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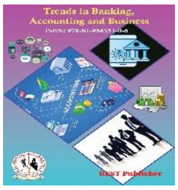

A Study on Capital Budgeting and Techniques with Special Reference of N & M Tools at Bangalore

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Abstract: *Capital budgeting shows the process of selection of those projects which fulfil the criteria of desired net present value. The decision of whether to accept or deny an investment project as part of a company's growth initiatives, involves determining the investment rate of return. There are several techniques commonly used to evaluate. The main objective of capital budgeting is to maximize the wealth of shareholder for the financial period. Capital budgeting decision focus on expansion of business with an objective of profit making. These decisions have long term impact on the organization. These decisions when implemented also affect the return on investment of the organization. The projects with longer period would have a negative rear on investment during initial years. The findings shows that the more complicated methods such as Payback Period and Net Present Value are most favored technique which was used by small scale industry and the right decisions taken can lead the business to great heights. In the year of 2021, the Payback Period has been in a normal flow with 3years and 7months. Net Present Value and Payback Period are more complete methods for assessing capital budgeting decision because it consider as timing and overall amount of cash flows.*

Key Words*: Capital Budgeting, Investment, Decision, Initiatives, Net present Value.*

1. INTRODUCTION

Capital Budgeting the process of making investment decisions in capital expenditure. A capital expenditure may be defined as an expenditure the benefit of which are expected to be received over a period of time exceeding one year. The main characteristics of a capital expenditure are that the expenditure is incurred at one point of time whereas benefits of the expenditure are realized at different points of time in future. Capital expenditure involves non-flexible long-term commitment of funds. Thus, capital expenditure decisions are also called Long-Term Investment Decision.

OBJECTIVES

- To analyze the company's investment decisions by applying capital budgeting technique.
- To ensure the effective control of capital expenditure in order to achieve by forecasting the long-term financial requirements and to make estimation of capital expenditure.
- To facilitate co-ordination of inter-departmental project funds among the competing capital projects.
- To ensure maximization of profit by allocating the available investible.

SCOPE OF THE STUDY

The study helps in deciding whether to expand the machinery for production and decision to replace old machinery with new machinery and improves the performance of the business by providing the long-term assets by acquiring plant and machinery which increases the production process which directly influences the profitability of business. This helps in reducing the cost of operations to business by taking decision for long term capital.

2. REVIEW OF LITERATURE

Sureka et.al., (2022) There is lack of practices while investigating the capital budgeting process and the factors affecting the capital budgeting efficiency. **Kim et.al (2021)** Capital Budgeting is concentrating on identifying companies most commonly applied for the decision making and useful tool for long term investment. **Garrion et.al., (2018)** Capital budgeting is considered an important element in the firm managerial decisions and long-term financial performance. The capital budgeting process is a multifaceted activity designed to help in the selection of investment projects that are viable and worthy of pursuing.

3. RESEARCH METHODOLOGY

Research methodology is a way of explaining how a researcher intends to carry out their research. It's a logical, systematic plan to resolve a research problem. A methodology details a researcher's approach to the research to ensure reliable, valid results that address their aims and objectives. It encompasses what data they're going to collect and where from, as well as how it's being collected and analyzed.

4. DATA ANALYSIS & INTERPRETATION

PAYBACK PERIOD

The term is also widely used in other types of investment areas, often with respect to energy efficiency technologies, maintenance, upgrades, or other changes. For example, a compact fluorescent light bulb may be described as having a payback period of a certain number of years or operating hours, assuming certain costs. Here, the return to the investment consists of reduced operating costs.

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Payback Period = Investment / Annual Cash Inflow

