Internal Rate of Return (IRR)

- **Simply stated,**
- the Internal rate of return (**IRR**) for an investment is the percentage rate earned on each dollar invested for each period it is invested. **IRR** is also another term people use for interest. Ultimately, **IRR** gives an investor the means to compare alternative investments based on their yield

Why is IRR used?

- Companies use **IRR** to determine if an investment, project or expenditure was worthwhile. Calculating the **IRR** will show if your company made or lost money on a project. The **IRR** makes it easy to measure the profitability of your investment and to compare one investment's profitability to another.
- What is IRR with example?
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IRR is the rate of interest that makes the sum of all cash flows zero, and is useful to compare one investment to another. In the above **example**, if we replace 8% with 13.92%, NPV will become zero, and that's your **IRR**. Therefore, **IRR** is defined as the discount rate at which the NPV of a project becomes zero.

- **Is IRR same as ROI?**
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ROI and **IRR** are complementary metrics where the main difference between the two is the time value of money. **ROI** gives you the total return of an investment but doesn't take into consideration the time value of money. **IRR** does take into consideration the time value of money and gives you the annual growth rate.