MUST KNOW FLAWS ASSOCIATED WITH IRR : MODIFIED IRR A BETTER MEASURE FOR INVESTMENT DECISIONS MAKING OR CAPITAL BUDGETING

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ABSTRACT
Given the widespread use of IRR measure worldwide for investment decision making, it is of great importance to have the knowledge of the drawbacks associated with this measure. In absence of comprehensive awareness of inbuilt deficiencies of IRR, the decision may be taken to go in for project with unrealistic expectations as this measure over estimates the annual equivalent return from the project. Modified Interim Rate of Return (MIRR) method, as the name itself implies, is a modification of the IRR measure which aims at eliminating, if not all, at least some problems that may arise from the use of IRR measure. This article demonstrates that how MIRR method deals with the weaknesses of IRR measure through providing formulae and sample calculations and calls for use of this measure at least by the executives or practitioners keen to improve their decision making skills.

KEY WORDS: Cost of Capital, Internal Rate of Return (IRR), Modified IRR.