

Making Capital Investment Decisions Topics

This is a general guideline and should be viewed as such. Anything covered in class can be tested.

1. Relevant/Incremental cash flows
 - (a) Sunk costs
 - (b) Opportunity costs
 - (c) Side Effects
 - (d) NWC
 - (e) Financing costs
 - (f) Other issues
2. Stand-alone principle
3. Pro forma financial statements
 - (a) Calculate OCF for a project
 - (b) Properly consider NWC and initial investment.
 - (c) Consider salvage values.
4. Depreciation
 - (a) MACRS
 - (b) After tax cash flows (salvage value)
5. Alternative OCF definitions
 - (a) Bottom-up
 - (b) Top-down
 - (c) Tax Shield