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CAPITAL BUDETING TECHNIQUES IN SME'S OF RAJASTHAN

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Abstract:

From the study it has been inferred that as small business owners'/ managers' levelof awareness on financial management practices are very low, very few financialmanagement and accounting tools and techniques have been practiced by therespondent to assess their business unit's level of performance in fiscal terms.Moreover, it has been observed from the present study that a different pattern ofbehaviour in financial record keeping in the field of cost accounting, pricing decision,credit management, inventory management, and capital investment decision hasbeen followed which is at total variance with the prescribed standard rules offinancial management and accounting. In most of the cases, small business decisionprocess is the result of 'experience', 'intuition', or guess work'. Thus, it is suggestedthat these small business owners are financially disciplined and controlled. Theymust either learn the financial management practices or appoint persons who aregood in accounting practices for future sustainability.

Introduction:

"Capital budgeting and capital gains directly affects investment decisions, the mobility and flow of risk capital...the ease or difficulty experienced bynew ventures in obtaining capital and thereby the strength and potential forgrowth in the economy." **John F**

Budgets are an important tool of profit planning. Whereas, budgeting, as an instrument of planning, this is closely related to the broader arrangement of planning in an organization. Planning basically implies the requirement of the basic objectives that the organization will chase and the fundamental policies will be guided to have better clarity of policies and procedures. A budget is defined as a 'complete and organized plan, which is expressed in financial terms, for the operations and resources of an enterprise for some specified period in the future.' There are essential elements of budget i.e. planning, operations and resources, different financial terms, specified future period, comprehensive and coordination.

The word '**Capital**' indicates the funds used to finance the company's assets. In this way, capital consists of notes, stock and short term financing. We use the term "Capital structure", which is refer to the mix of these different sources of capital that are used to finance a company's assets. The firm's capital investment decision may be consists of number of distinct decision, each referred to as project.

It is the most crucial area of financial management. It decides about the investment to be made in capital expenditures. Such expenditures are assumed to give returns to the organization for a long period of time, i.e., beyond one year. Capital budgeting emphasizes planning rather than budgeting in the accounting sense of the term. Capitalexpenditures may be identified in terms of: a) tactical capital expenditures; and b)strategic capital expenditures. The former refers to outlays of small amounts of moneywithout causing any major shift of emphasis in the nature and content of the activities ofthe enterprise, viz., minor replacement of low cost machines and tools, small renovationsand miscellaneous assets. The latter involves substantial amount of monetary resourcesand can result in a major shift from the historic or prevailing format (for examplemodernization, expansion, new product line, and diversification). The purpose of makinginvestment in tactical or strategic capital expenditure is to get reasonable returns to theorganization over a long period of time.

Introduction of Small and Medium Enterprises (SME's)

All over the world, the cluttered manufacturing sector is known as SMBs while in India this is known as SMB defined in terms of endowment in plant and machinery. The Small and Medium Enterprise sector is the real engine of rise for the Indian Economy in the New Millennium. It provides gainful employment to a big number of respondents. The shares of SMB sector in the manufacturing of crop and convey is significant and have been increasing regularly.

The Government has admitted its importance for the economy and its intention towards promotion of SMEs is situated in various Industrial policy Resolutions right from the year 1948. The most important factor for economic development of a country is its industrialization. In the process of industrialization, importance is given to the three major groups of industries; large-scale industries, small-scale industries and cottage industries. Small and Medium Enterprises (SMEs) are showing their appulse on national and regional economics throughout the world.

Review of Literature:

S.No	Author	Year	Objectives	Key Findings
1.	Lingesiya Kengatharan	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

				discipline.
2.	Ramesh, S., & Nimalathasan, B	2014	The objectives of the study were: **5.** To Investigate industry / sector – to – industry / sector differences in capital budgeting techniques in selected units; and **2.** To assess the efficiency of capital budgeting techniques in these units.	• The results show that NPVmethod is the mostdominant capital budgetingtechnique according to theperception of executives ofall sectors. • It has been found that theexecutives mostly preferNPV and IRR methods ofcapital budgeting from thecompanies of themanufacturing,pharmaceutical andchemical sectors, whereasthe executives of the textilesector prefer the NPVmethod of evaluatingcapital budgeting.
3.	Ali Mohamed Ali Farah, Zelha Altinkaya	2018	The objectives were: • To assess howacquisition of long termassets affect theprofitability ofmanufacturing firms,secondly to assess howreplacing of long-termassets affect profitabilityof manufacturing firms.	• The results reveal thatcapital budgeting decisionshave a great contribution tothe profitability of theorganization. The chapteralso presented andhighlighted the Resultsfrom the analysis process • The study revealed thatacquisition of long-termassets, replacement of longterm assets, capitalbudgeting techniques and outsourcing expenditurehad a significant effect onprofitability of theorganizations.
4.	Rogerio Joao Lunkes et al	2015	This study aims to analyze the capital budgeting practices used in port company in Braziland another in Spainfrom a comparativeperspective. To meet thisobjective an empiricalresearch was conductedto study these two parts and a questionnaire 1677as administered to	• The results showed that theBrazilian port uses only theinternal rate of return forcapital budgeting analysiscombined with the randomrate to determine theminimum acceptable return and scenario analysis assess investment risks. • The study showed that theSpanish port, compared to the Brazilian one, uses methods, including payback,

