



Profits Prior to Incorporation

Meaning

- Profit made by the selling enterprise upto the date of Amalgamation (or takeover).
- Post incorporation profits belongs to the buying company.
- Pre incorporation profits are those belongs to the seller. (will not be given to the seller as PC is already paid)
- From the buying company's perspective, its adjusted with **Capital reserve / Goodwill**.
- **Method of calculating Pre incorporation Profits:**
- Prepare the P & L A/c for the entire year.
- Allocate the specific expenses based on its nature (e.g. Director's remuneration, Company Registration expenses are always post incorporation, etc.)
- Apportion the expenses based on time period & sales (based on Time Ratio & Sales Ratio).

Journal Entry

Pre Incorporation Profits are Capital in Nature and not available for share holders for distribution as Dividends.

Accounting Entry for Transfer of Pre- Incorporation Profit

- Profit & Loss A/c Dr
- To Goodwill / Capital Reserve A/c
- [Being Pre Incorporation profits not considered originally, now adjusted against goodwill / capital Reserve]

Specific Points

- Preliminary Expenses are always for Post Incorporation period.
- Audit Fees paid for Statutory Audit as per COA is for Post Incorporation period.
- Tax Audit Fees is to be distributed based on Sales Ratio.
- If the Question is silent, Assume based on time Ratio and give as Note.