Module 1
Section H: Capital Equipment and Facilities

Term
Business plan

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Term
Capital budgeting

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Discounted cash flow

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Economic value added (EVA)

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Environmentally responsible business

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Hazmat

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Hurdle rate

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Internal rate of return

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Actions relating to the planning and financing of capital outlays for such purposes as the purchase of new equipment, the introduction of new product lines, and the modernization of plant facilities.

1) A statement of long-range strategy and revenue, cost, and profit objectives usually accompanied by budgets, a projected balance sheet, and a cash flow (source and application of funds) statement. [It] is usually stated in terms of dollars and grouped by product family. [It] is then translated into synchronized tactical functional plans through the production planning process (or the sales and operations planning process). Although frequently stated in different terms (dollars versus units), these tactical plans should agree with each other and with [this concept]. See: long-term planning, strategic plan. 2) A document consisting of the business details (organization, strategy, and financing tactics) prepared by an entrepreneur to plan for a new business.

In managerial accounting, the net operating profit earned above the cost of capital for a profit center.

A method of investment analysis in which future cash flows are converted or discounted to their value at the present time. The net present value of an item is estimated to be the sum of all discounted future cash flows.

Hazardous material defined by environmental laws and legal precedents. A product has been defined as hazardous by regulations that impose stiff fines if the regulations are ignored.

A firm that operates in such a way as to minimize detrimental impacts on society. See: green manufacturing, green supply chain.

The rate of compound interest at which the company’s outstanding investment is repaid by proceeds from the project.

The minimum acceptable rate of return on a project.

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Net present value (NPV)

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Opportunity cost

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Payback

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Profitability index

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Residual income

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Return on investment (ROI)

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Scheduled downtime

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Sunk cost

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1) The return on capital that could have resulted had the capital been used for some purpose other than its present use. 2) The rate of return investors must earn to continue to supply capital to a firm.

The present (discounted) value of future earnings (for which operating expenses have been deducted from net operating revenues) for a given number of time periods.

In financial management, the net present value of a projected stream of income from a project (potential investment) divided by the investment in the project. It is used to select among competing potential investments.

A method of evaluating an investment opportunity that provides a measure of the time required to recover the initial amount invested in a project.

A relative measure of financial performance that provides a means for comparing various investments by calculating the profits returned during a specified time period.

The net operating income that an investment center earns above the minimum required return on its operating assets.

1) The unrecovered balance of an investment. It is a cost, already paid, that is not relevant to the decision being made about the future. 2) Capital already invested that for some reason cannot be retrieved. 3) A past cost that has no relevance with respect to future receipts and disbursements of a facility undergoing an economic study. This concept implies that since a past outlay is the same regardless of the alternative selected, it should not influence the choice between alternatives.

Planned shutdown of equipment or plant to perform maintenance or to adjust to softening demand.

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Time value of money

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Total productive maintenance (TPM)

Preventive maintenance plus continuing efforts to adapt, modify, and refine equipment to increase flexibility, reduce material handling, and promote continuous flows. It is operator-oriented maintenance with the involvement of all qualified employees in all maintenance activities. Syn.: total preventive maintenance.

The cumulative effect of elapsed time on the money value of an event, based on the earning power of equivalent invested funds.