			collectdata.	internal rate ofreturn, net present value,real options valuation, andweighted average capitalcost to determine theminimum rate of return,and scenario and sensitivityanalyses, Simulation anddecision tree to assessinvestment risks.
5.	Magdalene Peter & R. Kausalya	2017	The objectives of the research is to study on the company'sforecasting decision through capital budgetingtechnique through whichthe importance of capitalbudgeting in anorganization and to analyze the capitalbudgeting process to beadopted by the companyin order to take betterinvestment decisions for various business projects.	• The results of the studyhighlighted that the currentyear (2015) PBP is foundto be I year. This shows that the company recoversits investment in 1 year. • The study concluded thatthe planning process whichis used to determinewhether the long terminvestments of anorganization suchreplacement machinery,products that are new, newplants and researchdevelopment projects areworth seeking is theInvestment appraisal orcapital budgeting .

Statement of the Research Problem:

Present research paper is focused on different capital budgeting techniques in SME's as small and Medium Enterprises have been globallyrecognized as vital components of a domestic economy and major contributors toemployment generation in a country, regardless of global barriers. SME's for thelifeblood of any vibrant economy. In an emerging economy like India, SMEs have asignificant socio-economic role to ensure overall development of the nation.Innovativeness alone does not guarantee success in the business world. A successfulcompany also needs business competence, such as the ability to identify and make use ofinnovative business opportunities in a profitable way. The innovative growth of sales andbusiness success should not be confused with each other, but examined simultaneously.Business success includes profitability, liquidity and/or solvency.

Objectives:

1. To identify the capital budgeting techniques in SME's.
2. To determine the association of capital budgeting techniques in terms of age of the company.

Hypothesis:

Ho_1– Age of the SME's and Capital Budgeting are independent to each other.

Ha_1 – Age of the SME's and Capital Budgeting are dependent to each other.

Research Design:

The study is based on following research design.

Exploratory	Descriptive	Empirical
Review of Literature has been undertaken.	Presentation of data the way it has been derived.	Testing the Hypotheses and validating the proposed model of the study

Source of Data Collection:

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 questionsincluded in the schedule, online databases, and internet, annual reports of company /stores and company websites will act as secondary data sources in the research.

Scope of the Study:

The aim of this study is to understand how working capital and capital budgeting decisions are made in the small firms and how to identify the problems they face with regard to taking such decisions, and how to help them improve their businesses. A research study will be useful to a large spectrum of people managing small business firms, financial students, academicians and others in learning and understanding the financial management practices of the SME's in Rajasthan and India, and the innovative means to maintain the accounts.

Significance of the Study:

The research will provide the new insights for new resources the businesses and the modern techniques which will be helpful for the small and medium enterprise businesses in Rajasthan to take any decision for capital budgeting and performance budgeting. To tent the significance between capital budgeting and performance budgeting z-test will be applied. It will solve the problems for existing as well as for upcoming small and medium enterprise businesses in the area of capital budgeting performance budgeting so that the objectives can be met within the stipulated time.

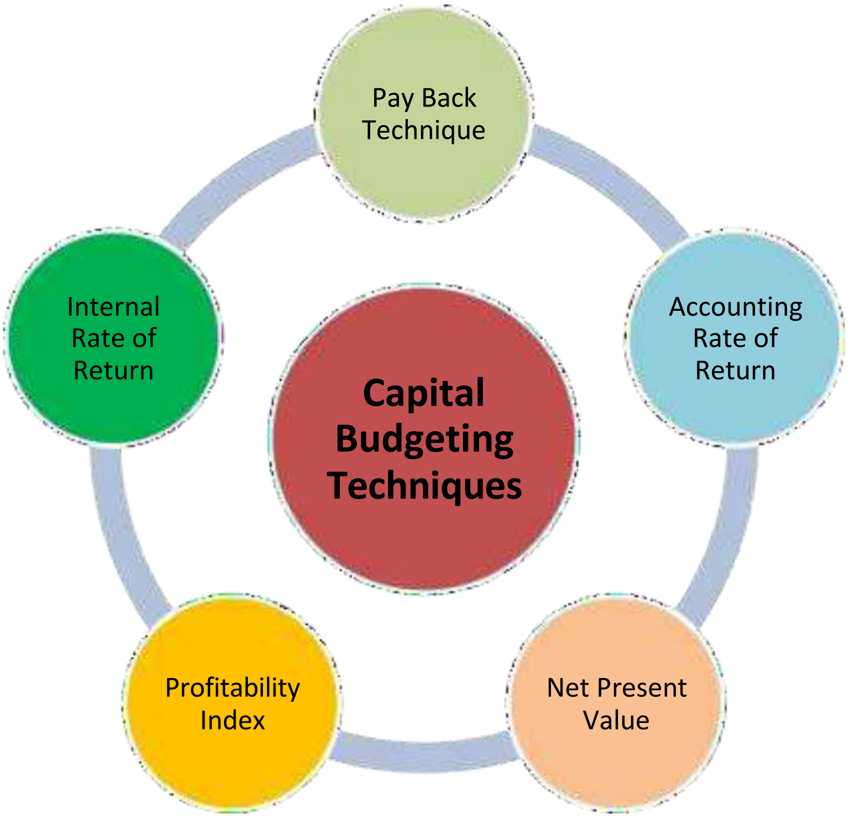
Limitation of the Study:

- In the proposed research study the analyses will be SME's in Rajasthan. So it cannotbe 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.
- By testing the results on few employees the results cannot be generalized to otherwhole society.

Analysis of Result:

To test the independence between age and capital budgeting techniques Chi- square test has been applied.

There are five capital budgeting techniques in terms of age of the company.



Pay Back Technique:

Chi- Square Tests			
	Value	df	Asymp. Sig (2-sided)
Pearson Chi-Square	20.461[a]	16	0.200
Likelihood Ratio	25.067	16	0.069
Linear-by Linear Association	0.862	1	0.353
No of Valid Cases	225		
a. 13 cells (52.0%) have expected count less than 5. The minimum expected count is 0.12.			

Interpretation: As probability value p = .200 is greater than the significant value α =0.05 there is no significant relationship between age of company and the use of PaybackPeriod frequency as far as the capital budgeting techniques are concerned.

Accounting Rate of Return:

Chi- Square Tests			
	Value	df	Asymp. Sig (2-sided)
Pearson Chi-Square	13.877"	16	.608
Likelihood Ratio	17.326	16	.365
Linear-by Linear Association	.396	1	.529
No of Valid Cases	225		
a. 14 cells (56.0%) have expected count less than 5. The minimum expected count is .02.			

Interpretation: As probability value p = .608 is greater than the significant value α =0.05 there is no significant relationship between age of company and the use ofAccounting Rate of Return frequency as far as the capital budgeting techniques areconcerned.

Net Present value:

Chi- Square Tests			
	Value	df	Asymp. Sig (2-sided)
Pearson Chi-Square	46.907"	16	.000
Likelihood Ratio	41.714	16	.000
Linear-by Linear Association	20.896	1	.000
No of Valid Cases	225		
a. 18 cells (72.0%) have expected count less than 5. The minimum expected count is .07.			

Interpretation: As probability value p = .000 is less than the significant value α = 0.05.There is significant relationship between age of company and the use of Net Presentvalue as far as the capital budgeting techniques are concerned.

Profitability Index:

Chi- Square Tests			
	Value	df	Asymp. Sig (2-sided)
Pearson Chi-Square	27.089[a]	16	.041
Likelihood Ratio	30.041	16	.018

Linear-by Linear Association	17.871	1	.000
No of Valid Cases	225		
a. 10 cells (40.0%) have expected count less than 5. The minimum expected count is .18.			

Interpretation: As probability value p = .041 is less than the significant value α = 0.05.There is significant relationship between the age of company and the use of profitabilityindex as far as the capital budgeting techniques are concerned.

Internal Rate of Return:

Chi- Square Tests			
	Value	df	Asymp. Sig (2-sided)
Pearson Chi-Square	38.759[a]	16	.001
Likelihood Ratio	44.408	16	.000
Linear-by Linear Association	21.455	1	.000
No of Valid Cases	225		
a. 11 cells (44.0%) have expected count less than 5. The minimum expected count is .13.			

Interpretation: As probability value p = .001 is less than the significant value α = 0.05.There is significant relationship between the age of company and the use of internal rateof return as far as the capital budgeting techniques are concerned.

Conclusion:

From the current study it has been concluded that inspite of the importance given to financial reporting, management accounting and control practices, it is unfortunate to find that these practices are often inadequate and lacking among small business entities. Except for yearly taxation returns and some form of profit and loss statements, other statements such as balance sheet, cash flow statement, fund statement, production report and variance report are infrequently used. These rather limited usage of financial and management accounting reports could be attributed to the inability small business entities to employ professional managers with functional specialization especially in the financial area due to their limited financial resources.

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