



SNS College of Technology

Coimbatore - 35



23BAT611 – Financial Management

Accounting Rate of Return

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1st 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

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



Problem 6

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

	Project A	Project B
Investments	Rs. 2,20,000	Rs. 60,000
Expected Life	5 1/2 Years	8 Years

Which project should be undertaken?



Problem 6

Particulars	Project A	Project B
Estimated Sales	1,50,000	1,50,000
Material	50,000	50,000
Labour	12,000	60,000
Variable Overheads	24,000	20,000



Problem 6

Particulars	Project A	Project B
Estimated Sales	1,50,000	1,50,000
Less: Costs		
Material	50,000	50,000
Labour	12,000	60,000
Variable Overheads	24,000	20,000
Depreciation	40,000	7,500
Total Costs	1,26,000	1,37,500
Profit	24,000	12,500



Solution



Project A

Project B

Depreciation

Cost / Estimated Life Years

Life of the project

5 1/2 Years

8 Years

Average Net Profit

24,000

12,500

Investment in the project

Rs. 2,20,000

Rs. 60,000

Accounting rate of return:

Average Net Profit / Original Investment *100

$24,000/2,20,000*100$

$12,500/60,000*100$

10.9%

20.8%



Assessment



- Differentiate Accounting
Rate of Return and
Average Rate of Return



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