## Dr.Uttam Kumar SRAP College,Barachakia Mob no.8210561032 Subject:-Specialised Accounting Chapter

**Prior and Post to Incorporation** 



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## 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)  (2) Admn. Expenses (5:7)  (3) Selling Expenses (1:3)  (4) Directors' Fees (Actual)  (5) Preliminary Expenses	5,000 15,000 6,500 —		7,000 21,000 19,500 18,000 6,000	
III. Net Profit (I–II)	-	26,500 23,500		71,500 78,500

## Working Notes:

1. Turnover Ratio Prior to Incorporation : After Incorporation

₹ 2,00,000 : ₹ 6,00,000 or 1 : 3
June to Dec., 2013

2. Time Ratio = January to May, 2013 : June to Dec., 2013 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 till Julillillilli 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 Fées & Secretary's Salaries Bad Debts Interest or Debentures Depreciation on Machinery General Expenses	Actual Actual Actual Time Time	4,020 6,300 14,600 24,920	(24,920)	58,000 10,870 20,000 18,900 43,800 1,51,570	
Net Profit		24,920	The second second	280) 280	920) 1,51,570

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

2. Net Profit of ₹ 1,58,030 relating to after incorporation period will be available for