

1.1 A practical example of budgeting

The company Information Systems, PLC has its own business IT department. The company decided to introduce in-house accounting in order to determine the efficiency of its in-house IT. So far, it charged all accounting operations associated with IT only to its debit – no in-house revenues for the provision of services have been recorded.

The in-house IT will compile only the profit and loss account. The Cash-Flow statement or the balance sheet are not significant for the company or the business IT department at the given time. In the company balance sheet, only some of its elements will be identified, namely those related to business IT, such as the value of the SW, HW and buildings used by business IT. Additionally, the method of depreciation of individual assets will be adopted from the company policies so that the depreciation can be appropriately recorded in the profit and loss account.

For the provision of in-house services, the department charges 350 CZK/hour (CZK 320 costs + CZK 30 internal profit). The IT department expects according to its budget to re-charge 6.5 man-months to the surrounding departments. 0.5 man-month, which is not covered by the services to the surrounding units, will be debited to the IT Department.

The aim is to compile an approximate profit and loss account in which the costs that the company spends on business IT will be compared with the hypothetical revenues that business IT receives for its services. The company set the value of one hour of work of an IT employee at CZK 350.

The company also decided that the costs of HW, SW, buildings, energy, etc. would be budgeted to the debit of the individual departments using the following procedure. Based on the percentage use of the total capacity of HW, the costs of all other elements in Group A (see below) will be allocated to the given department at the same percentage. Accounting for the Help-Desk services (Group B) will take place separately.

The overall cost structure is listed in the table below.

Charged performance	Quantity	
Group A		
Wage costs of Group A re-charged to other departments	840	hr
Network infrastructure administration	60	hr
Company data storage backup	40	hr
Domain administration	40	hr
Provision of services	300	hr
HW administration	200	hr
SW administration	200	CZK
Transport costs	50,000	CZK
Monthly depreciation (sum) broken down to:	325,000	CZK
HW	50,000	CZK
SW	100,000	CZK
Buildings	150,000	CZK
Internal equipment of the IT department	25,000	CZK
Cost of energy of the IT department	50,000	CZK
Other costs	100,000	CZK
Annual property insurance	10,000	CZK
Telephone costs	12,000	CZK
Group B	200	hr
Help-desk (wage costs Group B)	200	hr
Group C		
Number of employees	7	
Employee average monthly wage	39,000	CZK
Health and social security insurance	35%	

Charged hourly wage including insurance and internal profit	350	CZK/hr
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Table 1 Cost structure

The company Information Systems, PLC assumes the use of information technology by the individual company departments within the structure shown in the table below.

Human resources	Share in %
Share in group A	15%
Share in group B	15%
Economy	
Share in group A	20%
Share in group B	15%
Marketing	
Share in group A	10%
Share in group B	15%
Production	
Share in group A	25%
Share in group B	30%
Sale	
Share in group A	30%
Share in group B	25%

Table 2 Distribution of IT costs between individual in-house departments

Determination of the economy of business IT

Based on all the above information, we are now able to determine the real expense-to-revenue ratio of the business IT department.

Sample calculation, e.g. the value in the "CZK" column for the item "Wage costs of Group A..." was determined as follows: column CZK = 350 X 840 → Wage costs of Group A = CZK 294,000.

Charged performance	Quantity		CZK
Group A			CZK 841,000
Wage costs of Group A re-charged to other departments	840	hr	CZK 294,000
Network infrastructure administration	60	hr	CZK 21,000
Company data storage backup	40	hr	CZK 14,000
Domain administration	40	hr	CZK 14,000
Provision of services	300	hr	CZK 105,000
HW administration	200	hr	CZK 70,000
SW administration	200	hr	CZK 70,000
Transport costs	50,000	CZK	CZK 50,000
Monthly depreciation (sum) broken down to:	325,000	CZK	CZK 325,000
HW	50,000	CZK	CZK 50,000
SW	100,000	CZK	CZK 100,000

Buildings	150,000	CZK	CZK 150,000
Internal equipment of the IT department	25,000	CZK	CZK 25,000
Cost of energy of the IT department	50,000	CZK	CZK 50,000
Other costs	100,000	CZK	CZK 100,000
Annual property insurance	10,000	CZK	CZK 10,000
Telephone costs	12,000	CZK	CZK 12,000
Group B	200	hr	CZK 70,000
Help-desk (wage costs Group B)	200	hr	CZK 70,000
Group C			
Number of employees	7		7
Employee average monthly wage	39,000	CZK	CZK 39,000
Health and social security insurance	35%		35%
Charged hourly wage including insurance and internal profit	350	CZK/hr	CZK 350
Expected monthly performance (in man-hours)	1,040	hr	CZK 364,000
Total wage costs			CZK 368,550
Wage costs covered			CZK 364,000
Costs to the debit of IT			CZK 4,550

Table 3 Budget of the operational activities coverage

A brief profit and loss account can be prepared in the same way as described in the table below. We have supplemented the content of the table from the previous tables. For the sake of simplicity, we do not work with individual cost and revenue items, but we work at the level of departments.

As is clear from the previous tables, the company has covered almost all wage costs of the IT staff by re-charging their performances to departments that use their services. Each month, the amount of CZK 4,550 is charged to the debit of business IT, which cannot be charged to other in-house departments.

Costs	Profit and loss account	Revenues
Cost of energy	CZK 62,000	HR Group A) CZK 126,150
Telephone costs	CZK 10,000	HR Group B) CZK 10,500
Transport costs	CZK 50,000	Economy Group A) CZK 168,200
Property insurance	CZK 100,000	Economy Group B) CZK 10,500
Wage costs	CZK 368,550	Marketing Group A) CZK 84,100
HW depreciation	CZK 50,000	Marketing Group B) CZK 10,500
SW depreciation	CZK 100,000	Sale Group A) CZK 252,300
Depreciation of buildings	CZK 150,000	Sale Group B) CZK 17,500
Depreciation of internal equipment	CZK 25,000	Production Group A) CZK 210,250
		Production Group B) CZK 21,000

Total costs	CZK 915,550	Total revenues	CZK 911,000
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Table 4 Profit and loss account of the company Information Systems, PLC

The result found thus indicates that although the total costs of business IT amount to CZK 915,000 per month, it is possible, under the condition of budgeting according to the above conditions, to re-charge CZK 911,000 of that amount to the individual in-house departments.