

Quick Start for Activity-Based Budget

How to use your Custom Excel Workbook

Quick Start Instructions

Here are simple, step by step instructions to get your Activity-Based Budget working for you as quickly as possible. Just follow the steps below in order and you'll be on your way. ¹

A Note about Input Cells: Enter input data only in shaded blue cells. These input cells are found mostly on the 'Inputs' worksheet and also on the 'Labels' worksheet. Some blue input cells contain Excel formulas that copy data from adjacent input cells. (For example, if you enter data in the first period, the model will usually copy it to the other time periods to the right.) This feature is a convenience for those inputs that sometimes have repeated values. You can overwrite any formula in a blue input cell; they are just there to provide starting data to get you going quickly.

Step 1: Enter Names of Activities and Expense Accounts

Select the Labels worksheet. You can edit the lists of names of dimension items in the bottom section starting around row 40 or 60.

1. Edit the names of Activities and Expense Accounts. (These may already be correct from the customization process. If you want to increase the numbers of sub-projects or other items in the model, you must return to the ModelSheet website and customize a new spreadsheet.)
2. Check the start date of the model at the top of worksheet 'Labels' and change it if necessary.

If you want to change the length of the history time range, the length of the budget time range, or the time grain (weeks, months...), then go to the ModelSheet web site and re-customize the spreadsheet.

Step 2: Enter Expense History Input Data

Select the Inputs worksheet and go to the section 'Expense Data' near the top of the page. (You can remind yourself what each variable does by checking out the Excel comment. Just hover the mouse over the cell to see the comment.)

1. Enter the expense history data for all expense accounts for each time period in the history time range.
2. If your model includes Fixed Expenses, then enter the Fixed Expense history for all expense accounts for each time period in the history time range. (Fixed Expenses are base levels of expense that do not depend on activity drivers. If you want to add Fixed Expenses to you model, then go to the ModelSheet website and re-customize your spreadsheet.)

Step 3: Enter Activities Input Data

Select the Inputs worksheet and go to the section 'Activity Data'.

1. Enter text descriptions of each Activity that drives expenses. (An Activity is an action in the business for which you can count the number of occurrences, and these counts drive expenses.)
2. Enter the history of activity counts for each Activity in each time period of the history time range.

¹ You can find more explanation of how the model works in the section "Activity-Based Budget Explained in a NutShell" below.

3. Enter the budgeted total activity counts for each Activity in the entire budget time range. (This is the amount of activity that the expense budget must support going forward.)
4. Enter the annualized growth rate of activity counts for each Activity during the budget time range. (This growth rate affects the gradual change of activity counts in each time period, but it does not affect the total activity count in the budget time range.)
5. The model computes activity counts for each Activity in each time period of the budget time range. If you want to override these values, then enter your own activity counts for the periods on the budget time range in the table "Activity Budget".
6. As actual data becomes available, enter the actual activity counts for each Activity in each time period of the budget time range. (This is used to compute the variance between budgeted and actual activity levels, so that the budget can automatically re-adjust for actual activity counts.)

Step 4: Indicate Which Activities Drive Which Expense Accounts

Select the Inputs worksheet, and go to the section 'Activity Drivers of Expense Accounts'.

1. For each Expense Account,
 - Enter the names of the Activities that drive that Expense Account. The names must be exactly as spelled in the list of Activities. (If you want more Activities to drive an Expense Account that is allowed on the worksheet, then return to the ModelSheet website and re-customize the spreadsheet to increase the maximum allowable drivers per account.)
 - Enter the 'Drive Weights' for each Activity driver of the Expense Account.
 - These weights determine the percentage of the expense in each account that is driven by each Activity. (For example, if the Activities have weights 70% and 30%, then the first Activity generates 70% of the expense and the second Activity drives 30% of the expense in this account.)
 - These weights need not be normalized to sum to 100% because the model normalizes them for you before entering them into computations.
 - The model normalizes the weights for each Expense Account to add to 100%. If you do not enter any weights, then all remain zero, and the normalized weights are set equal for all drivers.
 - The model computes the ratio 'Historical Expense / Activity Count' from the input data you have provided. (This tells you how much one Activity count cost in the historical time period.)
 - The model sets the coefficients 'Budget Expense / Activity Count' equal to the 'Historical Expense / Activity Count' as the default values. If you want to override the default values, then enter your values in the row ' Budget Expense / Activity Count'.
 - These coefficients are the key to translating budgeted activity counts into budgeted expenses.

Step 5: See Your Results!

Now that you've entered your data, take a look at these worksheets to see key budget information.

- Worksheet 'Activity Costs' shows you the expense budget per Activity, and the variable portion of the expense budget per Activity. It shows the total over the budget time range, and breaks out the total over the timer periods in the budget time range. It also shows how much of the budgeted expense for each Activity appears in the budget for each cost center.

- Worksheet 'Budget' shows you the expense budget for each cost center, and the variable and fixed portions of the expense budget.² It also breaks out the budget for each cost center into individual Expense Accounts.
- Worksheet 'Budget by Time' shows the same information as worksheet 'Budget', except the budget is broken out over the time periods in the budget time range. (This worksheet is an optional feature that you can enable during the customization process in Advanced versions of the model.)
- Worksheet 'Actual vs Budget' examines the variance between budgeted expenses and actual expenses. It shows how much each Activity contributed to expense variances.
- Worksheets 'Cost Center 1' and so forth show you a summary of the results for each cost center. These sheets are suitable to give to a cost center manager.

If you want to learn more about what these quantities mean, read the comment on the table by hovering the mouse over the cell with the small red triangle (which is Excel's way of telling you that cell has a comment). There you'll also find a "formula name" that defines the table. You can look up that name on the 'Formulas' worksheet to see the human-readable formulas that are used to define the values in the table.

Activity-Based Budget Explained in a NutShell

Your Activity-Based Budget model combines historical data about expenses and activity levels, plus budgeted activity counts to compute expense budgets for many cost centers. The basic method is quite simple:

$$\text{Budgeted Expense} = (\text{Historical Expense} / \text{Historical Activity Count}) * \text{Budgeted Activity Count}$$

The model supports many Expense Accounts, and many Activity Drivers of expense. It also supports multiple Activity Drivers for each Expense Account.

When you have actual expense data, it compares the budgeted expenses with actual expenses, and indicates what portion of the expense variance is due to which Activities.

That is basically all there is to it.

Not all features mentioned here are present in the Light and Standard versions of the model.

Where to Get More Information

Read the Excel comment on each table on every worksheet. Each comment contains important information about what the table contains or what it does in the model.

Worksheet 'Formulas' contains a list of the named variables in the model and formulas that define each variable in terms of other variables. This worksheet is often the best way to understand how the entire model fits together.

The user guide for this product contains more information. See

<http://templates.modelsheetsoft.com/modelsheettemplates/activity-based-budget-templates-user-guide.aspx>

The introductory webpage for the Sales Plan template is

<http://templates.modelsheetsoft.com/modelsheettemplates/activity-based-budget-templates.aspx>

Please address queries to: customerservice@modelsheetsoft.com .

² Recall that Variable Expense increases with activity counts, and Fixed Expense does not.

Please visit our website at: <http://www.modelsheetsoft.com> .

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