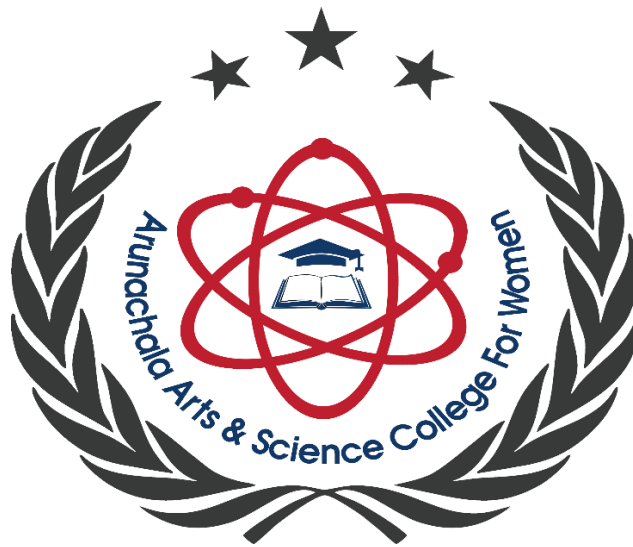


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# **ESTIMATION OF BUSINESS EXPENSES**

## **1. INTRODUCTION:**

### **1.1. OVERVIEW**

Estimating business expenses is an important step in determining how much money you need to start and keep your business running without encountering cash flow problems. Every business has different requirements, depending on the type of products or services it sells, the size of the company, and the stage of growth of the business. Even so, most business expenses are either one-time costs or ongoing expenses required to keep operations going. This involves estimating all the expenses required to start and operate the business, such as equipment, rent, inventory, and marketing. By calculating these costs upfront, business owners can better plan their budget and avoid unexpected expenses.

Business expenses are costs associated with running a company. When you know all of a company's expenses, you can create a more accurate budget and track spending. Expenses are also a part of a company's income sheet. You must know a business's expenses to calculate a final net profit. Costs are subtracted from revenue to determine a company's taxable income.

Some expense categories are tax-deductible, helping a company reduce its tax liability. The federal Internal Revenue Service (IRS) determines if an expense is deductible by considering if it is ordinary, or common within the industry, and necessary. "Ordinary" means the expense is common to most businesses in the same trade or industry. "Necessary" means the expense helps conduct your business operations and is appropriate for your organization.

An expense that meets the definition of ordinary and necessary for business purposes may be expensed for tax purposes. Some expense categories are fully deductible, while others are partial. A tax professional can provide further information on specific deduction regulations and industry standards.

## **USES:**

- A business estimate is a document detailing how much you plan on charging a customer for a good or service.

- It breaks down costs line by line (e.g., each cost for providing drywall installation) so customers know where the total is coming from.

## **1.2. PURPOSE**

The purpose of an estimate is to help a business plan for and successfully complete projects.

Estimates help small businesses draw up budgets, evaluate cash flow and manage client expectations. Estimates also help a business owner decide on the overall scope of a project while also nailing down all the fine details that will go into said project.

These are all things which make projects run more smoothly and make sure a company continues to get new clients and business. Though an estimate may be extra work upfront, it will pay off in successful projects and more revenue down the line.

## **1. Build Better Client Relationships:**

An estimate helps build solid client relationships. An estimate includes all project details and makes sure you agree on everything from completion dates to prices. If you and the client are on the same page, it's much less likely there'll be conflict down the road.

- For example, surprise costs are guaranteed to make your clients unhappy. Outline all your costs upfront in your estimate. It's a good business practice and good for your client relationships, too.

That said, clients may not necessarily read all the details of your estimate. That's why you should call or sit down with them and go over all these details to make sure they understand and agree to them.

## **2. Ensure You Understand What the Project Involves:**

An estimate will definitely help a client understand exactly what they're paying for. But it will be even more beneficial for you, the small business owner.

Writing up an estimate means taking a long, hard look at what resources you'll need, what steps are involved and what you may need to contract out, according to Medium.

