1. PROFIT OR LOSS PRE AND POST INCORPORATION

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO: 1

Statement showing pre and post incorporation Profit for the year ended 31st March,2014

Particulars	Amount (Rs.)	Basis of Allocation	Pre-incorporation (Rs.)	Post-incorporation (Rs.)
Gross Profit	5,40,000	2:7	1,20,000	4,20,000
Less: Depreciation	1,23,000	1:2	41,000	82,000
Director's Fees	50,000	Post	-	50,000
Preliminary Expenses	12,000	Post	-	12,000
Office Expenses	78,000	1:2	26,000	52,000
Selling Expenses	72,000	2:7	16,000	56,000
Interest to vendors	5,000	Actual	4,000	1,000
Net Profit (Rs.33,000 being pre-incorporation profit is transferred to capital reserve Account)	**2,00,000**		**33,000**	**1,67,000**

WORKING NOTE:

1) **Sales ratio:** The sales per month in the first half year were half of what they were in the later half year. If in the later half year, sales per month is Rs.1 then it should be 50 paise per month in the first half year. So sales for the first four months (i.e. from 1st April, 2013 to 31st July, 2013) will be 4 x 0.50 = Rs.2 and for the last eight months (i.e. from 1st August, 2013 to 31st March, 2014) will be (2 x .50 + 6 x 1) = Rs.7. Thus sales ratio is 2 : 7.

2) **Time ratio:** 1st April, 2013 to 31st July, 2013 : 1st August, 2013 to 31st March, 2014 = 4 months : 8 months = 1 : 2. Thus**, time ratio is 1 : 2.**

3) **Gross profit:**

Gross profit = Net profit + All expenses

= Rs.2,00,000 + Rs.(1,23,000 + 50,000 + 12,000 + 78,000 + 72,000 + 5,000)

= Rs.2,00,000 + Rs.3,40,000 = Rs.5,40,000

PROBLEM NO: 2

Statement showing the calculation of Profit for the Pre - incorporation and Post - incorporation periods

Particulars	Amount (Rs.) (in lakhs)	Basis of Allocation	Pre-incorporation (Rs. in lakhs)	Post-incorporation (Rs. in lakhs)
Gross Profit (25% of Rs.1,600)	400	Sales	100	300
Less: Salaries	69	Time	23	46
Rent, Rates and insurance	24	Time	8	16
Sundry office expenses	66	Time	22	44
Traveller's commission	16	Sales	4	12
Discount allowed	12	Sales	3	9
Bad debts	4	Sales	1	3
Director's fee	25	Post	-	25
Audit Fees	9	Sales*	2.25	6.75

Depreciation on tangible assets	12	Time	4	8
Debenture interest	11	Post	-	11
Net profit	**152**		**32.75**	**119.25**

WORKING NOTE:

1) Sales ratio: **(Rs. in Lakhs)**

Particulars	Amount (Rs.)
Sales for the whole year	1,600
Sales upto 31st July, 2012	400
Therefore, sales for the period from 1st August, 2012 to 31st March, 2013	1,200

Thus, sales ratio is = 400 : 1200 = 1 : 3

2) Time ratio:

1st April, 2012 to 31st July, 2012 : 1st August, 2012 to 31st March, 2013 = 4 months : 8 months = 1 : 2

Thus, **time ratio is 1 : 2**

3) Audit fees has been assumed to be related with audit and therefore apportioned into Pre and post incorporation periods on the basis of turnover.

Note: If the audit fees is related to the company then charged it to post incorporation period.

PROBLEM NO: 3

1. Computation of Time Ratio and Sales Ratio

Particulars	Pre Inc. Period	Post Inc. Period	Total
(a) No of Months = Time Ratio	1-4-17 to 31-7-17 = 4 Months	1-8-17 to 31-3-18 = 8 Months	4 : 8 = 1 : 2
(b) Sales per Month Ratio (given) Overall Sales Ratio	Say Rs. 1 x 4 months = 4	Rs. 1.5 x 4 Months + Rs. 2 x 4 Months = 14	4 : 14 = 2 : 7
(c) Rent for Addnl Premises (from 1st Dec.)	-	5,000 x 4 Months = Rs. 20,000	
(d) Balance Rent (Rs. 1,40,000 – Rs. 20,000) distributed in 1 : 2 (Time Ratio)	Rs. 40,000	Rs. 80,000	
(e) Total Rent Expenses (d) + (e)	**Rs. 40,000**	**Rs. 1,00,000**	
(f) Additional salary (Rs. 2,700 x 8)	-	Rs. 16,000	
(g) Balance Salary (Rs. 4,48,000 – Rs. 16,000) Distributed in 1 : 2 (Time Ratio)	Rs. 1,44,000	2,88,000	
(h) Total Salary Expenses (f) + (g)	**Rs. 1,44,000**	**Rs. 3,04,000**	

