Return on Investment

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Internal Rate of Return

(When Cash Inflow are uniform)

Initial outlay Rs 50,000

Life of the Asset 5 Year

Estimated cash flow Rs. 12,500

Calculate Internal Rate of Return

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Internal Rate of Return = Initial Investment / Annual Cash Inflow

Internal Rate of Return = 50,000 / 12,500 = 4

Internal Rate of Return

(When Cash Inflow are not uniform)

Initial Investment Rs 60,000

Life of the Asset 4 Year

Calculate Internal Rate of Return from given inflows

Discount rates of 10%, 12%, 14% and 15%

Year	Inflows
I year	Rs. 15,000
II Year	Rs. 20,000
III year	Rs. 30,000
IV Year	Rs. 20,000

Year	P.V Factor at 10%	P.V Factor at 12%	P.V Factor at 14%	P.V Factor at 15%
1	0.909	0.892	0.877	0.869
2	0.826	0.797	0.769	0.756
3	0.751	0.711	0.674	0.657
4	0.683	0.635	0.592	0.571

Problem 2

Year	Annual cash inflow	P.V Factor at 10%	P.V Rs	P.V Factor at 12%	P.V Rs	P.V Factor at 14%	P.V Rs	P.V Factor at 15%	P.V Rs
1	15,000	0.909	13,635	0.892	13,380	0.877	13,155	0.869	13,035
2	20,000	0.826	16,520	0.797	15,940	0.769	15,380	0.756	15,120
3	30,000	0.751	22,530	0.711	21,330	0.674	20,220	0.657	19,710
4	20,000	0.683	13,660	0.635	12,700	0.592	11,840	0.571	11,420
T.P.V			66,345		63,350		60,595		59,285

At 14% Total Present Value = 60,595

At 15% Total Present Value = 59,285

1,310

For a difference of 1,310

For a difference of 595 (inflow and outflow)

(60,595 – 60,000)

595/1,310* 1% = 0.45%

IRR = 14 + 0.45 = 14.45%

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Internal Rate of Return

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THANK YOU!

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