

NotesVilla Academic Team Notes

Investment Appraisal in Business

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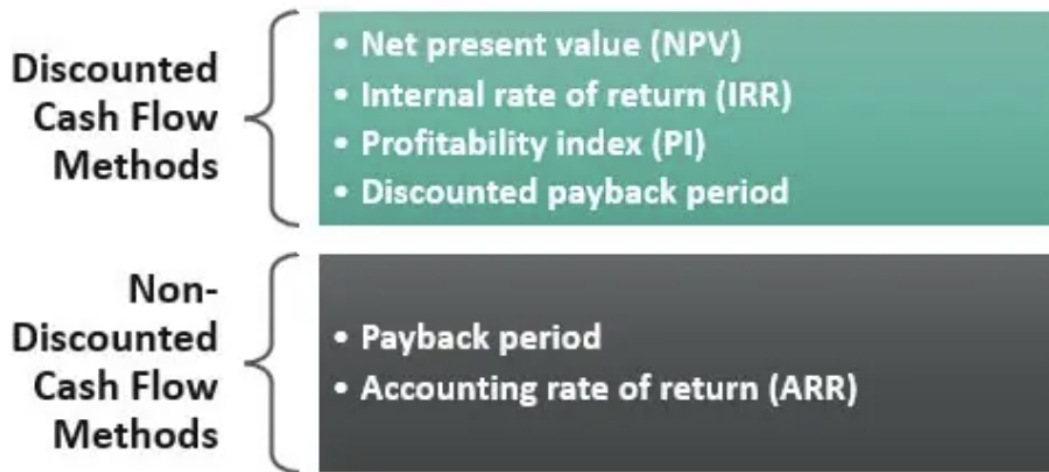
Purpose: *The purpose of these notes is to help educators and post-graduate students understand the meaning of investment appraisal in business. The notes begin with a short description of investment appraisal. We also discuss cash flow analysis and its various components. We then discuss Private Sector Appraisal techniques such as the payback method, accounting rate of return, and discounted cash flow method.*

Audience: *Educators or post-graduate students*

Keywords: *business, investment, project, cost, analysis, flow, value, financial, capital, appraisal, rate, return.*

1. Investment Appraisal - Economic and financial feasibility of projects are the key topics of investment analysis. It is the analysis carried out to take affordability and strategic fit into account along with the profitability of an investment over the asset's life. Project analysts can then evaluate if the potential return on investment

Investment Appraisal Techniques



(Image source: <https://www.wallstreetmojo.com/investment-appraisal-2/>)

2. Cash Flow Analysis - In the private sector, investment assessment is known as financial analysis since only the project's expenses and revenues that have an impact on a company's financial condition are taken into account. To assess the liquidity and solvency of the company, organizations should monitor and analyze three different types of cash flow: cash flow from operating operations, cash flow from investing activities, and cash flow from financing activities. The decision has an impact on the cash flows that are important to the decision. Businesses correlate line items in the three cash flow categories to do a cash flow analysis to see where money is flowing in and going out.

- Comparing the outcomes of the initiative with the status quo makes this calculation the most straightforward.
- They can infer information about the state of the industry from this.
- This results in incremental expenses and revenues, or the project's effects on the company's cash flows.
- Bringing in money is not always a good thing, depending on the type of financial flow.