Capital budgeting decision

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Capital Budgeting Decisions Capital Budgeting decisions The business decision to invest its current funds most efficiently in long-term projects. Business make this decision in anticipation of the expansion, other business acquisition, modernization, development of new product line, purchase of fixed assets, and replacement of investment. Business capital budgeting decisions should be taken with a lot of precaution because they influence the long-term growth of the organization, affect overall risk of the business, involve commitment of enormous amount of funds and the projects are mostly irreversible or reversible at a substantial loss.

Michael Evans investing in vineyard Garrison, Noreen, & Brewer, (2014) was a good decision. Growing a vineyard in an opulent estate where land is expensive was an enormous capital outlay. The property is utilized in investing in a less costly business decision of investing in vineyard plantation rather than real estate that is more capital intensive.

An annual growth rate of 30% gives a payback period of 3. 33years. The investment will realize their full investment outlay in three years. This period is far much below than industry norm of 5years.

Michael Evans opened a cooperative society business. He relinquished vineyard-growing business to other investors. Michael Evans made a wise business decision. Selling and lease back where he charged the new investors a one-off fee of $85, 000 and an annual maintenance fee of $3, 500 to process one bottle of wine Megan, (2014). Through this, he raised initial capital to fund his cooperative business investment.

In conclusion, the cash flows of the new business line are guaranteed. The business may use this annual cash flow to invest in other long-term projects. Michael Evans is a realized the importance of the net present value of the assets and utilized opportunity to invest in a new business line.

References

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