

A composite image featuring a calculator on the left, a stack of coins on the right, and a line graph in the center. The graph shows a fluctuating line with values ranging from 6,000 to 6,750. The entire scene is set against a light blue background with a white border.

# FINANCIAL MANAGEMENT

Lecture No. 17

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

# FACUALTY PROFILE



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**Several Times Topper in  
PPSC & FPSC in this field  
& 6 times Appointed  
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## Financial Terms

**Present value is the current value of future amount**

**Future value is the value of current amount in future.**

Suppose you invest today Rs 100 at 10% interest for 1 year. Then after one year, the amount becomes Rs110. This Rs 100, which you are investing today, is called the present value of Rs 110.

Future value is that value which will be the value in the future.

**Compounding = Finding the future value from present value.**

**Discounting = Finding the present value from future value.**

A person is shown working at a computer, with their hands on a keyboard. The image is overlaid with a dark green semi-transparent layer. On the left side, there are several geometric shapes: a large dark green triangle pointing downwards, a smaller light green triangle pointing upwards, and a light green rectangle with a white dotted pattern. The text 'Capital Budget' is written in a white, serif font on a dark green rectangular background on the right side of the image.

# Capital Budget

## **CAPITAL BUDGETING**

**Capital budgeting is a process of evaluating investments and huge expenses in order to obtain the best returns on investment.**

# What are the objectives of Capital budgeting?

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# What are the objectives of Capital budgeting?

## 1. **Identifying investment opportunities**

An organization needs to first identify an investment opportunity. An investment opportunity can be anything from a new business line to product expansion to purchasing a new asset.

## 2. **Evaluate the merits of each proposal**

It is ultimate goal of capital budgeting to check which project is more reliable and beneficial for owners.

### 3. **Selecting profitable projects**

An organization comes across various profitable projects frequently. But due to capital restrictions, an organization needs to select the right mix of profitable projects that will increase its shareholders' wealth.

### 4. **Identifying the Right Source of Funds:**

Locating and selecting the most appropriate source of funds required to make a long-term capital investment is the ultimate aim of capital budgeting. The management needs to consider and compare the cost of borrowing with the expected return on investment for this purpose.

