

FINANCIAL MANAGEMENT

RATIO ANALYSIS, FUND FLOW STATEMENT, CASH FLOW STATEMENT, CAPITAL BUDGETING

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1.

FINANCIAL MANAGEMENT

- ✓ Managing the sources and uses of finance in a firm.
- ✓ Efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization

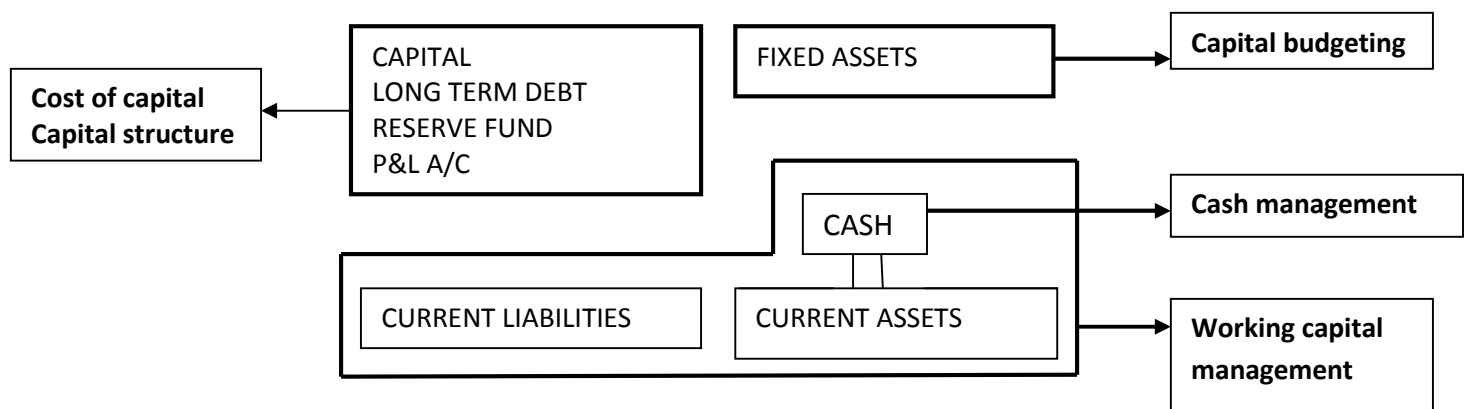
SCOPE

- ✓ Financing decisions
- ✓ Investment decisions
- ✓ Dividend decisions

FUNCTIONS

- ✓ Estimation of capital requirements
- ✓ Determination of capital composition
- ✓ Choice of sources of funds
- ✓ Investment of funds
- ✓ Disposal of surplus
- ✓ Management of cash
- ✓ Financial controls

BALANCESHEET



TOOLS FOR FINANCIAL ANALYSIS

- ✓ Financial analysis tools are highly helpful in evaluating the market and investing in a way so as to maximize the profit from the investments made.
- ✓ These financial analysis tools are useful for deciphering both internal and external information related to a specific business organization.

1. RATIO ANALYSIS
2. CASH FLOW STATEMENT
3. FUND FLOW STATEMENT

FINANCIAL STATEMENT

SOURCES OF FUNDS

EQUITY SHARE CAPITAL	XXX
RESERVE FUND	XXX
PROFIT AND LOSS ACCOUNT	XXX
EQUITY / NET WORTH / EQUITY SHAREHOLDERS' FUNDS	<u>XXX</u>
PREFERENCE SHARECAPITAL	XXX
SHAREHOLDERS' FUNDS	<u>XXX</u>
DEBENTURES	XXX
CAPITAL EMPLOYED	<u>XXX</u>

APPLICATIONS OF FUNDS

FIXED ASSET		XXX
WORKING CAPITAL		XXX
CURRENT ASSETS	XXX	
LESS: CURRENT LIABILITIES	<u>XXX</u>	
		<u>XXX</u>

RATIO ANALYSIS

- ✓ It tells the relationship between numbers.
- ✓ Mathematical comparisons of financial statement accounts or categories.
- ✓ These relationships between the financial statement accounts help investors, creditors, and internal company management understand how well a business is performing and areas of needing improvement.

