

Sierra Sanchez
Activity 8
BCIS 4800-2182
10/2/24

Budgeting Overview

- The advantages of top-down budgeting are the fact that aggregate budgets are developed accurately and have a reduced significance in error. All elements should be included to have the optimal budget that will allow us to complete the project successfully.
- When preparing a budget, indirect costs should be accounted for. Some examples include general and administrative costs, project reserve for contingencies, and then profit figures. Using these indirect costs allows us to create the final budget.
- The purpose and use of a tracking signal is that it's used to measure bias. For example, over-forecasting and under-forecasting are measured using statistics that identify unwanted outcomes.
- The top-down budgeting process looks at small, yet costly tasks that should be accounted for when creating a project budget. It's broken down to the smallest details and helps us create an adequate budget. The most important task for bottom-up budgeting is to be as accurate as possible.
- A variance is a pattern of deviations in cost and usage. It's used for exception reporting to management.
- The learning curve phenomenon helps us evaluate cost estimating for direct labor costs. Performance improves as productivity increases. Project managers should

evaluate tasks where labor is a significant cost, yet production run is short. It helps us consider performance improvement and its correlation to potential errors in project costs estimates.

- You can determine if cost estimates are biased by evaluating the percentage error. If discrepancies are prominent and the forecast has too big of a variance, then there may be biased cost estimates that we have to look at. The forecaster looks to see if the estimates are under or over. The larger the percentage error, the greater the bias that exists.
- Program budgeting is budgeting by project activity or task and then aggregating expenditures and income. Organizational units and categories are also aggregated.
- The difference between project and category-oriented budgeting is that category budgeting has inclusive categories, such as section, department, and division. Project budgeting gives a budget for individual projects. It's not broken down by category and is divided by tasks and activities. Category budgeting helps maintain cash flows and spending habits, whereas project-oriented budgeting allocates resources focused on activities that generate value.
- Risk analysis uses input probabilities and factors and gives us a range of outcomes and their probabilities. A manager interprets the results by making assumptions about probabilities that characterize key variables and parameters. They then use those parameters to look at risk profiles and the probabilities of the outcome.