



ROI

Return on investment

Simplified

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Understand the terminology before learning how to calculate Return on investment

What is Return on investment (ROI)

It is ratio of net income.

In simple – Excess of income (Profit) over expenditure.

When interpreting ROI calculations, it is important to keep a few things in mind.

First, ROI is typically expressed as a *percentage* because it is intuitively easier to understand (as opposed to when expressed as a ratio). Second, the ROI calculation includes the net return in the numerator because returns from an investment can be either positive or negative.



Understand the terminology before learning how to calculate Return on investment

ROI = PROFIT

- **Reward for an entrepreneurs / Distributors.**
- **Profits are indications of the efficiency of utilization of the resources/investment used in business.**
- **To meet the expenditure.**
- **For plough backing.**



Understand the terminology before learning how to calculate Return on investment

WHAT IS TURNOVER / REVENUES

In accounting, the number of times an asset is replaced during a financial period. In simple – Total business done in a particular period.

Example-1

Total Purchases – \$: 100,000.

Stock in hand – \$: 10,000.

Net sales – \$: 90,000.

So, the business turnover is \$: 90,000.



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WHAT IS GROSS PROFIT

Gross profit is the profit before deducting the expenditure

WHAT IS NET PROFIT

Gross profit – Expenditure = Net Profit

WHAT IS THE MEANING OF ROTATIONS

Rotations in business means, the number of times the average investment rotated in a particular period.



Rotations example

Example

Business Turnover \$: 10,000
Average Investment: \$1000
Calculate No of Rotations

Solution

$$\frac{10000}{1000} = 10$$

Rotations: 10

Gross profit & Net Profit

Case Study-1

Sales \$: 10,000
Distributor's Margin :3%
Expenses \$:100
Calculate GP & NP

Solution

$$\text{Gross Profit: } \frac{10000 \times 3}{100} = \text{Rs:300}$$

$$\text{Net Profit: } \text{Gross Profit} - \text{Net Profit} \\ \$:300 - \$:100 = \$: 200$$



How many ways ROI can be calculated

Way-1

$$\frac{\text{Net Profit}}{\text{Investment}} \times 100$$

Way-2

Net Margin x No of Rotations



Calculate ROI

Exercise-1

Net Profit \$: 1000
Investment \$:5000
Calculate ROI

Solution

$$\frac{1000}{5000} \times 100 = 20\%$$

Exercise-2

Net Profit \$: 5000
Investment \$:165500
Calculate ROI

Solution

$$\frac{5000}{165500} \times 100 = 3.02\%$$



Exercise-1

A. Invoice value Rs:20,000

B. Margin 5%

C. Investment Rs: 2,350

D. Expenses Rs: 500

Calculate Return on investment (ROI)

Solution-1

$$\text{Gross Profit: } \frac{20000 \times 5}{100} = \$:1000$$

$$\text{Net Profit: } \$ 1000 - 500 = \$500$$

$$\text{ROI: } \frac{500}{2350} = 21.27\%$$



Investment Conversion into value

Exercise-1

- Average stock 10 days
- Average market credit 6 days
- Average pending from company 12 days
- Turnover Rs:100,000

Calculate investment in value (Rs)

	Days
Average stock 10 days	10
Average market credit 6 days	6
Average pending from company 12 days	12
Total days	28

$$\text{Per day turnover} = \frac{100,000}{365} = 273.97$$

$$\text{Investment} = 273.97 \times 28 \text{ days} = \$ 7671$$



Investment Conversion into value

Same way-

If the investment is in weeks, you must divide by 52.

If the investment is in months, you must divide by 12



Exercise-1

No	Particulars	Rs
	Calculate ROI	
A	Sales	1,75,000
B	Discounts	2,500
D	Margin %	6.00
E	Average Stocks %	3.50
F	Average market outstanding %	2.50
G	Pending amount from the company %	0.50
H	Guarantees amount with company	3,000
I	Salaries	2,000
J	Wages	1,000
K	Electricity	400
L	Water	100
M	Refreshments	1,150
N	Fuel	450
O	Rents	1,200
P	Courier	40
Q	Stationery & Printing	80
R	Miscellaneous	100



Solution-1

Sales	1,75,000
Discounts	2,500
Net Sale	1,72,500
Gross Profit	10,350
Expenses	6,520
Net Profit	3,830

Investment

Stocks	6,038
Outstanding Due from company Guarantee	4,313
Total	863
ROI	3,000
	14,213
	26.95%



Problem

Solution

N

o Particulars	Rs	Investment %	11.12
1 Turnover	2,00,000	Investment in Value Rs	22,431
2 Discounts	500	Expenses	4,200
3 Damage stocks	200	Gross Profit	15,960
4 Inventory in weeks	2.20	Net Profit	11,760
5 Outstanding in Weeks	1.20	ROI	52.43%
6 Pending Claims in weeks	0.18		
7 Guarantee in weeks	1.20		
8 Advance for Stocks	1.00		
9 Expenses % to Turnover	2.10		
10 Distributor's Margin %	8.00		

The other things to learn in ROI calculations are :

- 1. Return on own investment.**
- 2. Ways to increase the profitability.**
- 3. ROI feasibility for a business.**
- 4. Break even point for a business.**
- 5. Van operation feasibility exercise etc.**

**The presentation will be very big if I add all the above.
So, I kept very simple**