An estimate also gives you a project plan to work from so you know exactly what needs to be done when. And an estimate can tell the employees of your business what they'll be expected to do. It'll also help you realize if you need to get help so you don't risk burning out your staff.

By understanding exactly what the project involves, you'll also be less likely to price your project too low. Without drawing up an estimate, you may fail to realize how many steps are involved, if a specialist is required and how long a project will actually take.

## **3. Help You Decide Whether to Take on the Project:**

The project might sound good but without an estimate, you won't really know if it'll make money.

An estimate will require you to break down all your costs so you can decide what to charge the client. You may realize when estimating these costs that they'll be so expensive it'll be impossible to make a profit. Or maybe you can make a profit but other potential projects will be more profitable.

An estimate lets you say "no" to a project before you've invested any time or money in it. Better now than later—and this will help with building better client relationships too.

- For example, a general contractor is approached by a potential client who wants to remodel their entire house. The contractor draws up an estimate and realizes that he'd need to hire expensive subcontractors to complete

the project—maybe there's asbestos in the ceilings and a serious rodent problem. The client's budget won't accommodate this additional expense so the project won't be worth it to the general contractor. Construction projects are heavily dependent on coming in at or below budget, according to GlobeSt.com. Since labor costs are increasing, contractors have to be especially mindful when they're considering subcontractors.

#### **4. Determine If You Have Enough Cash:**

A loan is possible but high interest rates might be prohibitive. You may need to call in an investor. In which case, an estimate will help a potential investor decide if the potential payoff will be worth their investment.

- For example, a roofer includes milestones in her estimation that detail when certain stages of the project will be completed and how much will be invoiced at each stage. Learning to manage cash flow is crucial in construction projects so that expenses can be paid for at each stage and the project remains profitable throughout, according to Construction Executive.

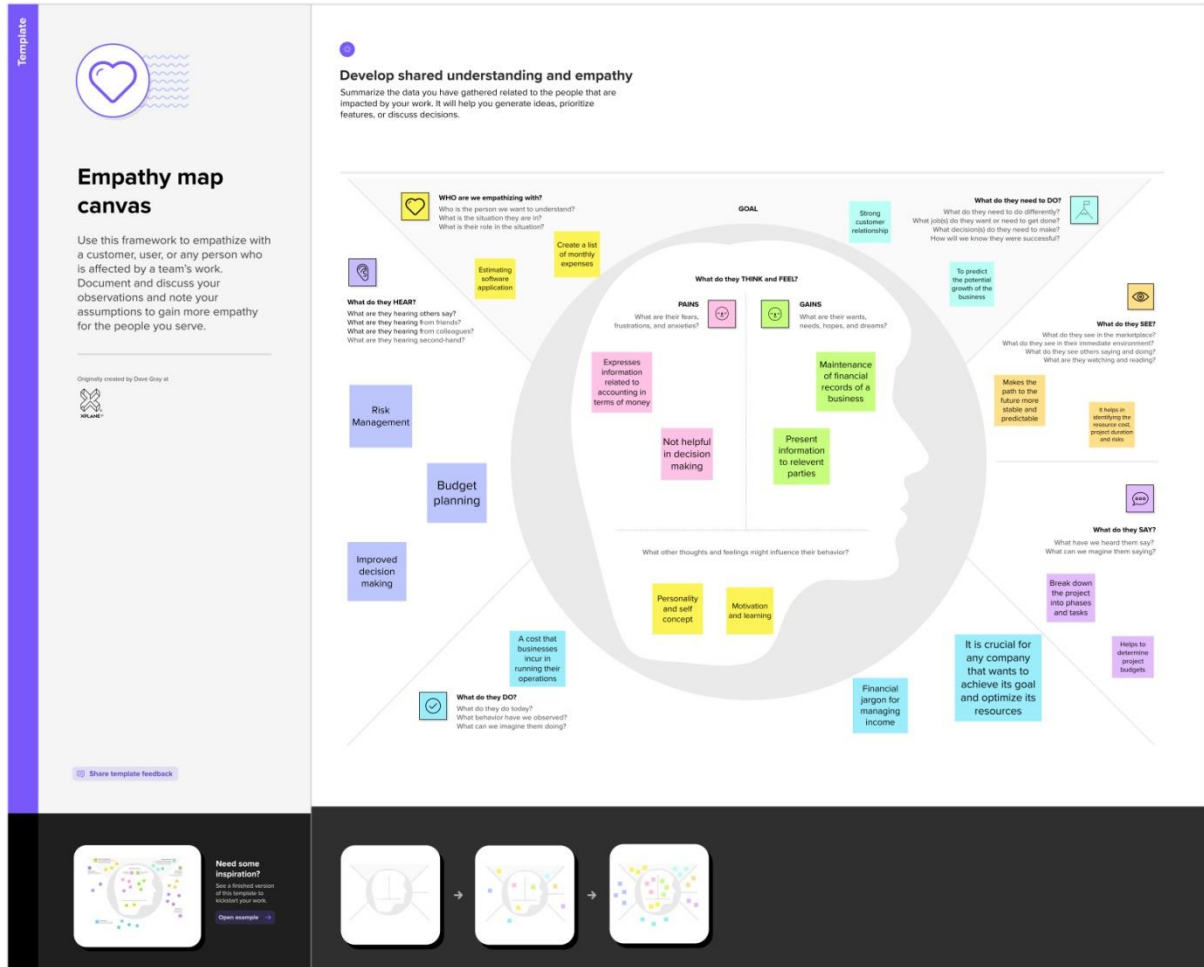
#### **5. Help Estimate a Completion Date**

