

CAPITAL BUDGETING IN MS-EXCEL 2010

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Abstract

Capital budgeting is a system employed to evaluate capital expenditure decisions which involve current outlays but are likely to produce benefits over a period of time longer than one year. In other words the Capital Budgeting decisions involve a current outlay or series of outlays of cash resources in return for an anticipated flow of future benefits may be in the form of a series of cash inflows or a series of savings in cost. In the MS-Excel 2010 Capital Budgeting problem can be solved under any of the above methods by entering the relevant formula. Besides this, the MS-Excel 2010 has NPV and XNPV for NPV method IRR, MIRR, and XIRR for IRR method to evaluate the Capital Budgeting Projects. The NPV function calculates the net present value of an investment by using a discount rate and a series of future payments (negative values) and income (positive values). The XNPV function returns the net present value for a schedule of cash flows that is not necessarily periodic. The IRR function returns the internal rate of return for a series of cash flows represented by the numbers in values. These cash flows do not have to be even, as they would be for an annuity. However, the cash flows must occur at regular intervals, MIRR function returns the modified internal rate of return for a series of periodic cash flows. MIRR considers both the cost of the investment and the interest received on reinvestment of cash. The XIRR function returns the internal rate of return for a schedule of cash flows that is not necessarily periodic. With the help of the above built in functions the Capital Budgeting Projects can be evaluated quickly and easily. This paper describes the procedures of evaluating Capital Budgeting Projects with the help of these built in functions.

Keywords: NPV, XNPV, NPV, IRR, MIRR, XIRR, IRR, Capital Budgeting.

Introduction

Capital budgeting is a system employed to evaluate capital expenditure decisions which involve current outlays but are likely to produce benefits over a period of time longer than one year. In other words the Capital Budgeting decisions involve a current outlay or series of outlays of cash resources in return for an anticipated flow of future benefits may be in the form of a series of cash inflows or a series of savings in cost. The methods of appraising capital expenditure proposals can be classified into two broad categories:

- Traditional methods: Under this category we have two methods (a) Average Rate of Return; and (b) Pay Back Period
- Discounted cash flow methods Under this category we have three methods (a) Net Present Value method; (b) Internal Rate of Return method (c) Profitability Index Method

In the MS-Excel 2010 Capital Budgeting problem can be solved under any of the above methods by entering the relevant formula. Besides this, the MS-Excel 2010 has the following built in functions to solve Capital Budgeting problems:

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