

MODULE NO. 2: PROFIT PRIOR TO INCORPORATION

SOLUTION

1.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	01.06.2021	=	5 Months
	Post-incorporation Period	From	01.06.2021	To	31-12-2021	=	7 Months
	Therefore Time Ratio				5:7		

2. Weighted Sales Ratio:

Sales for the each one of the first five months of the accounting year are one-half, of each one of subsequent months of the accounting year. Weightage is 0.5.

Pre-incorporation Period			Post-incorporation Period		
01.01.2021	0.5		01.06.2021	1.0	
To	×		To	×	
01.06.2021	5		31-12-2021	7	
	2.5			7	
Therefore Sales Ratio			2.5:7	OR	5:14

2.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	01.05.2021	=	4 Months
	Post-incorporation Period	From	01.05.2021	To	31-12-2021	=	8 Months
	Therefore Time Ratio				4:8		1:2
2.	Calculation of Sales & Sales Ratio						
	Sales for the year						₹ 1,20,00,000
	Pre-incorporation Period Sales						₹ 50,00,000
	Post-incorporation Period Sales (Bal. Fig.)						₹ 70,00,000
	Therefore Sales Ratio						5:7

Statement of Profit and Loss of Soha Ltd., for the year ended 31-12-2021

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 5:7) (1,80,00,000 – 1,20,00,000)		25,00,000	35,00,000
Less: Expenses:			
Employee benefit expense	01	1,00,000	2,00,000
Financial costs	02	-----	1,25,000
Other expenses	03	5,81,000	10,54,000
Pre-incorporation profit (transferred to CR or GW)		18,19,000	-----
Post-incorporation profit (transferred to P/L A/C)		-----	21,21,000

Working Notes:

Note No. 01 Employee benefit expense			
Particulars		Pre ₹	Post ₹

Salaries (TR 1:2)	1,00,000	2,00,000
Total	1,00,000	2,00,000

Note No. 02 Financial costs		
Particulars	Pre ₹	Post ₹
Interest on Debentures (Post)	-----	1,25,000
Total	-----	1,25,000

Note No. 03 Other expenses		
Particulars	Pre ₹	Post ₹
Rent & Rates (TR 1:2)	1,60,000	3,20,000
Directors' fees (Post)	-----	75,000
General Expenses (TR 1:2)	32,000	64,000
Discount allowed to customers (SR 5:7)	30,000	42,000
Advertisement (SR 5:7)	1,50,000	2,10,000
Stationery & Printing (TR 1:2)	24,000	48,000
Commission on sales (SR 5:7)	1,75,000	2,45,000
Bad debts (Given)	10,000	20,000
Audit fees (Post)	-----	30,000
Total	5,81,000	10,54,000

3. Calculation of Time Ratio & Sales Ratio								
1.	Pre-incorporation Period	From	01.01.2021	To	01.04.2021	=	3 Months	
	Post-incorporation Period	From	01.04.2021	To	31-12-2021	=	9 Months	
	Therefore Time Ratio					3:9		1:3
2.	Calculation of Sales Ratio							
	Pre-incorporation Period Sales							₹ 15,00,000
	Post-incorporation Period Sales							₹ 47,50,000
	Therefore Sales Ratio							6:19

Statement of Profit and Loss of SS Ltd., for the year ended 31-12-2021

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 6:19)		3,00,000	9,50,000
Less: Expenses:			
Financial costs	01	3,000	25,500
Depreciation and amortization expenses	02	6,375	51,125
Other expenses	03	1,19,570	3,89,180
Pre-incorporation profit (transferred to CR or GW)		1,71,055	-----
Post-incorporation profit (transferred to P/L A/C)		-----	4,84,195

Working Notes:

Note No. 01 Financial costs		
Particulars	Pre ₹	Post ₹
Interest to Vendors (Loan repaid on 31 st October) (TR 3:7)	3,000	7,000
Interest on Debentures (Post)	-----	18,500
Total	3,000	25,500
Note No. 02 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Goodwill Written off (Post)	-----	16,500
Preliminary Expenses written off (Post)	-----	15,500
Depreciation (TR 1:3)	6,375	19,125
Total	6,375	51,125
Note No. 03 Other expenses		
Particulars	Pre ₹	Post ₹
Administrative Overheads (TR 1:3)	97,500	2,92,500
Selling & Distribution Overheads (60% variable) (SR 6:19)	6,120	19,380
Selling & Distribution Overheads (40% fixed) (TR 1:3)	4,250	12,750
Commission on Sales (SR 6:19)	11,700	37,050
Director's Fees (Post)	-----	27,500
Total	1,19,570	3,89,180

4.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	30.06.2021	=	6 Months
	Post-incorporation Period	From	30.06.2021	To	31-12-2021	=	6 Months
	Therefore Time Ratio				6:6		1:1
2.	Calculation of Sales Ratio						
	Pre-incorporation Period Sales						₹ 1,20,000
	Post-incorporation Period Sales						₹ 1,80,000
	Therefore Sales Ratio						2:3

Statement of Profit and Loss of Mohan Company Ltd., for the year ended 31-12-2021

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 2:3)		42,000	63,000
Less: Expenses:			
Employee benefit expense	01	7,500	7,500
Financial costs	02	-----	90
Depreciation and amortization expenses	03	750	750
Other expenses	04	3,450	4,800

Pre-incorporation profit (transferred to CR or GW)		30,300	-----
Post-incorporation profit (transferred to P/L A/C)		-----	49,860

Working Notes:

Note No. 01 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Salaries (TR 1:1)		7,500	7,500
Total		7,500	7,500
Note No. 02 Financial costs			
Particulars		Pre ₹	Post ₹
Interest on Debentures (Post)		-----	90
Total		-----	90
Note No. 03 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation (TR 1:1)		750	750
Total		750	750
Note No. 04 Other expenses			
Particulars		Pre ₹	Post ₹
Selling expenses (SR 2:3)		1,200	1,800
Director's remuneration (Post)		-----	750
Administration expenses (Rent, Rates etc.) (TR 1:1)		2,250	2,250
Total		3,450	4,800

5. Calculation of Time Ratio & Sales Ratio							
1.	Pre-incorporation Period	From	01.01.2021	To	01.05.2021	=	4 Months
	Post-incorporation Period	From	01.05.2021	To	30-09-2021	=	5 Months
	Therefore Time Ratio					4:5	

2. Weighted Sales Ratio:

Sine turnover is given as sales the monthly average of which for the first four months of 2013 was half that of the remaining period, Weightage is 0.5.

