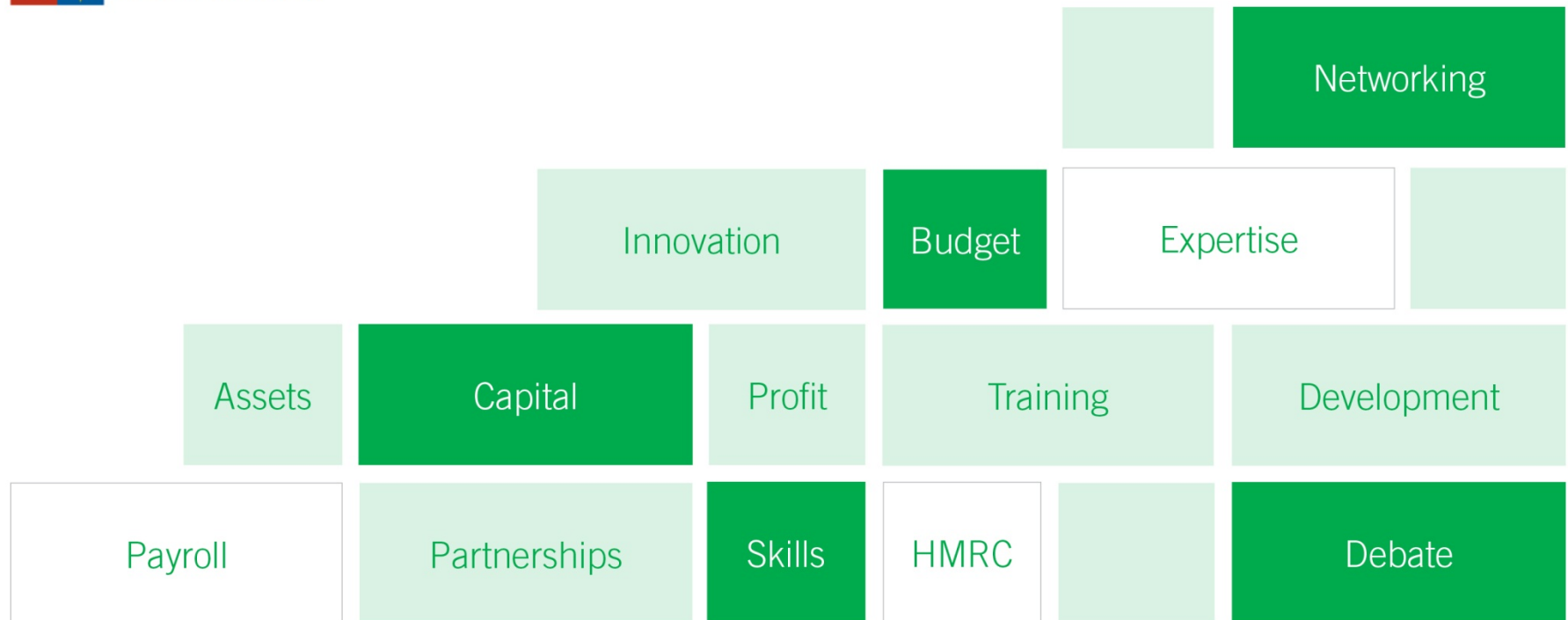


# Building for the future



AAT Weekender – 16-17 May 2014

Sponsored by



# Is There Room for Ethics in Budgeting

**Mike Stevens**

# Is There Room for Ethics in Budgeting

## Topics for this session

- Back to basics
- Ethics in budgeting
- Activity based budgeting

# Back to basics

## The purposes of budgeting

- Planning
- Control and evaluation
- Coordination
- Communication
- Motivation
- Authorisation

# Back to basics

## Planning

- Budgets compel planning
- Management is forced:
  - To look ahead
  - To set targets
  - To anticipate problems
- Budgets provide purpose and direction
- Long term strategies converted to short term plans

# Back to basics

## Control and evaluation

- Budget versus Actual comparison
- Investigation and correction
- Performance measurement
- Quantitative reference point

# Back to basics

## Coordination

- Reconcile to a common plan
- Avoid dysfunctional behaviour

## Communication

- Senior management expectations
- Improved coordination

# Back to basics

## Motivation

- Influence management behaviour
- Performance in line with expectation

## Authorisation

- Formal authorisation to a manager for:
  - Expenditure
  - Staff
  - Pursuit of plans



# Ethical Principles

The AAT code of ethics has five core principles

- Integrity
- Objectivity
- Professional competence and due care
- Confidentiality
- Professional behavior

# Ethics in budgeting

You are a manager and you have been asked to assist senior management prepare the master budget.

In addition you are evaluated on achieving budgeted profit. If you achieve your target you are awarded a £5000 bonus.

Which if any of the ethical principles are at risk?

Integrity

Objectivity

# Activity Based Budgeting (ABB)

What is ABB?

- Uses similar techniques to Activity Based Costing (ABC)
- Used to budget for overheads
- Allocates overhead costs to cost pools
- Determines the 'cost driver'
- Forecast the 'cost driver' units in the period
- A 'cost driver rate' is then calculated
- The ABB can then be prepared

# Activity Based Budgeting (ABB)

## Advantages and disadvantages of ABB

### Advantages

- Useful when overheads are significant
- Better cost control
- Better information for management
- Useful for TQM environments

### Disadvantages

- Expensive to implement
- Only suitable for ABC users

# ABB - Example

Overtrans operates two rail services the HighSpeed and InterTown. Total overhead for indirect wages last year was £42m.

Optrans expect journey hours to increase next year and want to use ABB to budget for their indirect wage costs.

	HighSpeed	InterTown
Staff	200	300
Staff per journey	8	8
Journey hours	20,000	40,000
Increased hours	10,000	5,000

# ABB - Solution

We will treat the two services as cost pools and we will allocate the costs based on the number of staff .

We will treat the number of journey hours as the cost driver.

	HighSpeed	InterTown
Split of indirect cost 200:300	£16.8m	£25.2m
Journey hours	20,000	40,000
Cost driver rate	£840 per hour	£630 per hour

# ABB - Solution

The cost driver rates calculated will then be used to prepare the budget for next year.

	HighSpeed	InterTown
Cost driver rate	£840 per hour	£630 per hour
Budgeted hours	30,000	45,000
Budgeted indirect wage cost	£25.2m	£28.35m
Total budgeted indirect wage cost next year £53.55m		

Thank you

Any questions?

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