Sample research paper on comparing capital expenditures

Business, Company

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The two companies that give a good opportunity for comparing capital expenditure are Wal-Mart and eBay. According to NAICS, the industry is coded 443112. The name of the industry under which the companies are operating is known as Radio, Television, and Other Electronics Stores Industry.

Wal-Mart

Wal-Mart, List 2013 Fortune Global 500 Company, is ranked as the second largest corporations all over the world (Hays, 2014). The company has an employee base of 200 million being the largest retail in all worlds. As on January 2014, the company had 800000 workers, 6337 stores and up to 26 countries that are outside US. The total revenue of the company in 2014 rose to US $ 476. 294 billion the company has, however, recorded a decrease in its operating income to US $26. 872 billion. The net income in 2014 is US $16. 022.

Wal-Mart has an annual financial report that shows capital spending for every financial year. Taking the last three years, that is 2011, 2012, and

2013 financial year ending Jan 31. From the three financial years, the business recorded a consistent increase in spending on current assets recording total current assets at $51, 893, 000 thousand in 2011, $54, 975, 000 thousand in 2012, and $59, 940, 000 in 2013. Spending on fixed assets, normally referred to as capital assets, increased from 180, 663, 000 thousand in 2011 to 193, 406, 000 thousand in 2012 (Hays, 2014). It implies that the business committed $12, 743, 000 thousand in the capital asset. The figure rose to $203, 105, 000 thousands in 2013, the company spent $9, 699, 000 on fix assets. For the current liability, this is the indicator of capital expenditures. According to payments that were made by cash or cash equivalent, total current liability of the company by the year ending Jan 31 2011 was $58, 484, 000 where the items that were recorded included, short-term borrowings, accrued wages, accounts payable, accrued benefits and salaries, self-insurance, accrued taxes, accrued liability, accrued income, and current liabilities of discontinued operations. In the year 2012, the business had the same items as those in 2011; however, the value of capital expenditures rose to $ 62, 300, 000 in 2012 and $71, 818, 000 in 2013. The expenditures by Wal-Mart show a consistent in rise for the last three years as shown by the calculations above (Hays, 2014). The business increases the level of spending on the financial year show that the investing sections of the cash flow statement. There are also some improvements to the depreciating assets; and movable assets that may need replacing of the parts.

Analysis of eBay Inc

It is one of the multi-billion dollar companies in America serving over thirty countries. Market capitalization of the company was valued at $69 billion as on January 2014. In the year ending 2013, the company realized an increase on its revenue to a total of US $16. 05 billion with operating income increasing to US $3. 37 billion in the same year (Thomas, 2014). In the same 2013, eBay recorded a net income of US$ 2. 86 billion with the equity capital also increasing to US $23. 65 billion. The company had an employee base of 27770 by the year ending 2012. The mission is to present a ground for online trading globally where anyone can trade enhancing the economic status throughout the world. The common strength of eBay Company is the economies of scale that the firm enjoys (Donaldson, 2012). The company is so big such that it can easily trade at a low price without reducing much of the revenue.

The company spends on a number of items during the some of which are short-term assets daily operations of the business and improvement on the fixed assets (Thomas, 2014). Some of this spending are in either cash or cash equivalent form. In the year 2011, the business had a short-term investment of $1238301, which increased to $2591000 in the year 2013 and to $4531000 in the year 2013. It forms the part of current assets that as totaling to $12, 661, 454 in the year 2011 before it rose to $$21, 398, 000 in 2012 before it shot to $23, 283, 000 in the year ending 2013.

Capital spending of the both Wal-Mart and eBay in the past three years has experienced increase in capital expenditure. It shows that the business source for funds from both short and long-term sources, spend on current assets, and improve on the fixed assets such as renovating of buildings buying repairs for the movable machines that wear and tear (Donaldson, 2012). It shows that the business shows a growth every three years. Wal-Mart had a higher increase as it operates in higher profit reducing the level of borrowings.

Capital Budgeting and Divided Policy

There is always a need to make a thorough evaluation of the project before venturing in it to determine how viability of a project. Shareholders would always want that investment with high return to be able to earn high dividends (Samuel, 2013). When investments earn high returns, there will be adequate profits to be shared by the shareholders in the form of dividends, prompting a need of investing in the high return investment. However, investors are torn on whether to go for investment with high return or not. High-risk investments are always associated with high returns and low risk investments have lo return (Samuel, 2013). Those investors who do not fear risk will go for high-risk investment to earn a high return during investors who fear risk will go for those investments with low return.

A number of factors are considered when faced with the job of making capital budgeting decision. It would be the wish of all to pursue any project that will affect so positively on the value of shareholders, but this cannot work as the initial capital required for any ne project or opportunity is usually not adequate (Sumon, 2012). It calls for capital budgeting to ensure that the business investment on projects with the highest return with manageable risk within a recommended period (Samuel, 2013). Some of the major things considered in determining what project is likely to give a higher return are net present value, discounted cash flow, internal rate of return, and payback period (Sumon, 2012). When these factors are properly used, the business will be able to invest in a business that can comfortably bring back the invested resources at the same time maximizing shareholder's wealth.

Dividend policy is those guidelines that companies use to make a judgment on the company earnings should be set aside for shareholders (Samuel, 2013). There are contradicting opinions on whether dividends should be given to shareholders with others reasoning that shareholders are not interested in dividends and if it were so then they would go for the option of selling their shares to get cash without waiting for annual dividends (Leonard, 2011). Other studies show that shareholders are supposed to be paid as a reward for owning a business. Those companies who believe in dividend sharing do it in through residual policy, which rely on equity that is generated internally. The second one is stability policy, which provides that dividend should be a fraction of yearly earnings (Leonard, 2011). The third one is a hybrid policy, which is a combination of the two policies.

The incentive that the company uses to pay for the dividend is usually earnings after interest and tax. The earnings after interest and tax are always the earnings that are available for the dividends (Sumon, 2012). The company may decide whether to set a fraction aside as reserved earnings to leave only a fraction for shareholders to divide. Companies have different ways of doing this depending on the dividend policy that is being employed by that company (Leonard, 2011).

Dividend policy gives investors an opportunity to make a decision on whether to buy shares with the company or not. Those companies that pay high dividends are considered good investments as investors know that they will be getting high return on their invested capital. High dividend yield can be used to measure income received according share price (Leonard, 2011). It, therefore, gives investors clue on what the company is worth as it explains the underlying value of shares. Dividend policy is a very important signal to potential investors.

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