

ACTIVITY BASED BUDGETING IN MODERN FINANCE AT CAPGEMINI

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ABSTRACT: Activity-Based Budgeting (ABB) has emerged as a strategic tool in modern finance that increases operational effectiveness and cost control by aligning resources with the company's goals and activities. ABB is critical to Capgemini, a global leader in technology, digital transformation, and consulting, since it promotes financial transparency and performance improvement. ABB differs from other budgeting strategies in that it does not rely on previous expenses. Rather, it focuses on identifying the most significant resource-consuming processes and calculating their costs. This strategy allows Capgemini to create more precise budgets, hold individuals accountable for their costs, and make data-driven decisions. Capgemini integrates ABB with current analytics and automation technologies to simplify the process of projecting financial results, successfully managing complex projects, and connecting financial planning to corporate strategy. Finally, Capgemini's use of Activity-Based Budgeting improves the company's agility, allowing it to respond quickly to market shifts while cultivating a culture of continual financial management development and value generation.

Keywords: *Activity-Based Budgeting (ABB), Cost Drivers, Resource Allocation, Cost Control, Budget Planning, Operational Efficiency*

I. INTRODUCTION

Activity-Based Budgeting (ABB) is a revolutionary budgeting approach that does not use past data to predict expenses. Rather, it assigns expenses to specific tasks that must be done in order to meet company objectives. It provides a more precise understanding of costs by assessing the resources required for each step (such as baking or setting up machines) and quickly correlating expenses to their causes. Companies with complex operations, new endeavors, or significant changes to existing business methods may find ABB to be very beneficial. It provides a detailed picture of expenses and focuses on areas where operations are not running as efficiently as they can. Nonetheless, it

requires more effort and money to create than traditional budgeting.

Activity-based budgeting (ABB) allows a company to track, evaluate, and deconstruct the acts that cause financial losses. The effectiveness of each costly task within a firm is methodically assessed to determine whether there are opportunities to improve it. This information is then used to create budgets. Regular budgeting, which simply changes previous budgets to account for inflation or company expansion, is less strict than activity-based budgeting (ABB).

Activity-based budgeting (ABB) is a budgeting strategy that involves conducting a thorough analysis of activities to determine their expenses. ABB's budget does not account for

previous expenses. Activity-based budgeting (ABB) is a top-down method to financial planning in which resources are allocated to individual budgeting activities rather than departments or products.

When using activity-based budgeting, each business action is broken down into tasks, and each task is allocated a cost. This helps with estimating the amount of money required to complete each task. Purchase raw materials, components, and pieces required for manufacture. Assembly procedures and quality control inspections are examples of industrial processes that result in commodities or services. Recruiting, advertising efforts, and marketing initiatives. Work related to research and development, including product testing. By examining these processes and finding the reasons that drive up expenses, you may be able to make better financial decisions and understand where your money is going. Activity-based budgeting is a strategy that businesses may use to discover cost drivers and unnecessary steps in their processes, allowing them to maximize their resources and operational efficiency.

II. REVIEW OF LITERATURE

Cossa, R. (2025): This paper compares three commonly used budgeting methods: Activity-Based Budgeting (ABB), Bottom-Up, and Top-Down. The analogy is especially relevant in the context of project management. Using data from 40 peer-reviewed studies, the research examines the effects of each technique on budget accuracy, resource distribution, transparency, and overall project performance. The findings show that top-down planning is effective at lowering overall expenses. However, it frequently

overlooks practical realities and may not evaluate the needs of unique resources. Bottom-up budgeting improves detail by interacting with lower-level management; yet, it may result in overestimation and is time-consuming. ABB is a unique methodology that combines accuracy and strategy. This is accomplished by allocating expenditures to activities rather than departments, ensuring that resources are used in a way that is consistent with actual operating requirements.