Pre-incorporation Period		Post-incorporation Period		
01.01.2021	0.5	01.05.2021	1.0	
To	×	To	×	
01.05.2021	4	30.09.2021	5	
	2.0		5.0	
Therefore Sales Ratio		2:5		
3.	Calculation of rent:			₹
Pre-incorporation Period: 01.01.2021 To 01.05.2021 ($6,000 \times \frac{6}{12} \times \frac{4}{6}$)				2,000

Post-incorporation Period: 01.05.2021 To 30.06.2021 ($6,000 \times \frac{6}{12} \times \frac{2}{6}$)		1,000	
[$6,000 \times 140\%$] = 8,400	30.06.2021 To 30-09-2021 ($8,400 \times \frac{6}{12} \times \frac{3}{6}$)	2,100	3,100
Or			
Pre-incorporation Period:	$6,000 \div 12 = 500 \times 4$		2,000
Post-incorporation Period:	$6,000 \div 12 = 500 \times 2$	1,000	
	[$6,000 \times 140\%$] = $8400 \div 12 = 700 \times 3$	2,100	3,100

Statement of Profit and Loss of X. Ltd., for the year ended 30-09-2021

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 2:5)		12,000	30,000
Less: Expenses:			
Employee benefit expense	01	1,700	-----
Depreciation and amortization expenses	02	-----	2,000
Other expenses	03	5,200	19,100
Pre-incorporation profit (transferred to CR or GW)		5,100	-----
Post-incorporation profit (transferred to P/L A/C)		-----	8,900

Working Notes:

Note No. 01 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Salary to manager [$5,100 \times 4/12$]		1,700	-----
Total		1,700	-----
Note No. 02 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Preliminary Expenses Written off (Post)		-----	2,000
Total		-----	2,000
Note No. 03 Other expenses			
Particulars		Pre ₹	Post ₹
General expenses (TR 4:5)		3,200	4,000
Director's remuneration (Post)		-----	12,000
Rent (Note)		2,000	3,100
Total		5,200	19,100

6. Calculation of Time Ratio & Sales Ratio							
1.	Pre-incorporation Period	From	01.01.2021	To	01.04.2021	=	3 Months
	Post-incorporation Period	From	01.04.2021	To	31-12-2021	=	9 Months
Therefore Time Ratio					3:9		1:3
2.	Sales Ratio 1:3						

Statement of Profit and Loss of Tiger Ltd., for the year ended 30-09-2021

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 1:3)		5,000	15,000
Less: Expenses:			
Financial costs	01	750	500
Depreciation and amortization expenses	02	250	1,250
Other expenses	03	863	3,387
Pre-incorporation profit (transferred to CR or GW)		3,137	-----
Post-incorporation profit (transferred to P/L A/C)		-----	9,863

Working Notes:

Note No. 01 Financial costs			
Particulars		Pre ₹	Post ₹
Interest to Vendors (TR 3:2)		750	500
Total		750	500
Note No. 02 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation (TR 1:3)		250	750
Preliminary Expenses Written off (Post)		-----	500
Total		250	1,250
Note No. 03 Other expenses			
Particulars		Pre ₹	Post ₹
Expenses of Management (TR 1:3)		763	2,287
Bad Debts (Given)		100	100
Directors Fees (Post)		-----	1,000
Total		863	3,387

7.	Calculation of Time Ratio & Sales Ratio							
1.	Pre-incorporation Period	From	01.11.2020	To	01.03.2021	=	4 Months	
	Post-incorporation Period	From	01.03.2021	To	31-10-2021	=	8 Months	
	Therefore Time Ratio					4:8		1:2
2.	Calculation of Sales Ratio							
	Pre-incorporation Period Sales [From 01.11.2020 To 01.03.2021]							₹ 2,50,000
	Post-incorporation Period Sales [From 01.03.2021 To 31.10.2021]							₹ 3,50,000
	Therefore Sales Ratio							5:7

Statement of Profit and Loss of Hippo Ltd., for the year ended 31-10-2021

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 5:7)		75,000	1,05,000
Less: Expenses:			

Employee benefit expense	01	5,000	10,000
Financial costs	02	2,000	6,000
Depreciation and amortization expenses	03	8,000	16,000
Other expenses	04	17,800	35,000
Pre-incorporation profit (transferred to CR or GW)		42,200	-----
Post-incorporation profit (transferred to P/L A/C)		-----	38,000

Working Notes:

Note No. 01 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Salaries (TR 1:2)		5,000	10,000
Total		5,000	10,000
Note No. 02 Financial costs			
Particulars		Pre ₹	Post ₹
Interest on debentures (Post)		-----	5,000
Interest to vendor on purchase consideration up to May 1, 2021 (TR 4:2)		2,000	1,000
Total		2,000	6,000
Note No. 03 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation (TR 1:2)		8,000	16,000
Total		8,000	16,000
Note No. 04 Other expenses			
Particulars		Pre ₹	Post ₹
Rent (TR 1:2)		3,000	6,000
Directors' fees (Post)		-----	4,800
Audit fees (Post)		-----	1,500
Discount on sales (SR 5:7)		1,500	2,100
General expenses (TR 1:2)		1,600	3,200
Advertising (SR 5:7)		7,500	10,500
Stationery and printing (TR 1:2)		1,200	2,400
Commission on sales (SR 5:7)		2,500	3,500
Bad debts (₹ 500 relate to debts created prior to incorporation) (Given)		500	1,000
Total		17,800	35,000

8.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	01.04.2021	=	3 Months
	Post-incorporation Period	From	01.04.2021	To	31-12-2021	=	9 Months
Therefore Time Ratio					1:3		

2. Weighted Sales Ratio:

The average monthly sales for the first three months of **2021** was ₹ 32,000 and for the rest of the year was ₹ 64,000. Weightage is 0.5.

