Financial Appraisal of Long Term Investment Projects: Evidence from Ethiopia

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Abstract

The main objective of this study is to investigate the financial appraisal practice of Ethiopian firms in their long term investment decision. To achieve this objective, primary data were collected from 109 sample firms using questionnaire. In addition, interview was conducted with key informants from selected organizations. The results of the study revealed that Traditional payback period was the most frequently used capital budgeting technique and sensitivity analysis is the most frequently used risk analysis tool. About two-thirds of the respondents use at least one capital budgeting and risk analysis tools in evaluating capital projects. There is no significant difference among the different types of firms in their choice of investment appraisal techniques.

Keywords: Financial appraisal, Capital budgeting techniques, cost of capital, Risk analysis tools.

References


