Problem No. 6

6

Illustration 6 : Ashok Industries Ltd., was formed on 1-4-2004 to taken over Business Partnership as from 1-1-2004. The following is Profit & Loss A/c of the Company for the year ending 2004.

Dr. Particular **Profit & Loss A/c** **Cr.**

Liabilities	Rs.	Assets	Rs.
To Salary	6,000	By Gross Profit	60,000
To Printing & Stationery	2,000		
To Bad Debts	6,000		
To Depreciation	12,000		
To Preliminary Expenses	3,000		
To Interest to Vendors (upto 31-5-2004)	2,500		
To Provision for Bad Debts	8,000		
To Advertising	5,000		
To Net Profit	15,500		
	60,000		60,000

Out of Bad Debts Rs. 1,500 related to the Debtors taken over from partnership. The sales for the period upto 1-4-2004 were $\frac{2}{3}$ of the sales for remaining period. The salary was evenly paid throughout the year. Compute the Profit & Loss made by the Company prior to and after incorporation.

Problem No. – 6 Solution

1) Time Ratio = 1:3

Incorporation / Registration Date

1st January ⟷ 1st April ⟷ 31st 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

2) Sales Ratio = 2:3

*(**Note : Sales Ratio** : Sales of pre-incorporation period are $\frac{2}{3}$ of the sales of post-incorporation period. It means, if the sales of post-incorporation period are presumed to be 3, pre-incorporation period sales must be $\frac{2}{3}$ of 3 i.e. $3 \times \frac{2}{3} = 2$. Hence, the ratio is 2 : 3).*

Post Sales Presumed 3

Pre sales = 2/3 × 3 = 2

Sales Ratio = 2:3

Problem No. 6 Solution

Dr. Profit & Loss A/c Cr.

Particulars	Prior Incorp. Rs.	After Incorp. Rs.	Particulars	Prior Incorp. Rs.	After Incorp. Rs.
To Salary	1,500	4,500	By Gross Profit	24,000	36,000
To Printing & Stationery	500	1,500	(Sales Ratio		
To Depreciation	3,000	9,000	2 : 3)		
To Bad Debts	1,500	4,500			
To Interest to Vendors	1,500	1,000			
To Provision for R.D.D.	3,200	4,800			
To Advertising	2,000	3,000			
To Preliminary Expenses		3,000			
To Net Profit	10,800	4,700			
	24,000	36,000		24,000	36,000

Thank u