Pre-incorporation Period		Post-incorporation Period	
01.01.2021	0.5	01.04.2021	1.0
To	×	To	×
01.04.2021	3	31.12.2021	9
	1.5		9.0
Therefore Sales Ratio		1:6	

Statement of Profit and Loss of R & Company Ltd., for the year ended 31-12-2021

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 1:6)		20,000	1,20,000
Less: Expenses:			
Employee benefit expense	01	8,000	24,000
Financial costs	02	1,000	4,600
Depreciation and amortization expenses	03	3,200	9,600
Other expenses	04	5,700	30,500
Pre-incorporation profit (transferred to CR or GW)		2,100	-----
Post-incorporation profit (transferred to P/L A/C)		-----	51,300

Working Notes:

Note No. 01 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Salaries and allowances (TR 1:3)		8,000	24,000
Total		8,000	24,000
Note No. 02 Financial costs			
Particulars		Pre ₹	Post ₹
Debenture interest (Post)		-----	3,600
Interest to vendors (up to 30.06.2021) (TR1:1)		1,000	1,000
Total		1,000	4,600
Note No. 03 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation (TR 1:3)		3,200	9,600
Total		3,200	9,600
Note No. 04 Other expenses			
Particulars		Pre ₹	Post ₹
Rent (Given)		1,200	5,400
Rates [7,000 – 6,600] (TR 1:3)		100	300

Directors' fees (Post)	-----	3,600
Commission to agents (SR 1:6)	1,600	9,600
General expenses (TR 1:3)	2,400	7,200
Advertising (SR 1:6)	400	2,400
Audit fees (Post)	-----	2,000
Total	5,700	30,500

9.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.04.2021	To	01.08.2021	=	4 Months
	Post-incorporation Period	From	01.08.2021	To	31-03-2022	=	8 Months
	Therefore Time Ratio					1:2	

2. Weighted Sales Ratio:

The total sales for the year amounted to ₹ 9,60,000 which arose evenly up to the date of the certificate of commencement, there after sales spurted to record an increase of two-thirds during the rest of the year. Weightage is 3.0.

Pre-incorporation Period		Post-incorporation Period		
01.04.2021	3.0	01.08.2021	3.0	
To	×	To	×	
01.08.2021	4	30.09.2021	2	6.0
		01.10.2021	5.0	
		To	×	
		31.03.2022	6	30.0
	12.0		36.0	
Therefore Sales Ratio		12:36		1:3

3.	Calculation of rent:		₹
	Pre-incorporation Period: 01.04.2021 To 01.08.2021 (1,000 × 4)		4,000
	Post-incorporation Period: 01.08.2021 To 30.09.2021 (1,000 × 2)		2,000
	[1,000 + 200] = 1,200	30.09.2021 To 31.03.2022 (1,200 × 6)	7,200
			9,200

Statement of Profit and Loss of A Public Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 1:3)		40,000	1,20,000
Less: Expenses:			
Employee benefit expense	01	8,000	16,000
Financial costs	02	1,400	2,200
Depreciation and amortization expenses	03	1,500	3,300
Other expenses	04	21,950	61,850

Pre-incorporation profit (transferred to CR or GW)		7,150	-----
Post-incorporation profit (transferred to P/L A/C)		-----	36,650

Working Notes:

Note No. 01 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Salaries TR 1:2		8,000	16,000
Total		8,000	16,000
Note No. 02 Financial costs			
Particulars		Pre ₹	Post ₹
Debenture Interest Post		-----	1,500
Interest to Vendors TR 4:2		1,400	700
Total		1,400	2,200
Note No. 03 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation on Fixed Assets		-----	300
Depreciation on Others [4,800 – 300] TR 1:2		1,500	3,000
Total		1,500	3,300
Note No. 04 Other expenses			
Particulars		Pre ₹	Post ₹
Printing & Stationery TR 1:2		800	1,600
Travelling Expenses: Sales promotion SR 1:3		600	1,800
Travelling Expenses: Others [8,400 – 2,400] TR 1:2		2,000	4,000
Advertisement SR 1:3		2,000	6,000
Trade Expenses TR 1:2		6,300	12,600
Rent (Office) (Given)		4,000	9,200
Electricity Charges TR 1:2		700	1,400
Director's Fees Post		-----	5,600
Bad Debts SR 1:3		400	1,200
Commission on Sales SR 1:3		2,000	6,000
Audit Fees Post		-----	3,000
Selling Expenses SR 1:3		3,150	9,450
Total		21,950	61,850

10.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.04.2021	To	01.07.2021	=	3 Months
	Post-incorporation Period	From	01.07.2021	To	31.03.2022	=	9 Months
	Therefore Time Ratio					1:3	

2.	Calculation of Sales Ratio	
	Pre-incorporation Period Sales [From 01.04.2021 To 01.07.2021]	₹ 1,60,000
	Post-incorporation Period Sales [From 01.07.2021 To 31.03.2022]	₹ 2,40,000
	Therefore Sales Ratio	2:3

Statement of Profit and Loss of A Co. Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 2:3)		56,000	84,000
Less: Expenses:			
Employee benefit expense	01	18,000	54,000
Financial costs	02	-----	6,000
Depreciation and amortization expenses	03	2,000	8,000
Other expenses	04	16,500	41,500
Pre-incorporation profit (transferred to CR or GW)		19,500	-----
Post-incorporation Loss (transferred to P/L A/C & deducted)		-----	25,500

Working Notes:

Note No. 01 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Salaries and wages TR 1:3		18,000	54,000
Total		18,000	54,000
Note No. 02 Financial costs			
Particulars		Pre ₹	Post ₹
Interest on debentures Post		-----	6,000
Total		-----	6,000
Note No. 03 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation TR 1:3		2,000	6,000
Formation expenses written off Post		-----	2,000
Total		2,000	8,000
Note No. 04 Other expenses			
Particulars		Pre ₹	Post ₹
Rent (Given)		900	2,700
Office expenses TR 1:3		6,000	18,000
Commission on sale SR 2:3		6,400	9,600
Free samples SR 2:3		1,600	2,400
Audit fees Post		-----	2,000
Directors' fees Post		-----	2,000
Printing and stationery TR 1:3		1,000	3,000

Sundry expenses TR 1:3	200	600
Bad debts (Given)	400	1,200
Total	16,500	41,500

11.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.10.2020	To	01.02.2021	=	4 Months
	Post-incorporation Period	From	01.02.2021	To	30-09-2021	=	8 Months
	Therefore Time Ratio				1:2		
2.	Calculation of Sales Ratio						
	Pre-incorporation Period Sales [From 01.10.2020 To 01.02.2021]						₹ 40,000
	Post-incorporation Period Sales [From 01.02.2021 To 30-09-2021]						₹ 2,00,000
	Therefore Sales Ratio						1:5

