



# SNS College of Technology

Coimbatore - 35



23BAT611 – Financial Management

ACCOUNTING RATE OF RETURN

Presented by

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**1<sup>st</sup> Indian Institution to Implement Design Thinking Curriculum**  
Redesigning Common Mind and Business  
Towards Excellence



# RECAP



# Topic





# Accounting Rate of Return



## ARR Accounting Rate of Return

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



## Problem 1

Calculate the average rate of return for projects A and B from the following.

	<b>Project A</b>	<b>Project B</b>
<b>Investments</b>	<b>Rs. 20,000</b>	<b>Rs. 30,000</b>
<b>Expected Life</b>	<b>4 Year</b>	<b>5 Year</b>

**If the required rate of return is 12%., which project should be undertaken?**



## Problem 1

### Projected Net Income (after interest, depreciation and taxes)

<b>Years</b>	<b>Project A</b>	<b>Project B</b>
<b>1</b>	<b>2,000</b>	<b>3,000</b>
<b>2</b>	<b>1,500</b>	<b>3,000</b>
<b>3</b>	<b>1,500</b>	<b>2,000</b>
<b>4</b>	<b>1,000</b>	<b>1,000</b>
<b>5</b>	<b>-</b>	<b>1,000</b>
<b>Total</b>	<b>6,000</b>	<b>10,000</b>



## Solution

### Project A

### Project B

Total profit (after depreciation interest and taxes)      Rs. 6,000      Rs. 10,000

Life of the project      4 Year      5 Year

Average Net Profit       $6,000/4 = \text{Rs } 1,500$        $10,000/5 = \text{Rs } 2,000$

Investment in the project      Rs. 20,000      Rs. 30,000

### Accounting rate of return:

Average Net Profit / Original Investment \*100       $1,500/20,000*100$        $2,000/30,000*100$

7.5%

6.67%



## Assessment



- Differentiate Accounting  
Rate of Return and  
Average Rate of Return





# Reach Us



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