Providing reasonably accurate timelines will prevent you from being taken unawares by a project that runs longer than expected and hurts your cash flow. An estimate should include provisions for possible delays and terms and conditions that outline how a client will be charged if they request extra work.

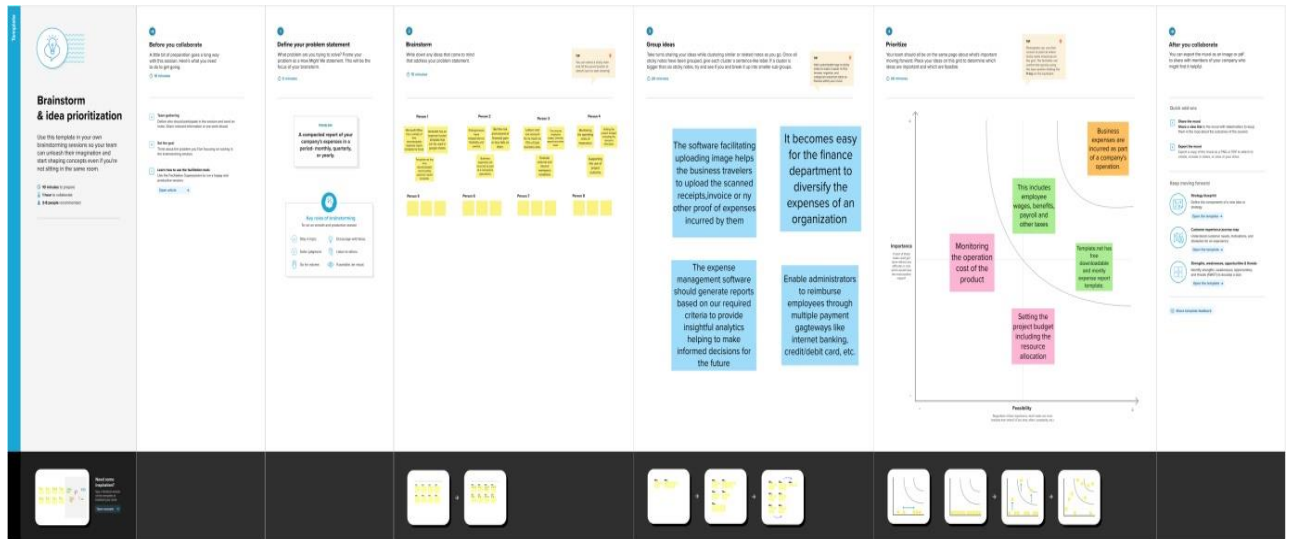
- For example, a web design company includes their hourly rate in their estimate as well as overall cost based on how many hours the project should take. To accurately estimate the completion date, the owner may break down the project into smaller steps and then decide how many hours each step will take. Or they may base their timelines on similar projects they've done in the past. In the end, they decide to use an estimator tool to help make their estimations easier.

