**The decision rule for the capital budgeting method states a project...**

**Capital Budgeting- Question: Key Terms**

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| --- | --- | --- |
| Replacement Decision | g | A capital budgeting analysis that determines a capital asset should be purchased to take the place of a worn out, damaged, or obsolete existing asset. |
| Net Present value | a | A. The decision rule for the capital budgeting method states a project should be considered acceptable, if the difference between its discounted cash inflows and cost is positive. |
| NPV profile | c | A curve showing the relationship between a project's net present value and various discounts rate. |
| Post-Audit analysis | e | This analysis conducted following the implementation of an accepted capital project and is intended to improve a firm's forecasting process and to improve the firm's operations. |
| Internal rate of return | d | This capital budgeting technique calculate a discount rate that should be compared to a firm's cost capital to determine whether a capital project should be accepted or rejected. |
| Capital budgeting | j | The process of planning and evaluating expenditures on asset whose cash flows expected to extend beyond one year. |
| Independent project | i | Capital projects who cash flows are not affected by the acceptance or rejection decisions made regarding other projects. |
| Payback Period | b | This analytical technique is less reliable for identifying acceptable projects as it ignores the time value of money. |
| Required rate of return | h | This discount rate at which the present value of a project's cash outflows is equal to the present value of the sum of its future cash inflows, assuming that cash flows are reinvested at the firm's required rate of return. |
| Modified internal rate of return | f | A term used to describe a firm's cost of capital;this value is used as the hurdle against which a project's internal rate of return is compared to ascertain whether a project is acceptable. |

**Factors to Consider in Determining Capital Expenditures**

* Rate of return
* Budget ceiling
* Probability of success
* Competition
* Tax rate
* Dollar amounts
* Time value of money
* Risk
* Liquidity
* Long-term business strategy
* Forecasting errors
* Types of Capital Budgeting Decisions to Be Made
* Cost reduction program
* Undertaking an advertising campaign
* Replacement of assets
* Obtaining new facilities or expanding existing ones
* Merger analysis
* New and existing product evaluation
* No profit investments (e.g., health and safety)