

RELEVANT COST

RC - 1

- Cost pertinent to the decision on hand. [can be VC or FC also]
- Cost which involves a change in cash flow; differ for alternative courses.

Materials : Relevant Cost

To Be Purchased
(x in stock)

$R_c = \text{current PURCHASE price.}$

Already in Stock

(from purchase order, in transit, in stock - risk is transferred)

Regular Use

$R_c = \text{current}$

REPLACEMENT price.

(can be same as cur. price)

Rarely used / Obsolete

$R_c = \text{Opportunity cost.}$

Highest contribution from

a) swap now

b) use as substitute is the O.C.

labour : Relevant Cost

Already existing

(i) New project : ↓ in idle time.

$R_c = \text{NIL} / 0$

(ii) labour already committed in excess ↓

and no retrenchment policy.

$R_c = \text{NIL} / 0$

(iii) Replacement in other div.

$R_c = \text{replacement cost.}$

labour to be appointed

$R_c = \text{cost to be incurred.}$

labour is in SHORT SUPPLY.

$R_c = V_c + \text{Opp}^n \text{cost}$

↓
cont cost on other project.

Variable cost

to be incurred
↓
all relevant.

Fixed OH

only SPECIFIC FC are R_c .

allocated / absorbed (ignore x R_c)

depreciation

$R_c = \text{only if tax value (tax benefit)}$

↓ disposal value due to delay = R_c

Notional int COF avoided

x a R_c .

x CF is there.

↓
CIF

CIF avoided

↓
COF.

Format

Statement - - - - -

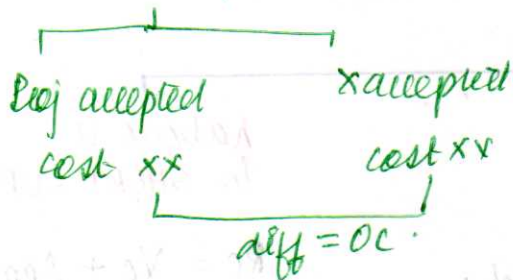
Pax _____ Remarks _____ Amt. _____

Mat
Lab
OH

write remarks
for each item
even if cost
is NIL or X considered R_c.

- always go as per control table.
- some items: referee points
- others - to be incurred
(don't forget to include)
- $R_c = BEP$
- lease contract already signed - $X R_c$
- For all items make tree diag.

labour/mach/mat.



- drawing, designs - already made
- $X R_c$
- additional benefits = only VC saved + extra
cont earned.
- removal cost = VOH + labour
also
- write assumptions
- disposal cost avoided = CIF.
- 2 proj [A & B]
- $\therefore$ price of A when B is accepted
= price(A) + OC of B
(profit)

Pi

profit Pi $P_i \times \text{profit}$

- option: do nothing: then
all absolute stock will be sold.