1.
2.
3.
4.
5.
6.
7.
8.
Definition of Budget
Budget Sector and Types of Budget
Capital Budgeting
Importance of Capital Bud...

Definition of Budget
•Budgeting is a management tool for planning and
controlling future activity.
Financial Buzz Words: A...

Budget Sector Budget Types
3/15/2016 4
Basis of Flexibility : Fixed and Variable Budget
Basis of Time Period : Short-Term ...

Capital Budgeting
3/15/2016 5
Capital: Operating assets used for production.
Budget: A plan that details projected cash fl...

3/15/2016 6
Importance of Capital Budgeting
Benefits of Capital Budgeting Decision:
Capital Budgeting decisions evaluate a...

Capital Budgeting: Project Categorization
• Establishment of New Products & Services
• Replacement Projects: Maintenance o...

Capital Budgeting is the planning process used to determine a firm’s
long term investments such as new machinery, replacem...

Evaluation Criteria: Capital Investment Proposal
3/15/2016 9
Evaluation Criteria
Non-Discounting
Criteria
Pay-Back
Period
...

Non discounting: Pay-Back Period
3/15/2016 10
1. Pay-Back Period Method- It is defined as the
number of years required to ...

Non discounting Criteria: Annual Rate of Return
3/15/2016 11
2.Average Rate of Return Method - ARR means the
average annua...

Discounting Criteria: Pay-Back Period
3/15/2016 12
3. Discounted Pay-Back Period Method - In discounted
pay- back period m...

Discounting Criteria: Net Present Value
3/15/2016 13
4. Net Present Value Method:- It is the best method for
evaluation of...

Discounting Criteria: Internal Rate of Return
3/15/2016 15
5. Internal Rate of Return Method:- IRR is the rate of
return t...

The expected cash flows of a project are:-
The cash outflow is Rs. 1,00,000
The cost of capital is 10%
Calculate the follo...

Computation of NPV & PI
Year Cash Flows (Rs.) PV Factors@10% PV of Cash Flows (Rs.)
1 20,000 .909 18,180
2 30,000 .826 24,...

Computation of NPV & PI
Year Cash
Flows (Rs.)
PV Factors
@19%
PV of Cash
Flows (Rs.)
PV Factors
@18%
PV of Cash
Flows (Rs....

Computation of IRR Contd..
3/15/2016 19
 

Computation of discounted pay-back period
Year Cash Flows
(Rs.)
PV
Factors@10%
PV of Cash
Flows (Rs.)
Cumulative
Cash Flow...

Conclusions
3/15/2016 22
We have Studied various evaluation criteria for Capital
Budgeting.
Generally an impression creat...