Capital Expenditure Request Justification Policy

1.0 Objective & Intent

This policy establishes a rigorous framework for the submission, financial justification, and approval of all capital expenditure (CAPEX) requests within our Canadian cabinet and millwork manufacturing operations. The primary objective is to ensure that every capital outlay—whether for machinery, equipment, facility upgrades, or software—is directly aligned with strategic business goals, delivers a measurable return on investment, and is supported by comprehensive financial analysis. By enforcing strict justification criteria, this policy mitigates the risk of misallocated capital, protects cash flow, and ensures compliance with internal control standards and Canadian accounting principles. Proper CAPEX governance prevents unbudgeted spending, reduces liability exposure from unsafe or obsolete equipment, and supports long-term asset lifecycle planning.

2.0 Operational Scope

This policy applies to all departments within the company, including Production, Maintenance, Engineering, IT, Facilities, and Administration. It covers any single expenditure or aggregated project exceeding $5,000 CAD for tangible assets (e.g., CNC routers, edgebanders, dust collection systems, forklifts) and intangible assets (e.g., ERP software licenses, CRM systems, patent filings) with a useful life of more than one year. Lease-to-own arrangements, capital leases, and major repairs that extend asset life beyond original estimates are also within scope. Routine maintenance, consumables, and operating expenses under $5,000 are excluded and governed by the standard procurement policy.

3.0 Compliance & Data Security

> All CAPEX requests must be processed through the company's approved ERP system, with full audit trail and version control. Supporting documentation—including vendor quotes, financial projections, and justification narratives—must be stored in a secure, access-controlled digital repository. In compliance with PIPEDA, any personal information included in requests (e.g., employee names, contact details) must be handled confidentially and retained only as long as necessary for audit purposes. Financial data must be encrypted at rest and in transit. Internal controls require segregation of duties: the requestor cannot be the sole approver, and all approvals above $50,000 require CFO or CEO sign-off. Records must be retained for a minimum of seven years after asset disposal.

4.0 Required Software & Administrative Tools

- ERP System (e.g., JobBOSS, Epicor, or Microsoft Dynamics 365)
- Financial Modeling Software (e.g., Excel with CAPEX template, or dedicated tool like Prophix)
- Document Management System (e.g., SharePoint, Google Workspace with restricted folders)
- Approval Workflow Module (built into ERP or via Power Automate)
- Asset Management Module (for lifecycle tracking post-approval)

5.0 Step-by-Step Administrative Workflow

1. Identify Need: Department manager identifies a capital need (e.g., machine replacement, new software) and drafts a preliminary business case including problem statement, expected benefits, and alignment with strategic goals.
2. Gather Quotes & Data: Requestor obtains at least two competitive quotes from qualified vendors, including delivery, installation, and warranty terms. For software, include implementation and training costs.
3. Complete CAPEX Justification Form: Fill out the standardized form in the ERP system, providing asset description, cost breakdown, useful life estimate, depreciation method, and financial metrics (payback period, NPV, IRR, ROI). Attach all supporting documents.
4. Financial Analysis: The Finance department reviews the form within 5 business days, validates cost assumptions, calculates tax implications (e.g., CCA classes), and confirms budget availability. They may request revisions.
5. Department Head Approval: For requests under $25,000, the department head approves after Finance clearance. For $25,000–$100,000, the Operations Director must also approve.
6. Executive Review: Requests over $100,000 are escalated to the CFO and CEO for review within 10 business days. A formal presentation may be required.
7. Board Notification: Any single CAPEX exceeding $500,000 or aggregate annual CAPEX over $1,000,000 must be presented to the Board of Directors for ratification.
8. Final Approval & PO Creation: Once all approvals are secured, the purchasing department issues a purchase order within 3 business days. The request status is updated in the ERP.
9. Asset Tagging & Capitalization: Upon receipt and installation, the asset is tagged, entered into the fixed asset register, and capitalized per Canadian GAAP.
10. Post-Implementation Review: Within 90 days of asset being placed in service, the requestor submits a brief report comparing actual costs and benefits to projections. Variances exceeding 15% trigger a formal review by Finance.