Investment Appraisal

Business & Management

Four methods for deciding whether a project is worth it.

Each answers a different question about the same cash flows.

Method	Decision rule	Weakness
Payback	Shorter is better	Ignores everything after payback
ARR	Above a target %	Uses profit, not cash
NPV	Positive means accept	Needs a discount rate
IRR	Above cost of capital	Misleads on mutually exclusive projects

NPV and IRR can disagree when projects differ in size or timing. When they do, follow NPV.