



SNS College of Technology

Coimbatore - 35



23BAT611 – Financial Management

Problem Related to Investment Decisions

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1st Indian Institution to Implement Design Thinking Curriculum
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Recall



Net Present Value

Present Value Index (or) Profitability Index



Topic





Accounting Rate of Return



ARR Accounting Rate of Return

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



Problem 1

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

	Project A	Project B
Investments	Rs. 20,000	Rs. 30,000
Expected Life	4 Year	5 Year

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



Problem 1

Projected Net Income (after interest, depreciation and taxes)

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



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





Summarize



Net Present Value Present Value Index (or) Profitability Index



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