Statement of Profit and Loss of A Co. Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 1:5)		16,000	80,000
Less: Expenses:			
Employee benefit expense	01	4,000	8,000
Financial costs	02	2,000	8,000
Depreciation and amortization expenses	03	1,200	4,800
Other expenses	04	6,400	23,050
Pre-incorporation profit (transferred to CR or GW)		2,400	-----
Post-incorporation profit (transferred to P/L A/C)		-----	36,150

Working Notes:

Note No. 01 Employee benefit expense			
Particulars	Pre ₹	Post ₹	
Staff Salaries TR 1:2	4,000	8,000	
Total	4,000	8,000	

Note No. 02 Financial costs			
Particulars	Pre ₹	Post ₹	
Debenture Interest Post	-----	6,000	
Interest to vendors TR 4:4	2,000	2,000	
Total	2,000	8,000	

Note No. 03 Depreciation and amortization expenses			
Particulars	Pre ₹	Post ₹	
Depreciation on P/M TR 1:2	1,200	2,400	
Preliminary Expenses Post	-----	2,400	
Total	1,200	4,800	

Note No. 04 Other expenses		
Particulars	Pre ₹	Post ₹
Directors' Fees Post	-----	1,500
Auditors' Fees Post	-----	750
Rents, Rates, etc. TR 1:2	1,600	3,200
General Expenses TR 1:2	600	1,200
Commission sales SR 1:5	600	3,000
Printing and Stationery TR 1:2	800	1,600
Advertising SR 1:5	700	3,500
Traveler's expenses and Salaries SR 1:5	1,400	7,000
Bad Debts (Given)	700	1,300
Total	6,400	23,050

12.	Calculation of Time Ratio & Sales Ratio							
1.	Pre-incorporation Period	From	01-04-2021	To	01-07-2021	=	3 Months	
	Post-incorporation Period	From	01-07-2021	To	31-03-2022	=	9 Months	
	Therefore Time Ratio					3:9	OR	1:3

2. Weighted Sales Ratio:

Sine turnover is given as double in 3 specific months; it is assumed that in all other months, turnover is uniform. So weightage for each of those months is 1 & for the 3 specific months, Weightage is 2.

Pre-incorporation Period		Post-incorporation Period			
2021 April	2	2021 July to October	4 × 1	4	
2021 May	1	2021 November to December	2 × 2	4	
2021 June	1	2022 January to March	3 × 1	3	
	4			11	
Therefore Sales Ratio			4:11		
3.	Goodwill	=	Purchase consideration	–	Capital
		=	2,50,000	–	2,00,000
		=	₹ 50,000		

4. Pre-incorporation profit, being a capital profit, is adjusted against goodwill.

Statement of Profit and Loss of Heera Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	01	74,480	2,04,820
Less: Expenses:			
Purchases of stock in trade	02	52,475	1,44,305
Changes in Inventories (42,940 – 35,420) SR 4:11	03	2,005	5,515
Employee benefit expense	04	4,160	12,480

Depreciation and amortization expenses	05	-----	1,560
Other expenses	06	3,090	23,750
Pre-incorporation profit (transferred to CR or GW)		12,750	-----
Post-incorporation profit (transferred to P/L A/C)		-----	17,210

Working Notes:

Note No. 01 Revenue from Operation			
Particulars		Pre ₹	Post ₹
Sales SR 4:11		74,480	2,04,820
Total		74,480	2,04,820
Note No. 02 Purchases of stock in trade			
Particulars		Pre ₹	Post ₹
Purchases SR 4:11		52,475	1,44,305
Total		52,475	1,44,305
Note No. 03 Changes in Inventories			
Particulars		Pre ₹	Post ₹
Opening Stock	42,940		
Less: Closing Stock	35,420		
Changes in Inventories SR 4:11		2,005	5,515
Total		2,005	5,515
Note No. 04 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Office Salaries TR 1:3		4,160	12,480
Total		4,160	12,480
Note No. 05 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Preliminary Expenses to written off Post		-----	1,560
Total		-----	1,560
Note No. 06 Other expenses			
Particulars		Pre ₹	Post ₹
Carriage outward SR 4:11		440	1,210
Travelers' Commission SR 4:11		1,640	4,510
Rent and Taxes TR 1:3		410	1,230
Office expenses TR 1:3		600	1,800
Director's Salary Post		-----	15,000
Total		3,090	23,750

Balance Sheet as at 31.03.2022

Sources of funds (Liabilities)	Note No.	₹	₹
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Equity and Liabilities:			
1. Shareholders fund:			
Share capital	07		2,50,000
Reserves and surplus	08		17,210
2. Share Application money pending allotment			
			NIL
3. Non-current Liabilities:			
4. Current Liabilities:			
Other Current Liabilities	09		31,660
TOTAL			2,98,870
Assets:			
	Note No.	₹	₹
1. Non-Current Assets:			
Fixed Assets	10		1,62,250
2. Current Assets:			
Inventories	11		35,420
Other Current Assets	12		1,01,200
TOTAL			2,98,870

Working Notes:

Note No. 07 Share capital		
Particulars		₹
25,000 equity shares of ₹ 10 each fully paid (all the shares are issued of consideration other than for cash)		25,000
Total		2,50,000
Note No. 08 Reserves and surplus		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		17,210
Total		17,210
Note No. 09 Other Current Liabilities		
Particulars		₹
Current Liabilities		31,660
Total		31,660
Note No. 10 Fixed Assets		
Particulars		₹
Goodwill	50,000	
Less: Pre-incorporation profit	12,750	37,250
Other Fixed Assets		1,25,000
Total		1,62,250
Note No. 11 Inventories		

Particulars		₹
Closing Stock		35,420
Total		35,420
Note No. 12 Other Current Assets		
Particulars		₹
Current Assets (other than stock)		1,01,200
Total		1,01,200

13.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01-01-2021	To	01-04-2021	=	3 Months
	Post-incorporation Period	From	01-04-2021	To	31-12-2021	=	9 Months
	Therefore Time Ratio				3:9	OR	1:3

2. Sales Ratio:

Pre-incorporation Period Sales	=	₹ 7,500
Post-incorporation Period Sales	₹ (45,000 – 7,500)	₹ 37,500
Therefore Sales Ratio	7,500 : 37,500	1:5

