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Class:-B.Com Part 3

Subject:-Management



Problem 18

From the following information, Calculate :

- (i) Return on Gross Capital Employed
(ii) Return on Net Capital Employed

	₹
Equity Share Capital	5,00,000
Pref. Share Capital	2,00,000
General Reserve	1,00,000
10% Debentures	5,00,000
Current Liabilities	1,50,000
Discount on issue of Shares	10,000
Net Profit (after Debenture Interest but before Income Tax)	1,00,000

Solution :

1. Return on Gross Capital Employed

$$= \frac{\text{Net Profit (before Interest and Tax)}}{\text{Total Assets/Gross Capital Employed}} \times 100$$

	₹
Net Profit (after Interest but before Tax)	1,00,000
Add : Interest on Debenture	50,000
Net Profit (before Interest & Tax)	<u>1,50,000</u>

Gross Capital Employed/Total Asset

$$= \text{Total Liabilities} - \text{Discount on Shares}$$

$$= 5,00,000 + 2,00,000 + 1,00,000 + 5,00,000 + 1,50,000 - 10,000$$

$$= ₹ 14,40,000$$

Now,

$$\text{Return on Gross Capital Employed} = \frac{1,50,000}{14,40,000} \times 100$$

$$= 10.42\%$$

2. Return on Net Capital Employed

$$= \frac{\text{Net Profit (before Interest & Tax)}}{\text{Net Capital Employed}} \times 100$$

Net Capital Employed

$$= \text{Gross Capital Employed} - \text{Current Liabilities}$$

$$= 14,40,000 - 1,50,000$$

$$= ₹ 12,90,000$$

Now, Return on Net Capital Employed

$$= \frac{1,50,000}{12,90,000} \times 100 = 16.63\%$$