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APPLIED FINANCIAL STATEMENT ANALYSIS

ASSIGNMENT - 6 - 10

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EXPLAIN CAGR WITH EXAMPLES:

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

$$CAGR = \left[\frac{20,000}{10,000} \right]^{\frac{1}{4}} - 1$$

$$= (2)^{0.25} - 1$$

$$= 18.92\%$$

So, the CAGR is 18.92%. meaning the investment grow by about 18.92% Per year on average over the 4 year period.

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