**Methods for Evaluation**

**1) Payback Period**

a) If Cash Inflows every year are equal

Payback period = CO   
 CI p.a.

b) If Cash Inflows every year are not equal

Payback period = Completed years + Additional Required Amount for payback   
 CI in the next year.

**2) Accounting Rate of Return / Average Rate of Return (ARR)**

Based on Original Investment

ARR = Avg. EAT x 100 Avg. EAT = Sum of all EAT  
 Cash Outflow No. of years

**Selection criteria:** The project having higher ARR is preferred.

**3) Net Present Value (NPV)**

NPV= PVCI – PVCO  
  
**Selection criteria:**

a) Evaluating between 2 projects: The project having higher NPV is preferred.

b) Evaluating a single project: NPV > 0 Select

NPV < 0 Reject

NPV = 0 May Select or Reject

**4) Profitability Index (PI) / Benefit Cost Ratio (BCR) / Desirability Factor**

PI = PVCI  
 PCO

**Selection criteria:**

a) Evaluating between 2 projects: The project having higher PI is preferred.

b) Evaluating a single project: PI > 1 Select

PI < 1 Reject  
  
 PI = 1 May Select or Reject

**5) IRR**

Use the formula to calculate IRR

IRR = DL + [ PVCI @ DL – PVCO x (DH - DL) ]

PVCI @ DL – PVCI @ DH

**Selection criteria:**

a) Evaluating between 2 projects: The project having higher IRR is preferred.

b) Evaluating a single project: IRR > Ko Select

IRR < Ko Reject  
  
 IRR = Ko May Select or Reject