Ilkogretim Online - Elementary Education Online, Year; Vol 20 (Issue 5): pp. 4563-4567
http://ilkogretim-online.org
doi: 10.17051/ilkonline.2021.05.501

Assessment of Capital Budgeting Technique in Evaluating the Profitability of Manufacturing Firm with Reference to SME In Rajasthan

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Abstract- The study consists the insights of data analysis of measuring and evaluating the financial performance of manufacturing companies by using techniques of capital budgeting. In this study, the researcher discussed the results of the survey which is gathered from the SMEs Company's Chief Executive Officer (CEO), Chief Financial Officer (CFO), Investment Manager, Financial Manager, Corporate Accountant and others. Data was collected and analyzed to understand the performance of manufacturing companies by using capital budgeting techniques. The overall analysis was made to prove capital budgeting is the most effective tool in evaluating the profitability of manufacturing firm, for which various tests were applied to get the result. And to understand and test the above hypotheses, chi-square test, comparisons of proportions and other tests are obtained and presented as follows to get better understanding of the results.

Keywords: Capital Budgeting Technique, Profitability, Manufacturing Firm SME, Rajasthan

I. INTRODUCTION

Capital budgeting is a process of scheduling capital outgoing which is to be made to amplify the long-term profitability of the final company or organization. It is very essential to decide on those long-term investment projects that are expected to make furthest contributions to the prosperity of the shareholders for long run. In other words, capital budgeting pertinent to fixed or long-term assets, which is referred to assets in operation and profitable over a period of time usually, exceeding one year. They therefore, involve a current outlays or series of outlay of cash resources in return for an anticipated flow of future benefits.

The formation of capital budgeting is mostly used to assess the outflow decisions which entail current outlay but are likely to yield benefits over a period of time longer than one year. Here, the decision of capital budgeting are often called to be the most Important and significant part of any corporate financial management, as it affects the profitability and stability of a firm for a long period.

Present research study is focused on financial performance analysis and capital budgeting of SME's as Small and Medium Enterprises (Hereafter called SME's) have been globally recognized as vital components of a domestic economy and major contributors to employment generation in a country, regardless of global barriers. SMEs for the lifeblood of any vibrant economy. In an emerging economy like India, SMEs have a significant socio-economic role to ensure overall development of the nation. Innovativeness alone does not guarantee success in the business world. A successful company also needs business competence, such as the ability to identify and make use of innovative business opportunities in a profitable way. The innovative growth of sales and business success should not be confused with each other, but examined simultaneously. Business success includes profitability, liquidity and/or solvency.

Because of the importance of sound operations and financial condition, it is critically important for both management and an accountant of SMEs to have a solid understanding of financial statements. In the financial management of large and small firms is different, a study of small firms should reflect this difference. If these differences can be identified, financial managers and academicians can more effectively determine the implications of various financial concepts for small firms. **This empirical study concentrates on a comparative examination of the extent to which small manufacturersuse the financial concepts of financial analysis and planning and working capital budgeting. Needless to say, that the ultimate success of a firm's operation depends upon sound capital budgeting decision. Entrepreneurs invest money in their businesses with a motive. The purpose, undoubtedly, is to receive a return on their precious resources.**

Thus, in this backdrop the title of current research study is **"A comparative study of performance and capital budgeting with reference to SMEs in Rajasthan."** This study is about how financial decisions are taken by small firms to identify the factors that promote or inhibit the application of sound financial management practices, the problems they face with regard to taking financial decisions and how to help them improve their business.

II. Review of literature

LingesiyaKengatharan (2016) The main aim of research is to demonstrate unearth gaps in the existing capital budgeting practices literature and to suggest the directions for the future research. The findings of the study revealed that majority of Journals were published on capital budgeting the last two decades. The reminder of the research papers appeared in many journals. Capital budgeting is thus multi-disciplinary applied discipline aspects and across many disciplines.

