

Problem No. 2

② Illustration 3 ; A Company was incorporated on 1st May, 2002 to take over business from 1st January, 2002. The accounts of the company for the period ended 31st Dec., 2002 disclosed the following facts.

1. The turnover for the whole period amounted to Rs. 1,20,000 and it was ascertained that the sales for Jan., March and Septembers, are one and half times the average of those for the year, whilst those for December, twice the average, and those for February only half the average.

✓ 2. The Trading Account showed a gross profit of Rs. 33,600.

3. The following items appeared in the Profit & Loss Account :

	Rs.
Rent, Rates & Insurance	1,600
Carriage Outward	1,000
General Expenses	5,000
Salaries	5,000
Travellers' Commission	1,300
Discount (Dr.)	1,500
Bad Debts	400
Audit Fees	250
Debenture Interest	450
Printing & Stationery	1,000

Apportion the year's profit between the pre-incorporation and post-incorporation period. The vendors were to get 40% of the profit earned prior to 1st May, 2002 in lieu of interest.

Problem No. – 2 Solution

1) Time Ratio = 1:2

Incorporation / Registration Date

1st January



1st May



31st December

Pre Period

Post Period

J F M A (4 Months)

:

M J Ju A S O N D (8 Months)

4 Months : 8 Months

1 : 2

Sales Proportion : If sales for 12 months are assumed to be 12, the average comes to 1. Hence, as stated in the problem, sale for January, February, March, September and December must be $\frac{3}{2}$, $\frac{1}{2}$, $\frac{3}{2}$, $\frac{3}{2}$ and 2 respectively. Thus out of sales of 12, the sales for these five months amount to 7. Hence, the sales for remaining 7 months amount to 5 i.e. $\frac{5}{7}$ for each month. Therefore sales for January, February, March and April amount to $\frac{59}{14}$ i.e. $(\frac{3}{2} + \frac{1}{2} + \frac{3}{2} + \frac{5}{7})$ and for remaining 8 months amount to $\frac{109}{14}$ i.e. $(\frac{12}{1} - \frac{59}{14})$. Hence, the proportion of sales prior and after incorporation comes to 59 : 109.

2) Sales Ratio = 1:5

Pre

J	F	M	A
$\frac{3}{2}$	$\frac{1}{2}$	$\frac{3}{2}$	$\frac{5}{7}$
<u>$21+7+21+10 = 59$</u>			
14			14

Post

M	J	JU	A	S	O	N	D
$\frac{5}{7}$	$\frac{5}{7}$	$\frac{5}{7}$	$\frac{5}{7}$	$\frac{3}{2}$	$\frac{5}{7}$	$\frac{5}{7}$	$\frac{2}{1}$
<u>$10+10+10+10+21+10+10+28 = 109$</u>							
14				14			

Pre Total = 59 : Post Total = 109

59 : 109

Thank u