



Date: 10 March 2021

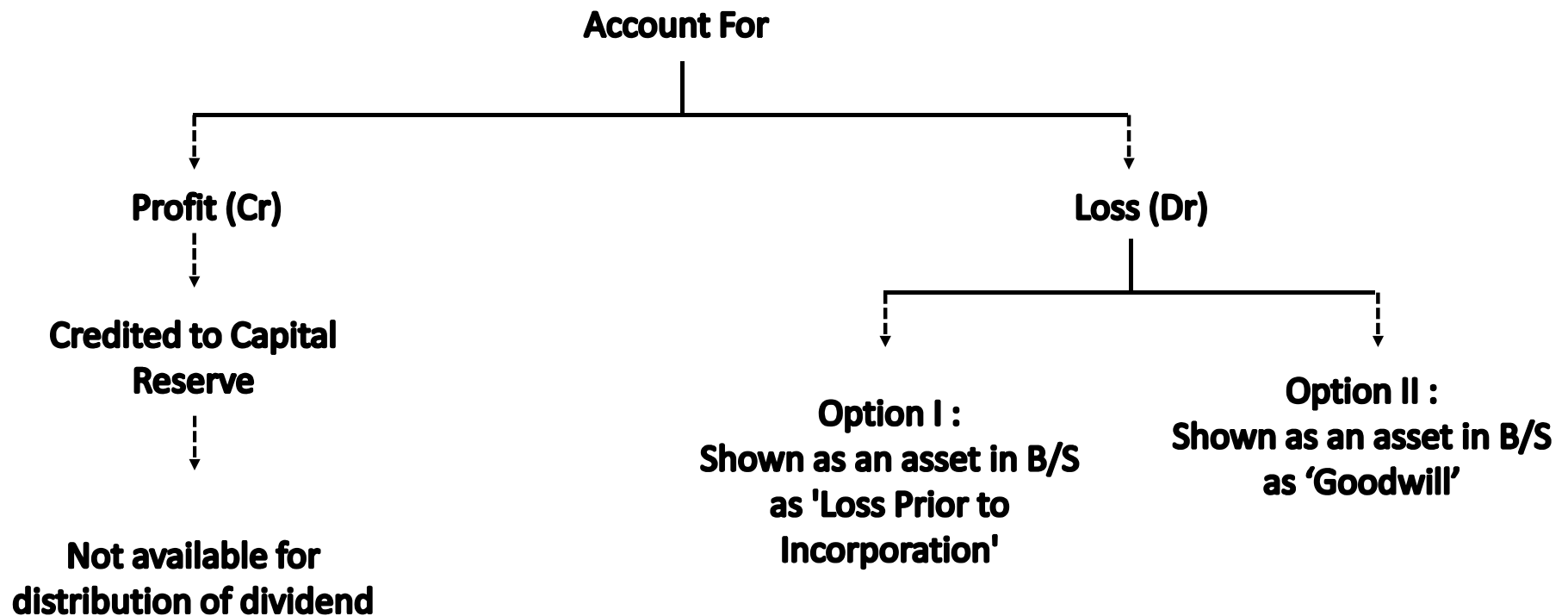
**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

**INTERMEDIATE LEVEL
PAPER 1: ACCOUNTING**

Faculty: CA Sanket Shah



HOW TO ACCOUNT FOR PROFIT/LOSS PRIOR TO INCORPORATION ?

