ENTREPRENEURIAL FINANCING: ANALYSIS OF INFLATION AND CAPITAL BUDGETING

*OLOKOYO, Felicia O.¹, *ADEGBOYE, Folasade B.², *OGUNNAIKE, Olaleke O³, and *OKOYE, Lawrence Uchenna⁴

¹Dr., Covenant University, Nigeria, felicia.olokoyo@covenantuniversity.edu.ng
²Dr. Covenant University, Nigeria, folasade.adegboye@covenantuniversity.edu.ng
³Dr. Covenant University, Nigeria, olaleke.ogunnaike@covenantuniversity.edu.ng
⁴Dr. Covenant University, Nigeria, lawrence.okoye@covenantuniversity.edu.ng

*Corresponding Author

Abstract

This research examines the effect of inflation on capital budgeting performance in Nigerian enterprises. The impact of inflation on an economy is diverse which could concurrently be negative or positive. Inflation can grind down the definite expected return that is received on an asset. Hence, the study sets to determine how enterprises behave when faced with inflationary pressure. Survey research method was employed for the study. Questionnaires were administered to 100 respondents. The questions were administered purposively to finance managers and officials in finance department in selected enterprises in Lagos State which is the hub of commerce and the State with the largest number of registered entrepreneurs. Random sampling technique was employed in selecting the enterprises because it offers an opportunity to select an unbiased sample from the population. The hypotheses were tested using T-test and Chi-square. Findings from the study shows that the impact of capital budgeting could be impractical if the impact of inflation is not appropriately built into the test. It was observed that the inefficiency of enterprises in Nigeria in the management of their resources is as a result of difficulty in application rather than flaws in their budgets. As a result of the negative effects of inflation that were discovered in this research work it was recommended that the government should try to ensure stability in the economy so that the cost and time of preparing the budget will be reduced. The government should also develop interventions to reduce the negative effects of inflation on enterprises in Nigeria.

Keywords: Inflation, Capital budget, Nigerian enterprises, performance

1. INTRODUCTION

Financial development enhances mobilization and allocation of financial resources thereby promoting the participation of the economically active members of the society in driving economic growth and development (Eke, Okoye, and Evbuomwan, 2018). However, the ease with which this important economic unit accesses funds as well as the quality of financial decisions they make also play a vital role in the outcome of entrepreneurial activities they undertake (George, Okoye, Efobi, and Modebe, 2017; Ajagbe, Olujobi, Uduimoh, Okoye, and Oke, 2016). Human capital development anchored on skill acquisition and entrepreneurship competencies also constitute key success factors. At the macroeconomic level, the rate of
inflation is quite critical to investment outcome because of its impact on operational efficiency of business organizations.

Inflation is basically one of the major macro-economic problems being faced by most of the world economies and the Nigerian economy is not exempted, although most developing economies predominantly African and Asian experience high rate of inflation compared to the developed economies, this rendered their currency valueless as a result of persistent rise in cost of goods and services. Inflation disrupts normal economic activities, especially increasingly high pace of fluctuation of inflation. The rates of interest normally comprise the estimated inflation rate that results into the rise of business outlays, puts off the willingness to spend of consumer, and dampens the price of shares and debentures. Greater rates of interest and swiftly growing prices do not encourage investments (Olokoyo and Ogunnaika, 2012). Oguouma (1996) described inflation has a continuous increase in typical price of a usual collection of goods and services that is the general price level. Inflation is a situation where there is an all-encompassing and maintained increase in the total price level evaluated by an indicator of the price of several goods and services.

There are both negative and positive effects of inflation on the government. The government as a debtor do benefit to the detriment of households that are its main creditors. This is due to the fact that rates of interest on government owned bonds are permanent and are usually not increased to compensate the anticipated increase in prices. As a result, the government charges a lesser amount of tax to pay down its debt. Considering inflation, the actual tax rate is still declining. Inflation assist the government to finance its economic activity via financing that is inflationary in nature. This implies that a rise in the actual income in money terms of people, results into the government shifting the burden of tax onto the people by raising the tax charges on their earnings and products. Therefore, government revenue experiences a rise during increasing prices.

Inflation also has its effect on enterprises which could also be negative or positive (Kehinde and Ogunnaika, 2011). In enterprises, investors and equity holders do gain during inflation. Nonetheless, investors of debentures, bonds, etc. that are characterized with fixed rates of interest, experience losses for the period of inflation since, their receipt are fixed amounts whereas purchasing power is declining.

Capital budgeting is an essential component of the strategic objective of a firm that shows the main purposes of a firm. Capital Budgeting is a procedure for evaluating, comparing, and selecting projects that are needed. In an organization/company, when capital budgeting is in place, there will be proper management of investment, or capital that have long tenure, which are sourced by the organisation and would be invested in properties that will allow the organisation to create earnings for several years ahead. Habitually, the capital accumulated for investment in assets such as these are limited, or substantially accessible; hence the organisation should make provisions for how these capitals are invested. Capital budgeting is the procedure used for decision making regarding investments that have long tenure in the firm. Capital budgeting involves making investment decisions concerning the financing of capital projects by firms (Elumilade, Asaolu & Ologunde, 2006).

Through rises in inflation, power to purchase is reallocated from earnings that are fixed in nature, for instance some who are paid pension, salary earners whose retirement funds and salaries are not catalogued to the level of price, regarding those whose income vary or with income that could adjust with inflationary level like business and market traders. This relocation of power to purchase also has effect on various global trading associates especially when the time value of money is not affected appropriately. Also, when rates of exchange that are fixed are enforced, high level of inflation in one nation will result into the export of the other nation to turn out to be costlier and consequently influence the trade balance. A negative effect could also result from trade due to an increase in variability in price of foreign exchange as a result of the unpredictable inflation.

This study examines the effect of inflation on capital budgeting performance in Nigerian enterprises. The specific objectives derived from the main objective are:

- To examine how inflation could be adequately and properly planned for in order to prevent overestimation and to identify the association between the level of inflation and cost of capital
- To ascertain how the impact of inflation on the planning and performance of a company can be reduced.

2. LITERATURE REVIEW

Mills (1996) investigated the subject of the effect that inflation has on the procedure of capital budgeting. The result from his study showed that it is logical for the expectation that the cost of capital would rise with an equivalent proportion as the inflation rate of inflation on a level that is ex-ante, with the intention that this rise...
will be a geometric association. It also revealed that the procedure of capital budgeting is biased in relation to inflation, despite the fact that prices of output increase at similar proportion as costs. He stressed that significant consequence is placed on the level of margin of working capital as a percentage of the total finance needed, the greater the working capital margin, the higher the effect that inflation has on capital expenditure. He concluded that the financial performance of a corporate entity is impacted on by inflation. The capital financial plan of an organisation could be reduced by inflation, in the bid to lessen marginal working capital, and to adjust the proportion of debt to asset utilizing debts that are short term in nature, thereby resulting in rise in the proportion of percentages that are short term in comparison with long term percentages.

In the word of Ranjeet (2007) inflation portrays an economic condition with a broad continuous increase in goods and services prices. This may be termed as ‘a continuous price increase as evaluated by an indicator for instance the consumer price index (CPI) or by the price deflator that is implied for the Gross National Product (GNP)’.

2.1 Performance and Implications of Inflation

Some economists categorized three distinct factors that cause changes in the value of goods, the foremost they highlighted was a modification in resources outlay of the good, the second was a variation in the value of money which usually was due to instability in the value of goods of the metallic worth in the money, and the third was a decline in the value of money due to a rise in the supply of money in relation to the amount of valid metal back up of money. The association connecting the excess supply of currency notes and a consequential decline in their worth was highlighted by Hume (1996). He examined and discussed the effect of decline of money (monetary inflation) on value of commodities (price inflation)

Celeonu (2006) identified basically a dual origin of inflation as cost-push and demand-pull. Demand-pull inflation originates from a rise in the demand circumstances. It might be a rise in the capability and willingness to purchase commodities, while Cost-push inflation results from whatever is the origin of situations which makes supply to decline. Such factors include high production cost, a rise in taxation by government and a reduction in amount of production of commodities.

Ranjeet (2007) established that inflation has negative and positive effects together on the government. The government even though is a debtor, benefits to the detriment of the households being the main creditors. This happens because rates of interest on bonds that are government owned are not flexible in nature and are not increased to counterbalance anticipated price increases. The government in response imposes lower tax to manage and withdraw its debt. Inflation reduced the actual rate of taxes. Inflation aids the government in funding its actions through inflation related funding. When the actual monetary inflow of people increases, government increases the taxation on such inflows and goods as control measures, thereby revenue of the government increases as price level increases. It should also be noted that a little amount of inflation is necessary in an economy for driving it. Jhingan (2010) stated that it is a fact that an inflation rate of about 3 percent is needed to drive the economy. While any inflation rate higher than 10 percent is an indication that the economy should be approaching harmful inflation rate.

Kannadhasan (2007) stated that inflation is determined by examining the adjustment in the cost of a great quantity of goods and services in a country (majorly premised on information gathered by government, parastatals). The prices of goods and services are merged to arrive at a schedule of price measuring a typical ranking of prices, the typical price of a set of commodities. This price is subsequently regulated for modification in the fundamental categories of commodities, a procedure referred to as hedonic regulation.

2.2 Inflation and Capital Budgeting

Budgeting is an intermittent monetary strategy that shows the effect of tactical and investment strategies in the short run, often, annually. It is important to realize that budgeting is far more than an accounting technique. Budgets involve an evaluation of the entire organization and the effect that plans would have on the resource distribution amid the organisation. According to Harper (1995), it should be appreciated that a budget plays many parts. So, a particular budget may fulfill many functions, it possesses certain features, these features include that it must show the financial and economic policy of the government, it must represent the expected income and expenditure of the government, it usually covers a period of time. It is informative enough so that a correct judgment can be formed as to the way the plan is expected to function in the coming year. There are various kinds of budget, but the most commonly used ones are stated they include master budget, capital budget, operating budget, cash budget, financial budget, administrative budget, distribution expenses budget, capital expenditure budget, performance budget, periodic budget and planning programming and budgeting system.

ISBN: 978-605-82433-5-4
According to Abohi (2004) a capital budget quantifies plans for critical long-term resource acquisition. It is a procedure of management accounting that aids managerial strategic decisions by availing data on the outlay in an investment and the inflows to be acquired from the investment and by examining the efficiency of the investment subsequent to its execution. Capital financial planning outcomes could be impractical if the impact of inflation is not properly provided for in the examination. For estimating the capital financial planning; it is necessary to obtain data regarding both inflow and outflow of cash.

2.3 Theories of Inflation as Related to Capital Budgeting

The major theories of inflation are the cost-push and demand-pull. The cost-push hypothesis essentially premised on the part of extreme rise in salaries in relation to rise in level of production as an origin of inflation, while the demand-pull hypothesis had the tendency to feature inflation further towards surplus commodity demand in the marketplace resulting from supply of money increases. The inflation classical theory states that capital is the investment used by citizens to procure goods and services regularly. Currency is the medium of exchange for any nation in the current times. Inflation can be found in all nations as the level of price rises generally and the need for goods and services also rises.

Keynes (1936) and his school of thought stressed on the rise in total demand as the origin of the demand-pull price rises. The possibility of additional causes of demand is apparently seen. All the economic units (household, firm and government) demand for goods and services to meet their various needs. Therefore, the total demand includes expenditure by household, capital outlay by firms and government spending. If total demand is greater than the total supply given the maximum point of employment, the gap of inflation rises, this inflationary gap is affected by the consumption pattern of the three economic units. Surplus demand can occur if the community receives more payment for factors of production than is justified by productivity in the economy.

The pure-cost model procedure of inflation ascribes inflation to the act of the monopolistic groups in the labor market and imperfectly competitive producers who bid up profits and wages in that order separately of the force of demand in the produce marketplace. In other words, cost push inflation or pure-cost model of the procedure of inflation originates by salary increases imposed by pressure groups and rise in earnings by the company. The major reason for the cost-push inflation is the increase in cash salaries which is much faster than the efficiency of labor. Also, some segments of the nation could be influenced by cash salary rises and costs of their produce could be increasing. In several instances their produces are utilized as input for the manufacture of goods in other economic segments. Thereby, cost of production of other segments would increase and thereby drive up the costs of their produce. Therefore, wage-push inflation in some segments of the nation could sooner result into inflation related increases in costs in the whole economy. The cost-push group suggests that inflation arises from rise in produce cost, particularly rising wages resulting from the actions of pressure groups.

3. METHODOLOGY

The study adopted conclusive research design with emphasis on causal research design. Survey research method was employed. Questionnaires were administered to 100 respondents. The questions were administered purposively to finance managers and officials in finance department in selected enterprises in Lagos State being the hub of commerce and the State with the largest number of registered entrepreneurs. For this reason, therefore, the random sampling technique was employed in selecting the enterprises. The questionnaire consists of two parts. The first part concentrates on the personalized features of the respondents whereas the second part concentrates on questions drawn out from the objectives, the statement of research problem and research questions in order to find out adverse viewpoints and opinions of respondents as are relevant to the study. The questionnaire began with introduction, personal characteristics of the respondents, response categories with a 5-point type questionnaire graded as; Strongly agree [SA] - 5 points, Agree [A] - 4 points, Indifferent [ID] - 3 points, Disagree [D] – 2 points, Strongly disagree [SD] – 1 point.

The hypotheses were tested using T-distribution. It is practical if the population is believed to be distributed normally, although the sizes of the sample are minimal sufficiently that the statistic on which conclusion is premised is not distributed normally. Hypothesis was also tested using the Chi-square test which is utilized in determining if there is a considerable variation between the projected occurrences and the experimental occurrences in a group or more. The Statistical Package for Social Sciences (SPSS) was utilized in evaluating data and for running the Student T-test and Chi-square test.
4. DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Testing of Hypotheses

Hypothesis 1

H₀ - There is no significant relationship between inflation and capital budgeting practices among entrepreneurs

H₁ - There is a significant relationship between inflation and capital budgeting practices among entrepreneurs

T-TEST DISTRIBUTION

Analysis of whether there is a relationship between inflation and capital budgeting.

<table>
<thead>
<tr>
<th>Table 1: One Sample T-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>86</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2: One Sample T-test.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test Value = 0</td>
</tr>
<tr>
<td>T</td>
</tr>
<tr>
<td>Lower</td>
</tr>
<tr>
<td>---------</td>
</tr>
<tr>
<td>50.424</td>
</tr>
</tbody>
</table>

The above question has a calculated value (t-value) of 50.424 and a 5% level of significance and degree of freedom of 85.

Decision:

From the analysis done above, the calculated value is greater than the tabulated value; therefore, the null hypothesis (H₀) should be rejected in favor of the alternative hypothesis (H₁) which states that there is a positive relationship between inflation and capital budgeting, will be accepted. Also, the two-tail significance level which is 0.00 is less than 0.05 which is the level of significance; therefore the null hypotheses should be rejected.

Hypothesis 2:

H₀ - There is no significant relationship between inflation and enterprise cash flow

H₁ - There is a significant relationship between inflation and enterprise cash flow

T-test Distribution

Analysis of whether there is a relationship between inflation and cash flow.

<table>
<thead>
<tr>
<th>Table 3: One Sample T-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>86</td>
</tr>
</tbody>
</table>
Table 4: One Sample T-test

<table>
<thead>
<tr>
<th></th>
<th>Test Value = 0</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>T</td>
<td>Df</td>
</tr>
<tr>
<td>Budgets help improve a company's profitability.</td>
<td>49.439</td>
<td>85</td>
</tr>
</tbody>
</table>

The above question has a calculated (t-value) of 49.439 and a 5% level of significance and degree of freedom of 85.

**Decision:**

From the analysis done above, the calculated value is greater than the tabulated value, therefore the null hypothesis (H₀) should be rejected in favor of the alternative hypothesis (H₁) which states that there is a positive relationship between inflation and cash flow will be accepted. Also, the two tail significance level which is 0.00 is less than 0.05 which is the level of significance; therefore the null hypotheses should be rejected.

**Hypothesis 3:**

H₀: Capital budgeting has not been able to solve the problem of high cost of living
H₁: capital budgeting has been able to solve the problem of high cost of living

T-test Distribution

Analysis of whether capital budgeting has been able to solve the problem of high cost of living.

Table 5: One Sample T-statistics

<table>
<thead>
<tr>
<th>Capital Budgeting solves the problem of high cost of living.</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>86</td>
<td>2.99</td>
<td>.888</td>
<td>.096</td>
</tr>
</tbody>
</table>

Table 6: One Sample T-test

<table>
<thead>
<tr>
<th>Capital Budgeting solves the problem of high cost of living.</th>
<th>Test Value = 0</th>
<th>95% Confidence Interval of the Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>T</td>
<td>Df</td>
</tr>
<tr>
<td></td>
<td>31.217</td>
<td>85</td>
</tr>
</tbody>
</table>

The above question has a calculated (t-value) of 31.217 and a 5% level of significance and degree of freedom of 85.

**Decision:**

From the analysis done above, the calculated value is greater than the tabulated value, therefore the null hypothesis (H₀) should be rejected in favor of the alternative hypothesis (H₁) which states that capital budgeting has been able to solve the problem of high cost of living, will be accepted. Also, the two tail significance level which is 0.00 is less than 0.05 which is the level of significance; therefore, the null hypotheses should be rejected.

Chi-Square Test
The chi square is computed using the following formula.

\[ X^2 = \sum \frac{(O-E)^2}{E} \]

Where \( O \): Observed response
\( E \): Expected frequency
\( \sum \): Summation

**Decision rule:**

The null hypothesis (\( H_0 \)) is to be rejected and alternate hypothesis (\( H_1 \)) is to be accepted if the computed value of chi square is greater than the table value; otherwise, we accept the null hypothesis and do not accept the alternative hypothesis.

**Hypothesis 1**

There is a relationship between inflation and capital budgeting practices among entrepreneurs

### Table 7: Test statistics

<table>
<thead>
<tr>
<th>Response</th>
<th>Observed N(O)</th>
<th>Expected N(E)</th>
<th>(O-E)</th>
<th>(O-E)^2</th>
<th>(O-E)^2/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>4</td>
<td>21.5</td>
<td>-17.5</td>
<td>306.25</td>
<td>14.26</td>
</tr>
<tr>
<td>Indifferent</td>
<td>11</td>
<td>21.5</td>
<td>-10.5</td>
<td>110.25</td>
<td>5.13</td>
</tr>
<tr>
<td>Agree</td>
<td>52</td>
<td>21.5</td>
<td>30.5</td>
<td>930.25</td>
<td>43.27</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>19</td>
<td>21.5</td>
<td>-2.5</td>
<td>6.25</td>
<td>0.29</td>
</tr>
<tr>
<td>Total</td>
<td>86</td>
<td></td>
<td></td>
<td>62.95</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey 2016

The degree of freedom can be calculated as:

\((R-1)(C-1) = (4-1)(2-1) = 3\)

**Interpretation**

From the table calculated above we have 62.95, while the t table at the 0.05% level of significance indicates that the degree of freedom is 3 (7.82). With this, we therefore reject the null hypothesis and accept the alternative hypothesis which states that there is a significant relationship between inflation and capital budgeting.

**Hypothesis 2**

There is a significant relationship between inflation and enterprise cash flow

### Table 8: Test statistics

<table>
<thead>
<tr>
<th>Response</th>
<th>Observed N(O)</th>
<th>Expected N(E)</th>
<th>(O-E)</th>
<th>(O-E)^2</th>
<th>(O-E)^2/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>5</td>
<td>21.5</td>
<td>-16.5</td>
<td>272.25</td>
<td>12.66</td>
</tr>
<tr>
<td>Indifferent</td>
<td>4</td>
<td>21.5</td>
<td>-17.5</td>
<td>306.25</td>
<td>14.24</td>
</tr>
<tr>
<td>Agree</td>
<td>42</td>
<td>21.5</td>
<td>20.5</td>
<td>420.25</td>
<td>19.55</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>35</td>
<td>21.5</td>
<td>13.5</td>
<td>182.25</td>
<td>8.48</td>
</tr>
<tr>
<td>Total</td>
<td>86</td>
<td></td>
<td></td>
<td>54.93</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey 2016

The degree of freedom can be calculated as:

\((R-1)(C-1) = (4-1)(2-1) = 3\)

**Interpretation**

From the table calculated above we have 54.93, while the t table at the 0.05% level of significance indicates that the degree of freedom is 3 (7.82) with this, we therefore reject the null hypothesis and accept the alternative hypothesis which states that there is a significant relationship between inflation and cash flow.

