

Ques-2

What do you understand by Capital Budgeting decision? Explain what are the motives of holding cash?

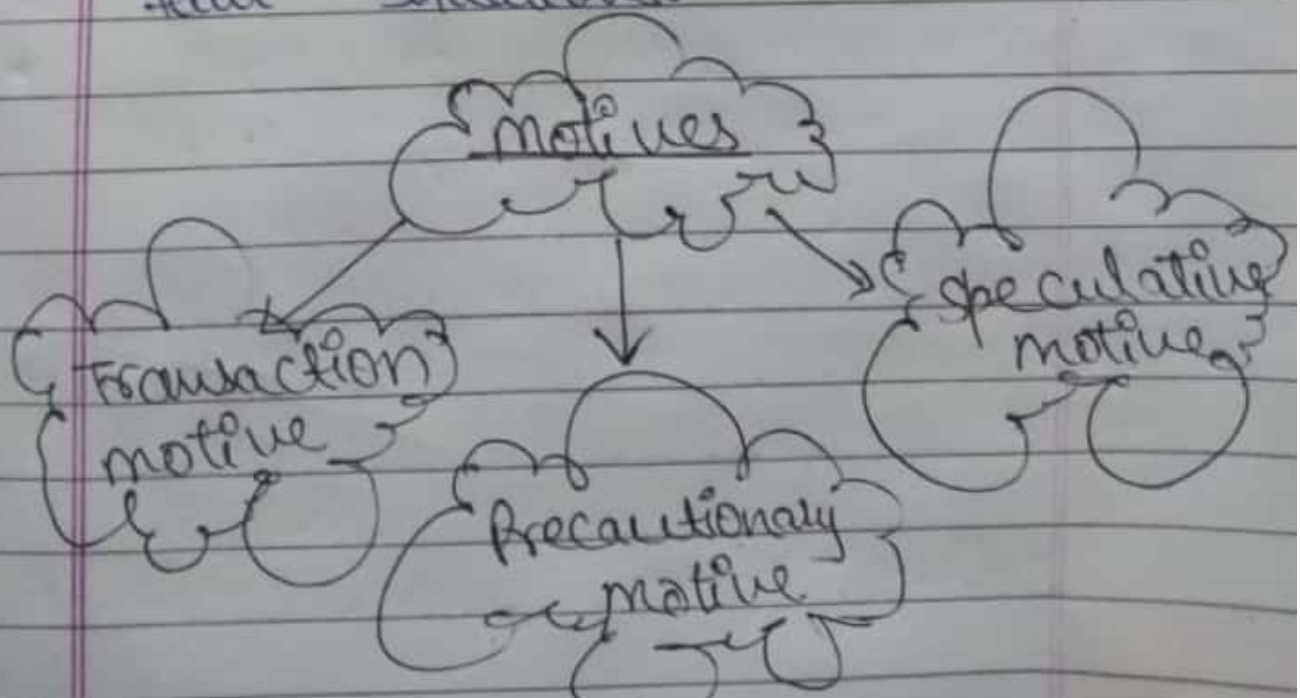
Ans

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

It is the process of allocating resources for major capital, or investment, expenditures, one of the primary goals of capital budgeting investments is to increase the value of the firm to the shareholders.

* Motives for holding cash -
definition -

The motives for holding cash is simple, the cash inflows and outflows are not well synchronised, i.e. - sometimes the cash inflows while at other times the cash outflows could be more. Hence the cash is held by the firms to meet the certain as well as uncertain situations.



- The transaction motive, refers to the cash required by a firm to meet the day to day needs of its business operations.
- The precautionary motive refers to the tendency of the firm to hold cash, to meet the contingencies or unforeseen circumstances arising in the course of business.
- The firm's hold cash for the speculative purpose to avail the benefit of bargain purchases that may arise in the future.