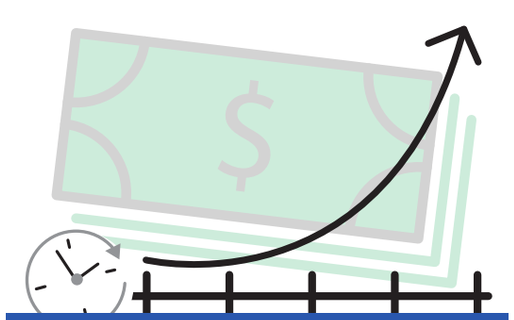
DISCOUNTED CASH FLOW METHODS

NON-DISCOUNTED CASH FLOW METHODS

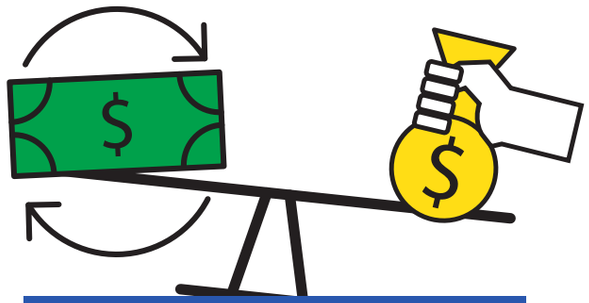
< BACK

DISCOUNTED CASH FLOW METHODS



NET PRESENT VALUE

INTERNAL RATE OF RETURN



BENEFIT-COST RATIO (PROFITABILITY INDEX)

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NON-DISCOUNTED CASH FLOW METHODS

PAYBACK PERIOD

ACCOUNTING RATE OF RETURN

< BACK

NET PRESENT VALUE

Initial Investment $

Discount Rate %

CASH FLOW

Year 1: $

Year 2: $

Year 3: $

Year 4: $

Year 5: $

ADD YEAR

CALCULATE

< BACK

INTERNAL RATE OF RETURN

Initial Investment $

CASH FLOW

Year 1: $

Year 2: $

Year 3: $

Year 4: $

Year 5: $

ADD YEAR

Guess %

CALCULATE

< BACK

BENEFIT-COST RATIO (PROFITABILITY INDEX)

$$\text{Profitability Index} = \frac{\text{PRESENT VALUE OF FUTURE CASH FLOW}}{\text{INVESTMENT REQUIRED}}$$

CALCULATE

< BACK PAYBACK PERIOD

EQUAL
CASH FLOW

$$\text{Payback Period} = \frac{\text{INVESTMENT REQUIRED}}{\text{CASH FLOW PER PERIOD}}$$

CALCULATE

NON-EQUAL
CASH FLOW

$$\text{Payback Period} = \text{PERIOD BEFORE FULL RECOVERY OF INVESTMENT} + \frac{\text{UNRECOVERED INVESTMENT AT START OF PERIOD}}{\text{CASH FLOW FOR THE PERIOD}}$$

CALCULATE

< BACK

ACCOUNTING RATE OF RETURN

$$\frac{\text{AVERAGE ANNUAL EARNINGS}}{\text{INITIAL INVESTMENT IN A PROJECT}} \times \frac{100\%}{1}$$

CALCULATE

$$\frac{\text{AVERAGE ANNUAL EARNINGS}}{\text{AVERAGE BOOK VALUE OF A PROJECT}} \times \frac{100\%}{1}$$

CALCULATE

DECISION RULE: ACCEPT IF ARR IS GREATER THAN MINIMUM ACCEPTABLE ARR