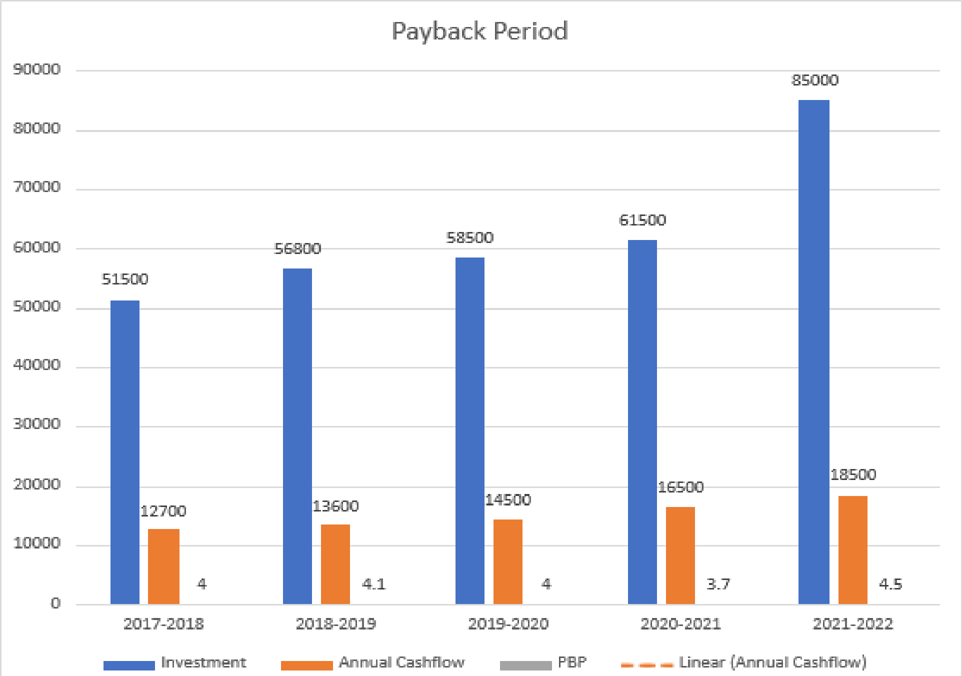
TABLE: Table showing comparison of Payback Period for five years

Year	Investment	Annual Cashflow	PBP
2017-2018	51500	12700	**4**
2018-2019	56800	13600	**4.1**
2019-2020	58500	14500	**4**
2020-2021	61500	16500	**3.7**
2021-2022	85000	18500	**4.5**

INTERPRETION

The table shows that payback period has been changing. In the year of 2020-2021 the cash flow has been recovered within 3years and 7months.In the year of 2021-2022 the period increased up to 4years and 5months.

GRAPH 1: Showing that comparison of Payback Period for five years



ACCOUNTING RATE OF RETURN

The accounting rate of return, also known as average rate of return, or ARR is a financial ratio used in capital budgeting. The ratio does not take into account the concept of time value of money. ARR calculates the return, generated from net income of the proposed capital investment. The ARR is a percentage return, then it means that the project is expected to earn seven cents out of each dollar invested.

Accounting Rate of Return = Average Accounting Profit / Average Investment * 100

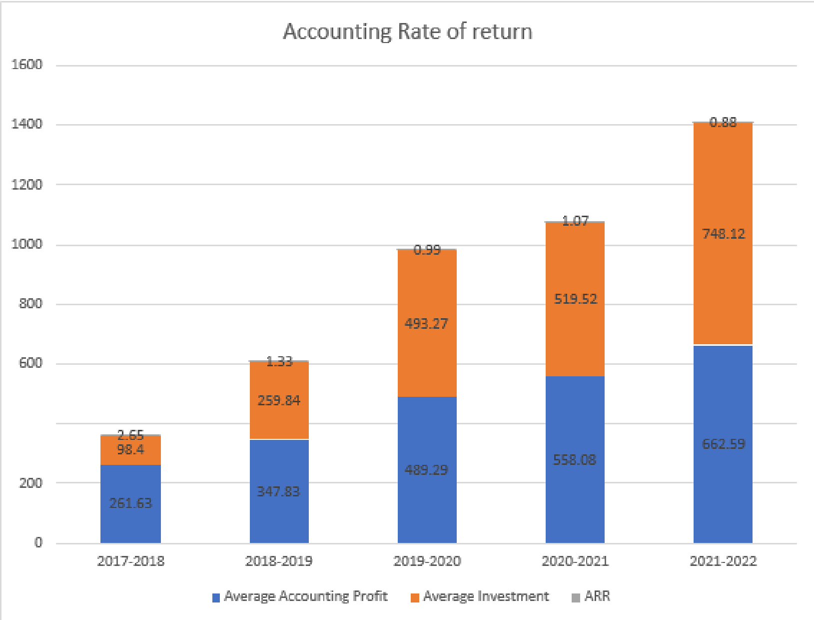
Table: 2 Table showing comparison of accounting rate of return for five years

Year	Average Accounting Profit	Average Investment	ARR
2017-2018	261.63	98.4	**2.65**
2018-2019	347.83	259.84	**1.33**
2019-2020	489.29	493.27	**0.99**
2020-2021	558.08	519.52	**1.07**
2021-2022	662.59	748.12	**0.88**

INTERPRETION

From the above table the returns are high in the year of 2017-2018 at 2.65, by comparing the past five years the company was going in a positive way without any negativity.

