

Capital Budgeting

4th Edition

By Steven M. Bragg

Table of Contents

Chapter 1 – Overview of Capital Budgeting	1
Learning Objectives	1
Introduction.....	1
Overview of Capital Budgeting	1
The Capital Budgeting Application Form.....	3
Capital Expenditure Proposal Analysis	7
Capital Budgeting Problems	9
Opportunity Costs	10
Sunk Costs	11
Excessive Optimism.....	12
Capital Rationing.....	13
Capital Budgeting in a Budget Format	14
Capital Budgeting in the Absence of a Budget Model.....	15
Capital Budgeting with Minimal Cash.....	16
The Post Installation Review	18
Summary	19
Review Questions	21
Review Answers	22
Chapter 2 – Capital Budgeting Strategy	23
Learning Objectives	23
Introduction.....	23
Capacity Expansion Strategy	23
Capacity Reduction Strategy.....	25
Growth Strategy.....	25
Risk Levels	26
Additional Risk Factors for International Investments.....	28
Factors Impacting Future Asset Usage.....	29
Perceived Certainty of Future Demand.....	30
Duration	31
Impact of Financing Alternatives.....	31
Summary	32
Review Questions	33
Review Answers	34
Chapter 3 – Discounted Cash Flow Analysis	35
Learning Objectives	35
Introduction.....	35
Cash Flows.....	35
Time Value of Money	36
Present and Future Value Tables	37
Net Present Value.....	39
Scenario and Sensitivity Analysis	43
Internal Rate of Return	44
Incremental Internal Rate of Return.....	45

Table of Contents

Terminal Value.....	46
Profitability Index.....	46
The Tax Rate.....	47
Cash Flow Analysis Issues.....	48
Summary.....	48
Review Questions.....	49
Review Answers.....	50
Chapter 4 – The Cost of Capital.....	51
Learning Objectives.....	51
Introduction.....	51
Cost of Capital Derivation.....	51
Cost of Debt.....	51
Cost of Preferred Stock.....	52
Cost of Common Stock.....	52
Weighted Average Cost of Capital.....	53
Variations in the Cost of Capital.....	54
Adjustments to the Cost of Capital.....	57
Cost of Capital as a Threshold Value.....	58
Summary.....	60
Review Questions.....	61
Review Answers.....	62
Chapter 5 – Constraint Analysis.....	63
Learning Objectives.....	63
Introduction.....	63
The Bottleneck Operation.....	63
Constraint Analysis.....	65
The Inventory Buffer.....	66
Buffer Sizing.....	66
Sprint Capacity.....	68
Local Optimization.....	68
Investment Decision Priorities.....	70
Priority 1 – Increases Throughput.....	70
Priority 2 – Reduces Invested Funds.....	71
Priority 3 – Reduces Expenses.....	72
Additional Investment Considerations.....	72
The Constraint Analysis Model.....	73
Production Analysis.....	76
Increase Downstream Capacity.....	76
Increase Upstream Capacity.....	78
Increase Upstream Processing.....	79
Outsource to a Supplier.....	80
Summary.....	81
Review Questions.....	82
Review Answers.....	83

Table of Contents

Chapter 6 – Other Capital Budgeting Analyses.....	85
Learning Objectives	85
Introduction.....	85
Breakeven Analysis.....	85
The Payback Method	86
Discounted Payback	88
Accounting Rate of Return	89
Real Options.....	90
The Outsourcing Decision	93
Research and Development Funding Analysis.....	94
Complex Systems Analysis	96
Summary	97
Review Questions	98
Review Answers	99
Chapter 7 – The Lease or Buy Decision.....	101
Learning Objectives	101
Introduction.....	101
The Lease or Buy Decision	101
Leasing Concerns	102
Leasing Advantages.....	104
Summary	105
Review Questions	106
Review Answers	107
Chapter 8 – Capital Budgeting Controls.....	109
Learning Objectives	109
Introduction.....	109
Capital Budgeting Controls.....	109
Summary	111
Review Questions	112
Review Answers	113
Glossary	115
Index.....	117