H. A. J. Al-Masoudi (2024) This practical research examines the use of Activity-Based Budgeting (ABB) in industrial sectors, with a focus on SDI Company, to improve budgeting and cost management procedures. The research investigates how Activity-Based Budgeting (ABB) reduces the misallocation that is common in traditional budgeting systems by directly associating expenditures with specific activities, resulting in a more precise and reliable framework for cost allocation. The research shows how managers can use ABB to track the costs of each operational process, identify areas where they are underperforming, and take rapid corrective actions. The findings show that ABB improves financial oversight and encourages careful spending, hence improving operations and services. Furthermore, by connecting the dots, the analysis emphasizes the relevance of ABB in strategic decision-making.

Salah Hasan Naji & Hatem Karim Kadhim (2023): conduct an empirical research on the optimization of organizational operational budgets through the application of Activity-Based Resource Planning (ABRP), a modern adaptation of Activity-Based Budgeting. The paper highlights ABRP as a sophisticated accounting technique that enables

managers to allocate resources based on specific activity cost drivers rather than broad cost categories. In comparison to standard costing approaches, the authors demonstrate that ABRP outperforms them. They claim that ABRP improves budgeting precision, makes strategic resource planning easier, and helps with performance evaluations. The research emphasizes the need of simplifying operations and identifying high-cost tasks to improve operational efficiency.

Jon Shane (2022) : Despite the fact that the majority of this book is about law enforcement, Jon Shane (2022) demonstrates the usefulness of Activity-Based Budgeting (ABB) in non-business settings. It provides a complete structure for tying financing to operational activity, especially in the context of proactive policing. ABB analyzes surveillance hours, which comprise reactive, proactive, and administrative labor, to assist organizations in making a direct relationship between budget allocations and quantifiable outcomes such as community safety and service performance. The author goes into detail about how ABB helps public sector firms with strategy planning, resource efficiency, and responsible behavior. The Ocean View, Delaware, example demonstrates how activity-based finance management helps police departments improve resource allocation, waste reduction, and community service.

S. A. Rasheed (2021): research looks at the strategic implications of implementing Activity-Based Budgeting (ABB) in modern enterprises, with a focus on operational performance, profitability, and competitiveness. ABB is explored as a modern financial management tool that addresses the shortcomings of traditional

costing and budgeting approaches, which usually aggregate expenditures into broad categories and are unable to uncover the true causes influencing spending. ABB provides enterprises with a full view of resource use and cost behavior by directly assigning expenses to certain activities. This enables them to prioritize funds for strategic activities, remove unnecessary processes, and identify high-cost areas. The research demonstrates how ABB improves decision-making by providing precise, activity-level data that supports both immediate operational decisions and long-term strategic planning.

III. THEORETICAL FRAMEWORK

Activity-based budgeting (ABB) is a strict budgeting strategy that is regularly used to reduce expenses. This tool is useful for new firms to track their finances and find which expenses create the most revenue.

An activity-based budget is used to assess each spending within a firm. An activity-based budget, as the name implies, consists of the actions that result in spending.

The method is unaffected by the nature of the fees or their significance to the organization. The ABB approach requires that all item be painstakingly scrutinized and then justified before it can be included in the budget.

Because of the enormous time and effort required to examine and defend each item, it takes significantly more time and money than a standard budget. Consider the benefits and drawbacks of spending the necessary time and resources to ensure a successful ABB.

It is critical that any organization create a budget. It promotes more efficient resource

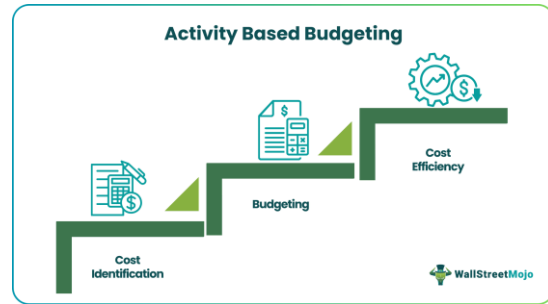
utilization, lowers costs, and streamlines the planning process. Nonetheless, classic budgeting approaches are not always efficient in today's uncertain world, as they cannot keep up with the rapid change of modern businesses.