Statement of Profit and Loss of Swetha Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	01	7,500	37,500
Other Incomes	02	150	450
Total Revenue		7,650	37,950
Less: Expenses:			
Purchases of stock in trade	03	8,083	40,417
Changes in Inventories	04	(2,333)	(11,667)
Employee benefit expense	05	300	900
Financial Cost	06	500	500
Depreciation and amortization expenses	07	150	450
Other expenses	08	192	1,548
Pre-incorporation profit (transferred to CR or GW)		758	-----
Post-incorporation profit (transferred to P/L A/C)		-----	5,802

Working Notes:

Note No. 01 Revenue from Operation			
Particulars		Pre ₹	Post ₹
Sales SR 1:5		7,500	37,500
Total		7,500	37,500
Note No. 02 Other Incomes			
Particulars		Pre ₹	Post ₹

Rent received TR 1:3		150	450
Total		150	450
Note No. 03 Purchases of stock in trade			
Particulars		Pre ₹	Post ₹
Purchases SR 1:5		8,083	40,417
Total		8,083	40,417
Note No. 04 Changes in Inventories			
Particulars		Pre ₹	Post ₹
Opening Stock	NIL		
Less: Closing Stock	14,000		
Changes in Inventories SR 1:5	(- 14,000)	(2,333)	(11,667)
Total		(2,333)	(11,667)
Note No. 05 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Salaries TR 1:3		300	900
Total		300	900
Note No. 06 Financial Cost			
Particulars		Pre ₹	Post ₹
Interest to vendors paid up to 01-07-2021 TR 3:3		500	500
Total		500	500

Note No. 07 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation on: Buildings TR 1:3		100	300
Depreciation on: Plant TR 1:3		50	150
Total		150	450
Note No. 08 Other expenses			
Particulars		Pre ₹	Post ₹
Rent Paid TR 1:3		112	338
Director's fees Post		-----	720
Sundry charges TR 1:3		30	90
Bad debts Actual		50	150
Bad debts Reserve Post		-----	250
Total		192	1,548

Balance Sheet as at 31.03.2022

Sources of funds (Liabilities)	Note No.	₹	₹
Equity and Liabilities:			

1. Shareholders fund:			
Share capital	09		22,500
Reserves and surplus	10		6,560
2. Share Application money pending allotment			NIL
3. Non-current Liabilities:			
4. Current Liabilities:			
Trade Payables	11		3,000
TOTAL			32,060
Assets:	Note No.	₹	₹
1. Non-Current Assets:			
Fixed Assets	12		9,150
2. Current Assets:			
Inventories	13		14,000
Trade Receivables	14		4,050
Cash and Cash equivalents	15		4,860
TOTAL			32,060

Working Notes:

Note No. 09 Share capital		
Particulars		₹
Share Capital		22,500
Total		22,500
Note No. 10 Reserves and surplus		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C))		5,802
Capital Reserve Account (Pre-incorporation profit)		758
Total		6,560
Note No. 11 Trade Payables		
Particulars		₹
Sundry creditors		3,000
Total		3,000
Note No. 12 Fixed Assets		
Particulars		₹
Building	8,000	
Less: Depreciation	400	7,600
Furniture		750
Plant	1,000	
Less: Depreciation	200	800

Total		9,150
Note No. 13 Inventories		
Particulars		₹
Closing Stock		14,000
Total		14,000
Note No. 14 Trade Receivables		
Particulars		₹
Sundry debtors	4,500	
Less: Bad debts	200	
Less: New RBD	250	4,050
Total		4,050
Note No. 15 Cash and Cash equivalents		
Particulars		₹
Current Assets (other than stock)		4,860
Total		4,860

14.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01-04-2021	To	01-07-2021	=	3 Months
	Post-incorporation Period	From	01-07-2021	To	31-03-2022	=	9 Months
	Therefore Time Ratio				3:9	OR	1:3

2. Sales Ratio:

Pre-incorporation Period Sales	=	₹ 75,000
Post-incorporation Period Sales	₹ (4,50,000 – 75,000)	₹ 3,75,000
Therefore Sales Ratio	75,000 : 3,75,000	1:5

Statement of Profit and Loss of Leopard Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	01	75,000	3,75,000
Other Incomes	02	1,500	4,500
Total Revenue		76,500	3,79,500
Less: Expenses:			
Purchases of stock in trade	03	80,833	4,04,167
Changes in Inventories	04	(23,333)	(1,16,667)
Employee benefit expense	05	3,000	9,000
Financial Cost	06	4,375	4,375
Depreciation and amortization expenses	07	1,000	3,000
Other expenses	08	3,125	12,775
Pre-incorporation profit (transferred to CR or GW)		7,500	-----

Post-incorporation profit (transferred to P/L A/C)		-----	62,850
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Working Notes:

Note No. 01 Revenue from Operation			
Particulars		Pre ₹	Post ₹
Sales SR 1:5		75,000	3,75,000
Total		75,000	3,75,000
Note No. 02 Other Incomes			
Particulars		Pre ₹	Post ₹
Rent received TR 1:3		1,500	4,500
Total		1,500	4,500
Note No. 03 Purchases of stock in trade			
Particulars		Pre ₹	Post ₹
Purchases SR 1:5		80,833	4,04,167
Total		80,833	4,04,167
Note No. 04 Changes in Inventories			
Particulars		Pre ₹	Post ₹
Opening Stock	NIL		
Less: Closing Stock	1,40,000		
Changes in Inventories SR 1:5	(- 1,40,000)	(23,333)	(1,16,667)
Total		(23,333)	(1,16,667)
Note No. 05 Employee benefit expense			
Particulars		Pre ₹	Post ₹
Salaries TR 1:3		3,000	9,000
Total		3,000	9,000

Note No. 06 Financial Cost			
Particulars		Pre ₹	Post ₹
Interest to vendors paid up to 01-10-2021 TR 3:3		4,375	4,375
Total		4,375	4,375

Note No. 07 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation on: Buildings TR 1:3 (3,250)		813	2,437
Depreciation on: Furniture TR 1:3 (750)		187	563
Total		1,000	3,000

Note No. 08 Other expenses			
Particulars		Pre ₹	Post ₹
Rates & Taxes TR 1:3		750	2,250

Repairs TR 1:3	375	1,125
Director's fees Post	-----	1,200
Miscellaneous Expenses TR 1:3	1,800	5,400
Bad debts Actual	200	300
Bad debts Reserve Post	-----	2,500
Total	3,125	12,775

