

4 week Assignment

i). Define Accounting earnings.

Topic : Measures of Return - Earning versus Cash Flows.

⇒ Principles Governing Accounting Earnings Measurement.

* Accrual Accounting:-

Revenues and expenses are recorded when earned or incurred, not when cash is received or paid that is called Accrual Accounting.

* Operating Expenditure:-

- Operating Expenditure refers to the ongoing cost of a running business. Operating Expenditure includes expenses such as:-

⇒ Salaries, Rent, Insurance and Maintenance.

* Capital Expenditure :-

- Capital expenditure refers to a company's investment in the asset. For example, property, plant and buildings.

⇒ Earnings to Cash Flow :-

* Depreciation :-

- Depreciation Means the decreasing value of the asset. It is called Non-cash Expenses.

* Changes in Working Capital :-

- Changes in Working Capital refer to the Fluctuations in a Company's current asset and liabilities. These changes affect a Company's Liquidity and Cash Flow.

⇒ Measuring Returns Right: The Basic Principles

* Earnings :-

- Earnings → Net Profit.

* Incremental Cash Flows :-

- The Bond or shares investment to the company. We get a Return that is called Incremental Cash Flow.

* Time weighted Return :-

Value Cash flows that occur earlier
more than Cash flows that occur later.

Time value of Money \rightarrow NPV and IRR.

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