2. Statement showing calculation of Profit / Losses for Pre and Post Incorporation Periods

Particulars	Ratio	Pre Incorporation.	Post Incorporation.
(a) Gross Profit (Apportioned in Sales Ratio) **(Note)**	**2 : 7**	**2,04,000**	**7,14,000**
(b) Apportionment of other Income			
Interest on Investments		16,000	
Profit on Sale of Investments		27,000	
Bad Debts Recovered		9,000	
Total Other Income		**52,000**	

(c) Apportionment of Expenses			
Advertisement	2 : 7	22,000	77,000
Audit Fees	1 : 2	5,000	10,000
Bad Debts (Note)	2 : 7	8,000	28,000
Depreciation	1 : 2	7,000	14,000
Discount	2 : 7	2,000	7,000
Rent	(WN 1)	40,000	1,00,000
Salary	(WN 1)	1,44,000	3,04,000
Interest on Debentures		-	80,000
Preliminary Expenses		-	12,000
Underwriting Commission		-	20,000
Total Expenses		**2,28,000**	**6,52,000**
(d) Profit (a) + (b) – (c)		**28,000**	**62,000**

Note:

1) Gross Profit = Rs. 9,45,000 (given) Loss Profit on Sales of Investments Rs. 27,000 = 9,18,000, apportioned in Sales Ratio.

2) Bad Debts = Rs. 27,000 (given) Add Bad Debts Recovered Rs. 9,000 = Rs. 36,000, apportioned in Sales Ratio.

PROBLEM NO: 4

K V Trading Private Limited

Statement showing calculation of profit/loss for pre and post incorporation periods

(Rs. in lakhs)

Particulars	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:6	240.00	34.29	205.71
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.50	0.50	-
(i)		246.50	40.79	205.71
Cost of goods sold	1:6	102.00	14.57	87.43
Advertisement	1:6	3.00	0.43	2.57
Sales commission	1:6	6.00	0.86	5.14
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing directors remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1 + 0.5)	1:6	1.50	0.21	1.29
Underwriting commission	Post	2.00	-	2.00
Audit fees	Post	2.00	-	2.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		153.00	22.00	131.00
Net Profit [(i) - (ii)]		93.50	18.79	74.71

Working Notes:

1) Calculation of Sales Ratio

Let the average sales per month be x

Total sales from 01.04.20X2 to 30.06.20X2 will be 3x

Average sales per month from 01.07.20X2 to 31.03.20X3 will be 2x

Total sales from 01.07.20X2 to 31.03.20X3 will be 2x X 9 =18x

Ratio of Sales will be 3x: 18x i.e. 3:18 or 1:6

2) Calculation of time Ratio: 3 Months: 9 Months i.e. 1:3

3) Apportionment of Salary

Let the salary per month from 01.04.20X2to 30.09.20X2 is x

Salary per month from 01.10.20X2 to 31.03.20X3 will be 2x

Hence, pre incorporation salary (01.04.20X2 to 30.06.20X2) = 3x

Post incorporation salary from 01.07.20X2 to 31.03.20X3 = (3x + 12x) i.e.15x

Ratio for division 3x: 15x or 1: 5

4) Apportionment of Rent

	Rs. Lakhs		
Total Rent	5.5		
Less: additional rent from 1.7.20X2 to 31.3.20X3	1.8		
Rent of old premises for 12 months	3.7		
Apportionment in time ratio		0.925	2.775
Add: Rent for new space		-	1.800
Total		0.925	4.575

PROBLEM NO: 5

Pre-incorporation period is for two months, from 1st April, 2017 to 31st May, 2017.

Pre-incorporation period is for ten months, from 1st June, 2017 to 31st March, 2018.

