

Dr.Uttam Kumar

SRAP College,Barachakia

Mob no.8210561032

Subject:-Specialised Accounting

Chapter

Prior and Post to Incorporation



**Online Classes are
available**

Problem 2

Sarabhai Ltd. was incorporated on 1st July, 2013 to purchase the business of Kejriwal & Sons as on 1st April, 2013. The accounts (for the year ended 31st March 2014), disclosed the following particulars :

Sales for the year ₹ 32,10,400 (1st April to 30th June, 2013, ₹ 8,02,600; 1st July, 2013 to 31st March, 2014, ₹ 24,07,800)

Gross Profit for the year ₹ 4,12,800, Directors Fees and Secretary's Salaries ₹ 58,000. Bad Debts ₹ 14,800 (prior to 1st July, 2013 ₹ 4,020; after 1st July, 2013 ₹ 10,780). Interests on debentures ₹ 20,000. Depreciation on machinery ₹ 25,200, General Expenses ₹ 58,400.

You are required to prepare a statement showing your view as to proper apportionment of the profit of the company as between (a) profits available for distribution; and (b) profit after incorporation.

Solution**Statement showing Profit Prior to or After Incorporation**

	Basis of Allocation	Profit prior to Incorporation		Profit after Incorporation	
		₹	₹	₹	₹
Gross Profit	Sales (1 : 3)		1,03,200		3,09,600
Less : Expenses :					
Directors Fees & Secretary's Salaries	Actual			58,000	
Bad Debts	Actual	4,020		10,870	
Interest on Debentures	Actual			20,000	
Depreciation on Machinery	Time	6,300		18,900	
General Expenses	Time	14,600		43,800	
		24,920	(24,920)	1,51,570	(1,51,570)
Net Profit			78,280		1,58,030

Working Notes :

Time Ratio : 1st April, 2013 to 30th June, 2013
3 months

: 1st July, 2013 to 31st March, 2014
9 months or 3 : 9

or 1 : 3 or $\frac{1}{4} : \frac{3}{4}$

Sales Ratio ₹ 8,02,600 : 24,07,800 or 1 : 3 or $\frac{1}{4} : \frac{3}{4}$

1. Net Profit of ₹ 78,280 relating to prior to Incorporation period shall not be available for dividend. It will be treated as Capital Reserve. This profit will be transferred to Capital Reserve Account.
2. Net Profit of ₹ 1,58,030 relating to after incorporation period will be available for distribution of dividend.