# Accounting 2302

## November 9, 2012

* **Cost of Capital**
* **Discount Rate**
* **Minimum Required Rate of Return**
* **If the Net Present Value is…**
  + Positive – Acceptable because its return is greater than the required rate of return.
  + Zero – Acceptable because its return is equal to the required rate of return.
  + Negative – Not acceptable because its return is less than the required rate of return.
* **Dr. Y WHIMCO**
  + **D**iscount **R**ate **Y**ield
  + WACC
  + Hurdle
  + Interest Rate
  + MRRRR
  + Cost of Capital
  + Opportunity Cost
* **Three types of cash outflows.**
  + Immediate Cash Outflows in the form of an initial investment in equipment, other assets, and installation costs.
  + Working Capital – Current assets (E.g. Cash, accounts receivables, and inventory) less current liabilities.
  + Period outlays for repairs and maintenance and additional operating costs.
* **Three types of cash inflows**
  + Increase in revenue or reduce costs
  + Proceeds from sales
  + Working capital is released, for example, when a company sells off its inventory or collects its accounts receivables.
* **Assumptions**
  + The first assumption is that all cash flows other than the initial investment occur at the end of the period.
  + The second assumption is that all cash flows generated by an investment project are immediately reinvested at a rate of return equal to the discount rate.
* **Internal Rate of Return**
  + Rate of return computed by finding the discount rate that equates the present value of a projects cash outflows with the present value cash inflows. Essentially it’s the discount rate that results in a net present value of zero.
  + The IRR helps quantify intangible benefits
* Net Present Value (NPV) \* 1000 / Gross Present Value Out (GPV) 10,000 = 0.10