



# **SNS COLLEGE OF ENGINEERING**

**Kurumbapalayam (Po), Coimbatore - 641 107**

**An Autonomous Institution**

**Accredited by NBA - AICTE and Accredited by NAAC - UGC with 'A' Grade  
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai**

**DEPARTMENT OF MANAGEMENT STUDIES**

**COURSE NAME : 19BA201 FINANCIAL MANAGEMENT**

**I YEAR / II SEMESTER**

**UNIT 2 - INVESTMENT DECISIONS**



# Capital budgeting

**Capital budgeting**, and investment appraisal, is the planning process used to determine whether an organization's long term investments such as new machinery, replacement of machinery, new plants, new products, and research development projects are worth the funding of cash through the firm's capitalization structure.



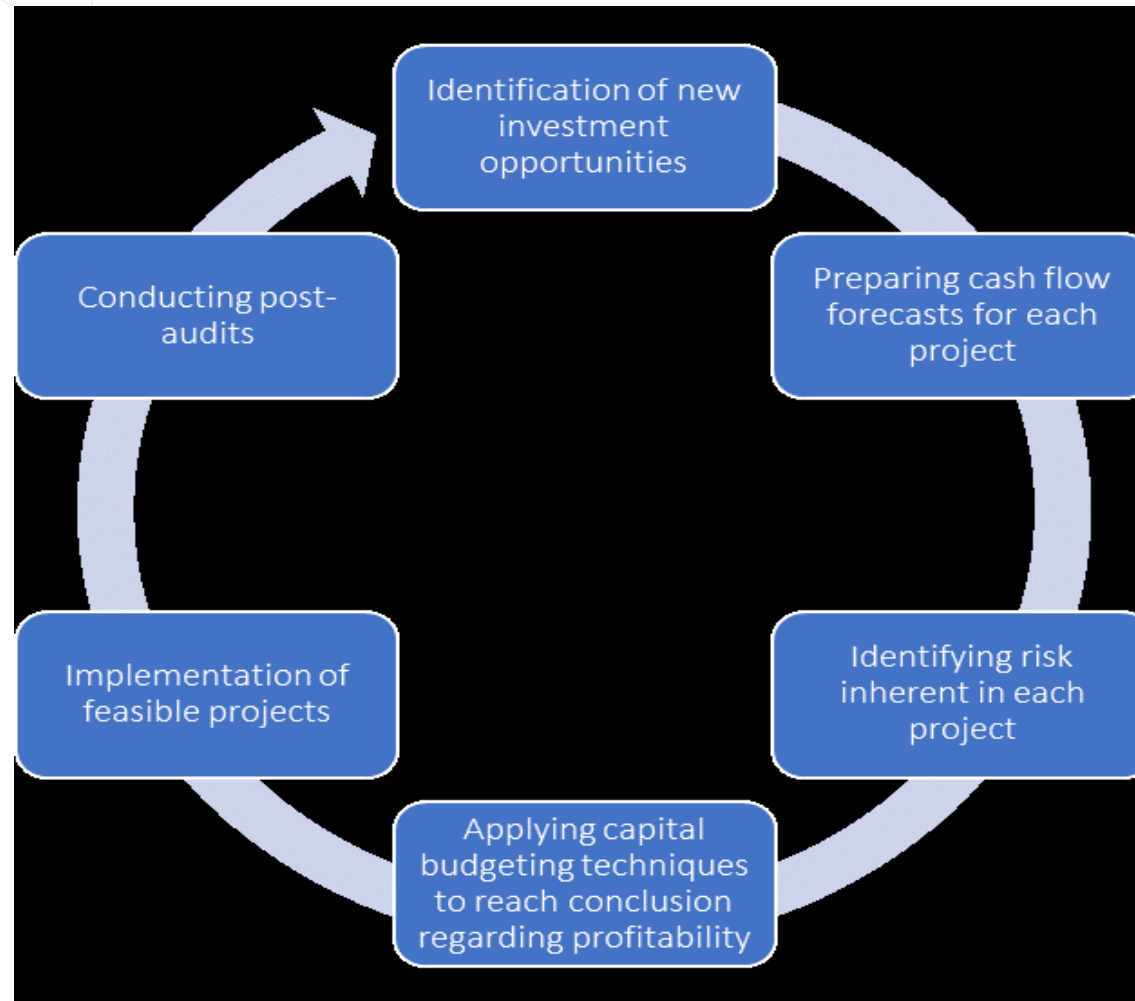


## Capital Budgeting Process

Capital budgeting is a company's formal process used for evaluating potential expenditures or investments that are significant in amount. It involves the decision to invest the current funds for addition, disposition, modification or replacement of fixed assets.

