

A capital Budgeting Analysis Harvard Case Solution & Analysis

Control

There are major differences in capital budgeting practices, generally between countries, or at least among, or between the public, private, or government sectors. In a particular country's history and political context, it is difficult to

Capital budgeting is a process of estimating the present value of future cash flows and comparing it to the initial investment. It is a key tool for evaluating the profitability of long-term investments. The process involves identifying potential investments, estimating their costs and benefits, and comparing the net present value of each investment to zero. If the net present value is positive, the investment is considered profitable and should be accepted. If it is negative, the investment should be rejected. Capital budgeting is used by a wide range of organizations, from small businesses to large corporations, to make informed decisions about their future growth and profitability.

Why Give a Special Attention to Operational Budget?

- Capital budgeting is a long-term investment decision that has a significant impact on the company's future growth and profitability.
- Operational budgeting is a short-term investment decision that has a significant impact on the company's current operations and profitability.
- Capital budgeting is a strategic decision that is made at the highest level of the organization, while operational budgeting is a tactical decision that is made at the lower levels of the organization.

By implementing proper capital budgeting, organizations can increase their profitability and growth. However, it is important to note that capital budgeting is not a guarantee of success, and it is important to monitor the results of the investment and make adjustments as needed.



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Table 1: Capital Budgeting Decision Process

Step	Process	Outcome
1	Identify Investment Opportunities	Identify potential investments
2	Evaluate Investment Opportunities	Estimate the net present value of each investment
3	Select Investment Opportunities	Accept profitable investments and reject unprofitable ones
4	Monitor Investment Opportunities	Track the performance of the investment and make adjustments as needed

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Capital budgeting is a process of estimating the present value of future cash flows and comparing it to the initial investment. It is a key tool for decision-making in capital budgeting. The process involves identifying potential investments, estimating their cash flows, and comparing them to the cost of capital. The goal is to identify investments that are expected to generate a positive net present value (NPV).

Why Give a Special Attention to Operational Budget?

- Capital budgeting is a long-term investment decision. It involves investing in assets that will generate cash flows over a long period of time.
- Capital budgeting is a strategic decision. It involves investing in assets that will help the company achieve its long-term goals.
- Capital budgeting is a high-risk decision. It involves investing in assets that are subject to uncertainty and risk.

By implementing proper capital budgeting, companies can increase their profitability and growth. However, it is important to carefully evaluate the risks and benefits of each investment opportunity.



