ACF- II

ASSIGNMENT - ~~2~~ II

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

Operating income approach	Cost of capital approach
* This approach measures a company's 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.	The cost of capital approach helps determine which investment opportunities 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) + (weight of preferred stock * cost of preferred stock).
* Operating income approach also known as Earnings before interest and taxes (EBIT).	It evaluates the weighted average cost of capital (WACC), which represents the average rate of return a company must earn on its investments to satisfy its debt holders.