Ramesh, S., &Nimalathasan, B (2014) The objectives of the study were To Investigate industry / sector – to – industry / sector differences in capital budgeting techniques in selected units; and to assess the efficiency of capital budgeting techniques in these units. The results show that NPV method is the most dominant capital budgeting technique according to the perception of executives of all sectors. It has been found that the executives mostly prefer NPV and IRR methods of capital budgeting from the companies of the manufacturing, pharmaceutical and chemical sectors, whereas the executives of the textile sector prefer the NPV method of evaluating capital budgeting.

Ali Mohamed Ali Farah, ZelhaAltinkaya (2018) The objectives were to assess how acquisition of long-term assets affect the profitability of manufacturing firms, secondly to assess how replacing of long-term assets affect profitability of manufacturing firms. The results reveal that capital budgeting decisions have a great contribution to the profitability of the organization. The chapter also presented and highlighted the Results from the analysis process. The study also revealed that acquisition of long-term assets, replacement of long-term assets, capital budgeting techniques and outsourcing expenditure had a significant effect on profitability of the organizations.

Rogerio Joao Lunkes et al (2015) This study aims to analyze the capital budgeting practices used in port company in Brazil and another in Spain from a comparative perspective. To meet this objective an empirical research was conducted to study these two parts and a questionnaire was administered to collect data and The results showed that the Brazilian port uses only the internal rate of return for capital budgeting analysis combined with the random rate to determine the minimum acceptable return and scenario analysis assess investment risks.studyalso showed that the Spanish port, compared to the Brazilian one, uses all methods, including payback, internal rate of return, net present value, real options valuation, and weighted average capital cost to determine the minimum rate of return, and scenario and sensitivity analyses, Simulation and decision tree to assess investment risks.

Magdalene Peter & R. Kausalya (2017) The objectives of the research is to study on the company's forecasting decision through capital budgeting technique through which the importance of capital budgeting in an organization and to analyze the capital budgeting process to be adopted by the company in order to take better investment decisions for various business projects The results of the study highlighted that the current year (2015) PBP is found to be I year. This shows that the company recovers its investment in 1 year. its study concluded that the planning process which is used to determine whether the long-term investments of an organization such replacement machinery, products that are new, new plants and research development projects are worth seeking is the Investment appraisal or capital budgeting.

Peter Mbabazi Mbabazize&Twesige Danial (2014) The objectives of the study was to conduct the survey on the capital budgeting practices in Rwanda. The study found Some ignorance on the application of cost of capital as most firms were found using the Cost of equity when discounting their cash flows despite the fact that most firms were found financing their projects using both debt and equity. Inflation is also an area where firms have not paid much attention in their capital budgeting decision making. The study concluded by opening area for further research on how capital budgeting can be used in resource allocating in the budgeting processes in developing countries.

Objectives of the Study

I. To assess that how Capital budgeting is the most effective tool in evaluating the profitability of manufacturing firm.

II. To assess Capital budgeting technique as used mostly to evaluate the Expansion in existing operating activities on the basis of Annual turnover of company.

Hypothesis

I. Hypothesis(H1): Capital budgeting is not the most effective tool in evaluating the profitability of manufacturing firm.

Null Hypothesis (H01): Capital budgeting is the most effective tool in evaluating the profitability of manufacturing firm.

II. Hypothesis (H2): Capital budgeting technique not used mostly to evaluate the Expansion in existing operating activities on the basis of Annual turnover of company.

Null Hypothesis (H02): Capital budgeting technique used mostly to evaluate the Expansion in existing operating activities on the basis of Annual turnover of company.

III. METHODOLOGY

The overall analysis was made to prove capital budgeting is the most effective tool in evaluating the profitability of manufacturing firm, for which various tests were applied to get the result. To understand and test the above hypotheses, chi-square test, comparisons of proportions and other tests are obtained and presented as follows to get better understanding of the results:There are three factors i.e., age of the company, annual turnover of the company and volume of capital budget are studied here to understand the influences on capital budgeting techniques. There are 225 responses has taken of each factor for the study.

Sampling and Data Collection Method

For the present study both Primary and secondary data shall be collected as follows:

Primary Data – Questionnaire

Secondary Data - Through published reports, journals, publications, articles, internet, emails etc. Due to qualitative nature of the study, it is assumed that besides the questions included in the schedule, online databases, and internet, annual reports of company / stores and company websites will act as secondary data sources in the research.

