

CHAPTER-6

PROFIT PRIOR TO INCORPORATION

Q. 1. Hina Ispat Ltd. incorporated on 1st August, 2010 to take over a business from preceeding 1st April. The accounts were made upto 31st March, 2011 as usual and the trading and Profit and Loss Account showed the following results.

	₹		₹
To Opening Stock	30,000	By Sales	2,40,000
To Purchases	1,80,000	By Closing Stock	54,000
To Gross Profit c/d	84,000		
	2,94,000		2,94,000
To Salaries	12,000	By Gross Profit b/d	84,000
To Rent & Rates	4,800		
To Director's Fees	3,000		
To Travellers Commission	2,400		
To Bad Debts	500		
To Office Expenses	12,000		
To Debenture interest	1,000		
To Discount	3,600		
To Audit Fees	600		
To Depreciation	1,800		
To Interest on Purchase Consideration to 1.1.2011	4,500		
To Formation Expenses	5,000		
To Carriage Outwards	1,200		
To General Expenses	2,100		
To Advertising	1,800		
To Stationery and Printing	3,000		
To Net Profit	24,700		
	84,000		84,000

Notes :

- It is ascertained that sales for April were one and a half times of the average of the year, whilst for July, November and March were only half the average and those for June twice the average. The sales for the remaining months was average of the year.
- Out of bad debts ₹ 200 relate to debts created prior to incorporation. Apportion the year's profit between pre - incorporation and post incorporation periods.

Q. 2. ABC Ltd. took over a running business with effect from 1st April, 2014. The company was incorporated on 1st August, 2014. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2015:

	₹		₹
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		
To Commission to selling agents	16,000		
To Tax Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendor	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	87,600		
	3,20,000		3,20,000

Additional information:

- (a) Total sales for the year, which amounted to ₹ 19,20,000 arose evenly upto the date of 30.9.2014. Thereafter they spurted to record an increase of two - third during the rest of the year.
- (b) Rent of office building was paid @ ₹ 2,000 per month upto September, 2014 and thereafter it was increased by ₹ 400 per month.
- (c) Travelling expenses include ₹ 4,800 towards sales promotion.
- (d) Depreciation include ₹ 600 for assets acquired in the post incorporation period.
- (e) Purchase consideration was discharged by the company on 30th September, 2014 by issuing equity shares of ₹10 each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

Q. 3. Veekay Private Limited was incorporated on 1st August, 2010. This company agreed to take over business of M/s. Jay Vijay & Company as going concern, effective from 1st April, 2010.

The agreement also provided that vendors are entitled to 60% of profits for period upto 1st August, 2011. The Profit and Loss Account for year ended 31st March, 2011 is :

Particulars	₹	Particulars	₹
To Stock	30,000	By Sales	3,00,000
To Materials Consumed	1,20,000	By Stocks	42,000
To Wages	30,000		
To Factory Expenses	42,000		
To Gross Profit	1,20,000		
	3,42,000		3,42,000
To Salaries	30,000	By Gross Profit	1,20,000
To Rent	9,000	By Profit on Sale of Investment	20,000
To Office Expenses	6,000		
To Sales Commission	15,000		
To Bad Debts	5,000		
To Director Fees	8,000		
To Depreciation	18,000		
To Debentures Interest	8,000		
To Interest to Vendor	6,000		
To Net Profit	35,000		
	1,40,000		1,40,000

Additional Information :

- (i) Monthly Sales for October, 2010 to March, 2011 is 150% of monthly sales for April, 2010 to September, 2010.
- (ii) Bad debt is in respect of sales effected two years ago.
- (iii) Investment was sold on 1st November, 2010.
- (iv) Consideration to Vendors was paid on 1st October, 2010.
- (v) Rent was increased from ₹ 500 per month to ₹ 1,000 per month effective from 1st October, 2010.

Prepare Profit & Loss Account.