



COSTING OF OUTPUTS

Why Cost the Outputs?

- ◆ It will form the basis for the request for funding.
- ◆ Help government to allocate its resources on a rational basis
- ◆ Enable agencies to know how efficient they are in producing their goods/services

What is cost?

**The measurement of all the resources used
in producing a good / service (output) e.g.**

- ◆ **staff**
- ◆ **materials**
- ◆ **equipment**
- ◆ **Overheads**



Full Cost

- ◆ Full costs comprises
 - Direct Costs
 - Indirect Cost
 - ◆ Indirect – Personnel
 - ◆ Indirect – Support Sections

Direct Costs- Assigned in Full

- **Direct costs are those costs that can be traced in full to the product or service being costed.**

Depending on the nature of the output e.g. of direct cost could be wages, travel, material, consultancy cost.

Indirect Costs - Shared

Indirect costs are those costs that are incurred in the course of making a product or providing a service but which cannot be traced directly and in full to the product or service e.g.

- **Electricity bills**
- **Support services-HR, IT,F&A, IA, Registry**



Assign direct cost to the Outputs Pg 88

Methods of assigning direct cost

- Cost Centre Attribution
- Resource Consumption Accounting
- Output Accounting
- Time Recording System

Allocate indirect cost

Indirect cost must be allocated to the outputs on an appropriate basis.

- ◆ Method of allocating indirect cost
 - Traditional method – use of a **Cost drivers**
- pg 89



Cost Drivers

- ◆ Cost drivers are those activities, events or factors that trigger or have a strong correlation to the cost that is being allocated
- ◆ Must be identified , and used to allocate the costs (pg 99)



Exercise 2 : Cost the Output

- ◆ SEE EXAMPLE IN PACKAGE



Costing in the output format

The methodology

Step 1 : Specify all outputs

Step 2 : Identify all cost of the Department

Step 3 : Assign direct cost

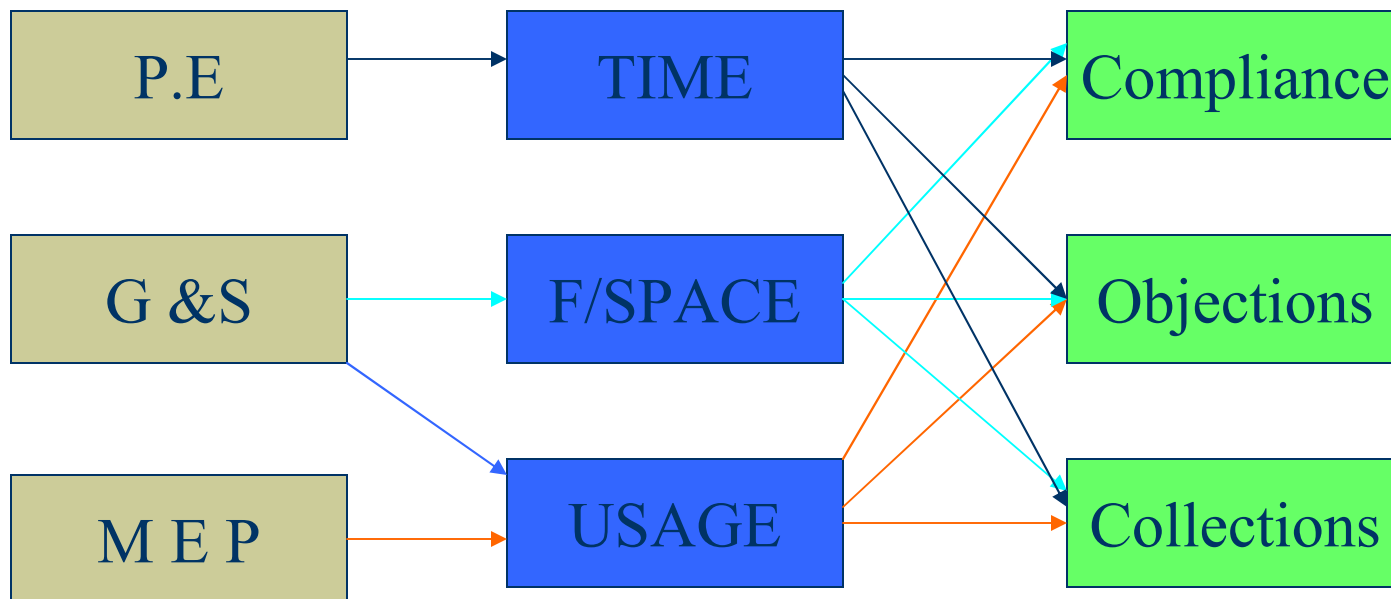
Step 4 : Allocate indirect cost

Step 5 : Add the direct and the indirect cost

Costing

its *all* in the methods

◆ **Input** → **methodology** → **output**





Step 1

- ◆ Identify the outputs
- ◆ This was done Its in the Corporate and the Business plans



Step 2 : Identify all costs of the Department

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- ◆ Use the Estimate of Expenditure (Recurrent and DP) to identify all Items of expenditure (Chart of Accounts)
- ◆ Use the proposed budgeted figures for 2006



Steps 3, 4 & 5

- ◆ Assign the direct costs
- ◆ Allocate the indirect costs
- ◆ Add the direct and indirect costs to get the total cost of the output

Costing Template for Outputs

A template will be provided to assist in:

- ◆ Capturing the direct cost
- ◆ Allocating the indirect cost
- ◆ Total cost per output

Costing Spreadsheet

- ◆ This file consist of a number of spreadsheets as follows:
 - Instructions
 - Set Up
 - Final Check
 - Input Budget
 - Output Costing



Set Up

- ◆ This must be completed first
- ◆ Designed to ensure that all essential information for the budget is captured
- ◆ The *budget allocation* is the total allocation as per Estimate

Input Budget

- ◆ Enter the input budget for each line Item by month in columns H to S
- ◆ Information to be obtained from the source documents used to prepare the Estimates
- ◆ There is a built in check – cell **377** must equal to the total budget
- ◆ Each input line must be assigned an output allocation code

Input Budget Allocation Codes

- ◆ These are codes which are given to the cost drivers e.g.
 - 1- Hours worked
 - 2- Floor Space
 - 3- Number of Employees



Output Costing

- ◆ This sheet is self calculating.
- ◆ It will give your final output cost

Hours Worked

- ◆ This allocation method is generally used for PE related cost
- ◆ To indicate the % of time spent on each output
- ◆ This % will be used to allocate all expenditure coded as 1(input Sheet)
- ◆ Use C1 to capture this %

Time Recording System Form C1

- ◆ To be used by employees directly involved in the production of the outputs.
- ◆ To capture the hours spent on each output.
- ◆ Over 1 to 3 week period (1 week per month)
- ◆ Calculate % time spent per output
- ◆ **Not to be used by support services that is HR, IT, IA,Accounts etc. (Another method of allocation will be used)**

Support Services

- ◆ All Expenditure (coded as 1 generally personnel cost) is collected under the Unit/Section column rather than the Outputs column in the hours worked sheet.
- ◆ These will then be further to the outputs using the direct cost % as calculated on the hours allocation sheet.



Total Output Cost

- ◆ When all the projected expenditure have been entered and allocated the cost of each output will be automatically calculated.

Deliverables for the costing

Agencies

- ◆ To capture the % of time spent on each output
- ◆ Convert the 2005/2006 Estimates in the output format by December 2005
- ◆ Prepare the 2006/2007 estimates in both format



Deliverables for the costing

Ministry of Finance

- ◆ Will provide the program for the output format by end of July 2005



Costing

Questions/Discussion