ESSENTIAL STEPS FOR FIRST-TIME TRANSLATOR USERS

1. Click “Environment” and observe the historical data available to users.

2. Click “Fixed Input Examples” and note four tabs below that do not allow for user revisions to inputs. The objective is to provide key examples of the Translator capabilities.

3. Click tab “RONA Investment” and observe the inputs (note equal cash receipts investment) that drive “ADJUSTED RONAs, ACTUAL INFLATION, 1990 to 2020.”

4. Click tab “RONA” and observe the type of simulation analyses possible with the Translator.

5. Click tab “EARN/BOOK Investment” and observe the inputs (note unequal cash receipts investment) that drive “Earnings/Book, actual inflation, typical industrial firm, zero intangibles, 1900 to 1990.”

6. Click “Historical Earn/Book” and observe how a single variable inflation (deflation) hugely impacts reported Earn/Book for actual inflation data 1900 to 1990 with economic returns held constant at 6% real.

7. Click “Active Input Dashboard.” Eight tabs below allow for user control of the inputs.

8. Click tab “Economic Return” and experiment with changing an input. For example, instead of CapEx 40% and Intangibles 50% and NWC 10%, you can vary these proportions. Only change Intangibles % and NWC % because CapEx % automatically computes ensuring that the total is always 100%. Also, only hit RESET if you want to reset all values to the same as when you opened this application.

9. Click “Life Cycle” tab and gain control of inputted economic returns and reinvestment rates (life cycle inputs) plus selected metrics explained in our paper, “Bridging the Gap Between Accounting Returns and Economic Returns.”

Here is a question: After clicking the Life Cycle tab, why in the early steady state years (economic returns constant) are CFROIs considerably higher than economic returns? Recall that CFROI uses equal cash receipts investment. Consequently, click the Economic Return tab and turn on “Equal CR” then hit CALC. In order to further simplify the simulation run, set CapEx life = Intangible life = 6 years and make Intangibles 40%, NWC 20%, so that CapEx = 40 % same as Intangibles and hit CALC. With these

simplifications, go to the Life Cycle tab and you now see that CFROIs are very close to economic returns in the early years with economic returns held constant.

10. Click “CFROI” tab and observe the CFROI inputs for a sample year.

11. Click “Balance Sheet” and observe the as-reported balance sheets for the inputted environment and other input variables.

12. Click “Cash Receipts” and observe an audit trail for cash receipt items.

13. Click “CR Audit” and observe the inner workings of the simulation code.

14. Click “Inflation GPLT” and observe the inflation markups, for a given year, to generate current dollar gross plant needed to correspond to cash receipts in current dollars.

15. Click “Metrics” for an audit of calculations needed to derive accounting return metrics.