

# CFA level 1, CF: Capital Budgeting Process

## Main Principles of Capital Budgeting

1. All decisions are based on cash flows rather than income statement's accounts, such as net income.
2. A very important factor is the right placement of cash flows over time because whether the project is profitable or not depends on it.
3. Cash flows are considered in the context of opportunity costs. Incremental cash flows achieved through an investment are compared with cash flows that would occur without undertaking the investment.
4. After-tax cash-flows are analyzed. Taxes must be considered when making any investment decisions.
5. Financing costs are not reflected in cash flows but in the required rate of return. Therefore, we take into account cash flows from operating activities and the discount rate includes financing costs.

Read more at: <http://soleadea.org/cfa-level-1/capital-budgeting>  
and make your own notes to improve your knowledge retention.

## My notes:

Create a free CFA study plan at: <http://soleadea.org/cfa-exam/study-planner>  
It will help you control your prep 😊