Welcome to ICT classroom
BCOM IV sem.
Sub. Corporate accounting
lecture delivered by V.S.Bodhale sir

Profit prior to incorporation

Problem

Delhi Company, incorporated on 1st April, 2011 took over running business from 1st January, 2011. The company prepared its first Final accounts on 31st December, 2011. From the following information you are required to calculate the Sales Ratio for pre-incorporation and post-incorporation periods.

Sales for January, 2011 to December, 2011 was Rs. 4,80,000. The sale for the month of January, was twice of the average sales, sale for the month of February was equal to average sales, sale for four months (may to august) was 1/4 of average sales and sales for October and November was three times of the average sales (every time average monthly sale should be considered)

Solution

i) Calculation of average sale per month = $\frac{4,80,000}{12}$ = Rs. 40,000

ii) Calculation of Sales for those months for which information is given:

January	2 * Rs. 40,000	=	Rs. 80,000
February	1 * Rs. 40,000	=	Rs. 40,000
May, June, July & Aug.	(1/4 * Rs. 40,000 * 4)	=	Rs. 40,000
October & November	(3 * Rs. 40,000 *2)	=	Rs. 2,40,000
Total Sales for the above months			Rs. 4,00,000

iii) Calculation of Sales for the remaining months:

a) Remaining months are : March, April, September and December

b) Remaining unaccounted sale is : Rs. 4,80,000 – Rs. 4,00,000 = Rs. 80,000

iv) Calculation of average sales for the remaining period:

$$= \frac{\text{Remaining } Sale}{\text{Remaining months}} = \frac{80{,}000}{4} = \text{Rs. } 20{,}000 \text{ per month}$$

v) Calculation of Sale for pre-incorporation period:

January	Rs. 80,000
February	Rs. 40,000
March	Rs. 20,000
	Rs. 1,40,000

vi) Sales for post incorporation period:

Total Sales – Pre-incorporation period sales = Rs. 4,80,000 - Rs. 1,40,000 = Rs. 3,40,000

vii) Calculation of Sales Ratio: <u>1,40,000:3,40,000</u> or <u>7:17</u>

THANK YOU