## 2. PROBLEM DEFINITION & DESIGN THINKING

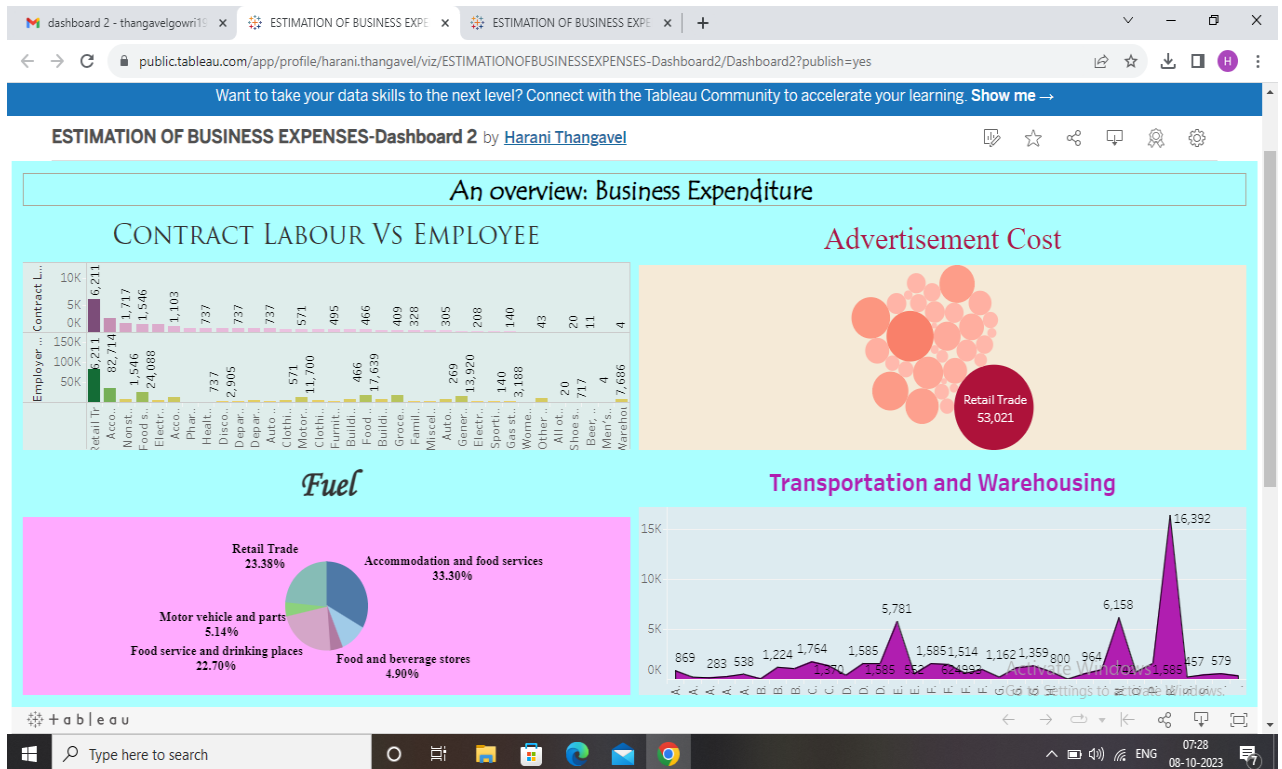
