

# Capital budgeting

Business



Capital expenditures of the Capital expenditures Capital expenditures are the expenditures that are fixed and occurred at one time and have a life more than 12 months. In a Balance sheet, capital expenditures of an entity are placed in the assets section that is depreciated over an accounting period. They must be funded separately from revenue expenditure to reflect the difference in use.

#### Capital expenditures Items

To start a new business, the new items that are necessary and shall be placed in the capital expenditures are as follows:

1. Cost of Land or cost of lease
2. Cost of goodwill.
3. Cost of Machinery
4. Cost of trademarks, design and legal copyrights.
5. Cost of any expenditure installed in the office (fans, lights, computers)
6. Cost of transportation service (cars, lorry)

#### Return of Capital

The time taken by a business to return of capital is calculated at the end of a year. However, it depends business to business that how long will it take to return the capital to its shareholders, partners or unit holders. At the end of each financial year, in most of the business, it is re-invested as a new expenditure rather than taking money out for a better cash flow.

#### Capital VS Expense Expenditure

It is very important to monitor capital and expense budget separately. They help to account for the future expenses up front when a business is determining its return on investment. Also, capital expenditure separation with expense budget helps a business to identify the fixed assets that can <https://assignbuster.com/capital-budgeting/>

help in the future for leasing and generating money. Thus to manage the business efficiently and effectively it is very important to draw a clear line between both expenditures.

#### References

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