TYPES OF RATIOS

1. Profitability
2. Activity/ Turnover
3. Liquidity/ Solvency
4. Coverage
5. Market value

PROFITABILITY RATIOS

1. RETURN ON EQUITY SHAREHOLDERS' FUNDS

$$\frac{\text{RETURN}}{\text{EQUITY SHAREHOLDERS' FUNDS}} \longrightarrow \text{ONLY TO EQUITY SHAREHOLDERS}$$

2. RETURN ON SHAREHOLDERS' FUNDS

$$\frac{\text{RETURN}}{\text{SHAREHOLDERS' FUNDS}} \longrightarrow \text{EARNINGS AFTER TAX (BOTH ESH AND PSH)}$$

3. RETURN ON INVESTMENT OR CAPITAL EMPLOYED

$$\frac{\text{RETURN}}{\text{CAPITAL EMPLOYED}} \longrightarrow \text{EBIT- TAX (ESH, PSH, DEBENTURE HOLDERS)}$$

4. GROSS PROFIT RATIO

$$\frac{\text{GROSS PROFIT}}{\text{SALES}} \%$$

5. OPERATING RATIO

$$\frac{\text{OPERATING EXPENSES}}{\text{SALES}} \% \longrightarrow \text{COGS} + \text{OPERATING EXPENSES}$$

6. OPERATING PROFIT RATIO

$$\frac{\text{OPERATING PROFIT}}{\text{SALES}} \%$$

7. NET PROFIT RATIO

$$\frac{\text{NET PROFIT}}{\text{SALES}} \%$$

8. ADMINISTRATION EXPENSES RATIO

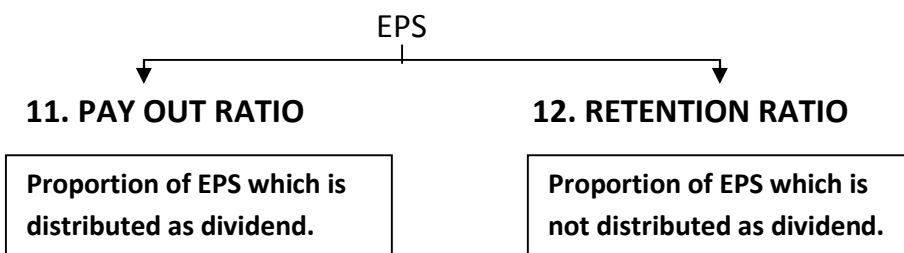
$$\frac{\text{ADMINISTRATION EXPENSES}}{\text{SALES}} \%$$

9. SELLING AND DISTRIBUTION EXPENSES

$$\frac{\text{S\&D EXPENSES}}{\text{SALES}} \%$$

10. EARNINGS PER SHARE (EPS)

$$\frac{\text{EARNINGS AVAILABLE TO ESH} \longrightarrow \text{EAT} - \text{PREF. DIVIDEND}}{\text{NUMBER OF SHARES}}$$



$$\frac{\text{DPS}}{\text{EPS}}$$

$$\frac{\text{EPS-DPS}}{\text{EPS}}$$

ACTIVITY / TURNOVER RATIOS

13. STOCK TURNOVER RATIO

$$\frac{\text{TURNOVER}}{\text{STOCK}} \xrightarrow{\text{TIMES}} \frac{\text{COGS}^1}{\text{SALES}^2} \text{ AVERAGE STOCK}$$

14. STOCK TURNOVER RATION IN DAYS (OR) STOCK VELOCITY

$$\frac{\text{DAYS/ MONTHS IN A YEAR}}{\text{STOCK TURNOVER RATIO}}$$

15. DEBTORS (OR) RECEIVABLES TURNOVER RATIO

$$\frac{\text{TURNOVER}}{\text{AVERAGE ACCOUNTS RECEIVABLE}} \xrightarrow{\quad} \text{CREDIT SALES}$$

16. DEBTORS TURNOVER IN DAYS/MONTHS (OR) DEBTORS VELOCITY

$$\frac{\text{DAYS/ MONTHS IN A YEAR}}{\text{DEBTORS (OR) RECEIVABLES TURNOVER RATIO}}$$

17. CREDITORS (OR) PAYABLE TURNOVER RATIO

$$\frac{\text{TURNOVER}}{\text{AVERAGE ACCOUNTS PAYABLE}} \xrightarrow{\quad} \text{CREDIT PURCHASE}$$