Sample Details:

S. No.	Sampling Process Undertaken	
1	Identifying the Target population	SMEs Individuals
2	Specifying the sampling frame	SMEs in Rajasthan
3	Specifying the sampling Unit	(a) CEO and CFO of Selected SMB's (b) Managers and Financial Assistants of Selected SMB'S
4	Specifying the Method Sampling	Judgmental Sampling
5	Determination of the sample Size	Krejcie Morgan formula Respondents 600 Respondents

Limitations of The Study

The scope of study is limited due to the following reasons:

- ✓ In the proposed research study, the analyses will be SMEs in Rajasthan. So, it cannot be said to be complete in its owing to several limitations such as biased responses, inaccurate information etc. These limitations may spring out from failure of employees to respond correctly, honestly and many other latent factors.
- ✓ A limitation of the study is to use short form of Instruments and technical terms.
- ✓ By testing the results on few employees, the results cannot be generalized to other whole society.
- ✓ Self-Report risk taking measure will be used in this study (without giving respondents an actual task). This raises the general concern and limitation for validity and Reliability of results.

Data Interpretation and Analysis

I hypothesis - Capital budgeting is the most effective tool in evaluating the profitability of manufacturing firm.

The test of chi-square shows:
Pearson Chi-Square =16.126[a] (v)
Likelihood Ratio = 17.206 (v)
Linear-by-Linear Association = 7.188 (v)
No of Valid Cases = 225
Pearson Chi-Square = .186Asymp. Sig (2-sided)
Likelihood Ratio = .142Asymp. Sig(2-sided)
Linear-by-Linear Association = .007Asymp. Sig (2-sided)
9 cells (45.0%) have expected count less than 5. The minimum expected count is .07.

Interpretation

Through the above tests, it is observed that, the value $p = .186$ is greater than significant value $\alpha = 0.05$ there is no significant relationship between age of company and the expansion in existing operating activities. The symmetric measure also showing the degree of relationship and says that there is no significant relation between the end expansion in existing operating activities. Therefore, the test is **rejected.**

II Hypothesis

Capital budgeting technique mostly uses to evaluate the Expansion in existing operating activities on the basis of Annual turnover of company.

The results depict through chi-square tests:
Pearson Chi-Square =22.438[a] (v)
Likelihood Ratio = 21.788 (v)
Linear-by-Linear Association = 8.226 (v)
No of Valid Cases =225
Pearson Chi-Square =.033Asymp. Sig. (2-sided)
Likelihood Ratio = .040Asymp. Sig. (2-sided)
Linear-by-Linear Association = .004Asymp. Sig (2-sided)

a. 9 cells (45.0%) have expected count less than 5. The minimum expected count is .11.
b.

Interpretation

From the above test results, it is observed from the Pearson chi-square test that, the value $p = .033$ is less than significant value $\alpha = 0.05$ there is significant relationship between annual turnover of company and the expansion in existing operating activities. Hence the test shows the positive relationship between the variables. Therefore, the test is accepted.

IV. CONCLUSION

The study mostly focused on the financial performance of the manufacturing companies by using traditional techniques i.e. PB period and average rate of return and modern techniques i.e. excess present value, benefit cost ratio and breakeven point of NPV of capital budgeting. The study also analyses the efforts of the long-term forecasting tools on the financial performance of the manufacturing firm in Mumbai with special reference to suburbs. The study also focuses on the relationship capital budgeting techniques and financial performance of the manufacturing firms in Mumbai. The researcher also revealed through this study that, which is the most appropriate and approachable method of capital budgeting i.e., traditional method and modern method for the evaluation of financial performance of the manufacturing companies.

The study discloses that the larger portions of the respondents were saying the modern methods are mostly used techniques than the traditional methods. The researcher found that the modern method is more used technique by the financial manager and other authorities of the companies. The researcher also observed that the employees of the firms are mostly adopting modern techniques i.e., excess present value, Pl and breakeven point of NPV (IRR) for the evaluation of financial performance of the manufacturing firm.

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