

6/12/2017

Capital Budgeting

Capital Budgeting is long term Planning for making and financing Proposed Capital outlays.

What is Capital Budgeting?

(or)

Capital Expenditure Budget?

Capital Budgeting is a Profit or making decisions regarding investment in fixed assets which are not meant for sales. Such as machinery, Plant, Building etc... and the Benefits of which are expected to be received over a number of years in futures.

Pay back

Pay back Periods :-

Explain the Pay back method of evaluating alternative Capital requirement?

Pay-back method is also called pay-off or pay-out method. It represented the number of year required to recover the original investment by savings before depreciation but after the Payment of Taxes.

Thus; it attempted to measure the Period of time it takes to recover the original cost of a Project.

Computation of Payback Period :-

$$\text{Pay back Period} = \frac{\text{Original Investment}}{\text{Annual Cash inflow}}$$

Pr:1)

Determined the Payback Period for a Project which require a Cashout lay of ₹ 10,000. and Generated Cash inflows of ₹ 2,00,000. ₹ 4000; ₹ 30,00. and ₹ 2000 in the 1, 2, 3, and 4 a respectively.

Calculated the Pay back Periods :-

| Year | Cashflow Amount | Cummulative Cashin flow |
|------|-----------------|-------------------------|
| 1 | 2000 | 2000 |
| 2 | 4000 | 6000 |
| 3 | 3000 | 9000 |
| 4 | 2000 | 11000 |

$$\text{Pay back Period} = \frac{\text{Initial Investment}}{\text{Annual Cash inflow}}$$

$$= \frac{10000}{2000} = 3\text{yr} + \frac{10000 - 9000}{2000}$$
$$= 3\text{yr} + \frac{1000}{2000} \times 12$$

Payback Period = 3yr 6months