18. CTR IN DAYS /MONTHS

$$\frac{\text{DAYS/ MONTHS IN A YEAR}}{\text{CTR}}$$

19. FIXED ASSET TURNOVER RATIO

$$\frac{\text{TURNOVER}}{\text{FIXED ASSET}}$$

LIQUIDITY (OR) SOLVENCY RATIOS

SHORT TERM

20. CURRENT RATIO

$$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$$

21. LIQUID (OR) QUICK (OR) ACID TEST RATIO

$$\frac{\text{LIQUID ASSETS}}{\text{LIQUID LIABILITIES}} \quad \begin{array}{l} \longrightarrow \text{CA- STOCK} \\ \longrightarrow \text{CL-BANK OVERDRAFT} \end{array}$$

22. SUPER QUICK (OR) CASH RESERVE RATIO

$$\frac{\text{CASH + MARKETABLE SECURITIES}}{\text{CURRENT LAIBILITIES}}$$

LONG TERM

23. DEBT-EQUITY RATIO

$$\frac{\text{DEBT}}{\text{EQUITY}} \quad \begin{array}{l} \longrightarrow \text{DEBENTURE+ PSH} \\ \longrightarrow \text{ESH FUNDS+ RESERVE FUNDS +P\&L A/C} \end{array}$$

COVERAGE RATIOS

24. INTEREST COVERAGE RATIO

$$\frac{\text{EBIT}}{\text{INTEREST}} \longrightarrow \text{FOR DEBENTUREHOLDERS}$$

25. PREFERENCE DIVIDEND COVERAGE RATIO

$$\frac{\text{EAT}}{\text{PREFERENCE DIVIDEND}}$$

26. DIVIDEND COVERAGE RATIO

$$\frac{\text{EAT}}{\text{EQUITY DIVIDEND + PREFERENCE DIVIDEND}}$$

27. DEBT SERVICE (OR) LOAN COVERAGE RATIO

$$\frac{\text{EBIT}}{\text{INTEREST} + \left[\frac{\text{LOAN REPAYMENT}}{(1-T)} \right]}$$

