

**Answer to Test Section Q No 1**

**Calculation of pre and post incorporation periods**

Particulars		Basis	Pre.	Post	Total
Gross profit (1600 x 25%) ratio)	(sales	1:3	100	300	400
Less					
Salaries	(time ratio)	1:2	23	46	69
Rent, rates and insurance ratio)	(time	1:2	8	16	24
Sundry office expenses ratio)	(time	1:2	22	44	66
Travellers commission ratio)	(sales	1:3	4	12	16
Discount allowed ratio)	(sales	1:3	3	9	12
Bad debts ratio)	(sales	1:3	1	3	4
Directors fees		Post	-	25	25
Audit fees		Post	-	9	9
Depreciation on tangible assets (time ratio)		1:2	4	8	12
Debenture interest		Post	-	11	11
Capital reserve			35	-	
<b>Net profit</b>			<b>-</b>	<b>117</b>	

# The audit fees here is assumed to be of statutory auditor and allocated to post inc. period item

Student and also assume fees to be of tax audit as allocate in sales ratio

# calculation of sales ratio

Sales upto July (pre inc. period)= 400 lakhs

post period sales = 1600 – 400 = 1200

Sales ratio = 400 : 1200 = 1 : 3

# Time ratio (pre 4 months):(post 8 months) = 1 : 2

**Answer to Test Section Q No 2**

**Calculation of pre and post incorporation periods**

Particulars	Basis	Pre.	Post	Total
Gross profit (sales ratio)	1:6	19.71	118.29	138
Interest on investment	Pre	6	-	6
Bad debts recovered	Pre	0.5	-	0.5
Less				
Advertisement (sales ratio)	1:6	0.43	2.57	3
Sales commission (sales ratio)	1:6	0.86	5.14	6
Salary (working)	1:5	3	15	18
Managing directors remuneration	Post	-	6	6
Interest on debentures	Post	-	2	2
Audit fees (statutory audit)	Post	-	2	2
Loss on sale of investment	Pre	1	-	1
Depreciation (time ratio)	1:3	1	3	4
Rent for additional space(0.2 x 9)	Post	-	1.8	1.8
Rent (5.5 – 1.8) (time ratio)	1:3	0.925	2.775	3.7
Bad debts (1+0.5) (sales ratio)	1:6	0.21	1.29	1.5
Underwriting commission	Post	-	2	2
Capital reserve		18.785	-	
Net profit		-	74.715	

# Gross profit = sales – COGS = 240 – 102 = 138

# Let average monthly sale from April to June be x

Then average monthly sale from July to march will be 2x

Pre inc. sale = 3x

Post inc. sale = 9 X 2x = 18x

Sales ratio = 3 : 18 = 1 : 6

# Time ratio (pre 3 months):(post 9 months) = 3 : 9 = 1 : 3

# Let average monthly salary from April to September be x

Then average monthly salary from October to March will be 2x

Pre inc. salary = 3x(April to June)

Post inc. salary = 3x + (6 X 2x) = 3x + 12x

=15x

Salary distribution ratio = 3 : 15 = 1 : 5