

**An Empirical Study of the
Capital Budgeting Practices in Sri Lanka**

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for the **Master of Commerce Degree**

By

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Abstract

Investing funds in a firm or a business is the purposes of furthering its business objectives. Likewise, capital investment could also refer to a firm's acquisition of capital assets or fixed assets such as manufacturing plants and machinery that is expected to be productive over many years. Sources of capital investment are diverse, and can include equity investors, banks, financial institutions, venture capital and angel investors (affluent individual who provides capital for a business). While capital investment is usually assigned for capital or long-life assets, a portion may also be used for working capital purposes.

Capital investment is an interesting area of study under financial management. The studies on this area have been conducted mainly in western countries, but there are not more such reported studies in Sri Lanka.

Therefore this study is intended to undergo capital investment practices in Sri Lanka selecting 32 listed manufacturing companies , the period concerned was from 2005 to 2010 and critically evaluated such practices and how those planning phases, capital expenditure evaluation techniques for business performance in such companies. As result, the research helps management in making decisions on investment for improving shareholders value in short run and the long run for gaining competitive advantages. Ultimate objective is to maximize the shareholder's value in investing in different forums.

By means of one way ANOVA use in SPSS, it was found that the variability of capital investment planning phases, capital investment evaluation techniques and company business performance were significant.

The finding of the study revealed that the relationship among capital expenditure planning phases, capital expenditure evaluation techniques and company business performance. Therefore, the study concluded that capital expenditure planning phases and capital expenditure evaluation techniques positively related to company business performance in the manufacturing companies listed in Colombo Stock Exchange.