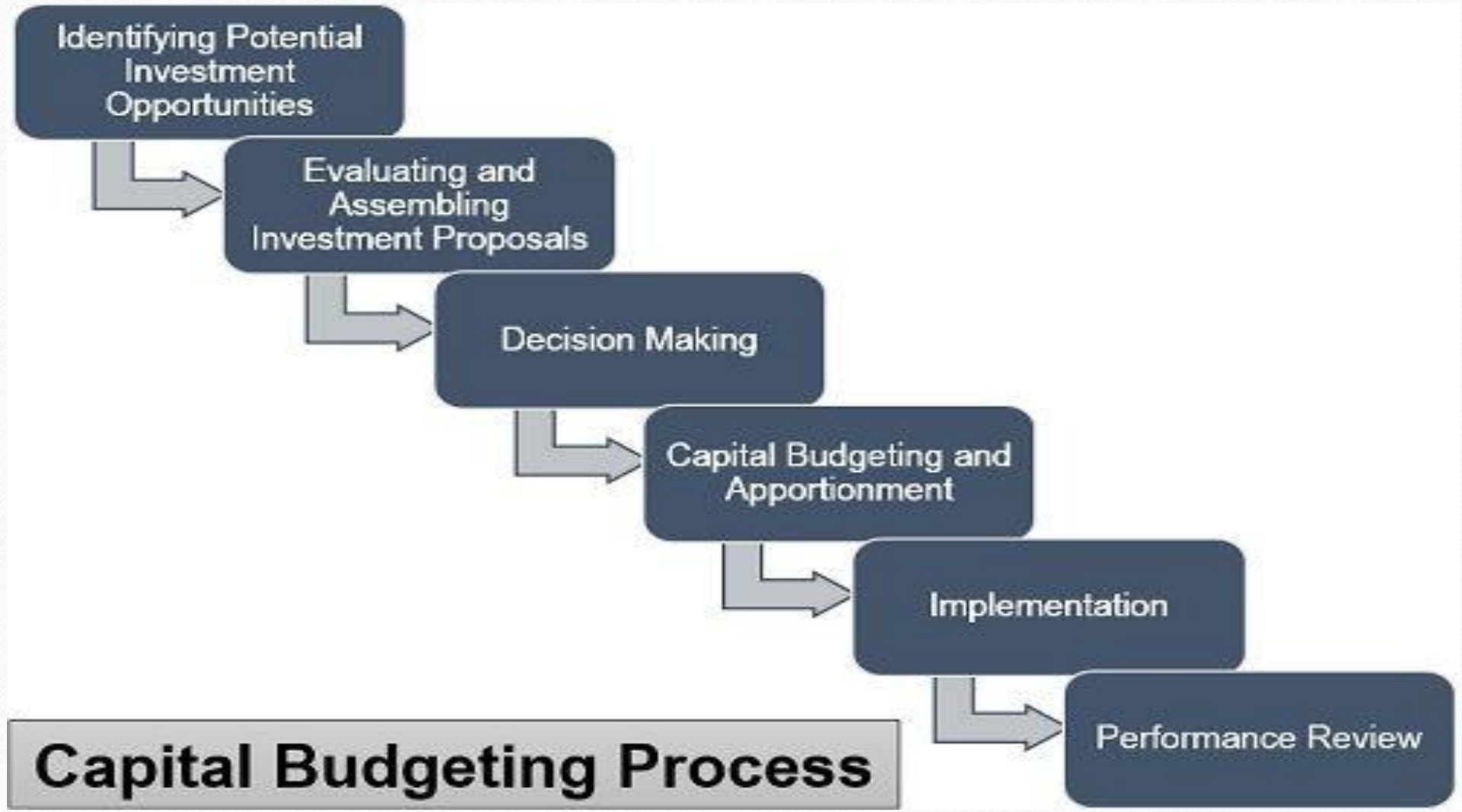
## **5. Capital Expenditure Control**

Selecting the most profitable investment is the main objective of capital budgeting. However, controlling capital costs is also an important objective.

# WHAT IS

# CAPITAL BUDGETING PROCESS

The process involves **analyzing a project's cash inflows and outflows to determine whether the expected return meets a set benchmark.**



**Capital Budgeting Process**

Identifying Potential  
Investment  
Opportunities



Evaluating and  
Assembling  
Investment Proposals

**Capital Budgeting Process**

## 1. Identifying Potential Investment Opportunities:

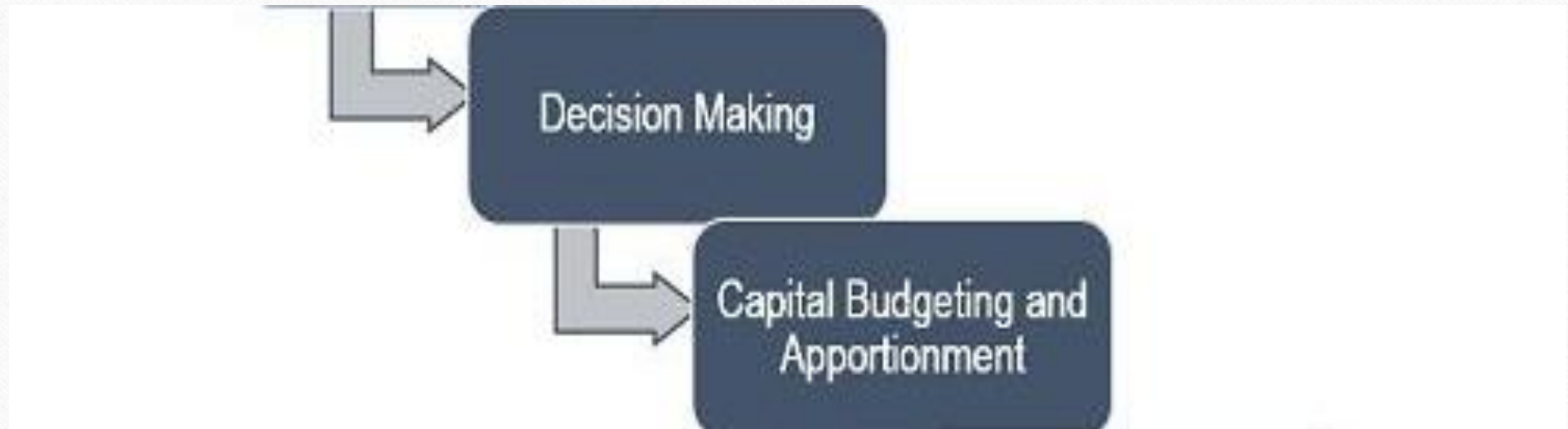
The company has various options for capital employment on a long-term basis. In the initial stage, the management needs to analyze the **strengths and weaknesses** of every project for foreseeing the potential of each option.