Balance Sheet as at 31.03.2022

Sources of funds (Liabilities)	Note No.	₹	₹
Equity and Liabilities:			
1. Shareholders fund:			
Share capital	09		2,25,000
Reserves and surplus	10		70,350
2. Share Application money pending allotment			
			NIL
3. Non-current Liabilities:			
4. Current Liabilities:			
Trade Payables	11		30,000
TOTAL			3,25,350
Assets:			
1. Non-Current Assets:			
Fixed Assets	12		93,500
2. Current Assets:			
Inventories	13		1,40,000
Trade Receivables	14		42,000
Cash and Cash equivalents	15		49,850
TOTAL			3,25,350

Working Notes:

Note No. 09 Share capital		
Particulars		₹
Share Capital: Authorised Capital		<u>5,00,000</u>
Issued, Subscribed, Called and Paid up Capital:		
22,500 Equity Shares of ₹ 10 each fully paid (17,500 of the shares are issued of consideration other than For cash)		2,25,000
Total		2,25,000
Note No. 10 Reserves and surplus		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		62,850
Capital Reserve Account (Pre-incorporation profit)		7,500

Total			70,350
Note No. 11 Trade Payables			
Particulars			₹
Sundry creditors			30,000
Total			30,000
Note No. 12 Fixed Assets			
Particulars			₹
Freehold land-at cost			25,000
Building		65,000	
Less: Depreciation		3,250	61,750
Furniture		7,500	
Less: Depreciation		750	6,750
Total			93,500
Note No. 13 Inventories			
Particulars			₹
Closing Stock			1,40,000
Total			1,40,000
Note No. 14 Trade Receivables			
Particulars			₹
Sundry debtors		45,000	
Less: Bad debts		500	
Less: New RBD		2,500	42,000
Total			42,000
Note No. 15 Cash and Cash equivalents			
Particulars			₹
Cash at bank			48,050
Cash in hand			1,800
Total			49,850

15.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01-06-2021	To	01-10-2021	=	4 Months
	Post-incorporation Period	From	01-10-2021	To	31-05-2022	=	8 Months
	Therefore Time Ratio				4:8	OR	1:2

2. Weighted Sales Ratio:

Sine turnover is given as double in 3 specific months; it is assumed that in all other months, turnover is uniform. So weightage for each of those months is 1 & for the 3 specific months, Weightage is 0.5.

Pre-incorporation Period		Post-incorporation Period
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2021 June	0.5		2021 October to May 2022		8 × 1	8
2021 July	0.5					
2021 August	0.5					
2021 September	1					
	2.5					8
Therefore Sales Ratio				2.5:8	OR	5:16
3. Goodwill	=	Purchase consideration	–	Capital		
	=	35,000	–	28,950		
	=	₹ 6,050				

Statement of Profit and Loss of Rowlock Ltd., for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	01	12,425	39,760
Total Revenue		12,425	39,760
Less: Expenses:			
Purchases of stock in trade	02	9,245	29,584
Changes in Inventories	03	75	240
Financial Cost	04	-----	525
Depreciation and amortization expenses	05	-----	218
Other expenses	06	1,271	4,448
Pre-incorporation profit (transferred to CR or GW)		1,834	-----
Post-incorporation profit (transferred to P/L A/C)		-----	4,745

Working Notes:

Note No. 01 Revenue from Operation			
Particulars		Pre ₹	Post ₹
Sales SR 5:16		12,425	39,760
Total		12,425	39,760
Note No. 02 Purchases of stock in trade			
Particulars		Pre ₹	Post ₹
Purchases SR 5:16		9,245	29,584
Total		9,245	29,584

Note No. 03 Changes in Inventories			
Particulars		Pre ₹	Post ₹
Opening Stock	5,261		
Less: Closing Stock	4,946		
Changes in Inventories SR 5:16		75	240
Total		75	240

Note No. 04 Financial Cost		
Particulars	Pre ₹	Post ₹
Debenture Interest (Gross) Post	-----	525
Total	-----	525
Note No. 05 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Formation Expenses written off Post	-----	218
Total	-----	218
Note No. 06 Other expenses		
Particulars	Pre ₹	Post ₹
Wrapping SR 5:16	200	640
Postage SR 5:16	105	336
Warehouse Rent & Rates TR 1:2	307	614
Packing Expenses SR 5:16	450	1,440
Office Expenses TR 1:2	209	418
Director's Salary Post	-----	1,000
Total	1,271	4,448

Balance Sheet as at 31.03.2022

Sources of funds (Liabilities)	Note No.	₹	₹
Equity and Liabilities:			
1. Shareholders fund:			
Share capital	07		20,000
Reserves and surplus	08		4,745
2. Share Application money pending allotment			NIL
3. Non-current Liabilities:			
Long Term Borrowings	09		15,000
4. Current Liabilities:			
Other Current Liabilities	10		4,162
TOTAL			43,907
Assets:	Note No.	₹	₹
1. Non-Current Assets:			
Fixed Assets	11		29,216
2. Current Assets:			
Inventories	12		4,946
Other Current Assets	13		9,745
TOTAL			43,907

Working Notes:

Note No. 07 Share capital		
Particulars		₹
Share Capital: 20,000 equity shares of ₹ 1 each (20,000 of the shares are issued for consideration other than for cash)		20,000
Total		20,000
Note No. 08 Reserves and surplus		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C))		4,745
Total		4,745
Note No. 09 Long Term Borrowings		
Particulars		₹
7% Debentures (are issued for consideration other than for cash)		15,000
Total		15,000
Note No. 10 Other Current Liabilities		
Particulars		₹
Current Liabilities		4,162
Total		4,162
Note No. 11 Fixed Assets		
Particulars		₹
Goodwill	6,050	
Less: Pre-incorporation Profit	1,834	4,216
Other Fixed Assets		25,000
Total		29,216
Note No. 12 Inventories		
Particulars		₹
Closing Stock		4,946
Total		4,946
Note No. 13 Other Current Assets		
Particulars		₹
Current Assets (Other than stock)		9,745
Total		9,745

16.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	January	To	1 st April	=	3 Months
	Post-incorporation Period	From	1 st April	To	31 st December	=	9 Months
	Therefore Time Ratio				3:9	OR	1:3
2.	Sales Ratio				1:3		