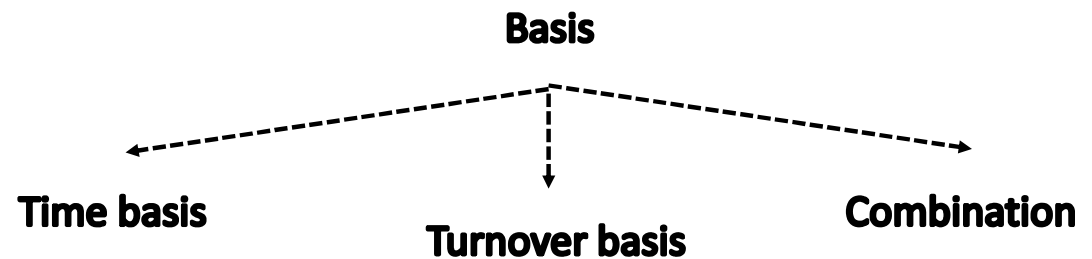




METHOD OF COMPUTING PROFIT/LOSS PRIOR TO INCORPORATION

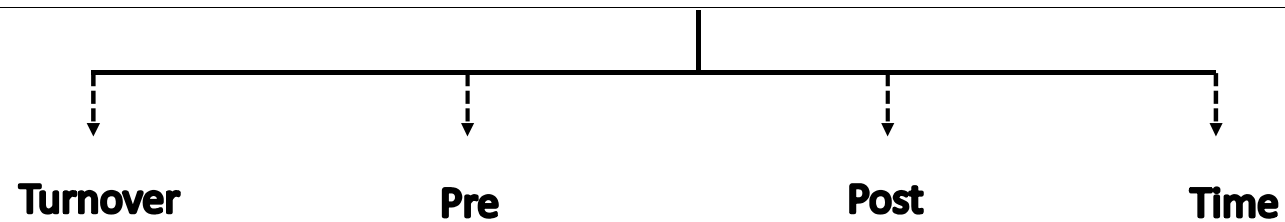
**Close off old books and open new
books at the date of incorporation**

