ASSIGNMENT-II

1) Explain the difference between the operating Income approach and the cost of capital approach?

Operating Income approach	Cost of capital approach
~~*when a company that~~ *This approach measures a Company Financial performance by subtracting operating Expenses From gross profit	This approach measures the Opportunity cost of Investing in a company's project, compared to a similar-risk investment.
Operating Income is a key Indicator of a company's ability to generate profits and manage costs.	This cost of capital approach helps determine which Investment opportunity have the highest potential return For a given level risk.
Net operating Income (NOI) is:- NOI = Gross operating Income (GOI) - operating Expenses:	WACC = (weight of debt * cost of debt) + (weight of equity * cost of equity) + (weighted of preferred stock * cost of preferred stock)
Operating Income approach also known as Earnings before Interest and taxes (EBIT)	It evaluate the weighted average cost of capital (WACC) which represents the average rate of return a company must earn on its Investments to satisfy is debt holders.