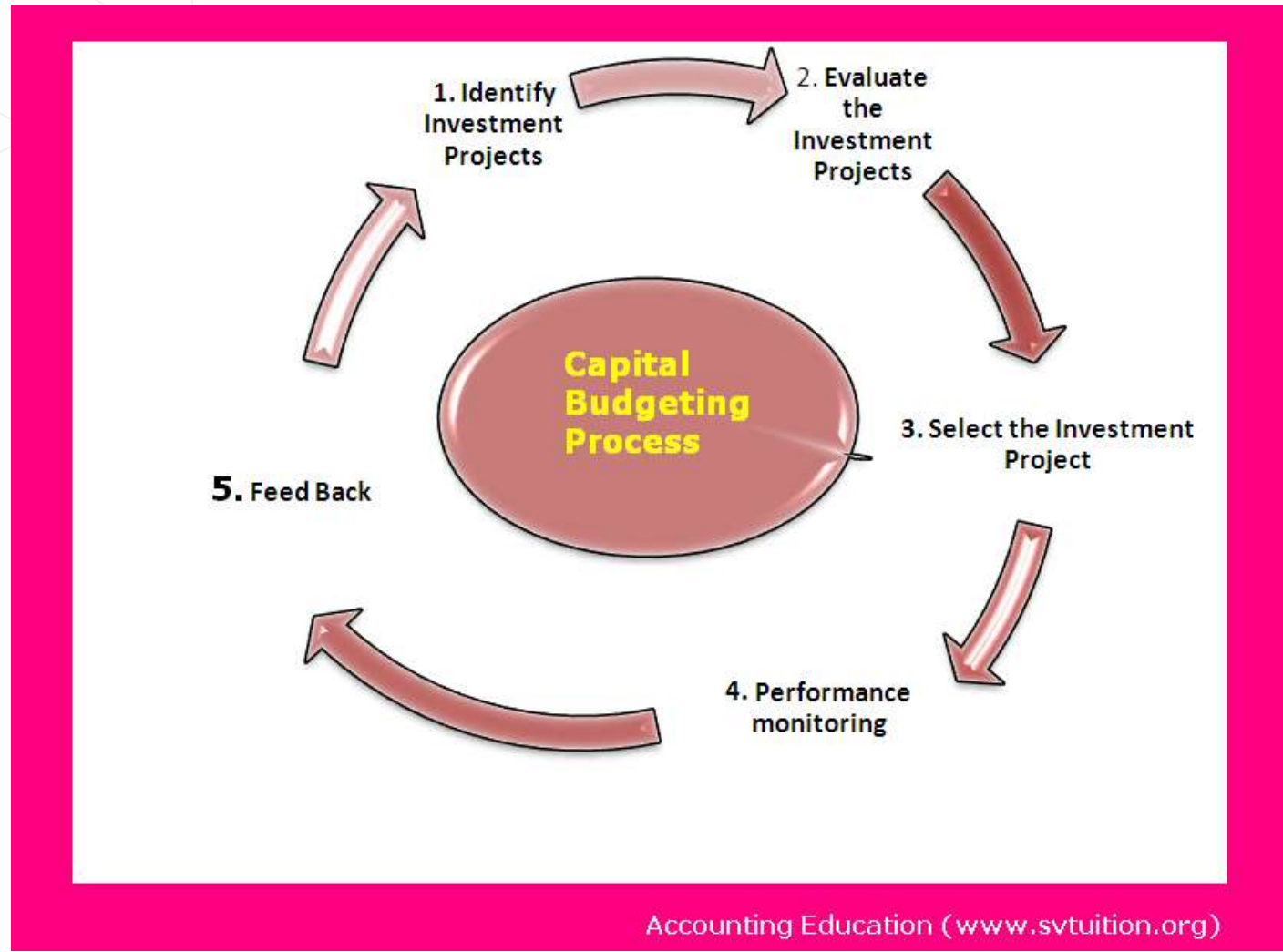


# Capital Budgeting Process





# Simple Capital Budgeting Process





## Capital Budgeting Process

Capital budgeting is a company's formal process used for evaluating potential expenditures or investments that are significant in amount. It involves the decision to invest the current funds for addition, disposition, modification or replacement of fixed assets.

“Capital Budgeting refers to the total process of generating, evaluating, selecting and following up on capital expenditure alternatives.” It is a long-term investment decision.



# Nature of Capital Budgeting Process

## Nature of Capital Budgeting

- Long Term Effect
- High Degree of Risk
- Huge Funds
- Irreversible Decision
- Impact Competitive Strength
- Impact on Cost Structure

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## 10 Importance of Capital Budgeting

1

Long Term Effect on Profitability

2

Huge Investments

3

Decision cannot be Undone

4

Expenditure Control

5

Information Flow

6

Helps in Investment Decision

7

Wealth Maximization

8

Risk and Uncertainty

9

Complicacies of Investment Decisions

10

National Importance





# Principles of Cost Estimating



- **Integrity** - open and transparent process
- **Information Accuracy and Relevance** - Information should be True
- **Uncertainty and Risk** - Risk Measure
- **Expert Team** - Forecasting
- **Validation** - Demand & Cost