**Split up the profit / loss between 'pre' and
'post' incorporation periods**



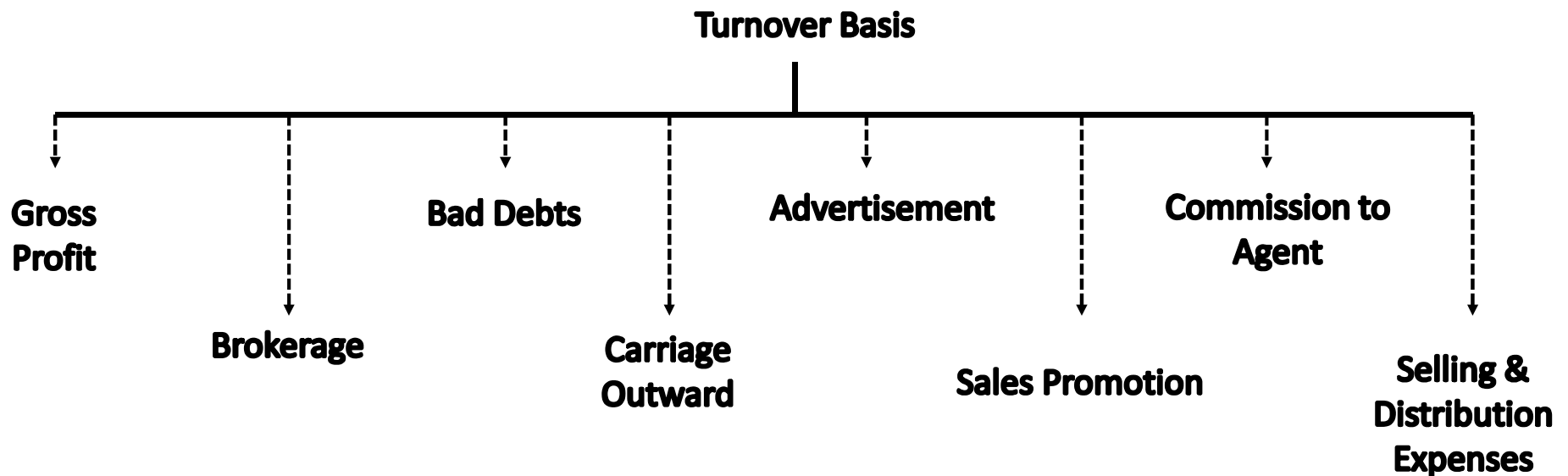


BASIS OF APPORTIONMENT



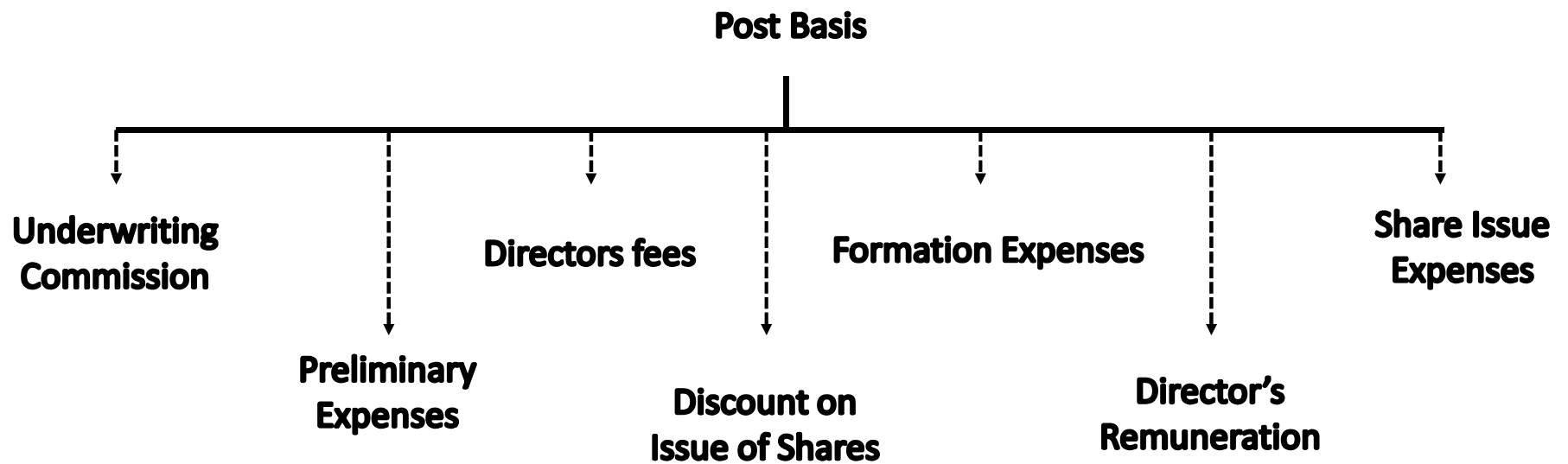


BASIS OF APPORTIONMENT



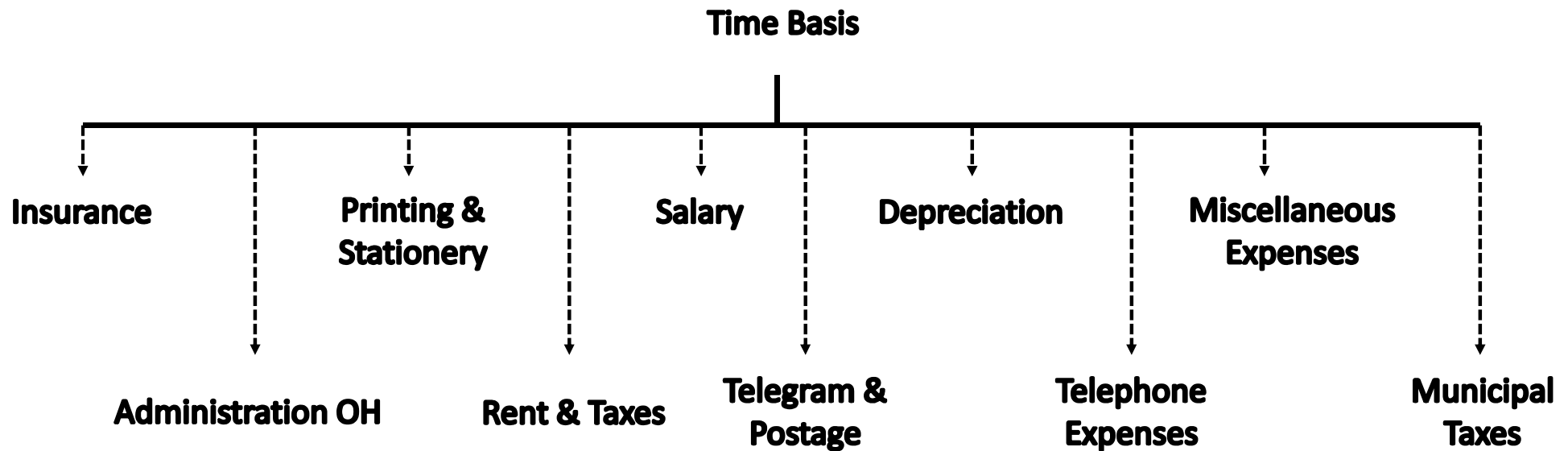


BASIS OF APPORTIONMENT





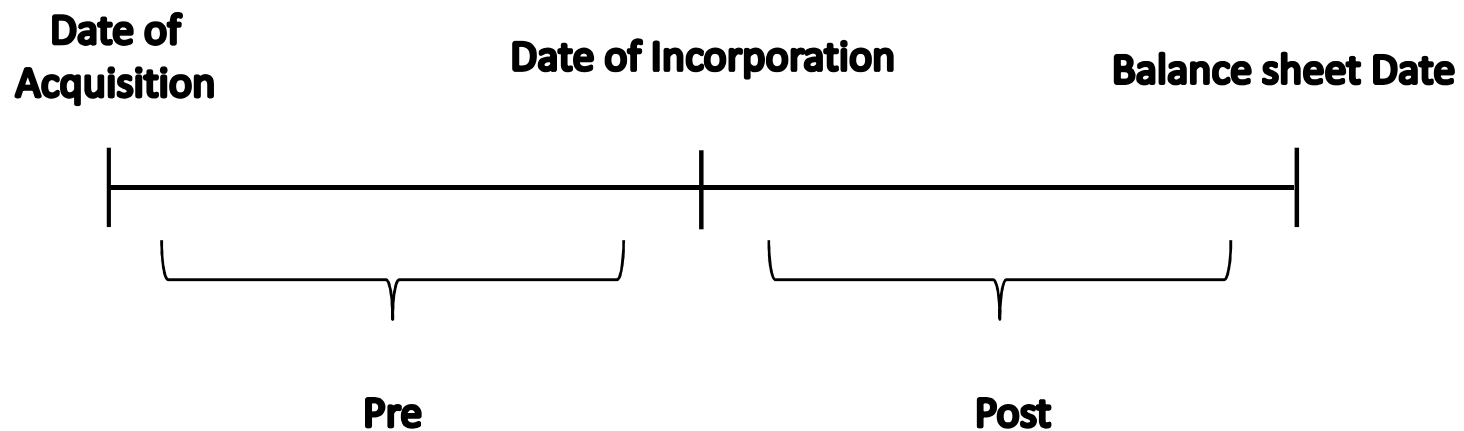
BASIS OF APPORTIONMENT





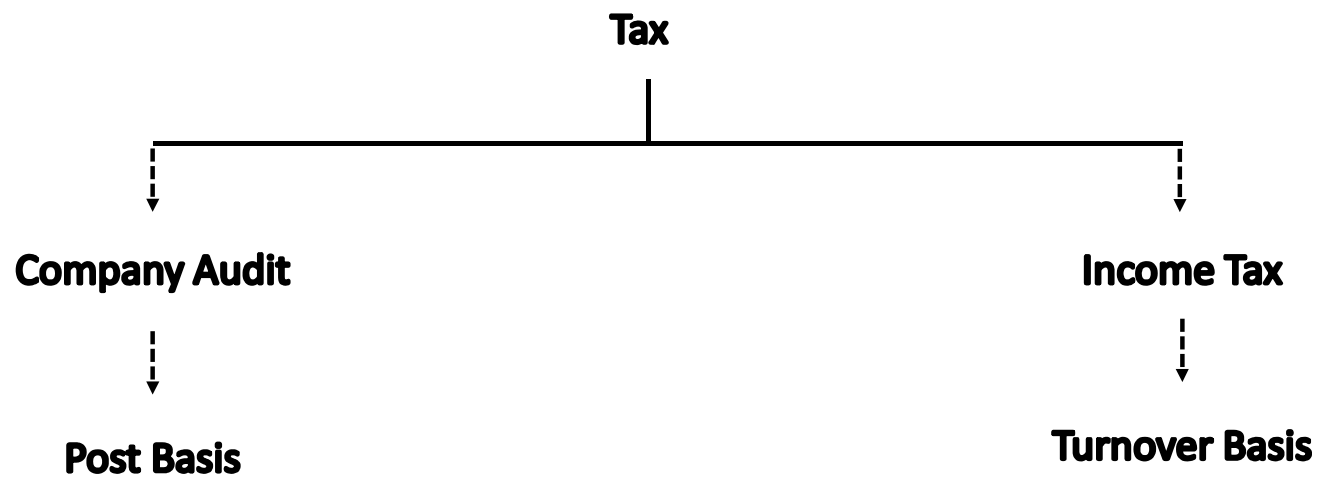
BASIS OF APPORTIONMENT

Interest on vendor's capital





BASIS OF APPORTIONMENT





USES OF PRE-INCORPORATION PROFITS & LOSSES

