

Chapter 9: The Capital Budget

Depreciation (Straight Line)

$$\text{Annual Depreciation} = \frac{\text{Asset Cost} - \text{Salvage Value}}{\text{Anticipated Useful Life in Years}}$$

Comparison of Capital Purchase Options

Operating cost over life expectancy

$$\text{Operating Cost over Life Expectancy} = \text{Annual Operating Cost} \times \text{Life Expectancy in Years}$$

Total cost

$$\text{Total Cost} = (\text{Asset Cost} + \text{Operating Cost over Life Expectancy}) - \text{Salvage Value}$$

Payback period

$$\text{Annual Savings} = \text{Current Operating Cost} - \text{Operating Cost of New Equipment}$$

$$\text{Payback Period} = \frac{\text{Asset Cost}}{\text{Annual Savings}}$$