productions runs only.

Explanation :

- (1) It is a very intelligent question.
- (2) However, ICAI has done it in this way only and 'Boss is always right'.
- (3) I think why ICAI might have done it is : The cost of each activity will have different cost drivers. Like set up cost may vary according to batch size, Engineering cost is dependent on no. of engineering hours, Ordering cost of raw materials may vary as per number of purchase orders and so on...
- (4) In such a situation, the fixed cost (OH) is not dependent on no. of units but will have different cost drivers influencing each of them.
- (5) Calculation of BEP will almost become impossible in such case. Hence, continue with the working as shown in the lecture itself to avoid confusion and complication.
- (6) The working done in the printed solution is suggested by ICAI and acceptable to ICAI.