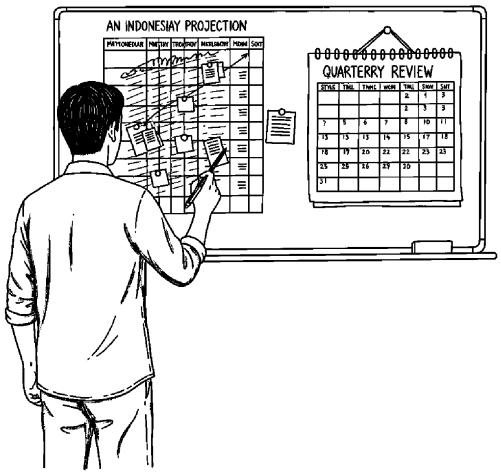
NICHE-SEARCH

WORKSHEET 6 OF 9

Pre-Board CAPEX Justification Sheet

For any capital expenditure above your business's CAPEX threshold before it reaches the board. Completes the investment case in writing so board time is spent on the decision, not on reconstructing the background.



Complementary worksheet for
Budget Forecasting Methods
by Ibrahim Anwar

SECTION 1

What This Is For

A CAPEX approval meeting where the board is hearing the investment case for the first time is not a decision meeting — it is a briefing. The actual decision was made in the hallway before the meeting or will be deferred to 'next month once we have more information.' Neither outcome is what a board meeting is for.

This worksheet completes the investment case before the meeting. The board member reading it should be able to reproduce the payback period calculation from the numbers on the page without asking a follow-up question. If they cannot, one number is missing. The worksheet surfaces that missing number before the meeting, not during it. It also forces the submitter to answer the question most capital requests skip: what happens if we defer this by 12 months? In many cases, the honest answer to that question is 'nothing significant' — which changes the urgency of the approval conversation entirely.

SECTION 2

Benefits

What you get when you actually run this worksheet on a real situation:

- Eliminates the briefing phase of board meetings so available time is spent on the decision itself.
- Forces the payback period calculation to be done before approval rather than after, catching investments with payback periods acceptable only in the upside scenario.
- Surfaces the deferral cost explicitly — if deferring 12 months costs nothing material, the board knows that before approving immediately.
- Creates a per-CAPEX record that feeds the CAPEX tracker and subsequent depreciation budgeting, preventing the margin erosion that comes from CAPEX whose depreciation impact was never entered into future-year OPEX.
- Provides the governance documentation that auditors check for in due diligence — proof that each capital commitment was evaluated before being approved, not confirmed after it was 'already in the budget.'

SECTION 3

Framework To Use

Payback Period Investment Case

One calculation, two scenarios, one deferral test. If the payback period is acceptable only in the upside scenario, the board must know that before approving.

WITHOUT THIS WORKSHEET	WITH THIS WORKSHEET

SECTION 4

How To Use

Follow these steps in order. Each one builds on the previous.

1. Complete this worksheet before submitting any CAPEX above your business's threshold for board approval. The threshold is the level above which a payback period calculation is required — typically set at a percentage of annual revenue.
2. Name the asset or project and state its primary business function in one sentence. Not the vendor's description — the operational outcome the business expects.
3. State the total investment amount and the useful life in years. Calculate the annual straight-line depreciation charge: total investment divided by useful life. Enter this figure into the CAPEX tracker immediately; it will become an OPEX line item in every subsequent year's budget.
4. Identify the benefits — either cost savings or revenue gains. Both require concrete justification. Cost savings: state the current cost being replaced and how the new asset reduces it. Revenue gains: state the assumption underlying the gain and the data supporting that assumption.
5. Calculate the payback period: total investment divided by annual net benefit. State explicitly which scenario — base case or downside — this calculation uses. If the payback period is only acceptable in the upside scenario, state that in writing before the board discussion.
6. Answer the deferral question: what happens if this CAPEX is deferred by 12 months? If the answer is 'nothing significant,' write that. If the deferral cost is material — capacity constrained, contract penalty, seasonal timing — quantify it.
7. Identify the OPEX impact in months two through twelve if the CAPEX is approved: installation costs, training, transition costs. These are not part of the payback calculation but need to appear in the near-term OPEX budget.
8. Attach any supporting data: vendor quotes, comparable asset performance data, capacity utilization numbers that justify the revenue assumption.

SECTION 5

Example Use

A fabrication business is considering a press machine at $37,500. It replaces a manual process requiring two operators. The operations manager completes the justification sheet before the monthly board meeting.

Asset: hydraulic press machine, $37,500 total. Useful life: 10 years. Annual depreciation: $3,750 — entered immediately into the CAPEX tracker and the Year 2 through Year 10 OPEX depreciation line.

Benefit 1 — cost savings: the machine replaces two operators currently paid $1,875 per month each ($22,500 per year combined). The two staff will be redeployed to finishing work currently contracted out at $14,000 per year. Net payroll saving by redeployment: $14,000 per year.