Activity-based budgeting (ABB) is a revolutionary methodology. ABB differs from traditional approaches that rely heavily on historical data, which has proven less reliable for many businesses in recent years. Instead, ABB assesses the actual costs connected with corporate operations. This strategy improves the precision and transparency of resource allocation, gives you more budgetary control, and helps you save money in the most important areas.

In this blog post, we will look at the advantages of ABB and how it may improve your business operations, productivity, and decision-making. Continue reading to learn more about activity-based budgeting, whether you are a member of a management team, a business owner, or a finance specialist.

Activity-based budgeting assesses expenses related with various business operations. Instead of enforcing fees, it allocates departments to resource-intensive activities.

This strategy helps to identify cost drivers and prospective development possibilities by providing a more comprehensive understanding of resource allocation and justification. The adoption of activity-based budgeting allows businesses to focus on the tasks that are critical to meeting their goals.

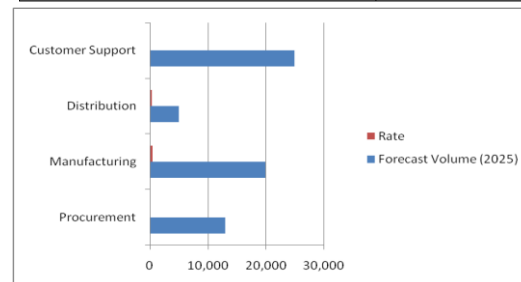


IV. DATA ANALYSIS AND INTERPRETATION

BUDGET PREPARATION (ACTIVITY-BASED)

$$\text{Budget} = \text{Forecasted Activity} \times \text{Cost Driver Rate}$$

Activity	Forecast Volume (2025)	Rate	Budgeted Cost
Procurement	13,000	115	₹ 14,95,000
Manufacturing	20,000	500	₹ 1,00,00,000
Distribution	5,000	300	₹ 15,00,000
Customer Support	25,000	75	₹ 18,75,000
Total			₹ 1,48,70,000

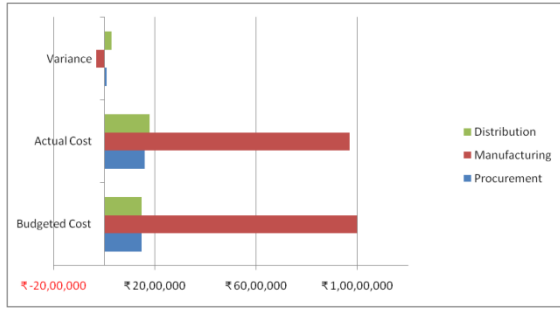


INTERPRETATION: The activities are estimated to cost ₹1,48,70,000 in 2025. Manufacturing is the most resource-intensive, costing ₹1 crore. Distribution, procurement, and customer service all make a modest contribution. It is expected that customer service would have the highest volume at the lowest cost. This implies that production is the key cost driver, whereas customer-related responsibilities are relatively inexpensive.

VARIANCE ANALYSIS

Compare actual vs. budgeted data monthly or quarterly.

Activity	Budgeted Cost	Actual Cost	Variance
Procurement	₹ 14,95,000	₹ 16,00,000	₹ 1,05,000
Manufacturing	₹ 1,00,00,000	₹ 97,00,000	₹ -3,00,000
Distribution	₹ 15,00,000	₹ 18,00,000	₹ 3,00,000



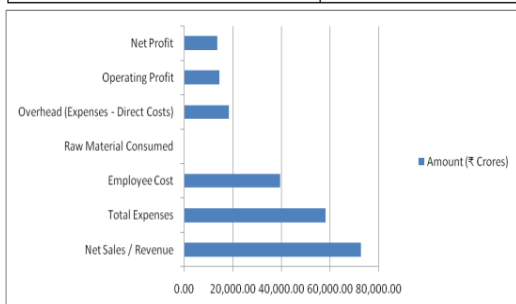
INTERPRETATION: The variance analysis revealed that procurement and distribution surpassed their budgets by ₹1,05,000 and ₹3,00,000. This shows that the expenses in these areas exceeded expectations. However, the production costs were ₹3,00,000 lower than expected. This could indicate increased efficiency or reduced prices. To save future expenses, the company must perform a thorough evaluation of its procurement and distribution operations.

