



# ICAEW Excel XIRR

This is a short video about the XIRR function in Excel. You might be aware of the IRR function in Excel, which will calculate the internal rate of return of a stream of cash flows. Now, the IRR function does not require the dates of those cash flows, so it assumes that cash flows are periodic - once every year or once every month, and it actually gives a periodic rate of return on the investment or internal rate of return, rather than annual, because Excel does not necessarily know what a period is in that case.

In the situation where you've got specific dates on which the cashflows take place, it's much better to use XIRR because you can then point to those specific dates, and Excel will work out the exact annual rate of return on the investment, otherwise the internal rate of return, using those specific dates. And if the dates are not periodic, you have to use XIRR or else you will get the wrong answer.

Here's a very simple example. We've got a stream of cash flows and you can see straight away that they are not periodic - January, February, March, April, May, and then we zoom forward to August. So there's, there's different time periods between the cash flows and you can see some of them on the first of the month, some of them on the 20th of the month. But you can see the cash flows there very clearly - we're investing 3,000 for those 300 returns at those different time periods.

XIRR is very simple to use - we just simply point to the cashflow, we point to the dates when those cash flows happen, and that's usually the end of it, that will give you the right answer. We do have this final option, final argument, which is "guess". Believe it or not, there are certain streams of cash flows for which there might be more than one IRR, and so in that case, if you want to have a guess, it will give you the answer that's closest to the number that you'd just guessed. But almost always, you can just ignore that third argument, and that's what I'm going to do here. We're just going to point to the values and point to the dates.

So this is how it goes - equals XIRR, open brackets, point to the values. Comma. Point to the dates and it is as simple as that. If I invest 3,000 in exchange for those positive 300 inflows on those dates, that represents an effective overall rate of return on my investment of 6.1%. That's an annual rate of return it's the internal rate of return of my investment.