United Bank Financial Performance in 2011/12

Total Asset	**8.8b Br.**	**14.3%**	
Total Liabilities	7.7b Br.	13.2%	
Paid –up Capital	580.9m. Br.	11%	 
Income	813.6m. Br.	31.9%	
Expense	425.1m. Br.	38%	
Profit After Tax	297.9m. Br.	28.5%	
Earning Per	52.8 Br.	.02%	

Awash International Bank Financial Performance in 2011/12

Total Asset	13.1b Br.	18%	
Total Liabilities	11.5b Br.	17.3%	
Paid –up Capital	912.3m. Br.	24.3%	 
Income	1.1b. Br.	19.7%	
Expense	580.1m. Br.	37%	 
Profit After Tax	394.4m. Br.	9.4%	
Earning Per Share	469 Br.	16.3%	

Chapter Summery

1. Decision the time value of money and standard

   calculations showing the relationship b/n PV and FV.

2. Discuss different methodologies of economic analysis for investment appraisal.

3. Discuss how to budget capital on contract investment
   and how to establish ROCE and mark-up in corporate budget planning.

4. Identify the different systems of control levels to monitor capital allocated for investment.



Introduction

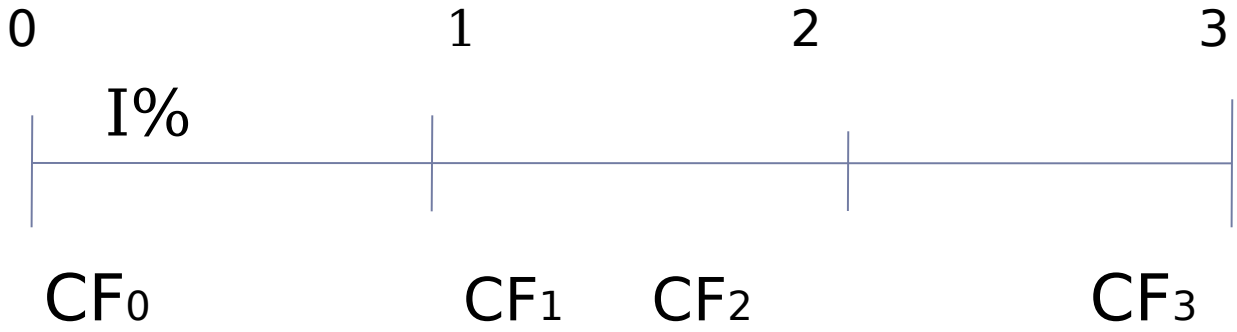
- Investment is decision making process by which firms evaluate the purchase of fixed assets.
- Investment policy is the firm’s formal planning process
- Significance of investment.
  - Substantial expenditure
  - Long time period
  - Sales forecasts
  - Investment appraisal
  - Planning horizon



4.1. The Time Value of Money

- Investor prefer to receive payment of a fixed amount of money today, rather than an equal amount in the future.
- Why?
  - People prefer current consumption to future
  - To account for opportunity cost (At least the interest payment)

4.1. The Time Value of Money (cont...)



- Show the timing of cash flows.
- Tick marks occur at the end of periods, so Time 0 is today; Time 1 is the end of the first period (year, month, etc) or the beginning of the second period.

4.1. The Time Value of Money (cont…)

- ***General Assumption:***

- Cash Flows (CFs) occur at the END of the period, unless stated otherwise.
- Payments (PMTs) occur at the END of the period (ordinary annuity), unless stated otherwise.



4.1. The Time Value of Money (cont…)

- CFs can either be:
  - a) **Lump Sum** (Birr 1000 to be received in 1 year or 5 years, or Birr 1000 invested today), or
  - b) **Recurring CFs** (non-constant CFs), e.g. B100 in YR1, B200 in YR 2, B300 in YR3) or
  - c) **PMTs** (constant CFs, e.g. B100 per year for 3 years)



- Financial investments involve cash flows occurring at different points in the time series.
  - Cash flows have to be brought to the same point.

1. **Present and future value of a single amount**

. Simple interest: no interest is earned on the interest

interest is accounted only for the principal

$FVn = PV (1+nr)$



$FVn = PV(1+nr)$

Where,

PV= is the value at time 0

FV= is the value at time n

r= is the rate of interest

n= is the number of periods



- Compound interest: interest payment is reinvested.

