-11- outflow

① Pay Back Period:- it is time req. for positive project cash flow to recover -ve project cash flow from dev. years.

ex. A project costs $200,000 to operate & had annual net cash inflows of $40,000

Then

Pay back Period = $200,000/$40,000

= 5 yrs

2. Avg. Rate of Return:-

ratio of the avg. annual profit to the avg. or initial investment in the project is

avg. rate ~~return~~

in above ex.

suppose, avg. annual profits are $30,000

Avg. rate of Return = $\frac{\$30,000}{\$200,000}$

= 0.15

Discounted Cash Flow: (Net Present Value):-

$$NPV(Project) = A_0 + \sum_{t=1}^{n} \frac{F_t}{(1+k)^t}$$

where k = the req. rate of return,

F_t = net cash flow in period t &

A_0 = the initial cash investment

Internal Rate of Return (IRR):- Used to find out profitability of investment

$IRR = (\text{Cash Flows})/(1+r)^t$ - initial investment

where r = Discount rate

t = Time Period.

- re call / ... than income.

(5) Cost-Benefits Analysis:-

- It is a process which adds all benefits of a project & then subtracts the associated costs.

(6) Break-Even Analysis:-

- financial tool which helps a company to determine the stage at which the company will be profitable.
- so it is a situation where an org: is neither making money nor losing money, but all the costs have been covered.
- useful to study relation bet: variable cost, fixed cost & revenue.