**Chapter Preview : Chapter 8**

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1. **Explain following terms:**

-**capital budgeting** :

capital budgeting lists the projects and investments that a company plans to undertake during the coming year. To determine this list, firms analyze alternative projects and decide which ones to accept through a process called capital budgeting during the coming year.

**-depreciation** :

The firm deducts a fraction of the cost of these items each year as depreciation. Depreciation means a decrease in the value of an asset over time and it affects its marketability.

**-opportunity costs (기회비용)** :

Opportunity cost is the value of the best alternative when making a decision.

In other words, it is the cost of the next best thing that could have been done with the resources that were used to pursue a particular course of action.

**-cannibalization (자기잠식효과)** :

a situation where a company's new product or service takes away sales from its existing products or services, rather than generating new sales from new customers.

For example, Smart-Phone. If a company introduces a new product that is similar to an existing product, but at a lower price, customers may switch to the new product, resulting in reduced sales and revenue for the company's existing product.

-**sunk costs (매몰비용)** :

A sunk cost is a cost that has already been incurred and cannot be recovered, regardless of any future action taken. In other words, a sunk cost is a cost that has already been spent and cannot be undone, whether or not a project or investment continues.

-**free cash flow** :

'Free cash flow' is one of the indicators that measures a company's cash flow and its ability to generate income in cash. 'Free cash flow' measures the amount of cash that a company can use to expand new businesses, improve return on capital, or pay dividends to shareholders.

**-tax loss carryforwards/ carrybacks** :

Tax loss carryforwards refer to the ability of a company to carry forward their net operating losses (NOLs) from prior years to offset taxable income in future years.

Tax loss carrybacks, on the other hand, refer to the ability of a company to carry back its current year's net operating losses to prior years in order to reduce taxable income and obtain a tax refund for taxes paid in those prior years.

1. **What is the project’s break-even point? (손익분기점)**

: A project's break-even point refers to the level of sales or revenue at which the project's total costs are equal to its total revenue, resulting in a net income of zero. In other words, it is the point where the project has neither made a profit nor incurred a loss.

Knowing the break-even point is important because it allows project managers to determine the minimum level of sales or revenue needed to cover all costs associated with the project, including fixed costs and variable costs. Once the break-even point is reached, any additional sales or revenue will result in a net profit for the project.

Break-even analysis is a common tool used in business planning, budgeting, and forecasting to assess the financial feasibility of a project and to make informed decisions regarding pricing strategies, production levels, and cost management.