

Example of abc costs and budget essay

[Business](#), [Marketing](#)



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Abstract

The paper details the managerial approach by the finance director for collating budget data for the company ABC Pty Ltd. The paper further discusses the effectiveness of the budgeting methods and the significance of flexible budget for the company.

1. Introduction

Budgeting is the most important function of financial managers as its effects are visible for years and it is used to define strategic direction which helps to move the company into new products, markets, services which must be preceded by expenses. The budgeting process involves collection and consolidation of contributor revenue projections and expense resources. The main aim of budgeting is to associate the resources to achieve an organization's goal.

The main drawback of a budget is that it encourages short term perspective and targets, and cost savings is done to meet objectives (Libby & Lindsay,

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2003), and an organisation adopts new tools to improve management and budget processes (Howes, 2001).

ABC is a multi dimensional company having three departments - ABC Printing, ABC Conference Centres and ABC Book Store, having different activities and source of revenues. ABC Printing provides printing services and it also produces significant income through the commercial contracts in printing services. The printing services are based on a fully equipped facility which is second to none in its output and production time.

ABC Conference Centres runs 11 centres along the main coastal centres of Queensland Australia and each centre manages resorts which offer well priced modern accommodation, while 30% of the total income comes from the traditional traveller stopovers and family holidays.

ABC Book Stores are widely located, having 72 stores across the country and it is known as a leading supplier in capital cities for textbooks used in university and schools.

In other projects, ABC Book Stores and ABC Printing have overlapping functions while ABC Conference Centres is based on a completely different set of activities.

2. Data Collection and Organizing Information

Discovery driven processes, uncovering the new customer needs, identifying the issues not disclosed by the projects, budgeting resources and the introduction of new technologies are some activities for which resources have to be allocated (Meeting, Luecke & Garceau, 2001).

The budget should be prepared independently for the three businesses, and the timeframe and scheduling will be based on professional staff time, costs

and a number of other activities which are given below -

Replacements for Machinery - At ABC Printing, for the maintenance of business, replacement of worn out equipments and to determine whether to continue the same production procedures or to have a new process, resources should be allocated. For implementing new technology, new machinery will be required.

Cost Reduction - Resource allocation to implement cost reduction methodologies at ABC Printing, Conference Centres and Book Stores is required. Cost reduction methodologies include replacing expensive and obsolete equipments to reduce the total cost such as the labour, power, electricity and materials.

Expansion into New Market - ABC requires resources to build new Conference Centres and Book Stores for the expansion of existing products into new markets to increase output. In this case, expenses increases and the decisions is complex as they require a forecast for growth. Additionally, the chances of mistakes are more as the decisions are made at a higher level.

Launch New Products - Expansion to launch new products or expansion in new markets requires budgeting - to provide new products or to enter new markets.

Safety and Environment Projects - Expenses to implement government orders, insurance policy and agreement fall into the given category.

3. Timeframe and Scheduling through Work Breakdown Structure

Generally, the actual requirement is much different from the resource estimates because the farther we move up the organization chart, it

becomes easy, fast and cheap. Labour costs are overhead charges, although material resources and machinery may not be subjected to overhead and the cost will also include the General and Administrative Charges.

Every project starts and ends at a definite date which should be managed and budgeted as per the project schedule. For defining realistic timeframe, scheduling is very important. For ABC, the material required for ABC Printing and ABC Book Store should be financed together and labours for both the projects should be bounded in a timeframe. The cost of projects is determined by the resources which will be required to be invested in creating value and the benefits should not exceed the amount spent. For enhancing accuracy, budget risks should be managed. A risk can happen anytime and it can create an adverse effect on the total costs, schedule, quality and scope of the project (Lewis, 2005).

Each project is subdivided into individual components, and the project components are organized in a hierarchical structure which shows how the components are divided into components which are basically lower level components and they are called the Control Packages, and these packages are further divided into work packages. The lowest decomposition of work managed by managers is Work Packages (Howes, 2001) and the expenses controlled by the departments cost centre managers are mostly predictable throughout the year.

