CHAPTER No. 9 : ECONOMIC VALUE ADDED

Points to be discussed :

→ Introduction

→ Calculation of Economic Value Added

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EVA is the value created by the business in true sense.

It is the excess of operating profits after meeting with the costs attributable to all the providers of finance.

→ Calculation of Economic value Added

Formula : EVA = NOPAT − (WACC × CE) , where

EVA = Economic value Added

NOPAT = Net operating Profits After Tax

WACC = Weighted Average cost of capital

CE = capital Employed.

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Calculation of NOPAT

Formula 1

NOPAT = EBIT − Tax (%)

Formula 2

NOPAT = NPAT + interest (1 − t)

Example:

EBIT	100000
− interest	− 20,000
EBT	80,000
− Tax @ 30%	24,000
NPAT	56,000

NOPAT = 100000 − 30%

NOPAT = ₹ 70,000

NOPAT = 56,000 + 20000 (1 − 0.3)

= 56,000 + 20000 (0.7)

= 56000 + 14000

NOPAT = ₹ 70,000

SAME

Calculation of WACC

Same as cost of capital chapter.

Calculation of capital employed

It is the total long term capital employed by a firm.