Statement showing calculation of profit/losses for pre and post incorporation periods

Particulars	Pre - Incorporation (Rs.)	Post - Incorporation (Rs.)
Gross Profit	50,000	4,00,000
Bad debts Recovery	14,000	
	64,000	4,00,000
Less: Salaries	24,000	1,20,000
Audit fees	-	12,000
Depreciation	3,000	16,250
Sales commission	2,000	16,000
Bad Debts (49,000 + 14,000)	7,000	56,000
Interest on Debentures	-	36,000
Rent	4,000	34,400
Net Profit	24,000	1,09,350

Working Notes:

a) Calculation of ratio of Sales:

Sales from April to September = Rs. 6,00,000 (Rs. 1,00,000 p.m. on average basis)

Oct. to March	=	Rs. 12,00,000 (Rs. 2,00,000 p.m. on average basis)
Thus, sales for pre-incorporation period	=	Rs. 2,00,000
post-incorporation period	=	Rs. 16,00,000

Sales are in the ratio of 1:8

b) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

c) Rent, salary are allocated on time basis.

d) Interest on debentures is allocated in post incorporation period.

e) Audit fees charged to post incorporation period as relating to company audit.

f) Depreciation of Rs. 18,000 divided in the ratio of 1:5 (time basis) and Rs. 1,250 charged to post incorporation period.

g) Bad debt recovery of Rs. 14,000/- is allocated in pre-incorporation period, being sale made in 2014-15.

h)

Rent: Rs. 38,400 - Additional rent for 6 months)	**Amount (Rs.)**
[38,400- 14,400 (2,400 x 6)]	24,000
1/4/17 -31/5//17 (2,000 x 2)	4,000
1/6/17 -31/3/18 - [(2,000 x 10) +14,400]	34,400
	38,400

PROBLEM NO: 6

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.03.15 (15 Months)

Particulars	Total (Rs.)	Ratio	Pre (Rs.)	Post (Rs.)
Gross profit	1,40,40,000	1:8	15,60,000	1,24,80,000
Less: Salaries	23,40,000	1:12	1,80,000	21,60,000
Depreciation	3,60,000	1:4	72,000	2,88,000
Advertisement	14,04,000	1:8	1,56,000	12,48,000
Discount	23,40,000	1:8	2,60,000	20,80,000
Managing director's remuneration	1,80,000	Post	-	1,80,000
Office cum showroom rent	14,40,000	Actual	1,80,000	12,60,000
Miscellaneous office expenses	2,40,000	1:4	48,000	1,92,000
Interest	19,02,000	Actual	7,02,000	12,00,000
Goodwill (bal. fig.)			38,000	--
Net profit (B.f.)			--	38,72,000

Note: Since the profits prior to incorporation are in the negative, they would be treated as goodwill.

Working Notes:

1.	**Calculation of Time Ratio:**	
	Pre-Incorporation Period	Post-Incorporation Period
	1st January, 2014 to 31st March, 2014 (3 months)	1st April, 2014 to 31st March, 2015 (12 months)
	3:	12
	1:	4
2.	**Calculation of Sales Ratio:**	
	Pre-Incorporation Period	Post-Incorporation Period
	3 Months	12 Months
	3 x 1	12 x 2

	3:	24
	1:	8
3.	**Calculation of Staff Salary Ratio:**	
	Pre-Incorporation Period	Post-Incorporation Period
	3 Months	12 Months
	3 x 1	12 x 3
	3:	36
	1:	12
4.	**Calculation of Interest:**	
	Pre-Incorporation Period	Post-Incorporation Period
	2,34,00,000 x 3/12 x 12/100 = Rs. 7,02,000	1,00,00,000 x 12/100 = Rs. 12,00,000
5.	**Calculation of Rent:**	
	Rent on additional space	
	1st July 2014 to 31st March, 2015	= 9 Months
	Total additional rent = 60,000 x 9	= Rs. 5,40,000
	Remaining rent on earlier space	= 14,40,000 - 5,40,000 = Rs. 9,00,000
	Rent per month = $\frac{\text{Rs. 9,00,000}}{\text{15 months}}$ = Rs. 60,000 p.m.	
	Pre-Incorporation Period rent = 60,000 x 3	= 1,80,000
	Post-Incorporation Period rent = 60,000 x 12	= 7,20,000
	Additional rent	= 5,40,000
		12,60,000

