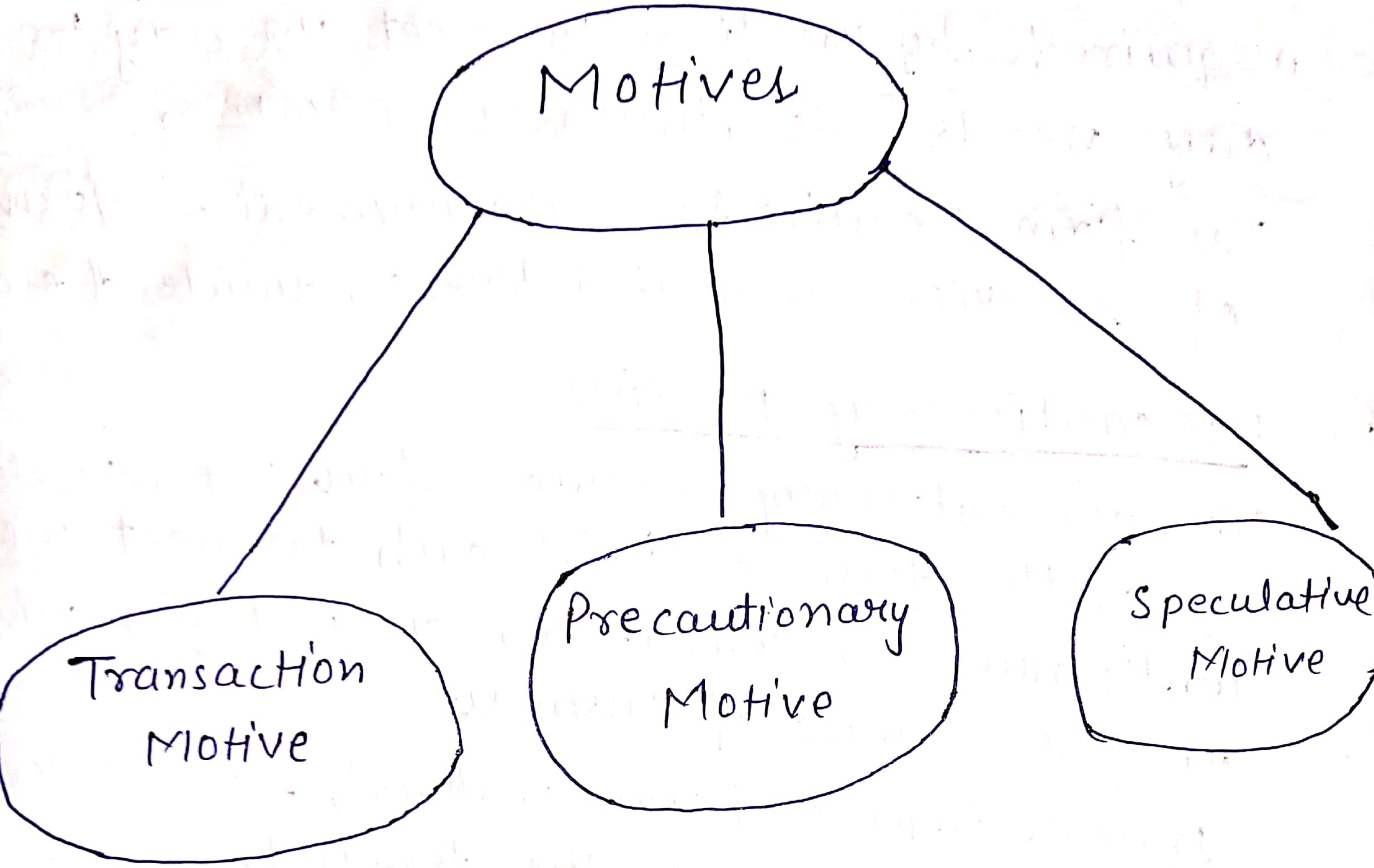
Capital Budgeting

Capital Budgeting refers to the planning process which is used for decission making of the long term investment that whether the project are fruitful ~~that whether the project are fruitful~~ for the business and will provide the required return in the future years or not and it is important because capital expenditure requires huge amount of funds so before doing such expenditure in capital, the companies need to assure themselves that the spending will bring profit in the business.

Capital Budgetting is a decission - making process where a company plans and determines any long term capex whose return in term of Cash flows are expected to be recived beyond a year. Investment decission may include any of the below.

- Expansion.
- Acquisition.
- Replacement.
- New product.
- R & D
- Major ~~advert~~ advertisement compaign
- Welfare investment.

Motives of holding Cash



The motives of holding cash is simple, the cash inflows and outflows are not well synchronized.
The Cash is held by the firms to meet the certain as well as uncertain situation.

① Transaction Motive

The transaction motive refers to the cash required by the firm to meet the day to day needs its business operation.
The firm require to make payment in form of salaries, wages, interests, dividend etc.

② Precautionary Motive

The precautionary motive refers to the tenden-cy of the firm to hold cash to meet the contigencies or unforeseen circumtances arising in the course of business.
Increase in price of raw material, labor strike, lockouts change in the demand.

③ Speculative Motive

The firm hold cash for speculative purposes to avail the benefits of bargain purchase that may arise in the future.
Ex-: The firm feel the prices of raw material are likely to fall in the future. It will hold cash and wait until price will fall.