Statement of Profit and Loss of Rowlock Ltd., for the year ended 31-12-2021

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	01	2,27,500	6,82,500
Other Income	02	3,250	9,750
Total Revenue		2,30,750	6,92,250
Less: Expenses:			
Purchases of stock in trade	03	1,92,500	5,77,500
Changes in Inventories	04	(15,000)	(45,000)
Employees Benefit Expenses	05	12,000	36,000
Financial Cost	06	8,750	8,750
Depreciation and amortization expenses	07	3,750	19,250
Other expenses	08	8,500	31,900
Pre-incorporation profit (transferred to CR or GW)		20,250	-----
Post-incorporation profit (transferred to P/L A/C)		-----	63,850

Working Notes:

Note No. 01 Revenue from Operation			
Particulars		Pre ₹	Post ₹
Sales SR 1:3		2,27,500	6,82,500
Total		2,27,500	6,82,500
Note No. 02 Other Income			
Particulars		Pre ₹	Post ₹
Rent Received TR 1:3		3,250	9,750
Total		3,250	9,750
Note No. 03 Purchases of stock in trade			
Particulars		Pre ₹	Post ₹
Purchases SR 1:3		1,92,500	5,77,500
Total		1,92,500	5,77,500
Note No. 04 Changes in Inventories			
Particulars		Pre ₹	Post ₹
Opening Stock	4,20,000		
Less: Closing Stock	4,80,000		
Changes in Inventories SR 1:3	(60,000)	(15,000)	(45,000)
Total		(15,000)	(45,000)
Note No. 05 Employees Benefit Expenses			
Particulars		Pre ₹	Post ₹
Salaries TR 1:3		12,000	36,000
Total		12,000	36,000

Note No. 06 Financial Cost		
Particulars	Pre ₹	Post ₹
Interest to vendors 6 : 6	8,750	8,750
Total	8,750	8,750
Note No. 07 Depreciation and amortization expenses		
Particulars	Pre ₹	Post ₹
Depreciation on Building (6,500) TR 1:3	1,625	4,875
Depreciation on Furniture (1,500) TR 1:3	375	1,125
Depreciation on Vehicles (7,000) TR 1:3	1,750	5,250
Preliminary Expenses written off Post	-----	8,000
Total	3,750	19,250
Note No. 08 Other expenses		
Particulars	Pre ₹	Post ₹
Rates and taxes TR 1:3	1,750	5,250
Repairs to building TR 1:3	750	2,250
Miscellaneous expenses TR 1:3	5,500	16,500
Directors' fees Post	-----	2,400
Bad debts	500	500
Bad debts Reserve Post	-----	5,000
Total	8,500	31,900

Balance Sheet as at 31.12-2021

Sources of funds (Liabilities)	Note No.	₹	₹
Equity and Liabilities:			
1. Shareholders fund:			
Share capital	09		4,50,000
Reserves and surplus	10		81,000
2. Share Application money pending allotment			NIL
3. Non-current Liabilities:			
Other Long Term Borrowings	11		35,000
4. Current Liabilities:			
Short Term Borrowings	12		1,65,000
Trade Payables	13		65,000
TOTAL			7,96,000
Assets:	Note No.	₹	₹
1. Non-Current Assets:			
Fixed Assets	14		2,15,000
2. Current Assets:			

Inventories	15		4,80,000
Trade Receivables	16		89,000
Cash and Cash equivalents	17		12,000
TOTAL			7,96,000

Working Notes:

Note No. 09 Share capital		
Particulars		₹
Share Capital		4,50,000
Total		4,50,000

Note No. 10 Reserves and surplus		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C)		63,850
Capital Reserve: Pre-incorporation Profit	20,250	
Less: Goodwill Written off	3,100	17,150
Total		81,000

Note No.11 Other Long Term Liabilities		
Particulars		₹
Fixed deposits		35,000
Total		35,000

Note No. 12 Short Term Borrowings		
Particulars		₹
Bank overdraft		1,65,000
Total		1,65,000

Note No. 13 Trade Payables		
Particulars		₹
Sundry creditors		65,000
Total		65,000

Note No. 14 Fixed Assets		
Particulars		₹
Freehold land		50,000
Building	1,30,000	
Less: Depreciation	6,500	1,23,500
Transport vehicles	35,000	
Less: Depreciation	7,000	28,000
Furniture	15,000	
Less: Depreciation	1,500	13,500
Total		2,15,000

Note No. 15 Inventories		
Particulars		₹
Closing Stock		4,80,000
Total		4,80,000
Note No. 16 Trade Receivables		
Particulars		₹
Sundry debtors	95,000	
Less: Bad debts	1,000	
Less: New RBD	5,000	89,000
Total		89,000
Note No. 17 Cash and Cash equivalents		
Particulars		₹
Cash at bank		12,000
Total		12,000

17.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01-04-2021	To	01-07-2021	=	3 Months
	Post-incorporation Period	From	01-07-2021	To	31-03-2022	=	9 Months
	Therefore Time Ratio				3:9	OR	1:3

2. Weighted Sales Ratio:

Sine turnover is given as double in 3 specific months; it is assumed that in all other months, turnover is uniform. So weightage for each of those months is 1 & for the 3 specific months, Weightage is 2.

Pre-incorporation Period		Post-incorporation Period			
2021 April	2	2021 July to December	6 × 1	6	
2021 May	1	2022 January	1 × 1	1	
2021 June	1	2022 February & March	2 × 2	4	
	4			11	
Therefore Sales Ratio			4:11		
3.	Goodwill	=	Purchase consideration	–	Capital
		=	30,000	–	23,000
		=	₹ 7,000		

4. Pre-incorporation profit, being a capital profit, is adjusted against goodwill.

Statement of Profit and Loss of KK Limited for the year ended 31-03-2022

Particulars	Note No.	Pre ₹	Post ₹
Revenue from Operation	01	7,413	20,387
Total Revenue		7,413	20,387
Less: Expenses:			

Purchases of stock in trade	02	5,040	13,860
Changes in Inventories	03	(27)	(73)
Employees Benefit Expenses	04	525	1,575
Depreciation and amortization expenses	05	-----	520
Other expenses	06	588	3,492
Pre-incorporation profit (transferred to CR or GW)		1,287	-----
Post-incorporation profit (transferred to P/L A/C)		-----	1,013

Working Notes:

