According competes against other major claimants of available

According to G. D. Quirin, the capital budgeting decisions involve a current outlay for an anticipated flow of future benefits. In other words, the system of capital budgeting is employed to evaluate expenditure decisions which involve current outlays but are likely to produce benefits over a period of time longer than one year. Each year business firms commit huge sums of money for capital expenditures.

Within each firm different projects or proposals compete for the scarce funds required for their financing within the business sector as a whole. Individual firms compete among themselves for access to financing. The business sector also competes against other major claimants of available resources, individuals who wish to use a larger share of current output for consumption or for residential construction.

Non-profit organizations that wish to expand or equip universities or hospitals, government that want to build roads, sewers or submarines; other countries that want us to direct a larger share of our output to them through grants, loans and investments. The decision to select one way of investing capital rather than another is obviously an important decision for the individual film that undertake the decision and for society as a whole. The growth in per capital, standard of living depends crucially on how we capital expenditure decision are made. Thus, the investment decision process has received increasing attention both in theory and in practice.

As a result, the criteria used have become increasingly sophisticated.

Features of Capital Budgeting:

Characteristics & features of capital budgeting are: 1. Potentially large anticipated benefits. 2.

A relatively high degree of risk. 3. A relatively long period between the initial outlay and the anticipated return.

Advantages of Capital Budgeting:

As a capital budgeting decision is among the most crucial and critical business decisions, special care should be taken in their treatment. As at the first place, such decision affects the probability of firm, they have also a bearing on the competitive position of the firm.

The fixed assets are the most important as they have the long term bearing on the firm. The fixed assets represent in a sense the true earning assets of the firm. They enable the firm to generate the fixed goods that can ultimately be sold for profit. Capital budgeting decisions are the strategic investment decisions as against the technical decisions. As the capital budgeting decisions determine the future destiny of the company, a right time done investment decision can yield spectacular returns. The capital investment decisions also affect the organization over the long run and inevitability, affects the company's future cost structure. If the investment in the future turns out to be unsuccessful or yield less profit than anticipated, the firm will have to bear the burden of fixed assets. As the capital investment decisions are irreversible in nature once made, if reversible, with much financial loss to the firm.

So, these decisions are to be taken very judiciously and capital budgeting technique here helps a lot. As the capital investment decisions involve a lot of cost and majority of firms have scarce capital resources, these decisions are to be taken with utmost care and capital budgeting techniques here helps a lot.

Disadvantages of Capital Budgeting:

Drawbacks of capital budgeting are as follows: 1 All the techniques of capital budgeting presume that various investment proposals under consideration are naturally exclusive which may not practically be true in some particular circumstances. 2. The technique of capital budgeting requires estimation of future cash flows and outflows. The future is always uncertain and the data collected for future may not be exact. Obviously, the results based upon wrong data can be good. 3.

There are certain factors like morale of the employees, good-will of the firm etc.' which cannot be correctly quantified but which otherwise substantially influence the capital decision. 4. Urgency is another limitation in the evaluation of capital investment decisions. 5. Uncertainty and risk pose the biggest limitations to the techniques of capital budgeting.