

in the Assignment - 11
 Explain the difference between the operating income approach and the cost of capital approach

Aspect	Operating Income Approach	Cost of Capital Approach
Focus	operational Performance and Profitability	Overall cost of financing and investment decisions
Measurement	measures income generated from core operations	measures required return for investors

Consideration of financing	Ignored effect of financing debt/equity	to explicitly incorporate cost of debt or equity
Decision making use	Evaluating operational efficiency	Assessing investment viability and capital structure
Simplicity vs complexity	Simpler focused on operational metrics	more complex incorporate risk and return analysis