Note No. 01 Revenue from Operation			
Particulars		Pre ₹	Post ₹
Sales SR 4:11		7,413	20,387
Total		7,413	20,387
Note No. 02 Purchases of stock in trade			
Particulars		Pre ₹	Post ₹
Purchases SR 4:11		5,040	13,860
Total		5,040	13,860
Note No. 03 Changes in Inventories			
Particulars		Pre ₹	Post ₹
Opening Stock	4,300		
Less: Closing Stock	4,400		
Changes in Inventories SR 4:11	(- 100)	(27)	(73)
Total		(27)	(73)
Note No. 04 Employees Benefit Expenses			
Particulars		Pre ₹	Post ₹
Office Salaries TR 1:3		525	1,575
Total		525	1,575
Note No. 05 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Preliminary Expenses to written off Post		-----	520
Total		-----	520
Note No. 06 Other expenses			
Particulars		Pre ₹	Post ₹
Carriage outward SR 4:11		88	242
Travelers' Commission SR 4:11		200	550
Rent and Taxes TR 1:3		300	900
Director's Fee Post		-----	1,800
Total		588	3,492

Balance Sheet as at 31-03-2022

Sources of funds (Liabilities)	Note No.	₹	₹
Equity and Liabilities:			
1. Shareholders fund:			
Share capital	07		30,000
Reserves and surplus	08		1,013
2. Share Application money pending allotment			NIL
3. Non-current Liabilities:			
4. Current Liabilities:			
Other Current Liabilities	09		3,700
TOTAL			34,713
Assets:	Note No.	₹	₹
1. Non-Current Assets:			
Fixed Assets	10		19,113
2. Current Assets:			
Inventories	11		4,400
Other Current Assets	12		11,200
TOTAL			34,713

Working Notes:

Note No. 07 Share capital		
Particulars		₹
3,000 Equity Shares of ₹ 10 each fully paid (all the shares are issued of consideration other than for cash)		30,000
Total		30,000
Note No. 08 Reserves and surplus		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C))		1,013
Total		1,013
Note No.09 Other Current Liabilities		
Particulars		₹
Current Liabilities		3,700
Total		3,700
Note No. 10 Fixed Assets		
Particulars		₹
Goodwill	7,000	
Less: Pre-incorporation Profit	1,287	5,713
Fixed Assets		13,400

Total		19,113
Note No. 11 Inventories		
Particulars		₹
Closing Stock		4,400
Total		4,400
Note No. 12 Other Current Assets		
Particulars		₹
Current Assets (other than stock)		11,200
Total		11,200

18.	Calculation of Time Ratio & Sales Ratio						
1.	Pre-incorporation Period	From	01.01.2021	To	01.05.2021	=	4 Months
	Post-incorporation Period	From	01.05.2021	To	31-12-2021	=	8 Months
	Therefore Time Ratio				4:8	OR	1:2

2. Weighted Sales Ratio:

Sine turnover is given as sales per month in the first half-year being one-half of what they were in the latter half-year, Weightage is 0.5.

Pre-incorporation Period		Post-incorporation Period			
01.01.2021	0.5	01.05.2021	0.5		
To	×	To	×		
01.05.2021	4	30.06.2021	2	1.0	
		30.06.2021	1		
	2.0	To	×	6.0	
		31-12-2021	6		
				7.0	
Therefore Sales Ratio		2:7			
3.	Goodwill	=	Purchase consideration	–	Assets acquired from the vendors
		=	50,00,000	–	Machinery + Buildings + Patents
					30,00,000 + 6,00,000 + 4,00,000 = 40,00,000
		=	₹ 10,00,000		

4. Interest to vendors assumed discharged on 31.05.2021. So the amount allocated in the TR of 4:1.

Statement of Profit and Loss of Adarsh Udyog Ltd., for the year ended 31-12-2021

Particulars	Note No.	Pre ₹	Post ₹
Gross Profits (SR 2:7)		4,72,000	16,52,000
Less: Expenses:			
Financial costs		40,000	10,000
Depreciation and amortization expenses		1,80,000	3,70,000

Other expenses		1,24,000	4,00,000
Pre-incorporation profit (transferred to CR or GW)		1,28,000	-----
Post-incorporation profit (transferred to P/L A/C)		-----	8,72,000

Working Notes:

Note No. 01 Financial costs			
Particulars		Pre ₹	Post ₹
Interest to vendors TR 4:1		40,000	10,000
Total		40,000	10,000
Note No. 02 Depreciation and amortization expenses			
Particulars		Pre ₹	Post ₹
Depreciation TR 1:2		1,80,000	3,60,000
Preliminary expenses written off Post		-----	10,000
Total		1,80,000	3,70,000
Note No. 03 Other expenses			
Particulars		Pre ₹	Post ₹
Audit fees Post		-----	26,000
Directors' fees Post		-----	60,000
Office expenses TR 1:2		80,000	1,60,000
Selling expenses SR 2:7		44,000	1,54,000
Total		1,24,000	4,00,000

Balance Sheet as at 31-12-2021

Sources of funds (Liabilities)	Note No.	₹	₹
Equity and Liabilities:			
1. Shareholders fund:			
Share capital	04		80,00,000
Reserves and surplus	05		8,72,000
2. Share Application money pending allotment			NIL
3. Non-current Liabilities:			
4. Current Liabilities:			
TOTAL			88,72,000
Assets:	Note No.	₹	₹
1. Non-Current Assets:			
Fixed Assets	06		73,72,000
2. Current Assets:			
Inventories	07		10,00,000
Cash and Cash equivalents	08		5,00,000
TOTAL			88,72,000

Working Notes:

Note No. 04 Share capital		
Particulars		₹
Share Capital:		
Shares issued for the settlement of consideration other than for cash		40,00,000
Shares issued for cash to the public		40,00,000
Total		80,00,000
Note No. 05 Reserves and surplus		
Particulars		₹
Profit & Loss Account (Post-incorporation profit (transferred to P/L A/C))		8,72,000
Total		8,72,000
Note No. 06 Fixed Assets		
Particulars		₹
Goodwill	10,00,000	
Less: Pre-incorporation Profit	1,28,000	8,72,000
Machinery: From business purchase	30,00,000	
Machinery: From acquisition (Cash)	25,00,000	55,00,000
Buildings		6,00,000
Patents		4,00,000
Total		73,72,000
Note No. 07 Inventories		
Particulars		₹
Closing Stock		10,00,000
Total		10,00,000
Note No. 08 Cash and Cash equivalents		
Particulars		₹
Cash at bank		5,00,000
Total		5,00,000