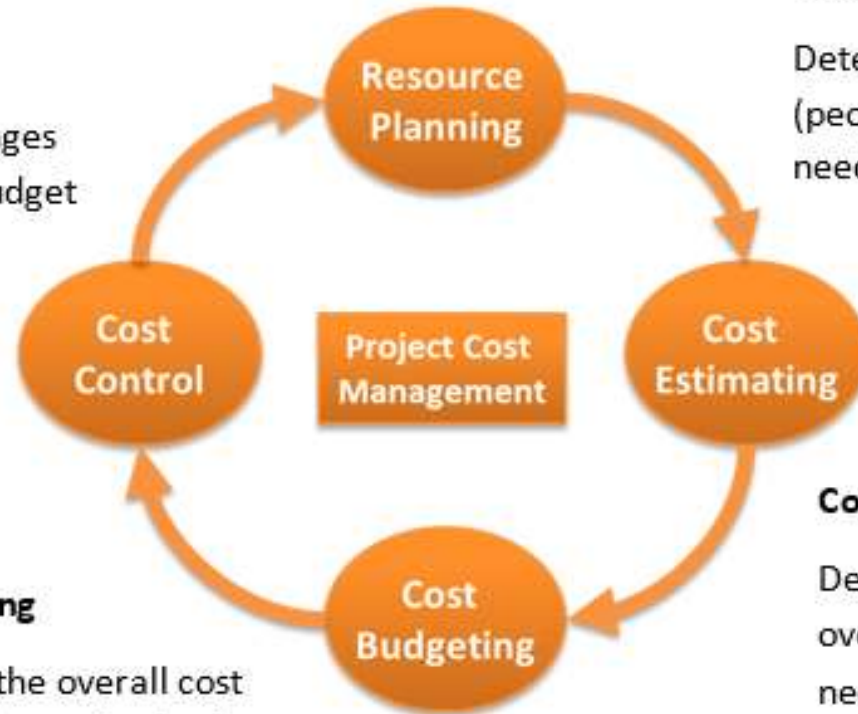
# Cost Management

## Cost Control

Controlling changes to the project budget

## Cost Budgeting

Allocation of the overall cost estimate to the project budget



## Resource Planning

Determine the resources (people, equipment, materials) needed for project completion

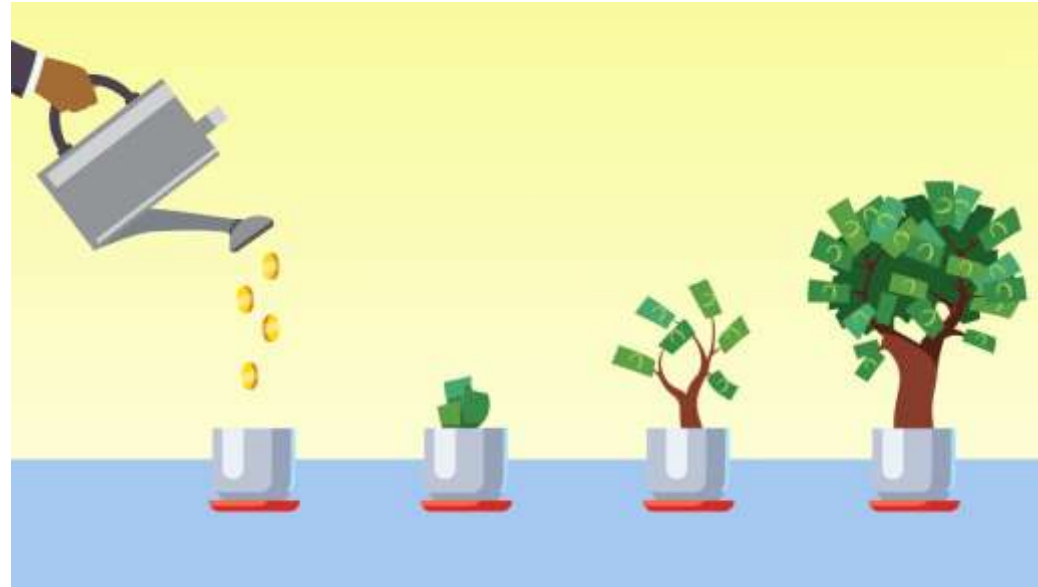
## Cost Estimating

Develop an approximation of overall cost of resources needed to complete the project



# Investment

An **investment** is an asset or item acquired with the goal of generating income or appreciation. Appreciation refers to an increase in the value of an asset over time.





# Benefits of Investing



Potential for long-term Returns

Outperform inflation

Provide a regular income

Tax Benefit

Money Multiple

Financial Stability (Reduce Stress in Future)

Risk is less

Profit, Wealth, Safety and Systematic Investment lead to better life

## DIFFERENT TYPES OF INVESTMENT



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## WHAT ARE THE BEST INVESTMENT PLANS FOR ME?



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Thank You

