Costs & Budgets

Types of Cost

Capital & Revenue cost:

- Capital costs: are one-time purchases of fixed assets that will be used for revenue generation over a longer period - more than one year.
- Revenue costs: are referred to as operating expenses, which are short-term expenses that are used in running the daily business operations.

Fixed and Variable Costs:

- Fixed cost is one that does not change in total within a reasonable range of activity. Since the fixed cost remains constant in total, the fixed cost per unit of activity decreases when the volume increases, and increases when the volume decreases.
- Variable cost or expense is where the total cost changes in proportion to changes in volume or activity.

Nonprofits account for functional expenses-allocation based on purpose of the expense:

- Direct Costs: A cost which results in direct benefit to a beneficiary. Can be directly attributed to a program or intervention. No cost if no program activity. Categorised as Program and Admin/Operating costs.
- Overheads/Indirect/Common costs are core/support costs for general/administration, fundraising etc. These costs are not directly attributable to any specific outputs. Suitable common cost policy for computing Indirect cost rate (ICR) detailing the allocation principle and updation of rate for negotiation with the donors. Common direct cost is also an

indirect cost.
- Historical cost: the price paid for a god when it was purchased.
- Sunk cost: money spent that cannot be recovered.
- Marginal cost: increase or decrease in the cost of producing one more unit or serving one more customer.
- Opportunity cost: forgone cost for available alternatives given the resource constraint.

Cost Principles in grant budgeting

Costs budgeted for a project grant should be:

- Allowable cost - costs which are not subject to any restrictions/limitations in the grant award.
- Allocable cost - costs which are incurred specifically for the attainment of the objective of the grant.
- Reasonable cost - cost which is generally recognized as necessary to be incurred by a prudent person in the conduct of normal business.
- Consistent cost - this is applied in the same fashion throughout the grant.
- Unallowable cost - those costs that cannot be incurred and paid under the grant.

What is a budget?

A budget is an estimation of revenue and expenses over a specified future period of time. A budget is a financial plan. It is financial blueprint of the project plan. Pre requisites are:

- Organisation structure.
- Data.
- Chart of accounts.
- Managerial support.

- Formal process of budgeting.

Types of Budgets: Activity budget

Activity based budget, as the name suggests, covers the costs required for implementing a project activity.

For example: If project strategy is to build the capacity of civil society leaders, workshops are an activity. Workshops costs would be towards hiring resource persons, booking a venue, transportation cost, food, lodging and materials and handouts.

Illustration: Activity Budget for Conducting a Workshop

Particular of Expense	Rate per unit	No of Units	Total in Rs
Trainer Fees	@ Rs 1000 per day	3 days	3,000
Venue	@ Rs 500 per day	3 days	1,500
Rental for Furniture	@ Rs 500 per day	3 days	1,500
Rental for Equipment	@ Rs 100 per day	3 days	300
Catering Exp for Lunch and tea two times	@ 100 per person	55 persons X 3 days= 165	16,500
Conveyance paid to attendees	@Rs 50 per person per day	50 attendees x 3 days = 150	7,500
Printing of handouts	@ Re 1 per page	50pages x 50 copies= 2500 pages	2,500
		Grand Total	**32,800**

Line Item Budget

- A Line-item budget presents the budget under broad areas.
- A line-item budget is one in which the individual financial statement items are grouped by category.
- As you will see in the image below, there are categories (in most cases, given by donors in proposal formats) and you are required to prepare the budget under these categories. Major donors like USAID, European Commission prefer to have their budget templates by line items.

Line Item Budget				
Expenses	**Units**	**# of Units**	**Unit Rate ($)**	**Costs ($)**
Human Resources:				
CEO	Per day	3	350	1,050
Trainer Fees	Per day	2	200	400
Subtotal Human Resources				1,450
Travel:				
Trainer Airfare	Per Person	1	300	300
Participant Transportation	Per Person	30	10	300
Subtotal Travel				600

Equipment & Supplies:				
Materials & hand-outs	Per Person	30	15	450
Total Equipment & Supplies				450
Other Costs, Services:				
Venue	Per Day	2	300	600
Catering	Per Person	30	15	450
Subtotal Other Costs, Services				1050
Subtotal				3550
Overhead (10%)				355
Total				**3905**

Types of Budget

Incremental budget: New budget by making only some marginal changes to the current budget. The current budget is used as a base to which incremental assumptions are added or subtracted from the base amounts to determine new budget amounts.

Value Proposition Budgeting focuses on allocating the ideal amount of financial resources to make a product or service that provides the highest value to the customer. Another name for Value Proposition Budgeting is Priority Based Budgeting. .

Zero-based budgeting (ZBB) based on efficiency and necessity rather than budget history. Management starts from scratch and develops a budget that only includes operations and expenses essential to running the business; there are no expenses that are automatically added to the budget.

Performance based budget (PBB) is one that reflects both the input of resources and the output of services. The goal is to link funding to results delivered.

Fixed Budget: not modified for variation in actual activity.

Flexible budget: budget changes in response to activity level

Balanced, Surplus and Deficit budgets:

- A balanced budget is a budgeting process where total expected revenues are equal to total planned spending.
- A budget deficit occurs when expenditures surpass revenue.
- A budget surplus means there is additional money to spend at the end of the accounting period.

Budgeting & Budgetary Control

The purpose of budget is to:

- Ascertain reasonable estimation of costs for interventions/activities in a grant proposal/award. It is budgeting the plan.
- Segregates direct/common/indirect or OH costs.
- Depicts cost matching/sharing (co-financing) for multi donor grant.
- Is a framework for a grant for donor-donee.

- Enables course correction based on measurement of actual achievements versus estimates.

Budgetary control is the process to:

- Track income and expenditure (annual and cumulative) by budget lines versus original/revised (realigned) budget based on record of income and expenditure budget line and activity wise entered timely in books.
- Ascertain deviation/tolerance for expenditure under budget lines in grant award and timely approvals for spends beyond permissible limits.

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