CHAPTER 8
CAPITAL INVESTMENTS & CASH FLOWS

CAPITAL BUDGETING

Generating Ideas
Estimate the Cash Outflows and Inflows
Evaluate the Risks
Select Projects
Monitor the Accepted Projects

SOURCES OF IDEAS

Committees
R&D
Employees
Vendors
Competition

APPROVAL OF IDEAS

SOURCES OF CASH FLOWS

Direct Cash Flows
Indirect Cash Flows
Incremental Cash Flows
Sunk Costs
MEASURING CASH FLOWS

NICO - Net Investment Cash Outflow

- Asset Acquisition - Investment in Depreciable Assets
- Asset Disposition - Tax Effect on Disposition
- Changes in Net Working Capital

ANNUAL CASH FLOW CHANGES

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OCF = EAT + DEP
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OCF = (REV - OP EXP - DEP)(1 - T) + Dep
\]

Depreciation

MACRS
Class Life

DISPOSAL/TERMINAL CASH FLOWS

- Asset Disposition - Tax Effect on Disposition
- Recovery of Net Working Capital