## 2. Evaluating and Assembling Investment Proposals:

In the next step, the management assembles and compiles all the investment proposals on the following grounds

Cost, Risk involvement,

Future profits, Return on investment, etc.



**Capital Budgeting Process**



### **3. Decision Making:**

Now, the company needs to decide as to which investment option it may select to suit its pocket and yield a high profit for the company in the long run.

### **4. Capital Budgeting and Funds Apportionment:**

After the project is selected an organization needs to fund this project. To fund the project it needs to identify the sources of funds and allocate it accordingly. The sources of these funds could be reserves, investments, loans or any other available channel.

# Capital Budgeting Process

Implementation

Performance Review



**5. Implementation:**

After the apportioning of the long-term investment, the company comes into action for the execution of its decision. To avoid complications and excess time-consumption, the management should lay out a detailed plan of the project in advance.

**6. Performance Review:**

The last but the most crucial step is the follow-up and analysis of the project's performance. While the company's operations are steady, the management needs to measure and correlate the actual performance.

Identifying Potential  
Investment  
Opportunities

Evaluating and  
Assembling  
Investment Proposals

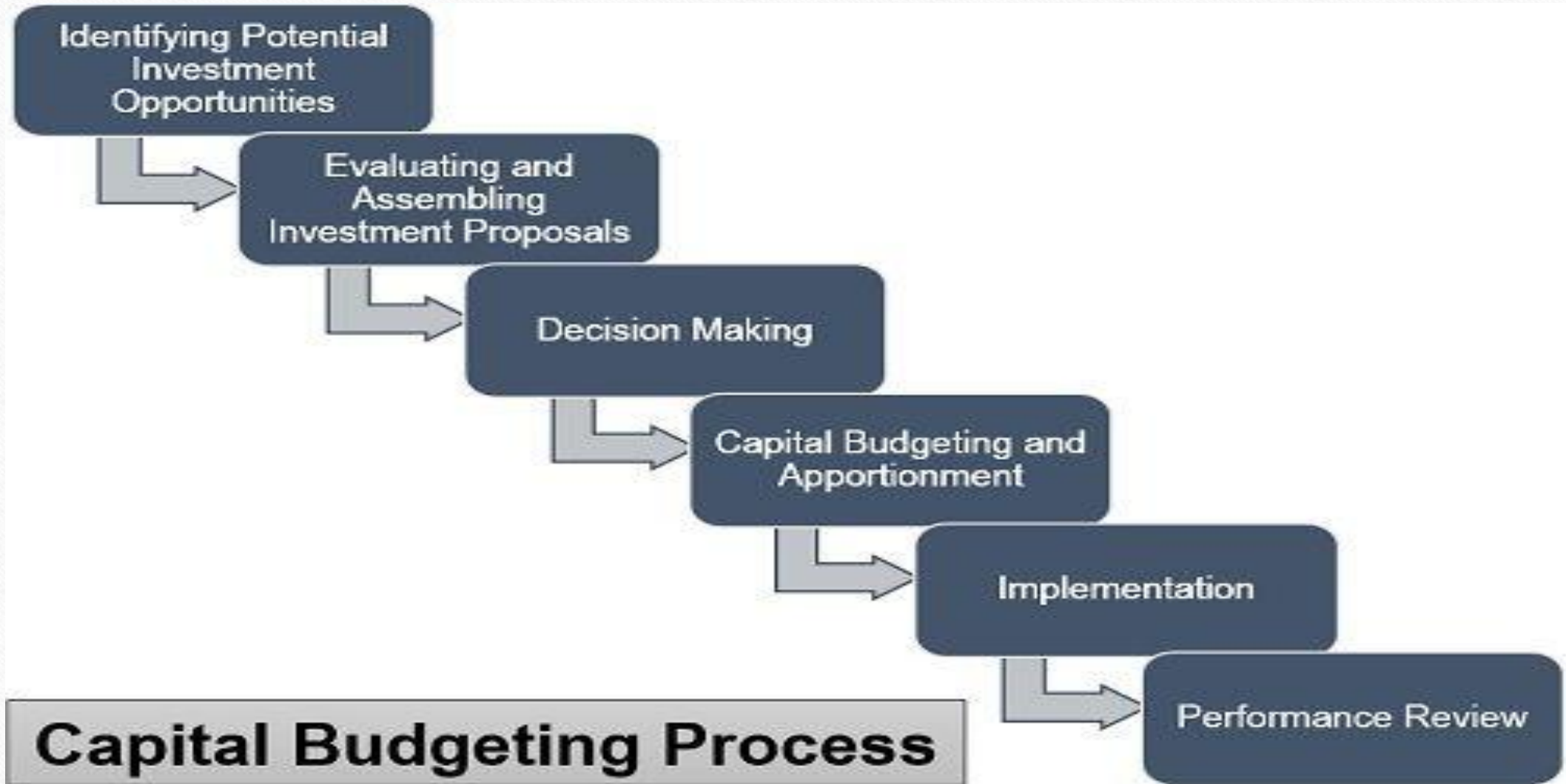
Decision Making

Capital Budgeting and  
Apportionment

Implementation

Performance Review

**Capital Budgeting Process**





**TECHNIQUES OF CAPITAL**  
**BUDGETING**

# INVESTMENT CRITERIA

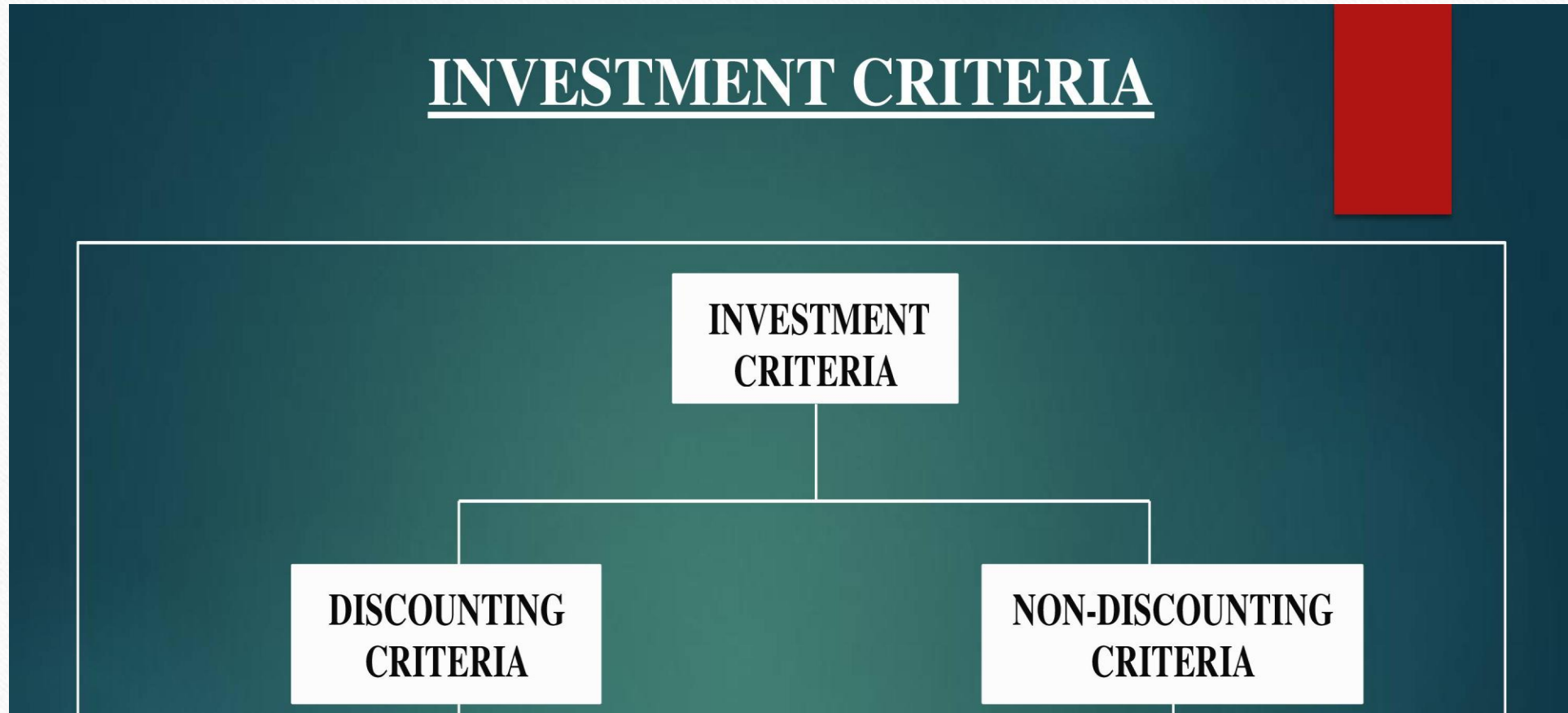
INVESTMENT  
CRITERIA

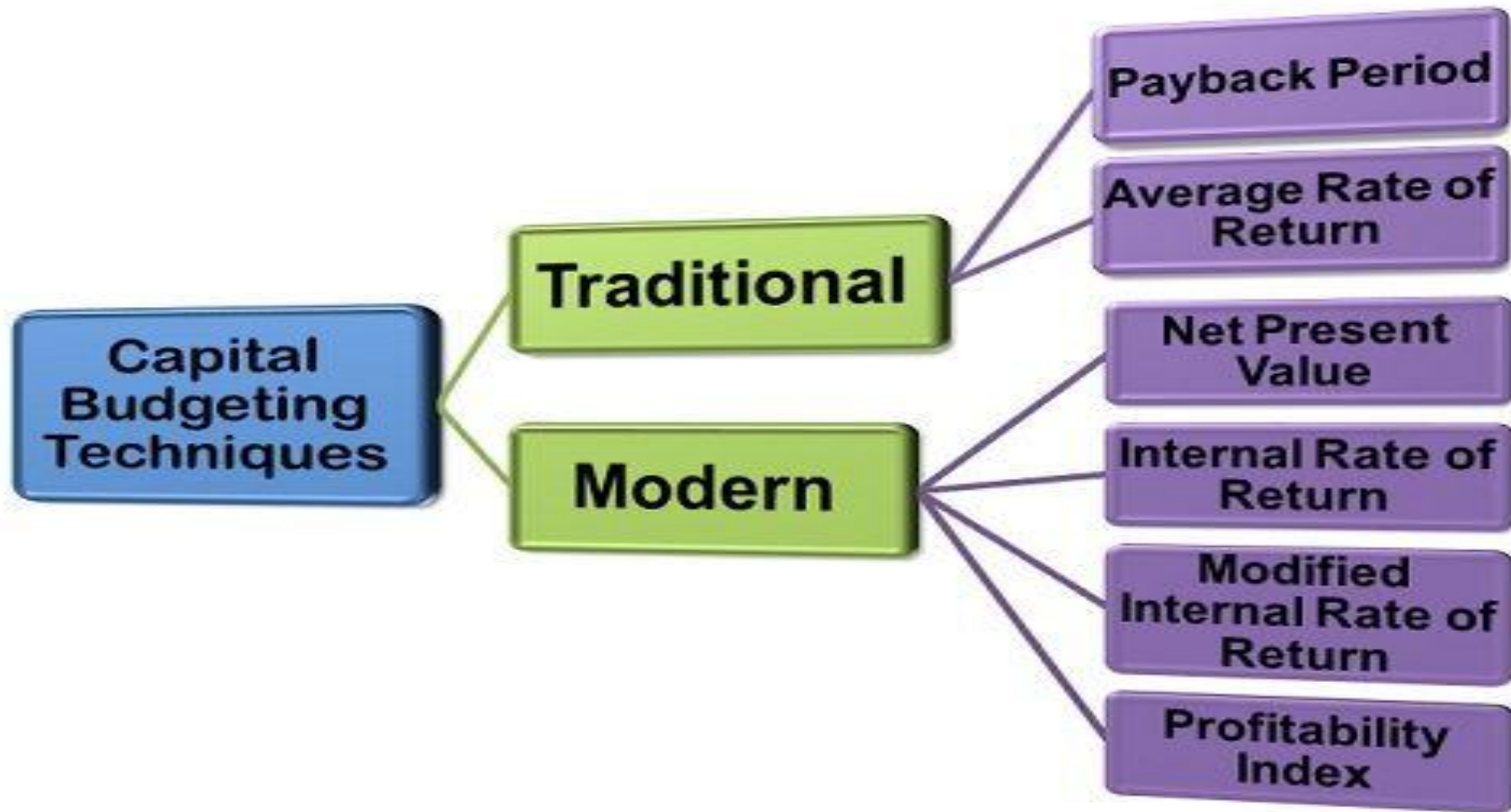
DISCOUNTING  
CRITERIA

NON-DISCOUNTING  
CRITERIA

Modern capital  
budgeting

Traditional capital  
budgeting







Thank  
You



**Q & A**

You have

**Questions**

We have

**Answers**