MARKET VALUE RATIOS

28. PRICE EARNING RATIO

$$\frac{\text{MARKET PRICE}}{\text{EPS}}$$

INVERSE

29. EARNINGS YIELD RATIO

$$\frac{\text{EPS}}{\text{MARKET PRICE}} \%$$

30. DIVIDEND YIELD RATIO

$$\frac{\text{DPS}}{\text{MARKET PRICE}} \%$$

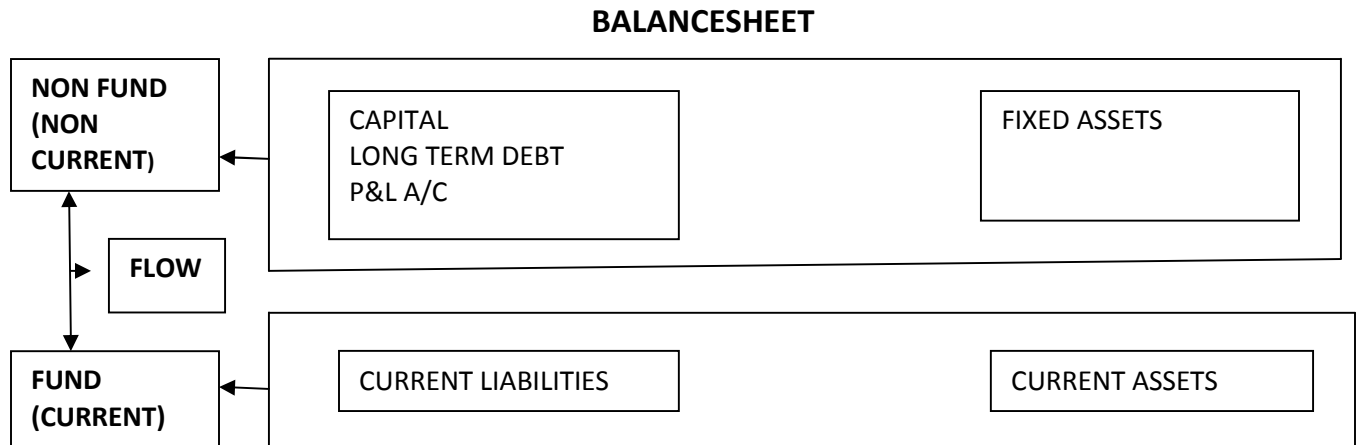
POINTS TO REMEMBER

- ✓ WORKING CAPITAL = CURRENT ASSETS – CURRENT LIABILITIES
- ✓ STOCK = CA - LA (IF THERE IS NO BANK OVERDRAFT)
- ✓ EQUITY = FIXED ASSETS + WORKING CAPITAL
- ✓ CAPITAL + RESERVES & SURPLUS = NET WORTH

FUND FLOW STATEMENT

- ✓ Statement to record the flow of funds in the balance sheet.
- ✓ "Flow" refers to the conversion of funds into non-funds and vice-versa.
- ✓ "Fund" refers to the current items.
- ✓ "Non-funds" refers to the non-current items.

CONCEPT



SOURCES	APPLICATIONS
DECREASE IN FIXED ASSET	INCREASE IN FIXED ASSETS
DECREASE OF WORKING CAPITAL	INCREASE OF WORKING CAPITAL
INCREASE IN CAPITAL	DECREASE IN CAPITAL
INCREASE IN LONG TERM DEBT	DECREASE IN LONG TERM DEBT
FUNDS FROM OPERATION	FUNDS LOST DUE TO OPERATION
	TAX AND DIVIDEND PAID

POINTS TO REMEMBER

S.NO	POINTS																																			
1.	$WC = CA - CL$ $\Delta WC = \text{OPENING WC} - \text{CLOSING WC}$																																			
2.	SCHEDULE OF CHANGES IN WORKING CAPITAL <table><tr><th>PARTICULARS</th><th>P.YEAR</th><th>C.YEAR</th><th>INCREASE</th><th>DECREASE</th></tr><tr><td>CURRENT ASSETS</td><td></td><td></td><td></td><td></td></tr><tr><td>INCREASE</td><td></td><td></td><td>✓</td><td></td></tr><tr><td>DECREASE</td><td></td><td></td><td></td><td>✓</td></tr><tr><td>CURRENT LIABILITIES</td><td></td><td></td><td></td><td></td></tr><tr><td>INCREASE</td><td></td><td></td><td></td><td>✓</td></tr><tr><td>DECREASE</td><td></td><td></td><td>✓</td><td></td></tr></table>	PARTICULARS	P.YEAR	C.YEAR	INCREASE	DECREASE	CURRENT ASSETS					INCREASE			✓		DECREASE				✓	CURRENT LIABILITIES					INCREASE				✓	DECREASE			✓	
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3.	FUNDS FROM OPERATION / FUNDS LOST DUE TO OPERATION STATEMENT NET PROFIT (CURRENT YEAR) XXX ADD: NON CASH EXPENSES / NON OPERATING EXPENSES XXX LESS: NON CASH INCOMES / NON OPERATING INCOMES XXX FFO / (FLO) XXX / (XXX) (OR) P&L ADJUSTMENT ACCOUNT <table><tr><td>To Non cash / non operating expenses To FLO To balance c/d</td><td>By balance b/d By Non cash/ non operating incomes By FFO</td></tr></table>	To Non cash / non operating expenses To FLO To balance c/d	By balance b/d By Non cash/ non operating incomes By FFO																																	
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5.	ASSET ACCOUNT OPTION I <table><tr><td>To balance b/d To Bank a/c (Purchase) To P&L A/c (Profit on sale)</td><td>By Depreciation (current year) By Bank A/c (sale) By P&L A/c (Loss on sale) By balance c/d</td></tr></table>	To balance b/d To Bank a/c (Purchase) To P&L A/c (Profit on sale)	By Depreciation (current year) By Bank A/c (sale) By P&L A/c (Loss on sale) By balance c/d																																	
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OPTION II**ASSET ACCOUNT**

