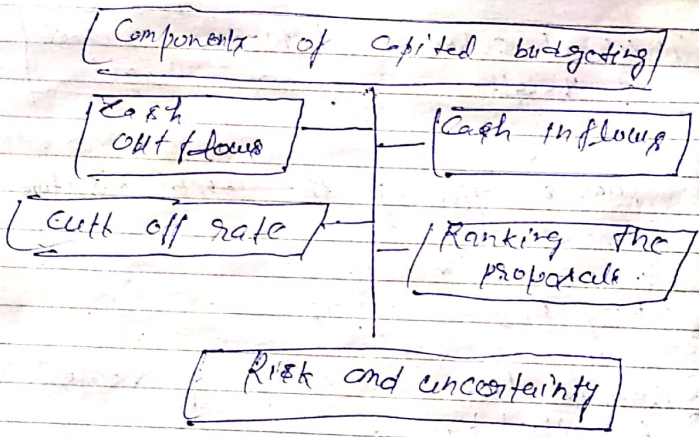


Q.2 → What do you understand by capital budgeting decision? Explain what are the motives of holding cash?

Ans → Capital budgeting decision:- Capital budgeting is long-term planning for making and financing proposed capital outlays. The entire process of 'investment decisions' is also known as capital budgeting or 'capital expenditure decision'.



Motive of holding cash:- The motives for holding cash is simple, the cash inflows and outflows are not well synchronized, sometimes the cash inflows are more than the cash outflows while at other times the cash outflows could be more.

- There are following five motives:
- ① Transaction motive
 - ② Precautionary motive
 - ③ Speculative motive
 - ④ Future requirements
 - ⑤ Compensating balances