

Problem No. 3

Illustration 2 : John Simpson Private Ltd. which was incorporated on 1st May 2004 acquired the business of John Simpson with effect from 1st January, 2004. The accounts of the company were closed for the first time on 30th September, 2004, disclosing a gross profit of Rs. 84,000. The establishment expenses were Rs. 21,330, directors' fees Rs. 1,500 p.m., and preliminary expenses Rs. 2,250. Rent upto 30th June, 2004 was Rs. 150 p.m., but thereafter it was increased to Rs. 3,75 p.m. Included in the directors's fees was salary to the Manager at Rs. 7.50 p.m. He was appointed as a director at the time of incorporation of the company.

Prepare a statement showing profits prior and subsequent to incorporation assuming that the net sales were Rs. 12,30,000 the monthly average of which for the first four months of 2004 being half of that of the remaining period. The business earned profits at a uniform rate.

Problem No. – 3 Solution

1) Time Ratio = 4:5

Incorporation / Registration Date

1st January



1st May



30th September

Pre Period

Post Period

J F M A (4 Months)

:

M J Ju A S (5 Months)

4 Months : 5 Months

4 : 5

2) Sales Ratio = 2:5

Pre				Post				
J	F	M	A	M	J	JU	A	S
$1/2$	$1/2$	$1/2$	$1/2$	1	1	1	1	1
		= 2			= 5			

Pre Total = 2 : Post Total = 5

2 : 5

- **Managers Salary – J F M A = $750 \times 4 = 3,000$**
- **Director Fees – M J J U A S = $1,500 \times 5 = 7,500$**
- **Rent – J F M A = $150 \times 4 = 600$ (Pre)**
- **Rent – M J J U A S = $150 \times 2 = 300$ +
 $375 \times 3 = 1,125 = 1,425$ (Post)**

Dr.

Profit & Loss Account for 2003

Cr.

Particulars	Pre In- corpo- ration Rs.	Post In- corpo- ration Rs.	Particulars	Pre In- corpo- ration Rs.	Post In- corpo- ration Rs.
Manager's Salary	3,000		By G. P. (in sales proportion i.e. 2 : 5)	24,000	60,000
Rent	600	1,425			
Establishment Expenses	9,480	11,850			
Directors' Fees		7,500			
Preliminary Expenses		2,250			
Net profit	10,920	36,975			
	24,000	60,000		24,000	60,000

Thank u