Dr.Uttam Kumar
SRAP College,Barachakia
Mob no.8210561032

Subject:-Specialised Accounting

Chapter

Prior and Post to Incorporation

Online Classes are available

Problem 1

B Ltd. was incorporated on 1st June, 2013 to purchase the business of Rakesh Enterprises from 1st January, 2013, the accounts were made upto 31st December, 2013 as usual, and the Trading and Profit & Loss Accounts gave the following results :

(i) Total turnover ₹ 8,00,000 of which ₹ 2,00,000 were for the first five months;
(ii) Gross Profit ₹ 2,00,000;
(iii) Office Expenses ₹ 12,000;
(iv) Administration Expenses ₹ 36,000;
(v) Selling Expenses ₹ 26,000;
(vi) Directors' Fees ₹ 18,000;
(vii) Preliminary Expenses ₹ 6,000.

Prepare a statement showing the amount of Profit and Loss before and after incorporation in the books of B Ltd.

Solution **Statement showing the Apportionment of Profits**

	Prior to Incorporation		*After Incorporation*	
	₹	₹	₹	₹
I. *Revenue from Operations* (Gross Profit) (Turnover Basis) (1 : 3)		50,000		1,50,000
II. *Expenses :*				
(1) Office Expenses (5 : 7)	5,000		7,000	
(2) Admn. Expenses (5 : 7)	15,000		21,000	
(3) Selling Expenses (1 : 3)	6,500		19,500	
(4) Directors' Fees (Actual)	—		18,000	
(5) Preliminary Expenses	—		6,000	
		26,500		71,500
III. *Net Profit* (I–II)		23,500		78,500

Working Notes :

1. Turnover Ratio — Prior to Incorporation : After Incorporation
   ₹ 2,00,000 : ₹ 6,00,000 or 1 : 3
2. Time Ratio = January to May, 2013 : June to Dec., 2013
   5 months : 7 months or 5 : 7
   Directors' Fees and Preliminary Expenses relate to the period after incorporation.
3. Net Profit relating to the period 'Prior to Incorporation' shall be treated as the capital income.
   It will be transferred to Capital Reserve.

Problem 2

Sarabhai Ltd. was incorporated on 1st July, 2013 to purchase the bu[illegible] 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 or 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 : 1st July, 2013 to 31st March, 2014

3 months : 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.