Pre-incorporation Profits	Post-incorporation Profits
<p>It is transferred to Capital Reserve Account (i.e. capitalized).</p> <p>It can be used for:</p> <ul style="list-style-type: none">Writing off Goodwill on acquisitionWriting off Preliminary ExpensesWriting down over-valued assetsIssuing of bonus sharesPaying up partly paid shares	<p>It is treated as a part of business acquisition cost (Goodwill).</p> <p>It can be used for:</p> <ul style="list-style-type: none">Setting off against Post-incorporation ProfitAddition to Goodwill on acquisitionWriting off Capital Profit



EXAMPLE

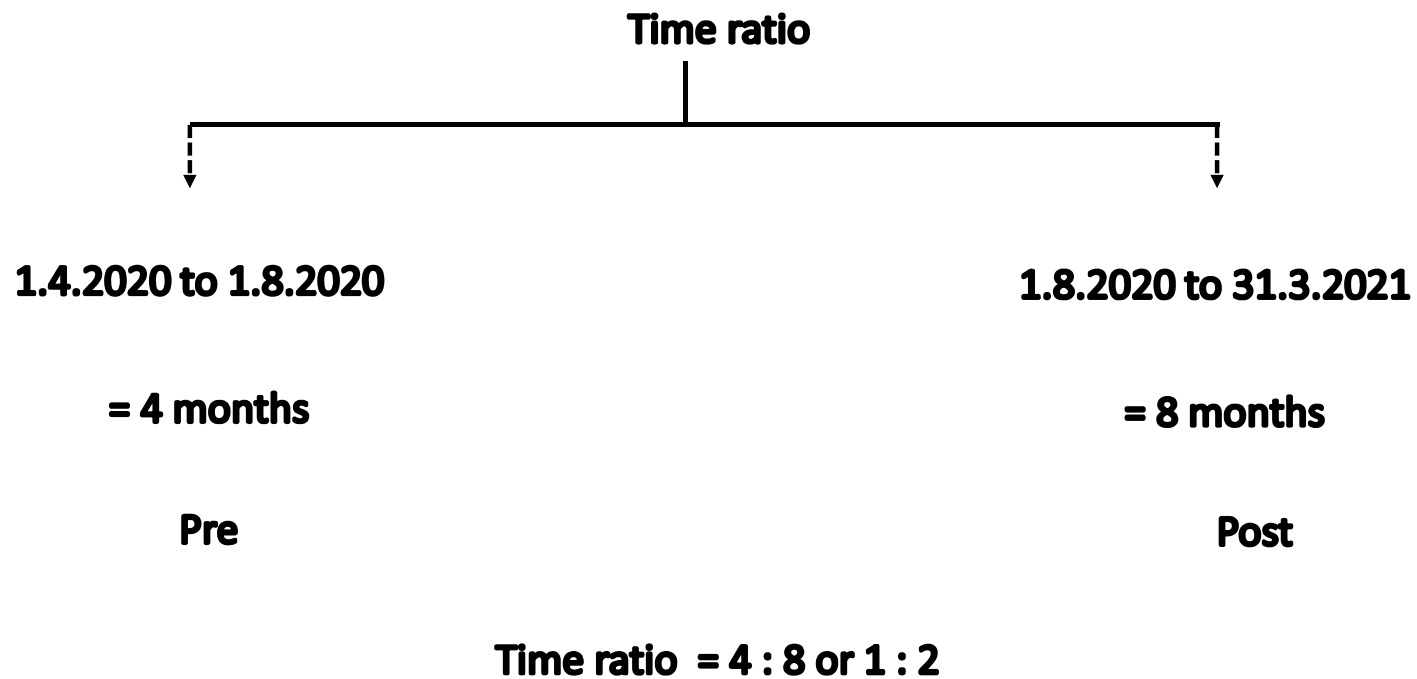
Lion Ltd. was incorporated on 1.8.2020 to take over the running business of M/s Happy with assets from 1.4.2020. The accounts of the company were closed on 31.3.2021.

The average monthly sales during the first four months of the year (2020-21) were twice the average monthly sales during each of the remaining eight months.

Calculate time ratio and sales ratio for pre and post incorporation periods.



SOLUTION :





THANK YOU