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# Making Decisions on Facts Versus a Gut Feeling: Monitoring Capital Expenditures

AUDIT

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As with any new year, the routine task of completing a budget occurs, and that sets a measure for the organization to grade itself. Budgets are set up by cost centers and, ultimately, the dollars of revenue and expenses monitor the organization's progress weekly, monthly and quarterly.

One line item in most budgets is capital expenditures. The monitoring of capital expenditures should be different from operating expense categories. Sure, the budgets encompass the amount of spend on a truck, equipment or software. Most organizations monitor only the dollars spent in comparison to the original budget, to evaluate performance. However, best-in-class organizations take it another step.

The next step is to analyze the data – whether it contains information about efficiencies, effectiveness or production. With most capital expenditures, it is imperative to ask: what is the return associated with the investment? The simple process of calculating the return on investment should be completed throughout the year and life of the item. This is good management technique and provides an understanding of a segment of your company. Did the machine produce as sold? Is it worth additional expenditures to add more capital items? The data analyzation will allow you to answer these questions and provide information to make good business decisions – on facts and not a gut feeling.

Work with your supply vendors and accountants to come up with the key performance indicators for your organization.

Contact us if you have questions on completing budgets and visit our audit blog to read more on related topics.

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