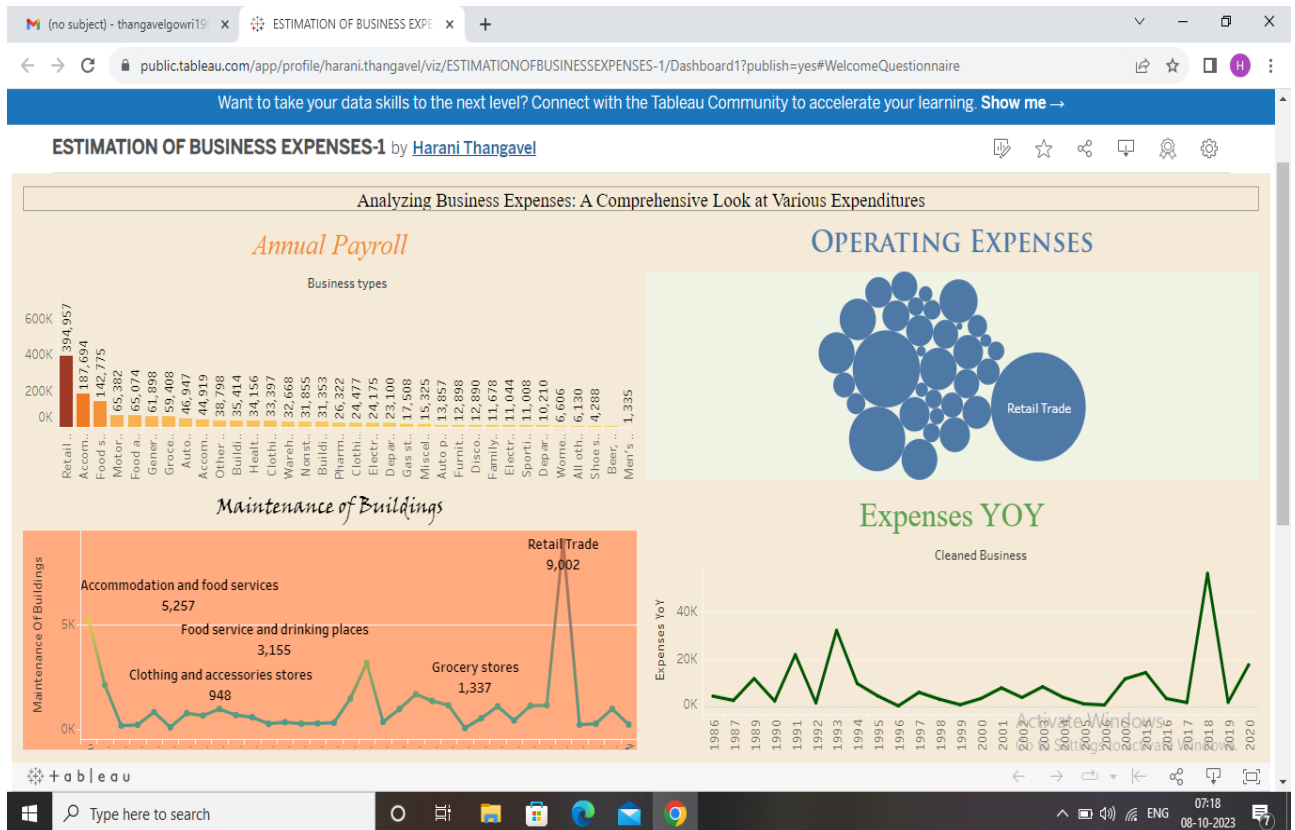
### 2.1. EMPATHY MAP



