

Financial estimates

Cost of Project

The cost of project represents the total of all items of outlay associated with long-term fields.

It is the sum of the outlays on the following:

- Land and Site Development
- Buildings and Civil Works
- Plant and Machinery
- Technical know-how and Engineering Fees
- Expenses on Foreign Technicians and Training of Technicians Abroad
- Miscellaneous Fixed Assets
- Preliminary and Capital Issue Expenses
- Pre-operative Expenses:
- Provision for Contingencies:
- Margin Money for Working Capital
- Initial cash Losses

1. Land and Site Development: The costs of land site development are-

- Cost of development
- Cost of compound wall and gates

2. Buildings and Civil Works: Building and civil works covers the following-

- Buildings for the main plants and equipments
- Warehouse, Open yard facilities & Godowns
- Garage
- Sewers, drainage

3. Plant and Machinery: The plant and machinery consists the following costs-

i) **Cost of Imported Machinery:** This is the sum of

- a) FOB (Freight on Board) Value
- b) Imported duty
- c) Clearing, loading and unloading charges.

ii) **Cost of Indigenous Machinery:** This consists of

- a) FOR (Free On Rail) cost
- b) Sales tax and other taxes

iii) **Cost of Stores and Spares:**

Provision of Escalation = (Latest rate of annual inflation to the plant and machinery X (Length of the delivery period)

4. Technical and Engineering Fees: The technical know-how and engineering fees for setting up the project is a component of the project cost which is taken into account as cost of capital.

5. Expenses on Foreign Technicians and Training of Technicians Abroad:

Expenses on foreign technicians like traveling, boarding and lodging are considered as a cost of project.

6. Miscellaneous Fixed Assets: Fixed assets and machinery which are not part of the direct manufacturing process may be referred to as miscellaneous fixed assets. Like furniture, office machinery and equipment.

7. Preliminary and Capital Issue Expenses:

Preliminary expenses are-

- Identifying the project
- Market survey
- Articles of association

Capital Issue Expenses are-

- Underwriting commission
- Brokerage
- Stamp duty

8. Pre-operative Expenses: These types of expenses are the following-

- i) Establishment expenses
- ii) Traveling expenses
- iii) Insurance charges
- iv) Mortgage expenses
- v) Miscellaneous expenses

9. Provision for Contingencies: There are 2 procedures that are followed for provision for contingencies. These are-

- i) Divide the cost items into 2 categories
 - Firm cost items
 - Non-firm cost items
- ii) Set the provision for contingencies at 5% to 10%.

10. Margin Money for Working Capital: Margin money for working capital is an important element of the project cost which is provided by commercial banks and trade creditors.

11. Initial cash Losses: Most of the projects incur cash losses in the initial years. Failure to make a provision for such cash losses in the project cost affects the liquidity position and impairs the operations.