

- Newlight Limited is considering whether to continue with research project on which Rs. 45,00,000 has already been incurred. The project is likely to continue for one more year and the result would also be sold at Rs. 90,00,000. The following are the details of further costs to be incurred while completing the project.

(i) Materials: Rs. 18,00,000 worth of special materials have already been received. In case the project is abandoned, materials have to be disposed at a cost of Rs. 1,50,000. No further materials are required for the project.

(ii) Labour: Rs. 12,00,000. These men are highly skilled. Recruitment of people with such special skills is difficult and therefore they have been transferred from the production department.

Re-transfer of these men to the parent department would result in additional sales of Rs. 45,00,000 per annum, cost of sales of which has been estimated at Rs. 36,00,000 (Variable cost of Rs. 30,00,000 and allocate fixed overhead Rs. 6,00,000).

(iii) Research staff: Rs. 18,00,000

These staffs were recruited specially for the project and consequently when the work on the project ceases, the services of these staff would be terminated. As per contract, on termination, Rs. 7,50,000 would become payable towards compensation.

(iv) Share of general building services: Rs. 10,50,000.

This is not identifiable with the project and is an allocation of some common expenses.

Advise the management whether the project should continue. Explain the treatment of each expense in your analysis.