

Chapter 6 : Q.21 - Page 185 (Volume I)

Query : Answer not fully understood using Incremental Approach.

Is there any other way to solve this question?

Answer using Total Cost Approach :

Particulars	Complete the Machine	Do not Complete the Machine
(a) Revenue from Sale	34,000	00
(b) Sale of Material as Scrap	00	2,000
(c) Labour cost	(8,000)	00
(d) Profit earned from another job [30,000 - 12,000 direct cost - 8,000 labour cost]	00	10,000
(e) Consultancy Fees	(4,000)	(1,500)
(f) Profit / (Loss)	22,000	10,500
(g) Incremental Profit [difference in profit]	11,500	--

Irrelevant items ignored in the above calculations are :

1. Rs. 50,000 cost incurred till date is a sunk cost.
2. Rs. 15,000 progress payment received.
3. Material already bought worth Rs. 6,000 being a sunk cost.
4. Absorbed fixed overheads Rs. 8,000 (common cost)
5. General overheads Rs. 8,000 (general or common cost)