6. Calculation of Gross Profit:

Dr. **Trading Account** **Cr.**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Cost of goods sold	3,27,60,000	By Sales	4,68,00,000
To Gross profit (Bal. fig.)	1,40,40,000		
	4,68,00,000		4,68,00,000

Note:

1) Pre incorporation period is 3 months upto 31st March 2014 and post incorporation period is of 12 months
2) As advertisement cost and discounts are directly related to sales, it is proper to assume that they would be incurred in the same ratio of time as Sales. Hence, 1 : 8
3) Since Managing Director is a position which is appointed in a company, it is proper to consider that his pay is incurred during the post incorporation period.
4) Interest on money borrowed to pay the purchase consideration is a post incorporation cost whereas the interest on purchase consideration for 3 months till payment will be pre incorporation cost.

PROBLEM NO: 7

Fellow Travellers Ltd.

Statement showing calculation of profit /losses for pre and post incorporation periods

	Ratio	Pre-incorporation	Post-incorporation
Gross profit allocated on the basis of sale **Less**: Administrative Expenses allocated On time basis:	1:2	20,000	40,000

(i) Salaries and wages	10,000			
(ii) Depreciation	1,000			
	11,000	5:7	4,583	6,417
Selling Commission on the basis of sales		1:2	3,000	6,000
Interest on Purchase Consideration (Time basis)		5:1	7,500	1,500
Expenses applicable wholly to the Post-incorporation period:				
Debenture Interest (1,50,000 x 7% x 6/12)	5,250			
Director's Fee	600			5,850
Preliminary expenses				900
Provision for taxes				6,000
Balance c/d to Balance Sheet			**4,917**	**13,333**

Time Ratio:

Pre incorporation period = 1 January 20X1 to 31 May 20X1 = 5 months

Post incorporation period = 1 June 20X1 to 31 December 20X1 = 7 months

Time ratio = 5: 7

Sales Ratio:

Sales in pre incorporation period (1 January 20X1 to 31 May 20X1) = Rs. 60,000

Sales in post incorporation period (1 June 20X1 to 31 December 20X1) = Rs. 1,20,000

Sales ratio = 1:2

Fellow Travellers Ltd.

Extract from the Balance Sheet as on 31st Dec., 20X1

Particulars	Notes	Amount (Rs.)
Equity and Liabilities		
1. Shareholders' funds		
a) Share capital	1	2,00,000
b) Reserves and Surplus	2	33,250
2. Non-current liabilities		
a) Long-term borrowings	3	1,50,000
3. Current liabilities		
a) Short term provisions	4	6,000
Total		**3,89,250**

Notes to accounts:

Particulars		Amount (Rs.)
1. Share Capital		
20,000 equity shares of Rs. 10 each fully paid		2,00,000
2. Reserves and Surplus		
Profit Prior to Incorporation		4,917
Securities Premium Account		20,000
Profit and loss Account	13,333	
Less: Dividend on equity share	(5,000)	8,333
Total		33,250
3. Long term borrowings		
Secured		
7% Debentures		1,50,000
4. Other Current liabilities		
Provision for Taxes		6,000

PROBLEM NO: 8

Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits for the year ended 31st March, 2014

Particulars	Basis	Pre	Post
Sales (given)		10,000	40,000
Less: Purchases	1:4.4	4,630	20,370
Carriage Inwards	1:4.4	189	830
Gross Profit (i)		5,181	18,800
Less: Selling Expenses & Variable Expenses	1:4	700	2800
Preliminary Expenses			1200
Salaries	1:3	900	2700
Director Fees			1200
Interest on capital		700	
Depreciation	1:3	700	2100
Rent	1:3	1200	3600
Total of Expenses(ii)		4200	13,600
Capital Loss/Net Profit (i -ii)		**981**	**5,200**

Working Notes:

1) Sales Ratio = 10,000 : 40,000 = 1 :4
2) **Time** Ratio = 3:9 = 1:3
3) **Purchase** Price Ratio

   Sales Ratio: 1:4

   But purchase price was 10% higher in the company period

   ∴Ratio is 1: 4 + 10%

   = 1:4.4.

