Chapter Preview : Chapter 8

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Answer the following questions breifly.

1. Explain following terms:
    - **Capital budgeting**: The process of determining whether a long-term investment or project is worthwhile by evaluating its potential return against the initial investment.
    - **Depreciation**: The allocation of the cost of tangible assets over their useful lives. It reflects the decrease in value of assets over time due to wear and tear, obsolescence, or other factors.
    - **Opportunity costs**: The potential benefits that are foregone when one alternative is chosen over another. It represents the value of the next best alternative that is sacrificed.
    - **Cannibalization**: When a new product or service decreases the sales or market share of an existing product or service from the same company.
    - **Sunk costs**: Costs that have already been incurred and cannot be recovered. They are irrelevant for decision-making because they cannot be changed by any current or future actions.
    - **Free cash flow**: The amount of cash generated by a business that is available for distribution to its investors or for reinvestment in the business after accounting for operating expenses, capital expenditures, and taxes.
    - **Tax loss carryforwards/carrybacks**: Tax provisions that allow businesses to offset current or future taxable income with losses incurred in previous or future years, reducing their tax liability.
2. What is the project's break-even point?

    The project's break-even point is the level of sales or revenue at which total costs (including fixed and variable costs) equal total revenue, resulting in neither profit nor loss. It indicates the minimum level of sales needed for a project to cover all its costs.