ISSN: 2249-7196
IJMRR/Dec 2019/ Volume 9/Issue 4/Article No-1/01-5
K. Srivani / International Journal of Management Research & Review

A DETAILED REPORT ON CAPITAL BUDGETING

K. Srivani M.Com;MBA.*1, P. Sudha, M.Com*2,
T.Naga Srivalli ,M.COM*3.
***1.Faculty in Management, Sivasivani Degree College Kompally, Sec'bad-100.**
***2.Faculty in Commerce, Sivasivani Degree College Kompally, Sec'bad-100.**
***3. Faculty in Commerce, Sivasivani Degree College Kompally, Sec'bad-100.**

Abstract:

- Capital budgeting is a decision related to allocation of investible funds to different long-term assets.
- It has long-term implications and affect the future growth and profitability of the firm.

Need for the study:

- The Project study is undertaken to analyse and understand the Capital Budgeting process in cement manufacturing sector, which gives mean exposure to practical implication of theory knowledge.
- To know about the company's operation of using various Capital Budgeting techniques.
- To know how the company gets funds from various resources.

Objectives of the study:

- To study the relevance of capital budgeting in evaluating the project for project finance.
- To study the technique of capital budgeting for decision- making.
- To measure the present value of rupee invested.
- To understand an item wise study of the company financial performance of the company.
- To make suggestion if any for improving the financial position if the company.
- To understand the practical usage of capital budgeting techniques
- To understand the nature of risk and uncertainty.

Methodology of the study:

To achieve a foresaid objective the following methodology has been adopted. The information for this report has been collected only through secondary sources.

Secondary sources:

The secondary data have been collected through

•The various Finance books,

•Magazines,

•Brouchers & websites

Limitations of the Study:

•Lack of time is another limiting factor, i.e.. the schedule period of 8 weeks are not sufficient to make the study independently regarding capital budgeting.

•Non-availability of confidential financial data.

•The study is conducted in a short period, which was not detailed in all aspects.

•All the techniques of capital budgeting are not used in all the organisations. Therefore it was possible to explain only few methods of capital budgeting.

Capital Budgeting techniques:

Traditional Approach (or) Non-Discounted Approach	Modern Approach (or) Discounted Cash Flows
Pay Back Period (PB) Net Present Value (NPV)	Profitability Index (PI) Discounted Payable Period

Capital Budgeting techniques:

The following steps are involved in the calculation of NPV:

- Cash flows of the investment project should be forecasted based on realistic assumptions.
- An appropriate rate of interest should be selected to discount the cash flows, generally this will be the "Cost of capital rate" of the company.
- The present value of inflows and out flows of an investment proposal, has to be computed by discounting them with an appropriate cost of capital rate.
- The Net Present value is the difference between the "Present Value of Cash inflows" and the present value of cash outflows.
- Net present value should be found out by subtracting present value of cash outflows from present value of cash inflows. The project should be accepted if NPV is positive.

NPV = Present Value of Cash inflow – Present value of the cash outflow.

Acceptance Rule:

Accept if NPV > 0
Reject if NPV < 0
May accept if NPV = 0
One with higher NPV is selected.

Payback period:

- The payback period is defined as the period required for the proposal's cumulative cash flows to be equal to its cash outflows. The payback period is usually stated in terms of number of years.
- The payback period is the number of years it takes the firm to recover its original investment by net returns before depreciation, but after taxes. If project generates constant annual cash inflows, the payback period is completed as follows:

$$\text{Pay Back} = \frac{\textbf{Initial Investment}}{\textbf{Annual cash inflow}}$$

Acceptance Rule:

- Accept if calculated value is less than standard fixed by management otherwise reject it.
- If the payback period calculated for a project is less than the maximum payback period set up by the company it can be accepted.
- As a ranking method it gives highest rank to a project which has lowest payback period, and lowest rank to a project with highest payback period.

Profitability Index (PI):

It is ratio of present value of future net cash inflows at the required rate of return, to the initial cash outflow of the investment.

$$\text{PI} = \frac{\textbf{Present Value of cash inflows}}{\textbf{Present Value of cash outflows}}$$

Acceptance Rule:

- Accept if PI > 1
- Reject if PI < 1
- May accept if PI = 1.

Discounted Payback Period:

- One of the serious objections to pay back method is that it does not discount the cash flows. Hence discounted payback period has come into existence.
- The number of periods taken in recovering the investment outlay on the present value basis is called the discounted payback period.
- Discounted Pay Back rule is better as it does discount the cash flows until the outlay is recovered.

Conclusion:

- Every organization has pre-determined set of objective and goals, but reaching those objectives and goals only by proper planning and executing of the plans economically.
- As in project implementation, the station continued to excel in power generation with the power station having reached its first goal of total capacity installation.
- The organization needs the capable personalities as management to lead to organization successfully.
- The management make the plans and implement of these plans. These plans are expressed in terms of long-term investment decisions.
- The special budgets are rarely used in the organization like long-term budgets, research & development budget and budget and budget for constancy.

BIBILOGRAPHY:

- I.M Pandy, Financial Management I.M Pandy Second edition, published by Vikas publishing Houses Pvt.Ltd.
- Prasannachandra, Fundamental of Financial Management, second edition, published by Tata McGraw Hill publishing company ltd
- Financial accounting, second edition, published by Tata McGraw Hill publishing company ltd.