

# 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, Profit & Loss A/c** Cr.

Particulars	Rs.	Particulars	Rs.
To Stock (opening)	4,10,000	By Sales	9,00,000
To Purchase	7,60,000	By Stock	4,80,000
To G. P. c/d	2,10,000		
	<u>13,80,000</u>		<u>13,80,000</u>

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

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.

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

# Problem No. – 1 Solution

## 1) Time Ratio = 1:3

**Incorporation / Registration Date**

**1<sup>st</sup> January**



**1<sup>st</sup> April**



**31<sup>st</sup> December**

**Pre Period**

**Post Period**

**Jan Feb Mar (3 Months)**

**:**

**A M J Ju A S O N (9 Months)**

**3 Months : 9 Months**

**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.*

## 2) Sales Ratio = 1:5

First half						Second half					
Pre			Post								
J	F	M	A	M	J	JU	A	S	O	N	D
1	1	1	1	1	1	2	2	2	2	2	2

**Pre Total = 3 : Post Total = 15**

**3 : 15**

**1 : 5**

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

**Paid on 1<sup>st</sup> July 2003**

	<b>Pre</b>		<b>Post</b>		
<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>
	<b>8,750</b>			<b>8,750</b>	

Dr.	Profit & Loss A/C				Cr.	
Particular	Pre Rs.	Post Rs.	Particular	Pre Rs.	Post Rs.	
<b>a) Time Ratio 1:3</b>						
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>b) Sales Ratio 1:5</b>						
To Discount	300	1,500				
To Advertisement	600	3,000				
<b>c) Uncommon</b>						
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				
	<b><u>38,250</u></b>	<b><u>1,84,750</u></b>		<b><u>38,250</u></b>	<b><u>1,84,750</u></b>	

**Thank u**