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Subject:-Specialised Accounting

Chapter

Prior and Post to Incorporation



**Online Classes are
available**

Problem 6

A Company was incorporated on 1st May, 2013 to take over the business of XYZ from 1st January, 2013. The total turnover for the year ended 31st December, 2013 was ₹ 2,00,000 namely, ₹ 60,000 for the first period upto 1st May, and ₹ 1,40,000 for the following period. The gross profit is ₹ 70,000. From the following further details ascertain the profits prior to incorporation :

Rent and Rates ₹ 3,240; Insurance ₹ 720; Salaries ₹ 7,800; Lighting and heating ₹ 2,040; Directors' Fees ₹ 2,000; Bad Debts ₹ 600; Sales Commission ₹ 10,000; Sales Discount ₹ 5,000; Bank Charges ₹ 420; Office Expenses ₹ 2,400; Carriage Outwards ₹ 3,000; Repairs ₹ 1,380; interest on loan ₹ 1,200.

Solution

Statement showing Profit earned Prior to and After Incorporation

	Basis of Allocation	Pre-Incorporation		Post-Incorporation	
		₹	₹	₹	₹
I. Revenue from Operations (Gross Profit) (3 : 7)	Sales		21,000		49,000
I. Expenses :					
Employee Benefit Exps. (Salaries)	Time	2,600		5,200	
Rent and Rates (1 : 2)	Time	1,080		2,160	
Insurance	Time	240		480	

Lighting & Heating	Time	680		1,360	
Director's Fees	Actual	—		2,000	
Bad Debts	Sales	180		420	
Sales Commission	Sales	3,000		7,000	
Sales Discount	Sales	1,500		3,500	
Bank Charges	Time	140		280	
Office Expenses	Time	800		1,600	
Carriage Outwards	Sales	900		2,100	
Repairs	Time	460		920	
Interest on Loan	Time	400		800	
		11,980	11,980	27,820	27,820
III. Net Profit (I-II)			9,020		21,180

Working Notes :

1. 1.2013 to 30.4.2013

= 4 months

 $\therefore T = 4 : 8$

1.5.2013 to 31.12.2013

= 8 months

or $1 : 2$ or $\frac{1}{3} : \frac{2}{3}$

Prior to Incorporation Sale

= ₹ 60,000

 $\therefore S = 60,000 : 1,40,000$

After Incorporation Sale

= ₹ 1,40,000

or $3 : 7$ or $\frac{3}{10} : \frac{7}{10}$