SOLUTIONS FOR SELF PRACTICE

PROBLEM NO: 1

a) Sales of first 6 months = Rs. 4,80,000. Average sale of first 6 months = Rs.4,80,000/6 =Rs.80,000 per month. Pre-incorporation period consist of 3 months (i.e., April, May and June). The sales of those 3 months = Rs. 80,000 x 3 = Rs. 2,40,000. Sales of remaining 9 months = Rs. 24,00,000 – Rs. 2,40,000 = Rs. 21,60,000.

Therefore, the ratio of sales = Rs. 2,40,000 : Rs. 21,60,000 or 1: 9.

b) Let the average of monthly sales = X. The sales of different months can be shown as follows:

Month	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Sales	1x	0.5x	1x	0.5x	1x	1x	1x	1x	1x	1x	1.5x	1.5x

Date of incorporation is May, 2013

Pre incorporation period is from January to April i.e. 3 x

Post - incorporation period is from May to December i.e. 9x

The ratio of Sales = 3x: 9x or 1:3.

c) Let the average monthly sales be x. The sales of different months can be shown as follows:

Month	April	May	June	July	Aug.	Sept	Oct	Nov	Dec	Jan	Feb	March
Sales	2x	1x	1x	1x	1x	1x	1x	1x	1x	1x	2x	2x

Date of incorporation is 1 July, 2013

Pre incorporation period is from April to June i.e. 4 x

Post - incorporation period is from July to March i.e 11x

The ratio of Sales = 4x : 11x or 4:11

PROBLEM NO: 2

Statement showing pre and post-incorporation profits

Particulars	Basis	Pre - incorporation period (Rs.)	Post - incorporation period (Rs.)	Total (Rs.)
Gross Profit	Sales ratio	16,000	40,000	56,000
Less: General expenses	Time ratio	6,320	7,900	14,220
Directors' fee	Actual	-	5,000	5,000
Formation expenses	Actual	-	1,500	1,500
Rent (600 + 750)	W.N. 2	400	950	1,350
Manager's salary	Actual	2,000	-	2,000
Net Profit transferred to:				
Capital Reserve		7,280	-	-
P & L A/c		-	24,650	31,930

Working Notes:

1) **Calculation of sales ratio**

Let the average monthly sales of first four months = 100

and next five months = 200

Total sales of first four months = 100 x 4 = 400 and

Total sales of next five months = 200 x 5 = 1,000

The ratio of sales = 400 : 1,000 =2 : 5

2) **Rent:**

Till 31st December, 2013, rent was Rs. 1,200 p.a. i.e. Rs. 100 p.m.

So, Pre-incorporation rent = Rs. 100 x 4 months = Rs. 400

Post-incorporation rent = (Rs. 100 x 2 months) + (Rs. 250 x 3 months) = Rs. 950

3) **Time ratio**

Pre-incorporation period =1st July, 2013 to 31st Oct. 2013 = 4 months

Post –incorporation = 1st November 2013 to 31st March 2014 = 5 months

= 4 months : 5 months

Thus, time ratio is 4:5

PROBLEM NO: 3

Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.03.2014

Particulars	Pre-incorporation period (Rs.)	Post-incorporation period (Rs.)
Gross profit (1:3)	80,000	2,40,000
Less: Salaries (1:2)	16,000	32,000
Stationery (1:2)	1,600	3,200
Advertisement (1:3)	4,000	12,000

Travelling expenses (W.N.4)	4,000	8,000
Sales promotion expenses (W.N.4)	1,200	3,600
Misc. trade expenses (1:2)	12,600	25,200
Rent (office building) (W.N.3)	8,000	18,400
Electricity charges (1:2)	1,400	2,800
Director's fee (post)	-	11,200
Bad debts (1:3)	800	2,400
Selling agents commission (1:3)	4,000	12,000
Audit fee (1:3)(note 6)	1,500	4,500
Debenture interest (post)	-	3,000
Interest paid to vendor (2:1) (W.N.5)	2,800	1,400
Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.6)	3,000	6,600
Capital reserve (bal. Fig.)	12,800	-
Net profit (Bal. Fig.)	-	74,800

Working Notes:

Pre incorporation period = 1st April, 2013 to 31st July, 2013 i.e. 4 months

Post incorporation period = 8 months

1) Time Ratio = 4 months : 8 months i.e. 1 : 2

2) Sales ratio:

Let the monthly sales for first 6 months (i. e. from 1.4.2013 to 30.9.13) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.13 to 31.3.2014) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs.19,20,000 / 16 = Rs.1,20,000

Total sales for pre-incorporation period = Rs.1,20,000 X 4 = Rs.4,80,000

Total sales for post incorporation period = Rs.19,20,000 - Rs.4,80,000 = Rs.14,40,000

Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

3) Rent:

Particulars	Rs.	Rs.
Rent for pre-incorporation period (Rs.2,000 X 4)		8,000 (pre)
Rent for post incorporation period		
August, 2013 & September, 2013 (Rs.2,000 X 2)	4,000	
October, 2013 to March, 2014 (Rs.2,400 X 6)	14,400	18,400(post)

4) Travelling expenses and sales promotion expenses:

Particulars	Pre (Rs.)	Post (Rs.)
Traveling expenses Rs.12,000 (i.e. Rs.16,800 - Rs.4,800) distributed in 1:2 ratio	4,000	8,000
Sales promotion expenses Rs.4,800 distributed in 1:3 ratio	1,200	3,600

5) Interest paid to vendor till 30th September, 2013:

Particulars	Pre (Rs.)	Post (Rs.)
Interest for pre-incorporation period $\left(\frac{Rs.4,200}{6} X 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 2013 & September, 2013 = $\left(\frac{Rs.4,200}{6} X 2\right)$		1,400

6) Depreciation:

Particulars	Rs.	Pre (Rs.)	Post (Rs.)
Total depreciation	9,600	-	-
Less: Depreciation exclusively for post incorporation period	600	-	600
	9,000	-	-
Depreciation for pre-incorporation period $\left[9,000 X \frac{4}{12}\right]$	-	3,000	-
Depreciation for post incorporation period $\left[9,000 X \frac{8}{12}\right]$	-	-	6,000
	-	3,000	6,600

Audit fees is assumed to be Tax audit fees, hence allocated on Sales ratio. i.e. 1 : 3

PROBLEM NO: 4

Profit & Loss Statement of BRIGHT Ltd.

For the year ended 31st March, 2018.

Particulars	Ratio	Pre – Incorporation	Post – Incorporation
I. Revenue from Operations	1 : 3	2,40,000	7,20,000
II. Expenses:			
Cost of Goods sold	10 : 27	2,10,000	5,67,000
Employee Benefits Expense	Note	4,200	20,900
Finance Costs	Note	1,400	2,200
Depreciation and Amortization Expense	W.N. (iv)	1,500	3,300
Other Expense	Note	22,100	77,300
Total Expense		2,39,200	6,70,700
III. Profit for the period		800	49,300

NOTE: Profit for the Pre – Incorporation period will be treated as of capital nature and hence will be credited to Capital Reserve Account but Profit for the Post – Incorporation period will be treated as of revenue nature hence will remain in the Profit & Loss Account.

NOTE AS TO APPORTIONMENT OF EXPENSES

Particulars	Ratio	Pre – Incorporation	Post – Incorporation
Employee Benefits Expense			
Salaries	W.N. (iv)	4,200	16,800
MD Remuneration		–	4,100
		4,200	**20,900**
Finance Costs			
Interest on Debentures		–	1,500

Interest to Vendors	4 : 2	1,400	700
		1,400	**2,200**
Other Expense			
Rent for old office	W.N. (iii)	4,000	9,000
Rent for new office	1 : 8	3,000	24,000
Travelling Exp.	W.N. (v)	2,600	5,800
Carriage outwards	Sales Ratio		
	To 1 : 3	100	300
Printing & Stationery	Time Ratio	800	1,600
		4 : 8	
Advertisements	Sales Ratio	2,000	6,000
Misc. Trade Exp.	Time Ratio	4,200	8,000
Director's Fees	–	–	600
Bad Debt.	Sales Ratio	400	1,200
Commission	Time Ratio	2,000	6,000
Audit fees	–	–	3,000
Selling & Dist. Exp.	Sales Ratio	3,000	9,000
*Preliminary Expenses	–	–	1,500
*Underwriting Comm.	–	–	900
		22,100	**77,300**

*As per Para 56 of AS 26, 'Intangible Assets', Preliminary Expenses & underwriting commission are to be recognized as expenses as and when they are incurred. Hence, these Expenses are not to appear in the Balance Sheet.

