

SNS College of Technology



Coimbatore - 35

23BAT611 - Financial Management

Problem Related to Investment

Decisions

Presented by

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Design Thinker



Towards Excellence









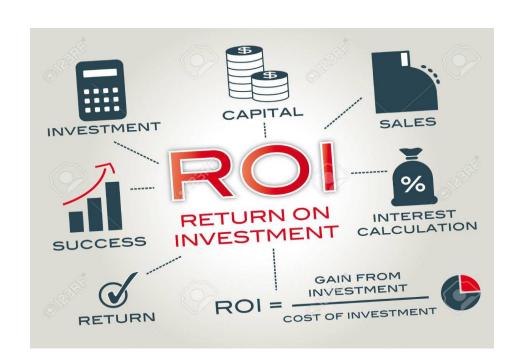


Internal Rate of Return



Topic Topic





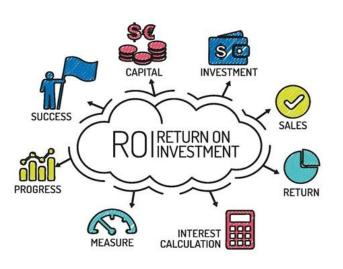




Return on Investment













Calculate Return on Investment for Machine A and B from the following.

Project A Project B

Original Cost Rs. 1,00,000 Rs. 1,50,000

Expected Life 5 Year 5 Year

Machine A and B have scrap values of Rs.10,000 and Rs.20,000 at the end of the 5th year





Problem 1



Profit Before Depreciation

Years	Project A	Project B
1	30,000	40,000
2	15,000	45,000
3	40,000	50,000
4	40,000	24,000
5	35,000	71,000
Tax Rate	50%	50%



Solution



Calculate Return on Investment for Machine A and B from the following.

Return on Investment = Average Annual Profit / Original Investment *100

Depreciation P.A = Cost – Scrap Value / Life of the machine * 100

Depreciation P.A Machine A = 100,000 - 10,000 / 5

Depreciation P.A Machine A = Rs. 18,000

Depreciation P.A Machine B = 1,50,000 - 20,000 / 5

Depreciation P.A Machine B = Rs.26,000







Profit Before Depreciation Machine A

Years	Machine A Profit before Dep and Tax	Dep	Profit After Dep and Before Tax	Tax @ 50%	Profit After Dep & Tax
1	30,000	18,000	12,000	6,000	6,000
2	15,000	18,000	-3,000	-	- 3000
3	40,000	18,000	22,000	11,000	11,000
4	40,000	18,000	22,000	11,000	11,000
5	35,000	18,000	17,000	8,500	8,500
Total Profit					33,500

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Profit Before Depreciation Machine B

Years	Machine A Profit before Dep and Tax	Dep	Profit After Dep and Before Tax	Tax @ 50%	Profit After Dep & Tax
1	40,000	26,000	14,000	7,000	7,000
2	45,000	26,000	19,000	9,500	9,500
3	50,000	26,000	24,000	12,000	12,000
4	24,000	26,000	- 2,000	-	- 2000
5	71,000	26,000	45,000	22,500	22,500
Total Profit					49,000

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Solution



Calculate Average Annual Profit for Machine A and B

Average Annual Profit A = 33,500 / 5 = Rs. 6,700

Average Annual Profit B = 49,000 / 5 = Rs. 9,800

Return on Investment = Average Annual Profit / Original Investment *100

Return on Investment A = 6,700 / 1,00,000 * 100

Return on Investment A = 6.7\%

Return on Investment B = 9,800 / 1,50,000 * 100

Return on Investment B = 6.53%

22.04.2024 Ms.S.Swarnam, AP/MBA/SNSCT – Investment Decisions



Assessment







Summarize





Return on Investment



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