Module 4. Capital Budgeting

All the statements given below are correct.

1. Capital budgeting decisions have long term implications.

2. Performance review help the firm to avoid over-expansion and under-expansion problems in future.

3. Capital budgeting assures optimal utilization of resources.

4. Projects are raked in order of the higher values of the NPV.

5. The expected value against the investment revenue is referred to as Internal rate of return.

6. The cost of capital is not taken into consideration under IRR.

7. Pay back period is measured as Initial investment outlay/ Annual cash inflow.

8. If NPV of the project is positive, the project is acceptable.

9. IRR deals with the whole range of annual returns earned during the life time of the project.

10. Capital budgeting decisions are often irreversible because there is little or no market for many types of second hand capital and a huge investment is involved here.

11. Pay back period method of capital budgeting primarily focusses on the time period required to recover original investment.

12. The compounded value of future cash flows is the future value.

13.The discounted value of future cash flows is the present value.

14. According to IRR method of capital budgeting, a project will be accepted if IRR is greater than market rate of interest.