

CASE NEWSTONE – SOLUTION

1. Return on Investment (ROI) and Residual Income (RI)

	Granite Division	Marble Division
ROI	0.15	0.16875
Margin	0.0375	0.0225
Sales/Economic Assets	4	7.5
RI	50 000 €	55 000 €

2. Although the GD presents higher OP (Operational Profit), when we took into account the invested Capital, the performance of the MD is higher (15% versus 16.875%).

Using the concept RI (Residual Income), the performance of MD is also superior.

3. We assume that the WACC of the GD and MD is the same.

Accounting records, both of the Economic Assets and of the calculation of the Operational Profits, may distort the conclusions mentioned above.