

C.S. EXECUTIVE GOODWILL ACCOUNTS (SOLUTION) H.W.- 1

Sol.1.

(1) Calculation of Capital Employed

Particulars	Rs.
L & B. (Mkt. Value)	9,00,000
P & M (Mkt. Value)	10,00,000
Stock	2,00,000
Debtors	1,50,000
Cash and Bank	50,000
	23,00,000
Less : Sundry Cr.	3,00,000
	20,00,000

(2) Computation of Average maintainable Trading Profit

Particulars	Rs.	
Net Profit before Tax		6,00,000
Less: Additional Dep. (given)	40,000	
Less: Additional recurring expenses (given)	50,000	
Less: Interest on Investment (Non-operating profit)	10,000	1,00,000
Less: Prov. for Tax @ 50%		5,00,000
Profit after Tax		2,50,000

(3) Calculation of Average Capital Employed

Particulars	Rs.
Closing Capital employed [as per above (1)]	20,00,000
Less : ½ of average maintainable trading profit after tax (Note 2)	1,25,000
	18,75,000

(4) Calculation of Super Profits

Particulars	Rs.
Profit after Tax (Trading)	2,50,000
Less: 10% of Average Capital employed	1,87,500
Super Profits	62,500

Goodwill = 4 years' purchase of super profit = Rs.62,500 x 4 = Rs.2,50,000.

Working Notes :

- (1) For the purpose of computation of capital employed, investment should not be taken into consideration. Similarly, income from such investment should not be included in the average maintainable profit.
- (2) For calculating average capital employed, ½ of average maintainable profit after tax is to be deducted from the closing capital employed.

Sol.2.

Calculation of Average Profits

Particulars	Rs.
1 st Year	40,000
2 nd Year	50,000
3 rd Year	30,000
4 th Year	70,000
5 th Year	80,000
Total Profit	2,70,000

Average Profits = Rs.2,70,000/5 = Rs.54,000

Calculation of Super Profits

Particulars	Rs.
Average Profits	54,000
Less: Normal return on capital employed (10% of Rs.4,00,000)	40,000
Super Profits	14,000

Goodwill = Super Profit x Value of an annuity.

Goodwill = Rs.14,000 x 3.78 = Rs.52,920.