To balance b/d	By Provision for depreciation A/c
To Bank a/c (Purchase)	By Bank A/c (sale)
To P&L A/c (Profit on sale)	By P&L A/c (Loss on sale)
	By balance c/d

PROVISION FOR DEPRECIATION A/C

To Asset A/c (Accumulated)	By balance b/d
To balance c/d	By depreciation (P&L A/c)

OPTION III**ASSET ACCOUNT**

To balance b/d	By Asset Disposal A/c
To Bank a/c (Purchase)	By balance c/d

PROVISION FOR DEPRECIATION A/C

To Asset Disposal A/c (Cost – Book value)	By balance b/d
To balance c/d	By depreciation (P&L A/c)

ASSET DISPOSAL ACCOUNT

To Asset A/c	By Provision for depreciation A/c
To P&L A/c (Profit on sale)	By Bank A/c (sale)
	By P&L A/c (Loss on sale)

NOTE

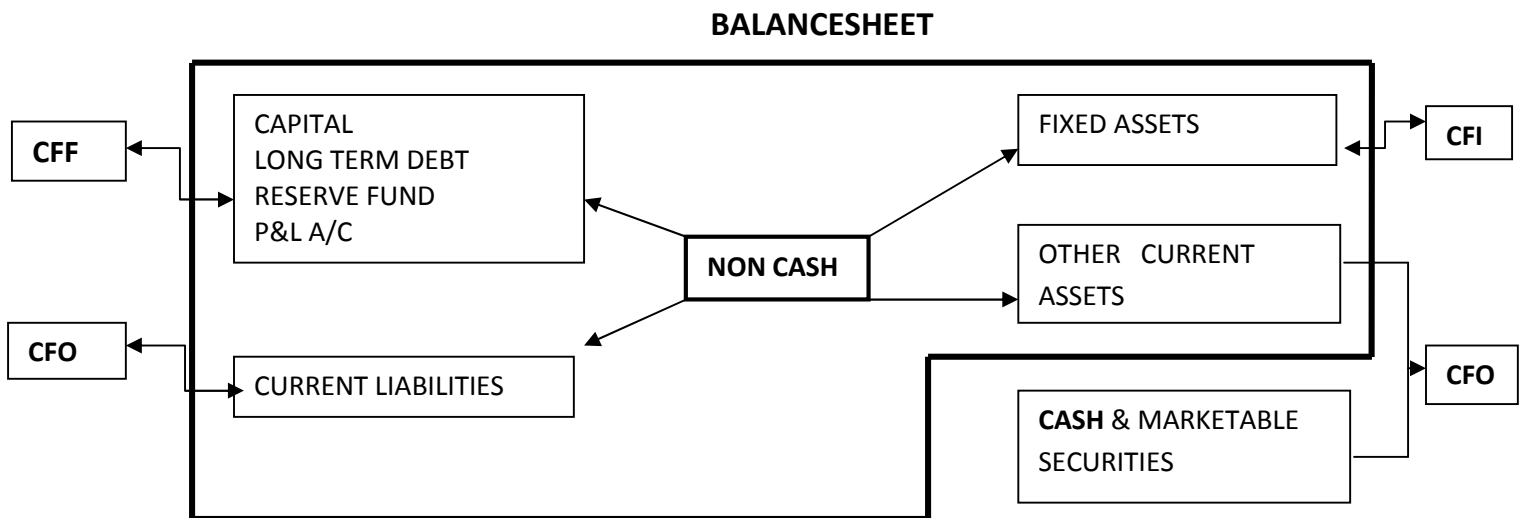
Purchase Cost
Less : Accumulated Depreciation
WDV
Less: Sale price
Profit/ Loss