GRAPH 2: Showing that comparison of accounting rate of return for five years



NET PRESENT VALUE

NPV is a useful tool to determine whether a project or investment will result in a net profit or a loss. A positive NPV results in profit, while a negative NPV results in a loss. The NPV measures the excess or shortfall of cash flows, in present value terms, above the cost of funds. In a theoretical situation of unlimited capital budgeting, a company should pursue every investment with a positive NPV. However, in practical terms a company's capital constraints limit investments to projects with the highest NPV whose cost cash flows, or initial cash investment, do not exceed the company's capital.

Net Present Value = Cash Inflow – Initial Investment

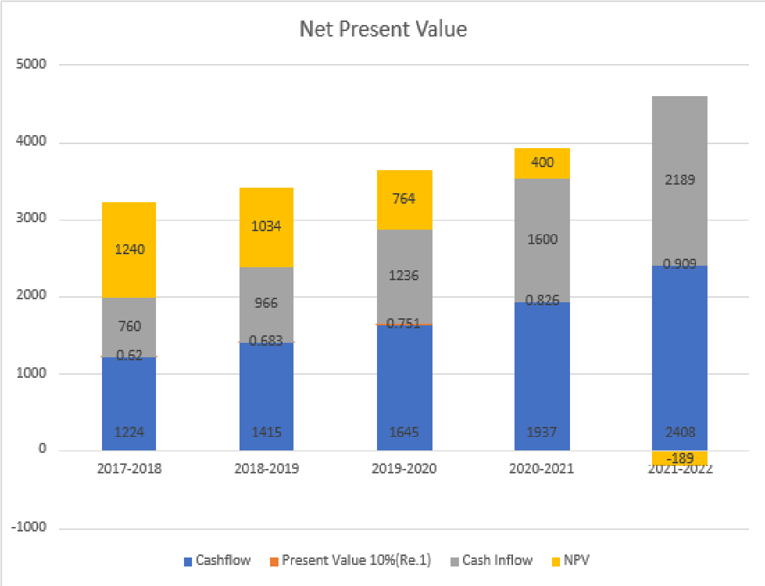
TABLE: 3 Table showing that comparison of Net Present Value **(**Initial Investment Rs 2000)

Year	Cashflow	Present Value 10%(Re.1)	Cash Inflow	NPV
2017-2018	1224	0.62	760	**1240**
2018-2019	1415	0.683	966	**1034**
2019-2020	1645	0.751	1236	**764**
2020-2021	1937	0.826	1600	**400**
2021-2022	2408	0.909	2189	**-189**

INTERPRETION

From the above table Net present value has been fluctuating year. It stood at -189 for the financial year of 2021-2022 and it became the negative value which was lesser then the initial investment.

GRAPH 3: Showing that comparison of Net Present Value **(**Initial Investment Rs 2000)



5. FINDINGS, SUGGESTIONS & CONCLUSION

Findings:

- In the year of 2021-2022 the investment has been increased up to Rs 85000 but the annual cash flow rated less amount of 18500 by comparing to previous years.
- The average rate of return was high in the year of 2017-2018 at Rs 2.65% it shows that the project is rating good.
- The time value of money was fluctuating, in the year of 2021-2022 it shows a negative value of -189, the value of money worth is more or less then the value in future the company has to make a right decision regarding the investment.
- Net cashflow from operating activities shows the ongoing process, it has more services in the year of 2020-2021 with cashflow of 845.65. It used to evaluate the expenses which has been used to reduce the expenses.
- Return on assets which shows the profitability of a company in the year of 2020-2021 the total return on assets was Rs 227.

Suggestions:

- An analysis of capital budgeting decisions and growth to establish whether a technique used has any impact on the outcome.
- The objectives and how it can be achieved through Capital budgeting technique
- The management should focus on time value of the money as well as net present value, the proper reports should be maintained.
- Inadequate investment makes the company to face the consequences.
- As the company should focus on the long-term decisions, which will be resulted in profit
- One of the reasons for not making sophisticated decisions is the lack of people, time and experience to handle capital expenditures.

6. CONCLUSION

Overall, in the project report I studied and analyzed the Capital Budgeting, with a view how to make a decision regarding the long term and short-term investments. The N & M Tools should focus on the long-term investments. The spending plan is one of the key procedures for budgetary administration to access or to undertake the machines and plan expenditure on fixed assets. Capital budgeting is a decision-making technique.

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