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 is the process by which investors determine the value of a potential investment project.

There are several methods which are used to evaluate capital budgeting decisions. The techniques are:

1. Payback Period
2. Average Rate of Return
3. Net Present Value Method
4. Profitability Index
5. Discounted Payback Period
6. Internal Rate of Return
7. Modified Internal Rate of Return
8. Equivalent Annualized Cost/Benefit Method.

Cash is known as most liquid and less productive assets of a firm.
If **cash** remains idle, earns nothing but involves cost in terms of interest payable to **finance** it. Although **cash** is least productive current assets, firm should hold certain amount of **cash** for marketable securities.