Quadrant II – Transcript and Related Materials

Programme: BCom

Subject: Computer Science

Paper Code: CSS101

Paper Title: Computer Applications for Business I

Unit: 02

Module Name: Capital Budgeting

Module No: 19

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Glossary of terms/words:

- **Capital Budgeting:** Process of evaluating and selecting long-term investments that are consistent with the goal of shareholders (owners) wealth maximization.
- **Cash Inflows after Tax (CFAT):** Cash flow after taxes (CFAT) is a measure of financial performance that shows a company's ability to generate cash flow through its operations. It is calculated by adding back non-cash charges such as amortization, depreciation, restructuring costs, and impairment to net income.
- **Discount rate:** The cut-off rate for an investment, at which the investment is acceptable. In the context of capital budgeting, discount rate refers to interest rate used in discounted cash flow (DCF) analysis to determine the present value of future cash flows

Possible misconceptions/clarification

- According to Financial Management books in Capital Budgeting, Net Present Value (NPV) is found by subtracting a projects initial investment from the present value of its cash inflows discounted at the firm's cost of capital. However, the excel formula of NVP is used to calculates the net present value of an investment by using a discount rate and a series of future payments (negative values) and income (positive values). The value

computed using the excel formula corresponds to the present value of its cash inflows discounted at the firm's cost of capital. The Excel NPV formula does not subtract the projects initial investment. As such the NPV value obtained from the Excel Function, cannot be used directly for the accept-reject investment decision as is done in case of the NPV term defined for Capital Budgeting.