Balance Sheet of Tulsian Ltd as at 1st April, 2018

Particulars	Note	Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	49,300
(2) Non – Current Liabilities		
Long – term borrowings (debentures)		50,000
(3) Current Liabilities		30,700
Total		**4,30,000**
II. Assets		
(1) Non – Current Assets		
(a) Fixed Assets		
(i) Tangible Assets		3,65,000
(ii) Intangible assets [Goodwill] [22,000 – 800 (Capital Reserve)]		21,200
(2) Current Assets		43,800
Total		**4,30,000**

Notes to Accounts:

NOTE 1: SHARE CAPITAL

30,000 Equity Shares of Rs. 10 each (Of the above all shares were issued for consideration otherwise than cash)	3,00,000

NOTE: 2 RESERVES AND SURPLUS

Profit & Loss Account	49,300

Working Notes:

(a) Calculation of Sales Ratio

If sale upto 30th Sept. (for 6 month) is X, it will be 5/3 X for remaining 6 months

X + 5/3X = Rs. 9,60,000

X = Rs. 9,60,000 x 3/8 = Rs. 3,60,000

Thus, Sales upto 31st July (for 4 months) = Rs. 3,60,000 x 4/6 = Rs. 2,40,000

Sales from 1st Aug to 31st March = Rs. 9,60,000 – Rs. 2,40,000 = Rs. 7,20,000

Thus, the Sales Ratio = 1 : 3

(b) Calculation of Cost of Goods Sold

Let cost of goods sold in the pre – incorporation period be Rs. 100.

Then cost of goods sold in the post – incorporation period is Rs. 90.

Sales Ratio (as calculated above) = 1 : 3

Then, cost of goods sold Ratio = (100 x 1) : (90 x 3) = 100 : 270 = 10 : 27

(c) Calculation of Rent

A Additional Rent for new office premises = Rs. 3,000 x 9 = Rs. 27,000

B Rent for old office premises = Total Rent – Additional Rent

= Rs. 40,000 – Rs. 27,000 = Rs. 13,000

If monthly average upto Oct. (7 months) is X then the monthly average from Nov to Dec. (5 months) will be 1.2 X.

Thus, Rent for 7 months = 7 x X = 7X and Rent for 5 months = 5 x 1.2X = 6X

Thus, the ratio for division is 7 : 6

Rent for 7 months upto Oct. = Rs. 13,000 x 7/13 = Rs. 7,000

Rent for 4 months upto July = Rs. 7,000 x 4/7 = Rs. 4,000

Rent for 8 months from Aug. to Dec. = Rs. 13,000 – Rs. 4,000 = Rs. 9,000

(d) Calculation of salaries

If monthly average upto June (3 months) is X, then monthly average from July to March (9 months) will be 3X.

Thus, Salaries for 3 months = 3X and Salaries for 9 months = 27X.

Thus, the ratio for division is 3 : 27 or 1 : 9

Thus, salaries from Apr – June = 21,000 x 1/10 = Rs. 2,100

Salaries for July – March = Rs. 21,000 x 9/10 = Rs. 18,900

Salaries for July = Rs. 18,900/9 = Rs. 2,100

Thus, Salaries from Apr to July = Rs. 2,100 + Rs. 2,100 = Rs. 4,200

Salaries from Aug. to March = Rs. 18,900 – Rs. 2,100 = Rs. 16,800

(e) Calculation of Travelling Expenses

Particulars	Pre – Incorporation	Post – Incorporation
Towards Sales Promotion	2,400 x ¼ = 600	2,400 x ¾ = 1,800
Other (8,400 – 2,400)	6,000 x 4/12 = 2,000	6,000 x 8/12 = 4,000
	2,600	5,800

(f) Calculation of Depreciation

Particulars	Pre – Incorporation	Post – Incorporation
On Addition in Aug.	–	300
On Others (Rs. 4,800 – Rs. 300)	4,500 x 4/12 = 1,500	4,500 x 8/12 = 3,000
	1,500	3,300

(g) Goodwill = Purchase Consideration – Capital = Rs. 3,00,000 – Rs. 2,78,000 = Rs. 22,000

THE END