

# APPLIED FINANCIAL STATEMENT ANALYSIS

ASSIGNMENT- 6-10

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## EXPLAIN CAGR WITH EXAMPLES:

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CAGR [Compound Annual Growth Rate] is the rate at which an investment grows annually, assuming the profits are reinvested at the end of each year. It smooths out the growth rate over a period, accounting for volatility and showing a steady annual rate of growth from the beginning to the end of the period. The formula for CAGR is.

$$CAGR = \left[ \frac{\text{Ending Value}}{\text{Beginning Value}} \right]^{\frac{1}{n} - 1}$$

Ending Value = Value of the investment at the end of the period.

Beginning Value = Value of the investment at the start of the period.

$n$  = Number of Years.

### EXAMPLE 1: INVESTMENT GROWTH

Let's say you invested \$10,000 in a stock in 2019 and by 2023 the value of your investment has grown to \$20,000. To calculate the CAGR.

Beginning Value (2019) = \$10,000

Ending Value (2023) = \$20,000

Number Of Years ( $n$ ) = 4.



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$$\begin{aligned} \text{CAGR} &= \left[ \frac{20,000}{10,000} \right]^{\frac{1}{4}} - 1 \\ &= (2)^{0.25} - 1 \\ &= 18.92\% \end{aligned}$$

So, the CAGR is 18.92% meaning the investment grow by about 18.92% . Per Year on average over the 4-Year Period.

