Problem No. 1

Illustration 1 : A Company Limited was incorporated on 1st April, 2003 to take over as from 1st January, 2003 the existing business of 'B' Brothers. The purchase consideration was Rs. 7,00,000, which was paid on 1st July, 2003. The vendors were entitled to receive interest @5% p. a. on purchase price till the date of payment of purchase Price. The accounts were made upto 31st December, 2003 and the Trading, Profit & Loss Account gave the following results.

Dr.	Trading, Prot	Cr	
Particulars	Rs.	Particulars	Rs.
To Stock (opening) To Purchase To G. P. c/d	4,10,000 7,60,000 2,10,000	By Sales By Stock	9,00,000 4,80,000
Munitistical and	13,80,000		13,80,000

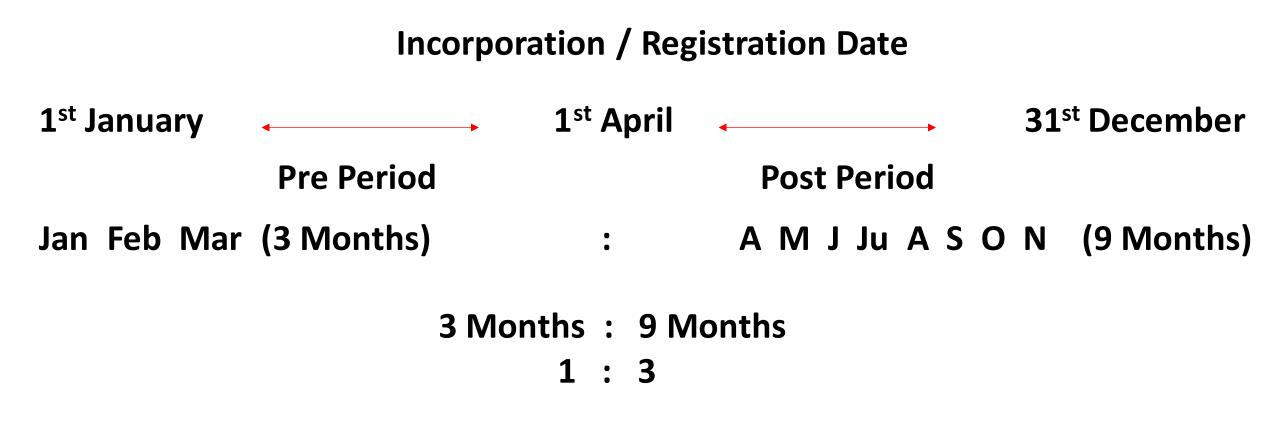
To Salaries & Wages To Miscellaneous Expenses To Preliminary Expenses To Rates & Taxes To Discount	48,000 22,000 8,000 7,000 1,800 3,000	By G. P. b/d By Rent	2,10,000 13,000
To Repairs to Building To Directors' Fees To Bad Debts	2,400 1,000	por	
To Reserve for Doubtful Debts	5,000	and the second of the	
To Advertisement	3,600	and the state of the	
To Interest to Vendors	17,500		
To Depreciation	15,000		
To Net Profit	88,700		. 6 . pm
	2,23,000	(2,23,000

It is ascertained that the sales in the second half of the year were twice the sale is in the first half of the year. Out of bad Debts Rs. 500 related to the book debts taken over by the company from vendors.

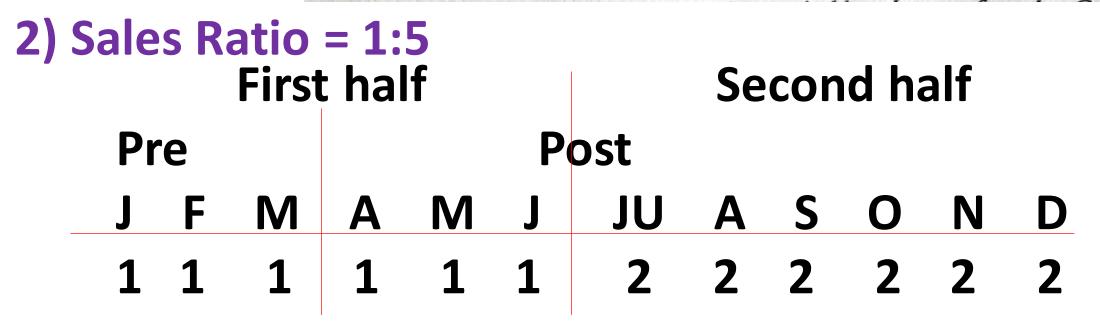
Apportion the year's profit between the pre-incorporation period and the post-incorporation period.

Problem No. – 1 Solution

1) Time Ratio = **1**:3



(Notes : Sales Proportion : 1. Sales of each month in second half of the year are presumed to be 2, the sales for each month in the first half of the year would then be 1. Hence, total sales from 1st January to 31st March would be 3, and those of 9 months from 1st April to 31st Dec. = 15 (for April, May & June 3,@ 1 per months and for remaining six months 12, @ 2 per month.



Pre Total = 3 : Post Total = 15

- 3 : 15
 - 1: 5

Interest to Vendors = 17,500 (5% on 7,00,000)

Paid on 1st July 2003

Pre Post Jan Feb Mar Apr May Jun 8,750 8,750

Dr.	Profit & Loss A/C				Cr.	
Particular	Pre Rs.	Post Rs.	Particular	Pre Rs.	Post Rs.	
a) Time Ratio 1:3						
To Salaries & Wages	12,000	36,000	By Gross Profit 1:5	35,000	1,75,000	
To Miscellaneous exp.	5,500	16,500				
To Rates & Taxes	1,750	5,250	By Rent 1:3	3,250	9,750	
To Repairs to Building	750	2,250				
To Depreciation	3,750	11,250				
b) Sales Ratio 1:5						
To Discount	300	1,500				
To Advertisement	600	3,000				
c) Uncommon						
To Preliminary exp.		8,000				
To Directors Fees		2,400				
To R.D.D.		5,000				
To Bad Debts	500	500				
To Interest to Vendors	8,750	8,750				
To Net Profit	4,350	84,350				
	<u>38,250</u>	<u>1,84,750</u>		<u>38,250</u>	<u>1,84,750</u>	

Thank u