

Annex 4 - Guide on how to integrate the budget into the chart of accounts

When planning and reporting is done using output-based budgeting, there is a need to ‘mark’ the cost of the activities. There are several ways this can be implemented, some more automated than others. In the following, we introduce a few methods that can be used.

There is the option of using automated classifications via the accounting system where the ‘marker’ is set concurrent with the registration of the transaction in the books. This method is the most accurate and transparent method, but is also a resource demanding approach as it requires establishing a detailed classification syntax to represent the different relations to the outputs. Another method that may be applicable, is one applied ex post of the transaction and is based on a pro-rata approach. The latter approach may be most suitable for engagements where there are only a few transactions, and where there is a simple and fixed relation to the outputs. A mix of the two above-mentioned methods may also be applicable.

Using the accounting system to mark the individual transactions.

Most accounting systems allow the partner to set up cost-centers, as it is a common method to register and monitor costs in different layers of the production. It is also common that the accounting system has unused ‘dimensions’ that may be used to apply different markers to the individual transactions. We will briefly describe both methods below.

Cost-centers

By using cost-centers in the accounting system and designating each output to a specific center, it will be possible to isolate each transaction, or parts thereof, to the individual outputs.

As some donors, including the Danish Ministry of Foreign Affairs, require that funds and transactions are clearly registered, and depending on the setup of the chart of accounts, it may instead be relevant to use the facility of cost-center as an identifier of each donor respectively.

Multiple dimensions

Some accounting systems allow for use of multiple dimensions. This is another useful way of marking the individual transactions in regards to the specific outputs. An example could be the purchase of services related to one specific output. In this case, the transaction could be marked using one or more of the dimensions to identify the relevant output.

The table below presents an example of how the classification syntax for a transaction using both cost-center and multiple dimensions could look like.

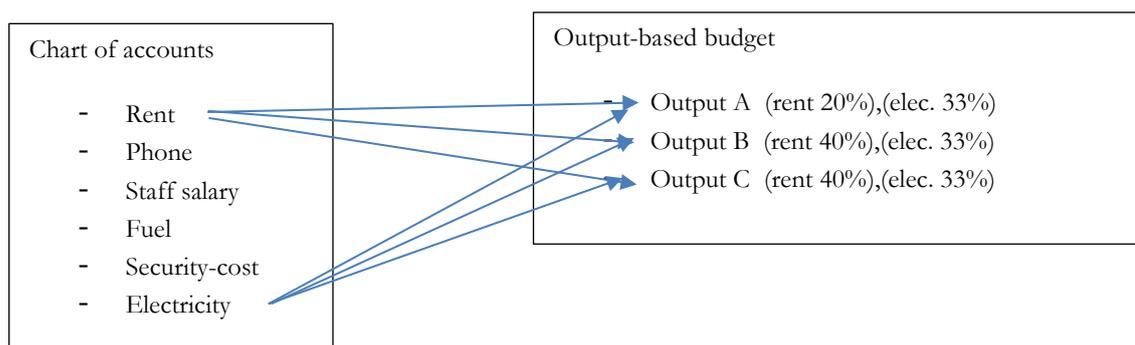
[date],[G.Ledger],[Description],[Amount],[Currency][Cost-center],[dimension 1],[dimension 2],[dimension x] ...

Date	GL-account	Description	Amount	Currency	Donor	Activity	Output
01-08-2019	234321	Consultant X	12,000	USD	Danida	project Y	output B

The use of both cost-centre and dimension 1 and 2 is only an example. The actual setup and use of the dimensions will depend on the specific accounting system and on how the partner has decided to organise its accounting classification.

Split of costs on several outputs

There may be challenges in the registration of some costs where they are not related to only one output alone, but instead, related to multiple outputs (salaries to supporting personnel, rent, or other). In some engagements this is agreed to be covered as part of the administration fee as general administrative costs and not directly related to the individual outputs. However, if the cost is to be covered by a specific output, this should be reflected in the registration of the transaction. Documenting the basis for the split will be necessary. The split could either be based on concrete registration of the relation to the different outputs (such as time-registration for personnel), or as a documented approximation of the split, mostly useable in re-occurring costs where the split remains the same. Examples of the latter could be rent, electricity, security, or other running costs where there is little or no change to the relation to the outputs. The responsible accountant would then be able to register the transactions regularly using the documented pre-defined split.



The split of rent can be distributed in numerous ways. One example is using the number of staff in the office dealing with the different outputs, or it could be based on the sqm. used by different teams, if this is the office setup. Again, the split of electricity could be based on a split on staff using office facilities, or simply make an equal split based on the number of outputs. Most importantly, the method must be documented and transparent.

Securing a split of costs when registering the transactions allows a solid base for reporting ongoing expenditures against progress within the different outputs. Having updated budget-monitoring reports that ensure the project responsible officer timely insight into expenditures at output level is crucial to ensure efficient management of the donor funds.

Ex post method by using pro-rata approach and/or cost relation analysis

In some cases, costs may be related to multiple outputs but without a clear relation at the time of the registration of the cost. In this case, the split should be done based on an analysis of the transactions ex post their registration. This may jeopardize the timely reporting to both project responsible and donors.

In any case, it would be possible to link the transaction either directly to an output or to split the cost on a pro-rata basis. An example could be salaries, where it should be possible using the time sheets to establish the relation to the specific outputs. The project responsible should be well aware of the different transactions carried out and their relation to the different outputs. As the transaction has not been marked with the relation to the specific output at the time it was registered in the books, this information would need to be added. Firstly, the transactions must be analysed and sorted in order to establish their relation to the outputs. This may be somewhat time-consuming and could create a time-lag in the reporting.

Once the relation is established, the transaction can be marked either by adding the information to the transactions by creating new entries in the books (replacing the initial registrations) using the accounting system. If this is not possible in the accounting system, it could be done by extracting the transactions data to an alternative system, such as Excel spreadsheets. Once the data is sorted in a spreadsheet, the relation to the outputs can be arranged by including additional columns. It is stressed that Excel, or other spreadsheet software, is not recommended as accounting system. It is thus recommended that the partner implements a method that, as shown further above, allows for an automated registration of the relation between cost and output in the formal accounting system.