7.	PROVISION FOR TAXATION / PROPOSED DIVIDEND <table border="1" data-bbox="324 142 1326 315"> <tr> <td data-bbox="332 153 824 304"> To Bank (P.Y provision paid this yr) To balance c/d (C.Y) </td><td data-bbox="833 153 1318 304"> By balance b/d (P.Y) By P&L A/C (C.Y) </td></tr> </table>	To Bank (P.Y provision paid this yr) To balance c/d (C.Y)	By balance b/d (P.Y) By P&L A/C (C.Y)								
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8.	INTERIM DIVIDEND ✓ Assume as paid. ✓ Debit the P&L A/c ✓ Applications										
9.	CONSOLIDATED FUND FLOW STATEMENT ✓ In Applications, show dividend paid to minority shareholders ✓ In Sources, show Minority Interest ✓ In FFO, deduct share of minority shareholders in post acquisition profits <u>COMPUTATION OF GOODWILL</u> <table data-bbox="324 945 1250 1249"> <tr> <td>Equity on the date of acquisition</td><td>XXX</td></tr> <tr> <td>Less: Minority interest on the date of acquisition</td><td><u>XXX</u></td></tr> <tr> <td>Holding company's share in the share capital and capital profits of subsidiary company on the date of acquisition</td><td><u>xxx</u></td></tr> <tr> <td>Less : Purchase consideration</td><td><u>xxx</u></td></tr> <tr> <td>Goodwill</td><td><u>xxx</u></td></tr> </table>	Equity on the date of acquisition	XXX	Less: Minority interest on the date of acquisition	<u>XXX</u>	Holding company's share in the share capital and capital profits of subsidiary company on the date of acquisition	<u>xxx</u>	Less : Purchase consideration	<u>xxx</u>	Goodwill	<u>xxx</u>
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Less : Purchase consideration	<u>xxx</u>										
Goodwill	<u>xxx</u>										

CASH FLOW STATEMENT

- ✓ Statement to record the flow of cash into non-cash and vice-versa.
- ✓ "Cash" refers to cash and marketable securities.
- ✓ "Non-cash" refers to all items in the balance sheet other than cash and marketable securities.
- ✓ It is simply a cash book and Receipts & Payments A/c.

CONCEPT



CASH FLOW STATEMENT

I. DIRECT METHOD

PARTICULARS	AMOUNT
CASH FROM OPERATIONS	
CASH SALES	XXX
ADD: CASH COLLECTED FROM DEBTORS	XXX
GROSS CASH RECEIPTS FROM OPERATIONS	XXX
LESS: CASH OPERATING EXPENSES	XXX
CFO (BEFORE TAX) = NET CASH GENERATED BY OPERATIONS	XXX
LESS: TAX	XXX
CFO (AFTER TAX) (A)	XXX

CASH FROM INVESTING.	
DECREASE IN FIXED ASSETS	XXX
LESS: INCREASE IN FIXED ASSETS	XXX
CFI (B)	XXX
CASH FROM FINANCING	
INCREASE IN CAPITAL AND LONG TERM DEBTS	XXX
LESS: DECREASE IN CAPITAL AND LONG TERM DEBTS	XXX
CFF (C)	XXX
CASH FLOW DURING THE YEAR (A)+ (B)+(C)	XXX
ADD: OPENING CASH BALANCE	XXX
CLOSING CASH BALANCE	XXX

II. INDIRECT METHOD (RECOGNISED BY AS-3)

PARTICULARS	AMOUNT
CASH FROM OPERATION (CFO)	
NP FOR CURRENT YEAR	XXX
ADD: NON CASH EXPENSES / NON OPERATING EXPENSES	XXX
LESS: NON CASH INCOMES/ NON OPERATING INCOMES	XXX
OPERATING PROFIT BEFORE WORKING CAPITAL CHARGES	XXX
ADD: INCREASE IN CURRENT LIABILITIES	XXX
DECREASE IN CURRENT ASSETS	XXX
LESS: INCREASE IN CURRENT ASSETS	XXX
DECREASE IN CURRENT LIABILITIES	XXX
CFO(BEFORE TAX AND EXTRAORDINARY ITEMS)	XXX
LESS: EXTRAORDINARY ITEMS	XXX
CFO(BEFORE TAX)	XXX
LESS: TAX	XXX
CFO(AFTER TAX) (A)	XXX
CASH FROM INVESTING (CFI)	
DECREASE IN FIXED ASSETS	XXX
LESS: INCREASE IN FIXED ASSETS	XXX
LESS: EXTRAORDINARY ITEMS	XXX
CFI (B)	XXX
CASH FROM FINANCING	
INCREASE IN CAPITAL AND LONG TERM DEBTS	XXX
LESS: DECREASE IN CAPITAL AND LONG TERM DEBTS	XXX
LESS: EXTRAORDINARY ITEMS	XXX
CFF (C)	XXX
CASH FLOW DURING THE YEAR (A)+ (B)+(C)	