## 2.2 BRAINSTROMING MAP

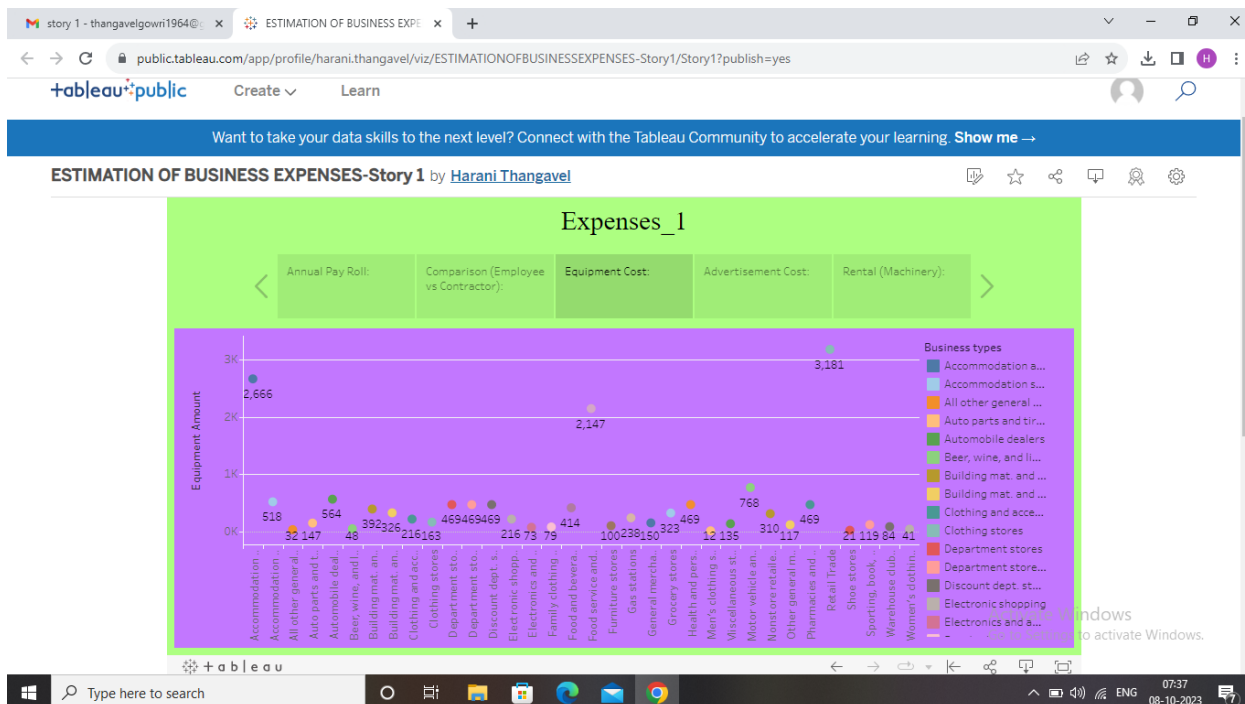
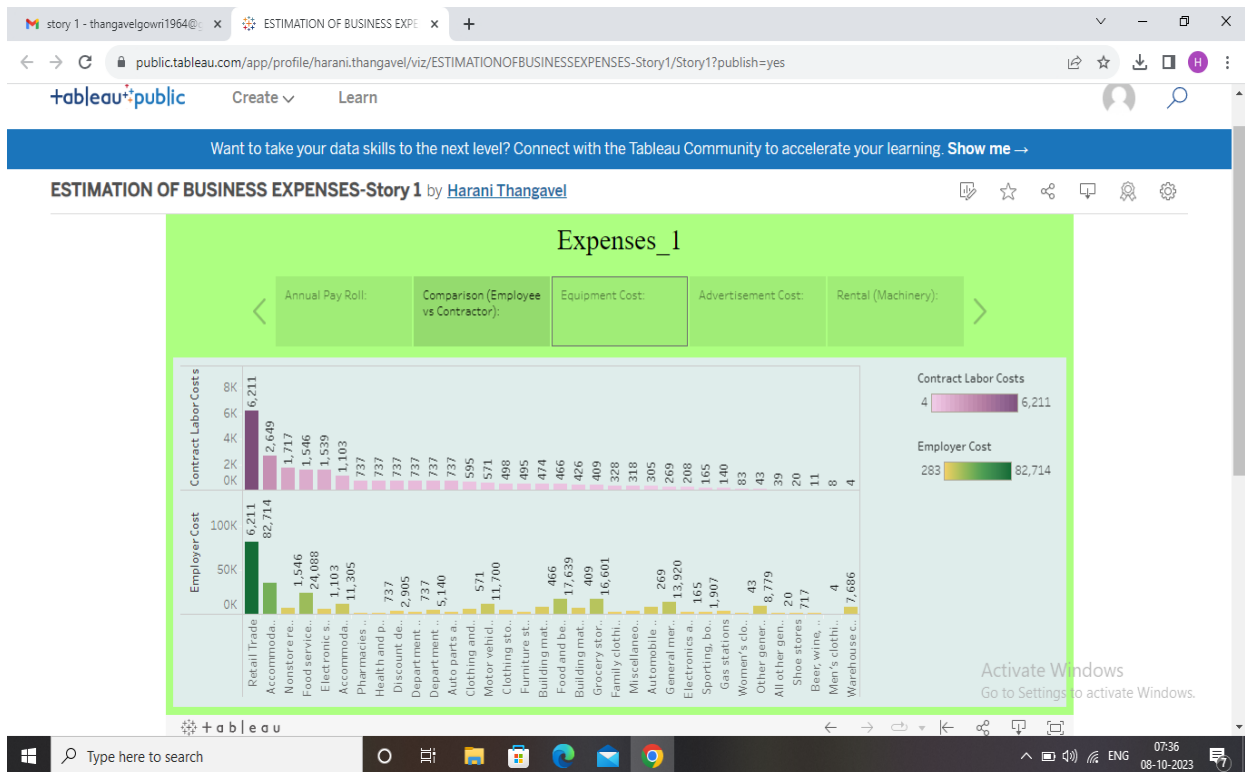


