

Capital Budgeting in Business

FIN007

Course Description

Capital budgeting is the cornerstone of long-term financial decision-making in business. It involves evaluating, selecting, and managing investment projects that require significant capital outlays. This course provides a practical and analytical framework for assessing the financial viability of capital projects, aligning investment decisions with strategic goals, and optimizing resource allocation. Participants will explore key evaluation techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period, and Profitability Index, while also learning to account for risk, uncertainty, and capital constraints in real-world scenarios.

Course Goal

To equip participants with the technical skills and strategic insight to evaluate and manage capital investments that drive sustainable business value.

Course Objectives

By the end of this course, participants will be able to:

- Understand the principles and strategic role of capital budgeting.
- Apply core financial evaluation techniques to investment projects.
- Differentiate between independent and mutually exclusive projects.
- Incorporate risk and uncertainty into capital budgeting decisions.
- Evaluate the impact of financing and tax considerations on investment outcomes.
- Analyze post-investment performance and decision outcomes.
- Use capital budgeting tools to support strategic planning and resource allocation.

Who Should Attend

- Corporate Finance Managers and Investment Analysts
- Budgeting and Planning Professionals
- CFOs, Controllers, and Senior Financial Executives
- Strategic Planners and Business Development Managers
- Accountants, Auditors, and Project Managers involved in capital expenditure
- Private equity and investment professionals

Course Duration

5 Working Days

Course Outlines

1. Foundations of Capital Budgeting

- Definition, objectives, and scope of capital budgeting
- Strategic importance of capital investment decisions
- Types of capital projects (expansion, replacement, regulatory, R&D)
- The capital budgeting process: idea generation to post-audit

2. Financial Evaluation Techniques

- Time value of money concepts and discounting principles
- Net Present Value (NPV) and Internal Rate of Return (IRR)
- Modified IRR, Payback Period, Discounted Payback, and Profitability Index
- Strengths and limitations of each method

3. Project Cash Flow Estimation

- Identifying relevant vs. irrelevant cash flows
- Initial outlay, operating cash flows, terminal value
- Depreciation methods and tax implications
- Adjusting for inflation and working capital needs

4. Risk Analysis in Capital Budgeting

- Sources of risk in investment decisions
- Sensitivity analysis and scenario planning
- Break-even and margin of safety analysis
- Decision tree analysis and Monte Carlo simulation (introductory level)

5. Capital Rationing and Project Selection

- Dealing with capital constraints and limited budgets
- Ranking projects under single and multiple constraints
- Mutually exclusive vs. independent projects
- Project interdependencies and portfolio considerations

6. Strategic and Behavioral Considerations

- Aligning capital budgeting with corporate strategy
- Behavioral biases in investment decisions
- Impact of organizational structure on capital budgeting
- Role of governance and capital approval committees

7. Post-Investment Evaluation and Control

- Techniques for post-audit and investment performance review
- Tracking financial and non-financial project outcomes
- Lessons learned and continuous improvement in budgeting practices
- Case studies of real business investment scenarios

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