ADD: OPENING CASH BALANCE	XXX
CLOSING CASH BALANCE	XXX
	XXX

RECONCILIATION OF PROFIT AFTER TAX WITH THE FUNDS PROVIDED BY THE OPERATION

PARTICULARS	AMOUNT
PROFIT AFTER TAX	XXX
ADD: INCREASE IN CURRENT LIABILITIES	XXX
DECREASE IN CURRENT ASSETS	XXX
LESS: INCREASE IN CURRENT ASSETS	XXX
DECREASE IN CURRENT LIABILITIES	XXX
FUND FROM OPERATION (CASH AND CASH EQUIVALENTS)	XXX

CAPITAL BUDGETING

- ✓ Capital budgeting (or investment appraisal) is the planning process used to determine whether an organization's long term investments are worth the funding of cash through the firm's capitalization structure (debt, equity or retained earnings).
- ✓ It is the process of allocating resources for major capital, or investment, expenditures.
- ✓ One of the primary goals of capital budgeting investments is to increase the value of the firm to the shareholders.
- ✓ Budget for capital expenditure

IMPORTANCE

- ✓ Affect the profitability of the firm.
- ✓ Have a bearing on competitive position of the enterprise.
- ✓ They are the strategic investment decisions.
- ✓ Has its effect over long span of time.
- ✓ Not easily reversible.

KINDS

- ✓ Accept- Reject decisions
- ✓ Mutually exclusive decisions
- ✓ Capital rationing decisions

1. ACCEPT-REJECT DECISIONS

If a proposal is accepted, the firm would invest in it; if the proposal is rejected, the firm wouldn't invest in it.

2. MUTUALLY EXCLUSIVE DECISIONS

Mutually exclusive projects are those which compete with other projects in such a way that the acceptance will exclude the acceptance of the other projects.

3. CAPITAL RATIONING DECISIONS

It is concerned with the selection of group of investment proposals out of many acceptable under Accept-Reject decisions, when the firm has limited funds.

CAPITAL BUDGETING TECHNIQUES

I. PAY BACK PERIOD METHOD

1. TRADITIONAL APPROACH

(A) IF THE CASH FLOWS ARE EVEN

$$\frac{\text{INITIAL INVESTMENT}}{\text{ANNUAL CASH FLOW}}$$

(B) IF THE CASH FLOWS ARE UNEVEN
CUMULATIVE CASH FLOW

2. POST PAY BACK PROFITABILITY INDEX

$$\frac{\text{POST PAY PROFITS}}{\text{INVESTMENT}} \%$$

3. DISCOUNTED POST PAY BACK PERIOD

CUMULATIVE PRESENT VALUE OF CASH INFLOW.

NOTES:

1. ANNUAL CASHFLOW

PARTICULARS	AMOUNT
PROFIT BEFORE TAX AND AFTER DEPRECIATION	XXX
LESS:TAX	XXX
ADD: DEPRECIATION	XXX
ANNUAL CASHFLOW	XXX

2. POST PAY BACK PROFIT

ANNUAL CASHFLOW * (POST PAY BACK PERIOD)



(ESTIMATED LIFE – PAY BACK PERIOD)

3. CUMULATIVE PV OF CASH INFLOWS

YEAR	CASH INFLOW	PV@r %	DISCOUNTED CASH INFLOW	CUMULATIVE DISCOUNTED CASH INFLOW
(a)	(b)	(c)	(d)=(b) * (c)	(e) = $\sum_{n=n} \text{DCIF}$