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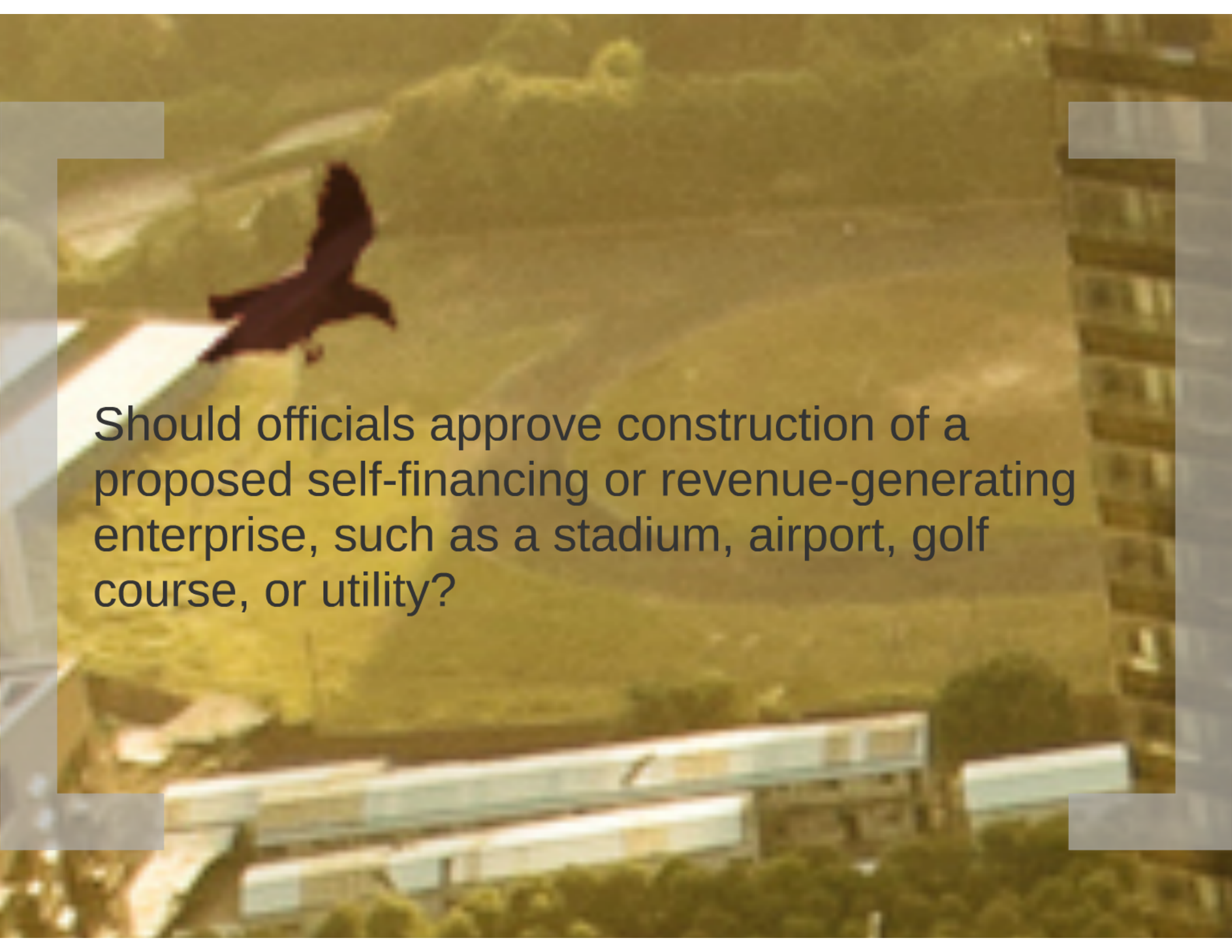
Step	Process	Outcome
1	Identify Investment Opportunities	Identify potential investments
2	Evaluate Investment Opportunities	Estimate cash flows and NPV
3	Select Investment Opportunities	Choose the best investment
4	Monitor Investment Opportunities	Track performance and adjust



Financial Analysis & Analytics

What is Capital Expenditure?

Capital expenditures purchase physical assets that are expected to provide services for several years; the outlay will yield benefits in the future without having to repeat the purchase. Capital improvements or rehabilitation of physical assets that extend or enhance the useful life of these assets (as distinct from the operating expenditures for repair or maintenance expenditures which assure functionality during the expected life of the asset) (Mike Bell 2013, p. 38).


An aerial photograph of a large stadium under construction. The stadium's seating bowl is visible, surrounded by greenery and trees. A large bird is captured in flight in the upper left portion of the frame. The image has a warm, golden-brown color palette. The text is overlaid on the lower-left side of the image.

Should officials approve construction of a proposed self-financing or revenue-generating enterprise, such as a stadium, airport, golf course, or utility?

Why Give it Special Attention from Operational Budget?

- Capital asset decisions can have future impact and thus merit extraordinary care.
- Capital assets usually have high price tags and their purchase may destabilize the finances of government.
- Capital asset purchases tend to occur at irregular intervals and may need special attention in regard to scheduling.

