

Chapter 10 – More Capital Budgeting

- **Key Sections:**
- **Guidelines for cash flows**
- **Classifications of cash flows**
 - Explain why interest and depreciation not included
- **Are different discount rates needed?**

Guidelines

- **What will happen if the project is not carried out?**
- **Use after-tax cash flows, not accounting profits**
- **Only incremental cash flows count**
 - Look at whole firm with and without project
 - Consider: sales captured from competitors, synergies and cannibalization

More Guidelines

- **Work in working capital requirements**
- **Incremental expenses – training, rearrangement**
- **Cash flows not affected by sunk costs**
- **Opportunity costs – give up something**
- **Are overhead costs incremental?**
- **Ignore interest expense**