II.TIME ADJUSTED

1. NET PRESENT VALUE (NPV)

Cash flow * PVAF % = DCIF	XXX
LESS: Initial investment	XXX
NPV	XXX

Net Present Value (NPV)

$$NPV = \sum_{t=1}^T \frac{\text{Cash Flow}_t}{(1+i)^t} - \text{Initial Cash Investment}$$

t = Cash Flow Period
i = Interest Rate Assumption

ACCEPTANCE CRITERION

- ✓ NPV > 1; IT MUST BE **POSITIVE**
- ✓ IN CASE OF MORE THAN ONE PROPOSAL, THE PROPOSAL HAVING **HIGHER** NPV

NOTES

A. r % = Minimum return required. Also called as cut-off rate (or) discount rate.

B.COMPUTATION OF PV ANNUALLY FOR “n” YEARS FOR 10%; 2 YEARS

$$\frac{1 \text{ YEAR} = \text{Re. } 1}{110} * 100 = 0.909$$

$$\frac{2 \text{ YEAR} = 0.909}{110} * 100 = 0.826$$

USING CALCULATOR → PRESS = CONTINUOUSLY FOR THE NO. OF YEARS

$$\frac{1}{110} * 100 = 0.909$$

$$= 0.826$$

$$= 0.751$$

2. INTERNAL RATE OF RETURN

- ✓ IRR is the highest rate at which the company can repay the funds borrowed to finance the project along with interest thereon out of cash inflows generated by the project.
- ✓ IRR is the rate of return earned on initial investment of the project.
- ✓ IRR is the rate at which NPV is 0 (zero).
- ✓ IRR is misleading in case of mutually exclusive projects having different cash flows. In that case, incremental analysis should be used or NPV method should be adopted.

(a) Even cash flow

$$PVF = \frac{\text{Initial investment}}{\text{Annual cash flow}}$$

(B) Uneven cash flow

- ✓ Use trial and error method.

STEPS IN TRIAL AND ERROR METHOD.

- ✓ Use arbitrary rates
- ✓ Compute NPV
- ✓ If NPV is positive, apply the higher rate having positive NPV
- ✓ If negative, apply rates in-between the positive and negative.

USING INTERPOLATION

$$\text{Lower rate} + \frac{\text{PV @ lower rate}}{\text{Difference between } \Sigma \text{ DCIF @ both rates}} \quad * \text{ Difference in rates}$$

3. PROFITABILITY INDEX

$$PI = \frac{\text{PV of cash inflow}}{\text{PV of cash out flow}}$$

$$PI (\text{Net}) = \frac{\text{Net Present Value (or) } \Sigma \text{ DCIF}}{\text{Initial cash flow}}$$

4. ACCOUNTING RATE OF RETURN

$$ARR = \frac{\text{Average Accounting Profit}}{\text{Average Investment}}$$

Decision Rule

Accept the project only if it's ARR is **equal to or greater than the required accounting rate** of return. In case of mutually exclusive projects, accept the one with **highest ARR**.

POINTS TO REMEMBER

1. Selection of proposal

PARTICULARS	AMOUNT
CASH INFLOW (t_{1-n})	
Cash sales revenue	XXX
LESS: cash operating cost	XXX
Cash inflow (Before taxes)	XXX
LESS: Depreciation	XXX
Taxable income	XXX
LESS: Tax	XXX
Earnings after tax	XXX
ADD: Depreciation	XXX
Cash inflow (After tax)	XXX
ADD: STCG/ STCL (Net of tax) (t_n) (See WN 2)	XXX
ADD: Working capital Recovered (t_n)	XXX
PV OF CASH INFLOW (t_{1-n}) * PV@r % (A)	XXX
LESS: CASH OUTFLOW	XXX
Initial investment	XXX
ADD: Installation charges	XXX
LESS: Salvage value of old equipment	XXX
ADD/LESS: Working capital	XXX
CASH OUTFLOW (t_0) (B)	XXX
NPV (A) – (B)	XXX

2. STCG/ STCL (Net of tax) (t_n)

Purchase cost
Less: depreciation (till 'n' years)
WDV (nth year)
Less: Salvage value
STCG/ STCL

ORIGINAL COST

WDV

SALVAGE VALUE

TERMINAL DEPRECIATION (LOSS) = **WDV – SALVAGE VALUE**

BALANCING CHARGE=(**MINIMUM OF ORIGINAL VALUE OR WDV; PROFIT**)

NORMAL TAX

STCG= **SALVAGE VALUE - ORIGINAL COST**

CG TAX