Key Takeaways – Capital Budgeting

- Capital Budgeting looks at the purchase of long term plant assets or investments.

- Capital Budgeting can use simple techniques that do not take the present value of $1 into account (remember, a dollar is not worth the same as it was 20 years ago).

- Payback period provides you with an idea of how long it will take to earn back the money you paid for the asset. It is calculated as Cost of Investment / Net Cash Flow

- Net Cash Flow refers to the after-tax net income of a company with any non-cash expenses added back in (like Depreciation).

- Accounting Rate of Return provides you with an idea of how many cents of after-tax net income you earn of every dollar of your investment. It is calculated as after-tax net income / average investment.

- Average Investment for the rate of return is calculated as the Beginning Book Value (or Cost of investment) + Salvage value (or Ending book value) divided by 2