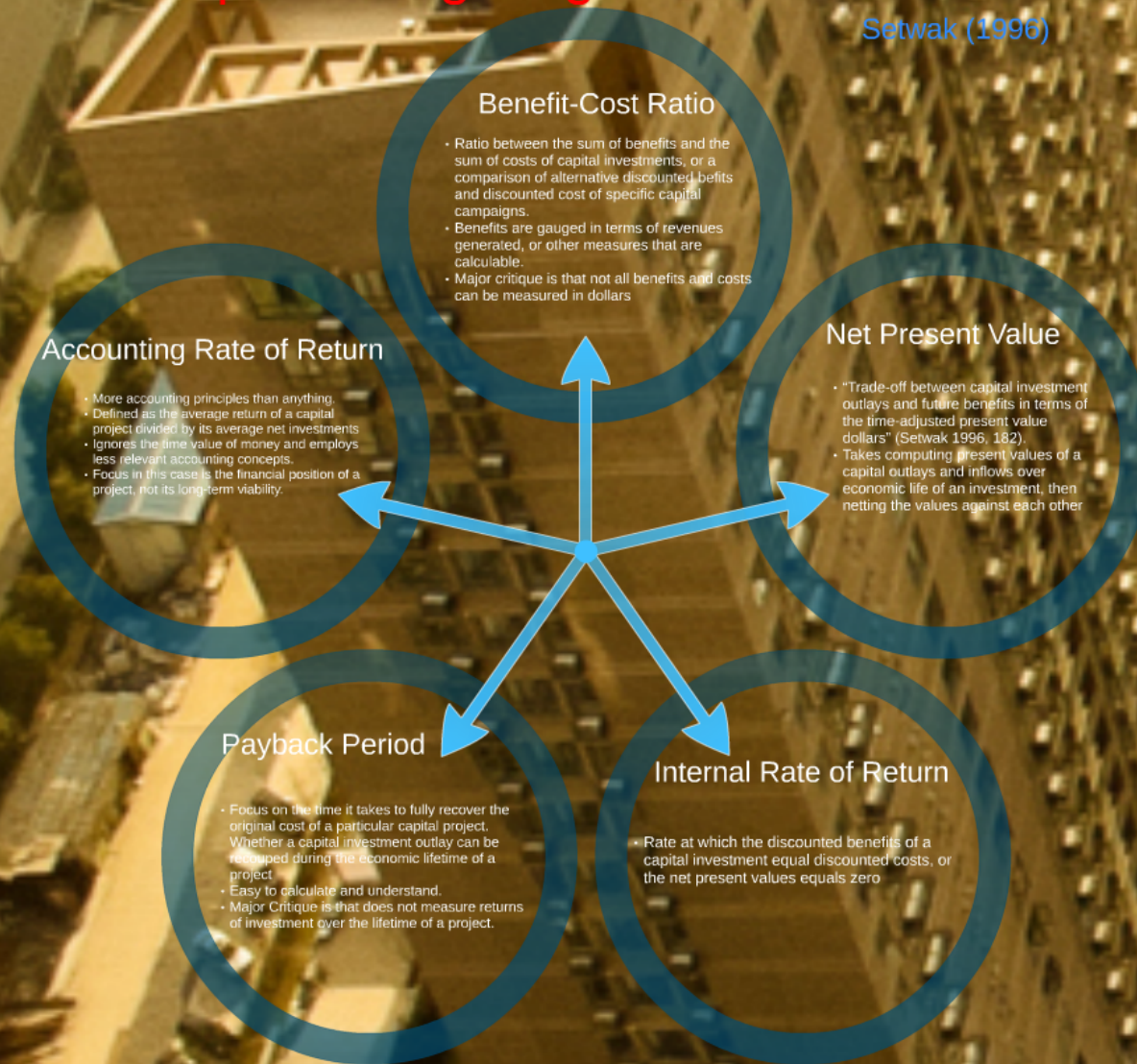


An aerial photograph of a city street, overlaid with a semi-transparent blue filter. The street is lined with trees and buildings, and several cars are visible on the road. In the upper left corner, two birds are captured in flight against the sky. The text is centered on the left side of the image.

By implementing proper models, governments can facilitate capital investment decisions. However, there is no ignoring controls and constraints in project selection that complicate things for state and local governments.

Capital Budgeting Decision Models

Setwak (1996)



Capital Budgeting Decision Models

Setwak (1996)

Benefit-Cost Ratio

- Ratio between the sum of benefits and the sum of costs of capital investments, or a comparison of alternative discounted benefits and discounted cost of specific capital campaigns.
- Benefits are gauged in terms of revenues generated, or other measures that are calculable.
- Major critique is that not all benefits and costs can be measured in dollars

Accounting Rate of Return

Net Present Value