

# Steps involved in capital budgeting proposals essay sample

[Economics](#)



**ASSIGN  
BUSTER**

1) Proposal generation: Proposals are made at all levels within a business organization and are reviewed by the finance personnel. Proposals that require large outlays are more carefully scrutinized than less costly ones. 2) Review and analysis: Formal review and analysis is performed to assess the appropriateness of proposals and evaluate their economic viability. Once the analysis is complete, a summary report is submitted to decision makers. 3) Decision making: Firms typically delegate capital expenditure decision making on the basis of finance limits. Generally, the board of directors must authorize expenditures beyond a certain amount. Often plant managers are given authority to make decisions necessary to keep the production line moving. 4) Implementation: Following approval, expenditures are made and projects are implemented. Expenditures for a large project often occur in 5) Followup: Results are monitored and actual cost and benefits are compared with those that were expected. Action may be required if actual outcomes differ from projected ones.

Key motives for making capital expenditures:

The important motives for making capital expenditure decisions are as mentioned below:

**Expansion:** The most common motive for capital expenditure is to expand the level of operations – usually through acquisition of fixed assets. A growing firm often needs to acquire new fixed assets rapidly, as in the case of purchase of property and plant facilities.

**Replacement:** As a firm's growth shows and reaches maturity, most capital expenditures will be made to replace or renew obsolete or worn out assets.

Each time a machine requires major repairs, the outlay for the repairs should be compared to the outlay to replace the machine and the benefits of replacement.

Renewal: Renewal, an alternative to replacement, may involve rebuilding, overhauling, or retrofitting an existing fixed asset. For example, an existing drill press could be renewed by replacing its motor and adding a numeric control system or a physical facility could be renewed by rewiring and adding air conditioning. In order to improve the efficiency, the suitable solutions will be both replacement and renewal of existing machinery.

Other purpose: Some capital expenditures do not result in the acquisition of transformation of tangible fixed assets. These expenditures include outlays for advertising, research and development, management consulting and new products. Other capital expenditure proposals such as the installation of pollution control and safety devices mandated by the government are different to evaluate because they provide intangible returns rather than clearly measurable cash flows.

Reference:

<http://classof1.com/homework-help/accounting-homework-help/>

<https://assignbuster.com/steps-involved-in-capital-budgeting-proposals-essay-sample/>