**Financial Justification of Capital Equipment**

**GOOD FINANCIAL JUSTIFICATION**

| **Example Justification Needs** | |
| --- | --- |
| *Needs* | *Expectations* |
| New competitive technology | * Physicians/patients will come to the institution because you can do something others can’t do. |
| More automated equipment | * You will save staff by automation. * You can get your work out even though there are staff shortages. * You can make up for staff you can’t find because of medical technologist shortage. |
| Replacement equipment | * Your old equipment is broken and too expensive to repair. * Your equipment is so old, they don’t stock parts for its repair. |
| Equipment for new testing | * You can create new outreach revenue. * Physicians are requesting a test be brought in-house. |

Reference

<https://www.mlo-online.com/home/article/13002266/justifying-capital-expenditures-in-the-laboratory>

**Financial Justification of Capital Equipment**

| Financial Indicators | |
| --- | --- |
| *Financial Indicator* | *Definition* |
| Return on investment (ROI) | * Monies or percent gain earned on the investment. * The NPV is the calculated expected net monetary gain or loss from a project by discounting all expected cash flows to the present value, using a desired rate of return. If this is a positive number, then the cash flows from the equipment covers its cost. |
| Net present value (NPV)  Internal rate of return (IRR) | * Return that makes the net present value (NPC) of a project equal to zero. The IRR is useful to determine whether or not an investment is expected to increase in value. In addition, the IRR is useful in determining if the project achieves the desired internal returns required by a company, the hurdle rate. |

Reference

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