$$FV = PV\,(1+r)^n$$

Where,

PV= is the value at time 0

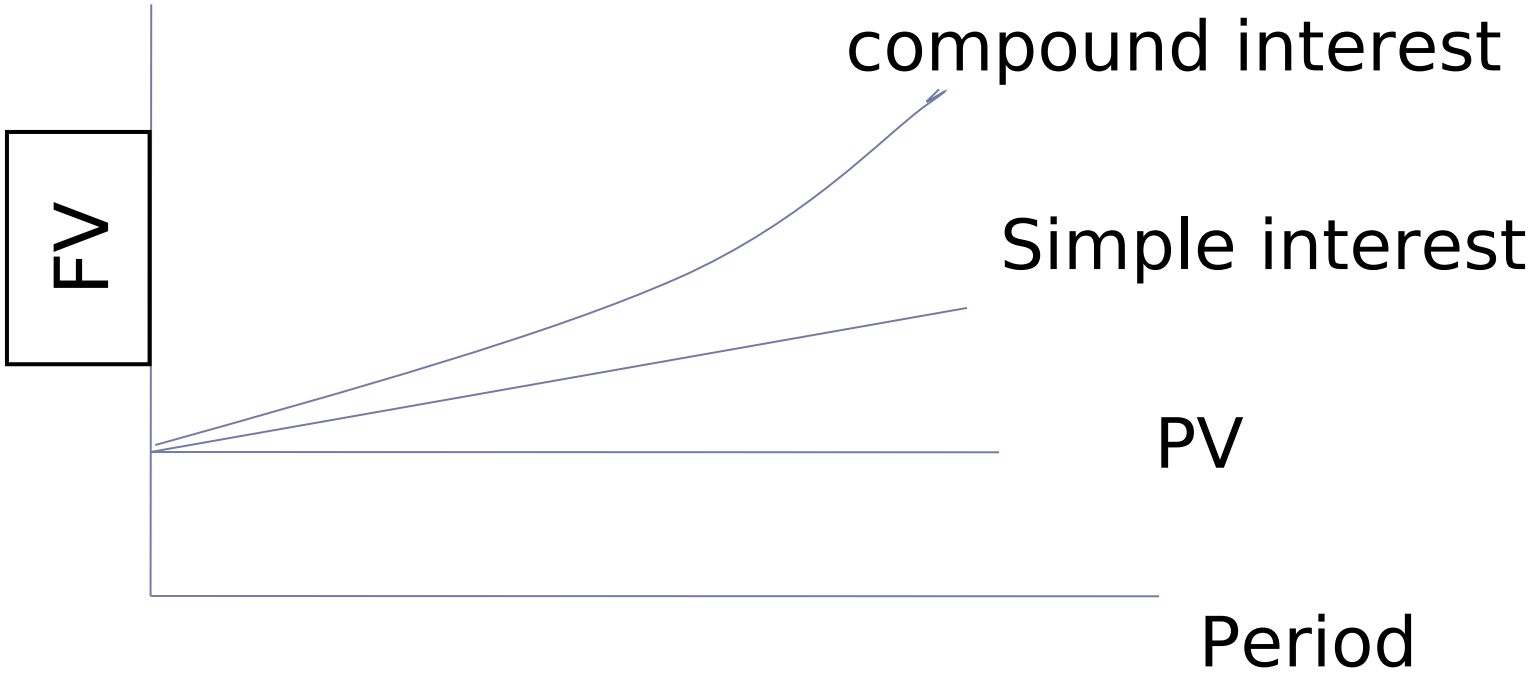
FV= is the value at time n

r= is the rate at which the amount will be compounded each period

n= is the number of periods

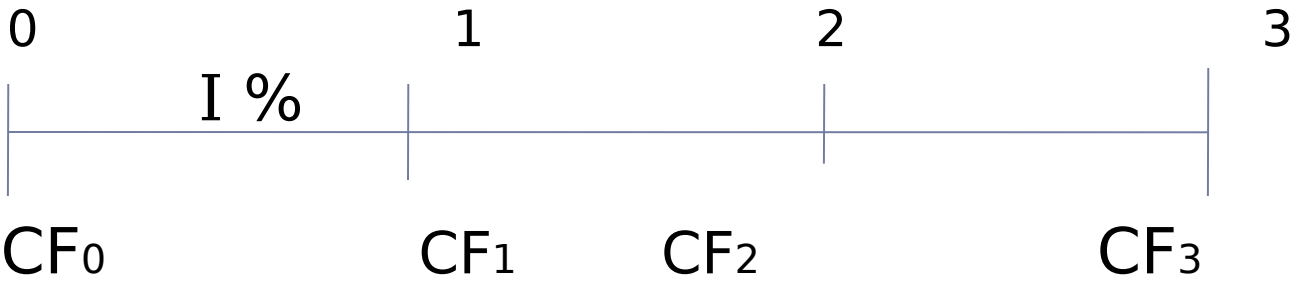


Relationship b/n PV and FV



2. Present Value of uneven series

- Present Value of uneven cash flow stream
-



$$PV_0 = \frac{A_1}{(1+r)^1} + \frac{A_2}{(1+r)^2} + \cdots \frac{An}{(1+r)^n}$$

r = discount rate

3. Present Value of Annuity

Constant cash flow at regular interval of time.



CF0 A A A

$$PV_n = A\left(\frac{1}{r}\right)\left(1 - \frac{1}{(1+r)^n}\right)$$

4. Future Value of Annuity

$$FV_n = A\left(\frac{(1+r)^n - 1}{r}\right)$$