EXCEL APPLICATION EXERCISE

10-58 Return on Investment and Economic Profit

Goal: Create an Excel spreadsheet to calculate performance of divisional segments using the ROI and economic profit methods. Use the results to answer questions about your findings.

Scenario: The company has asked you to calculate ROI and economic profit for three divisions. The background data for your analysis appears in Fundamental Assignment Material 10-A1. Use an interest rate of 10% when calculating the capital charge.

When you have completed your spreadsheet, answer the following questions:

1. Which division has the best performance using the ROI method? Using the economic profit method?
2. Which division has the worst performance under both methods?
3. Which method would you suggest for evaluating the manager of each division?

Step-by-Step:

1. Open a new Excel spreadsheet.
2. In column A, create a bold-faced heading that contains the following:
   Row 1: Chapter 10 Decision Guideline
   Row 2: Divisions Hubert, Duane, and Louis
   Row 3: Measures of Profitability
   Row 4: Today's Date
3. Merge and center the four heading rows across columns A–I.
4. In row 7, create the following center-justified column headings:
   Column A: Division
   Column B: Invested Capital
   Column C: Revenue
   Column D: Income
   Column E: Capital Charge
   Column F: Economic Profit
   Column G: Return on Investment
   Column H: Return on Sales
   Column I: Capital Turnover
5. Change the format of Economic Profit and Return on Investment to bold-faced headings.
6. Change the format of the column headings in row 7 to permit the titles to be displayed on multiple lines within a single cell.

   Alignment tab: Wrap Text: Checked

   Note: Adjust column widths so the headings only use two lines.

   Adjust row height to insure that row is the same height as adjusted headings.
7. In column A, create the following center-justified row headings:
   Row 8: Hubert
   Skip a row.
   Row 10: Duane
   Skip a row.
   Row 12: Louis
8. Use the scenario data to fill in invested capital, revenue, and income amounts for each division.
9. Use the scenario data and appropriate formulas to calculate capital charge amounts for each division.
10. Use the appropriate formulas from this chapter to calculate economic profit, ROI, return on sales, and capital turnover amounts for each division.
11. Format amounts in columns B, C, D, E, and F for division A as follows:

Number tab:	Category:	Currency
	Decimal places:	0
	Symbol:	$
	Negative numbers:	Black with parentheses