Investment Appraisal

Accounting & Finance

The four standard methods, and what each misses.

Method, measure and weakness.

Method	Measures	Weakness
Payback	Years to recover outlay	Ignores time value and later flows
ARR	Average profit ÷ investment	Uses profit, not cash
NPV	Value added in today's money	Needs a discount rate
IRR	Break-even discount rate	Multiple answers with irregular flows

NPV is theoretically correct: it measures value added directly. IRR is popular because a percentage is easier to communicate.