For estimating project costs, WBS structure is used - Work Breakdown Structure and the elements of WBS are -

Labour - It includes the cost of all the labour working on different projects and also the fringe benefits which the organization has to pay along with the cost of base labour. The labour employed with ABC Book Stores, Printing and Conference Centres, the in-house personnel, contractors and direct labour costs can be calculated together.

Material - ABC Book Stores, Printing and Conference Centres requires furniture, the Printing Store needs new machinery, hard assets, while the Book Store requires new books, shelves and cupboards.

Other Direct Costs - The direct costs involved in the project are travel expenses.

Indirect Costs - The indirect costs includes the facilities which will be provided at the resort centre for the construction and to provide HR service for recruiting personnel at various projects. Further costs associated to activities which can provide indirect benefit to the project should be calculated.

4. Methods Used for Budgeting

Top-Down Budgeting

In top-down budgeting we need to bring together the judgment of top and middle managers to estimate the cost. Generally, the estimated costs in top-down budgeting are low and it continues to breakdown to the lowest level. The main advantage of top-down budgeting is that the aggregate budget can be developed accurately, the budget is stable giving a percent of total allocation, the statistical distribution is stable which results in high

predictability, the costly tasks are not identified individually and budget of many small tasks are estimated by the executives, which provides accurate estimates.

Bottom-Up Budgeting

Bottom-Up Budgeting is the method involving elemental tasks, scheduling individual budgets and consulting the people doing the work, to get accuracy in budgeting and timeframes.

The initial estimates are made through the items of resources, labour hours and materials and this provides an accurate budget involving detailed tasks.

The main advantage of bottom-up budgeting is that it helps to provide an accurate idea of the requirements of resources and the direct involvement of managers in budgeting, raises the chance of low amount of change. The bottom-up budgeting helps the junior managers to learn budgeting properly.

Program Budgeting

Program budgeting is the method in which the aggregate of incomes and expenses across various projects is estimated and the budget is designed on a plain spreadsheet having the standard categories which is further disaggregated into operations and charges of different projects. In traditional organizations, budgeting is either category oriented or it is activity oriented, and it is based on historical data collected through various accounting systems. With the changes in project organization, it becomes clear that budgeting is the way which is closer to the actual methods of fiscal responsibility.

5. Flexible Budget for ABC

Forecasts should not be based on annual basis (McKenzie & Melling, 2001).

At ABC, flexible budgeting should be constructed which should include individual schedules, tasks and methods to construct the complete action plan.

At Printing Project, the technology keeps changing and machinery needs to be changed. At ABC Conference Centres, the budget should be flexible so as to render the following-

For book store, the budget should be flexible because the reading preferences of users change and the book store should keep pace with changing market needs. Flexibility is also required to open a new book store in emerging markets and malls.

Monitoring and Reviewing the Budget

The budget should be flexible to ensure expansion into new markets and if ABC Book Store or Conference Centres are underperforming, the flexible budgeting options can be used to relocate for maximum utilization of resources. Budgeting drivers in the current scenario are consumptions based on the company requirements and driver based budgeting which is based on performance, causes and relationships. It shows the difference in the line item expenses and provides detailed assessment of the key drivers in regard to the financial performance (Merchant & Van der Stede, 2003). It helps to get a better understanding of the factors which cause variance as well. The methods for restoring productivity and integrating the non-financial drivers along with the traditional financial data will also be effective.

6. Conclusion

Traditional budgeting mostly involves the top down budgeting process with amendments in line item expenses which happens without full estimation of the total effects of changes across the organization. But to meet the fast changing requirements of markets, driver based flexible budgeting with short budget cycles should be designed. The flexible budgeting model provides an opportunity to the organization to abandon the yearly budgeting cycle, have a long-term perspective and also introduce perpetual planning.

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