Multiple IRR

IRR is normally considered as the rate at which cash flows are generated into the project. Return on capital employed is used by accountants to evaluate the performance of a company or project. In accounting, profits are used for the evaluation of ROCE whereas in project management, Cash flows are considered.

IRR is considered inferior to NPV analysis by advocates of NPV. They claim that projects with multiple IRRs, would be difficult to compare with other projects having unique IRR.

What is multiple IRR?

In a conventional project a cash outflow is followed by cash inflows. Such projects will have a unique IRR. When there is more than one change in the sign of cash flows, there will more than one IRR.

During the currency of a project, negative cash flow may result. The remaining period of the cash flow is put to greater strain to match with the expectation of zero NPV at the end.

The number of IRRs equal the number of sign changes.

The NPV Curve of a Project with Multiple Internal Rates of Return: