**Do Firms' Characteristics Make a Difference of the Choice**

**of Capital Budgeting Practices?**

**Evidence from Sri Lanka**

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**Abstract**

The aim of this study was to examine the differences of the choice of capital budgeting practices in terms of firms’ characteristics of Sri Lankan companies. The primary data were garnered from 186 financial officers using self-administered questionnaires. Collected data were then analysed using independent sample t- test. The Results of the study revealed that the use of simple capital budgeting practices were mostly preferred by small sized firms and mainly managed by finance professionals with non-MBA educational qualifications and short tenure. Sophisticated and advanced capital budgeting practices were used mostly by large firms; and were mainly managed by finance professionals with master of business administration qualification and long tenure. According to the industry differences, accounting rate of return was primarily applied by non-MBA qualified financial officers and was also preferred by non-manufacturing firms. None of the other methods made any significant differences in terms of type of industry. Sophisticated capital budgeting practices were determined by the size of the capital budget, advanced capital budgeting practices were determined by both the size of the capital budget and the educational qualifications of the finance professionals. In a similar vein, simple capital budgeting practices were determined by the size of the capital budget, the educational qualifications of the financial officers, and type of industry. Overall, this study has made parametric contributions to the choice of capital budgeting practices in terms of firms’ characteristics of Sri Lankan companies. The findings of the study are useful to the investment decision makers when they are appraising investment projects.

**Keywords:** Capital budgeting practices, firm characteristics, Sri Lankan companies