Benefit 2 — capacity gain: the machine increases production throughput by 35 percent based on vendor performance data and a visit to a comparable installation at another fabrication business. At current average contribution margin of $420 per unit and a conservative 40 additional units per month, the net revenue contribution from additional throughput is $16,800 per month at 70 percent utilisation — the downside case utilisation rate. Annual: $201,600.

Total annual benefit (base case): $14,000 (payroll) + $201,600 (throughput) = $215,600.
Total annual benefit (downside — 70% utilisation): $14,000 + $141,120 = $155,120.

Payback period: base case: $37,500 / $215,600 = 0.17 years (2.1 months). Downside: $37,500 / $155,120 = 0.24 years (2.9 months). Acceptable in both scenarios.

Deferral question: if deferred 12 months, the contracted finishing work continues at $14,000 and the throughput constraint continues. Deferral cost: $155,120 minimum (downside annual benefit foregone) minus estimated transition costs avoided ($3,200) = $151,920. Deferral is not justified.

Board receives this one-page summary before the meeting. The meeting takes four minutes for this item. The decision is made, not deferred.

SECTION 6

The Worksheet

Tear this out, copy it onto a fresh sheet, or fill it in directly.

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ITEM	DETAIL

SECTION 6 (CONTINUED)

Reflection Prompts

After filling in the worksheet on the previous page, work through these.

1. Payback period calculation must use conservative revenue or savings assumptions — not best-case. State explicitly which scenario (base or downside) the payback period is calculated from. If the payback period is acceptable only in the upside scenario, state that in writing before the board discussion.

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2. The 'What happens if we defer this by 12 months' row is not optional. If the deferral cost is zero or near zero, the board should know that before approving immediately. If the deferral cost is material, quantify it.

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3. After completing this sheet: can the board member reading it reproduce the payback period calculation from the numbers on this page alone, without asking a follow-up question? If not, one number is missing — identify and add it.

SECTION 7

Tips and Traps

TIPS

- Calculate the annual depreciation charge at the same time as the payback period, and enter it into the CAPEX tracker immediately. The depreciation will appear in OPEX for every year of the asset's life — if it is not budgeted now, it will appear as unexplained margin erosion later.
- When the benefit is revenue growth rather than cost savings, the assumption behind the revenue projection is the number most likely to be challenged in the board meeting. Attach data from comparable situations rather than internal estimates alone.
- Set the CAPEX approval threshold at a level where payback period calculations are required but not so low that small routine purchases require formal documentation. A threshold at approximately 0.5 percent of annual revenue works for most mid-sized businesses.

TRAPS

- Approving CAPEX because it is 'already in the budget' without running a payback period. A number written in December is not a validation of investment viability — it is an intention. Viability requires a calculation.
- Building the payback period from best-case revenue assumptions. The board needs to know the payback period in the downside case, not the scenario the submitter most wants to materialise.
- Omitting the OPEX impact in the months following CAPEX approval — installation costs, training time, parallel running costs if replacing a process. These are not part of the payback calculation but will appear in the reconciliation as unexplained overruns if they are not budgeted.

SECTION 8

Appendixes

Appendix A — Payback Period Calculation Reference

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Basic payback period (no time value of money):
  Payback period = Total investment / Annual net benefit

When benefit is cost savings:
  Annual net benefit = Annual cost eliminated - Annual running cost of new asset

When benefit is revenue growth:
  Annual net benefit = Additional units per year x Contribution margin per unit
                       (use downside utilisation assumption, not capacity maximum)

When benefit is mixed (savings + revenue):
  Annual net benefit = Savings component + Revenue component
  Calculate payback separately for each component.
  State which scenario (base/downside) applies to the revenue component.

Depreciation (for OPEX budgeting, not payback calculation):
  Annual depreciation = Total investment / Useful life in years
                        (straight-line method)

Enter annual depreciation into CAPEX tracker the day the board approves.
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Appendix B — Required Rows for the Detail Column

1. Asset / project name and vendor
2. Total investment ($)
3. Useful life (years)
4. Annual depreciation charge ($)
5. Primary business function (one sentence)
6. Benefit type: cost savings / revenue gain / both
7. Annual savings — current cost replaced ($)
8. Annual savings — running cost of new asset ($)
9. Net annual savings ($) [row 7 minus row 8]
10. Revenue gain assumption and data source
11. Payback period — base case (months)
12. Payback period — downside case (months)
13. What happens if deferred 12 months? ($)
14. OPEX impact months 1–6 post-approval (installation, training)
15. Supporting attachments: vendor quote / performance data reference

WHERE THIS WORKSHEET COMES FROM

Budget Forecasting Methods

A Budget Never Revised Is Fiction That Gets Funded

by Ibrahim Anwar

This worksheet is one of nine in the *Budget Forecasting Methods* companion worksheet pack. The full pack is grouped into three categories: high-volume worksheets you can run weekly, niche-search worksheets for rare but high-value situations, and specific-case worksheets that walk you through a single concrete scenario.

Every framework, decision filter, and figure used in these worksheets is drawn from the chapters of the source book. The book sets the diagnosis, the worksheets give you the form to act on it.

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