ACCOUNTING RATE OF RETURN
(with Scrap Value & Working Capital)

Problem on ARR

Find out ARR for Proposal I & II

- Cost=3,00,000 each
- Estimated Scrap=60,000 each
- Working Capital required=2,50,000 for each machine

Year	1	2	3	4
I Cash Inflows	1,50,000	3,00,000	1,50,000	-
II Cash Inflows	2,00,000	3,00,000	2,50,000	1,50,000

Formula

ARR=Average Annual Profit after Taxes/ * 100

Average Investment

If Working Capital is given,

Average Investment=(Cost-Scrap)/2+WC+Scrap

Calculation of Average Annual Profit I=6,00,000/3

=2,00,000

Calculation of Average Annual Profit I=9,00,000/4

=2,25,000

Cost of Average Investment

= (3,00,000-60,000)/2+2,50,000+60,000

=1,20,000+2,50,000+60,000

=4,30,000

- ARR for Proposal I = 2,00,000/4,30,000*100
  =46.5%

- ARR for Proposal I = 2,25,000/4,30,000*100
  =52.32%