MODERN FINANCE ENHANCEMENTS

Modern Approach	Application in ABB
AI & ML Forecasting	Predict driver volumes using time-series models (Prophet, ARIMA)
Cloud-Based ERP Integration	Real-time data synchronization for dynamic budgeting
Scenario Analysis	Test "what-if" impacts of volume or cost changes
RPA (Automation)	Automate activity cost tracking
Power BI Dashboards	Visualize cost drivers, activity efficiency, and budget variance

ACTIVITY-BASED BUDGETING (ABB) AT CAPGEMINI LTD (2024–2025)

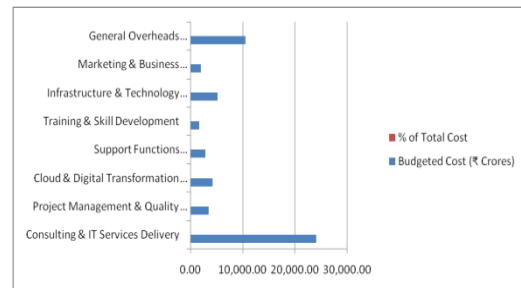
Particulars	Amount (₹ Crores)
Net Sales / Revenue	72,845.60
Total Expenses	58,312.40
Employee Cost	39,528.70
Raw Material Consumed	245.8
Overhead (Expenses - Direct Costs)	18,537.90
Operating Profit	14,533.20
Net Profit	13,642.50



INTERPRETATION: The company is profitable, with net sales of ₹72,845.60 crores and a net profit of ₹13,642.50 crores. Despite having high human expenses of ₹39,528.70 crores, the company's operational profit of ₹14,533.20 crores indicates effective cost control. The company strategy is focused on providing services, as indicated by low overhead and basic material expenses, as well as a high value for human resources.

ACTIVITY-BASED COST CLASSIFICATION

Activity Area	Activity Driver	Budgeted Cost (₹ Crores)	% of Total Cost
Consulting & IT Services Delivery	Employee Hours	24,100.00	44.40%
Project Management & Quality Assurance	No. of Projects	3,500.00	6.40%
Cloud & Digital Transformation Initiatives	No. of Deployments	4,250.00	7.80%
Support Functions (HR, Finance, Legal)	No. of Employees	2,875.50	5.30%
Training & Skill Development	Training Hours	1,750.00	3.20%
Infrastructure & Technology (IT Systems, Data Centers)	Server Hours / Usage	5,210.00	9.60%
Marketing & Business Development	No. of Campaigns	2,000.00	3.70%
General Overheads (Facilities, Utilities, Travel)	Office Space / Trips	10,600.00	19.50%



INTERPRETATION: The findings show that Consulting & IT Services Delivery accounts for the majority of expenses (44.4%), emphasizing its importance in business operations. Infrastructure & Technology (9.6%) and General Overheads (19.5%) are the next highest cost areas, indicating that significant funds are being committed to technology infrastructure and support. Marketing, training, and project management use a smaller amount of the budget. This demonstrates that the organization prioritizes staff development as well as

operational expansion. In general, the cost structure demonstrates the crucial role of operational support and service delivery.

V. CONCLUSION

Finally, Activity-Based Budgeting (ABB) is a unique financial method that focuses on the activities that have a substantial impact on a company's spending rather than just the numbers. ABB provides a more exact and transparent view of resource use by identifying important procedures, assigning expenses based on resource use, and tying them to outputs. This strategy helps firms set priorities for their strategic efforts, make sound financial decisions, and cut wasteful costs, all of which improve operational efficiency.

Technology and real-time tracking make it easier to monitor circumstances and make required changes, whereas cost drivers ensure that budgets can shift in response to activity levels. Collaboration across departments during the budgeting process reduces resource waste and improves understanding of one's own impact on others. When ABB is used in conjunction with performance metrics and key performance indicators, people become more accountable and capable of making data-driven decisions.

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