**Hypothesis 3**
Capital budgeting has been able to solve the problem of high cost of living

The degree of freedom can be calculated as:

\[(R-1) (C-1) = (4-1) (2-1) = 3\]

**Interpretation**

From table 9, ‘df’ calculated above is 22.36, while the t table at the 0.05% level of significance indicates that the degree of freedom is 3(7.82) with this, we therefore reject the null hypothesis and accept the alternative hypothesis which states that Capital budgeting has been able to solve the problem of high cost of living.

<table>
<thead>
<tr>
<th>Response</th>
<th>Observed N(O)</th>
<th>Expected N(E)</th>
<th>(O-E)</th>
<th>(O-E)^2</th>
<th>(O-E)^2/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disagree</td>
<td>31</td>
<td>21.5</td>
<td>9.5</td>
<td>90.25</td>
<td>4.20</td>
</tr>
<tr>
<td>Indifferent</td>
<td>28</td>
<td>21.5</td>
<td>6.5</td>
<td>42.25</td>
<td>1.97</td>
</tr>
<tr>
<td>Agree</td>
<td>24</td>
<td>21.5</td>
<td>2.5</td>
<td>6.25</td>
<td>0.29</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>3</td>
<td>21.5</td>
<td>-18.5</td>
<td>342.25</td>
<td>15.9</td>
</tr>
<tr>
<td>Total</td>
<td>86</td>
<td></td>
<td></td>
<td>22.36</td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Survey 2016

**5. SUMMARY OF FINDINGS**

This study aims at determining if there can be any significant reduction of the effect of inflation on the planning and performance of a company and the relevance to be derived by examining how inflation could be adequately and properly planned to prevent overestimation. The following can be deduced from findings from the hypotheses testing and data analysis in this study:

The percentage of those who believe that budget helps improve their enterprises profitability is large; this is validated with the statistical testing of hypothesis which reveals 48.8% of the respondent agree and 40.7% strongly agree to this. It was observed that the inadequate accounting for inflation is the main reason behind the poor performance of capital budgets in enterprises in Nigeria.

It was established that inflation has hindered economic development in Nigeria and the level of inflation in the economy determines the cash flow in a company. The study also found that the inefficiency of enterprises in Nigeria in the management of their resources is as a result of difficulty in application rather than flaws in their budgets.

The study shows that it is very important to develop policies and procedures that would tame inflation because it affects industrial output, cost of living (purchasing power) and interest rates. The analysis also shows that the cost and time of preparing budget is very high as regards Nigerian enterprises. Also, the participation of employees in the budgeting process affects how they utilize the organization resources. If most employees are involved in the budgeting process, they will have better understanding of policy and take appropriate steps towards the proper utilization of the organization’s resources.

**6. CONCLUSION AND RECOMMENDATIONS**

In view of the foregoing findings, there is the need for enterprises in Nigeria to prepare a well detailed budget. The study discovered that enterprises and the government have developed policies and are still making efforts to develop more efficient policies that will tame inflation. It was also observed that although most enterprises prepare detailed budgets, the time and cost involved in preparing it is high. There is a simultaneous relationship between inflation and capital budgeting that is if a company does not plan well it could run into difficulties during inflation.

Enterprises should employ highly educated and efficient staff that will be able to utilize the organization’s resources effectively which will lead to high productivity and profitability and those involved in preparing the budgets should also be efficient and should properly account for inflation. The inadequate accounting for inflation is the main reason behind the poor performance of capital budgets in Nigeria therefore, if inflation is not taken into consideration, it could have an adverse effect on the industry.
The Central Bank of Nigeria (CBN) should regulate the volume of supply of money by fixing the rates of interest, via mechanisms like the open market operations, and by stipulating the requisite level of banking reserve requirements. The government should try to ensure stability in the economy so that the cost and time of preparing the budget will be reduced. The government should also develop programmes to reduce the negative effects of inflation.

ACKNOWLEDGEMENT

We acknowledge Covenant University for funding this research work.

REFERENCE LIST

Abohi, A.A. (2004). Management Accounting 1, Benin city: Justice Jeco Publisher