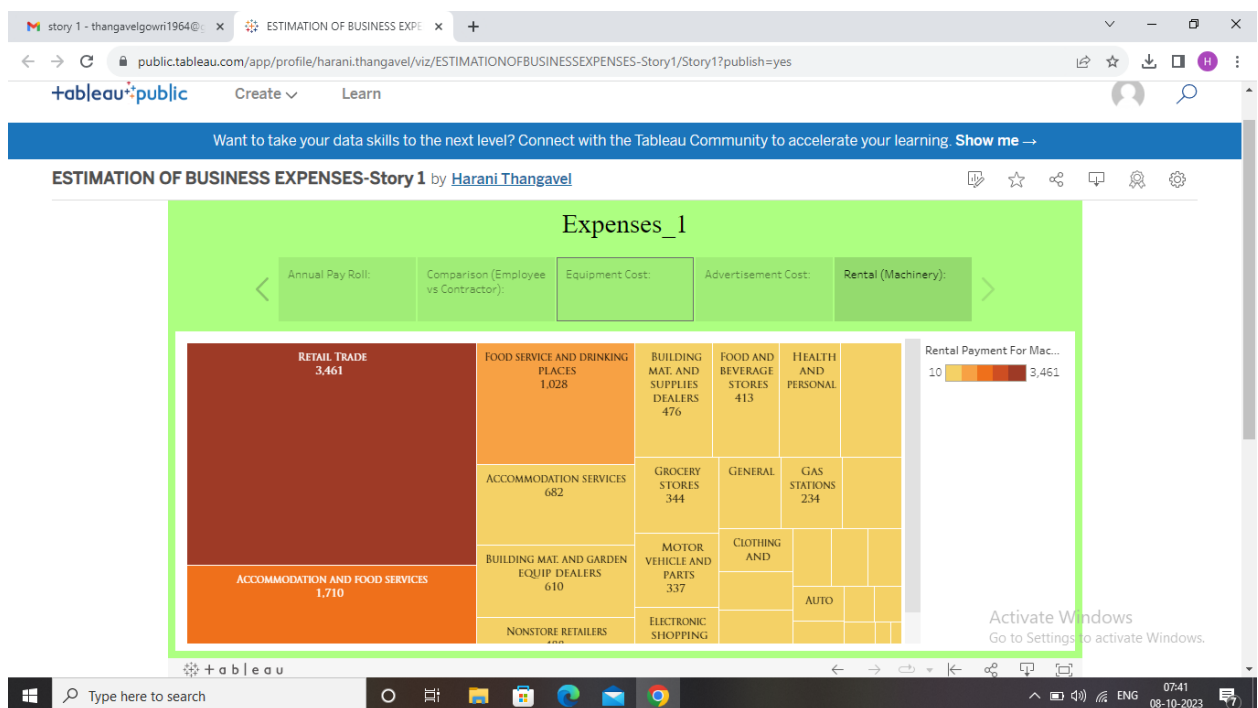
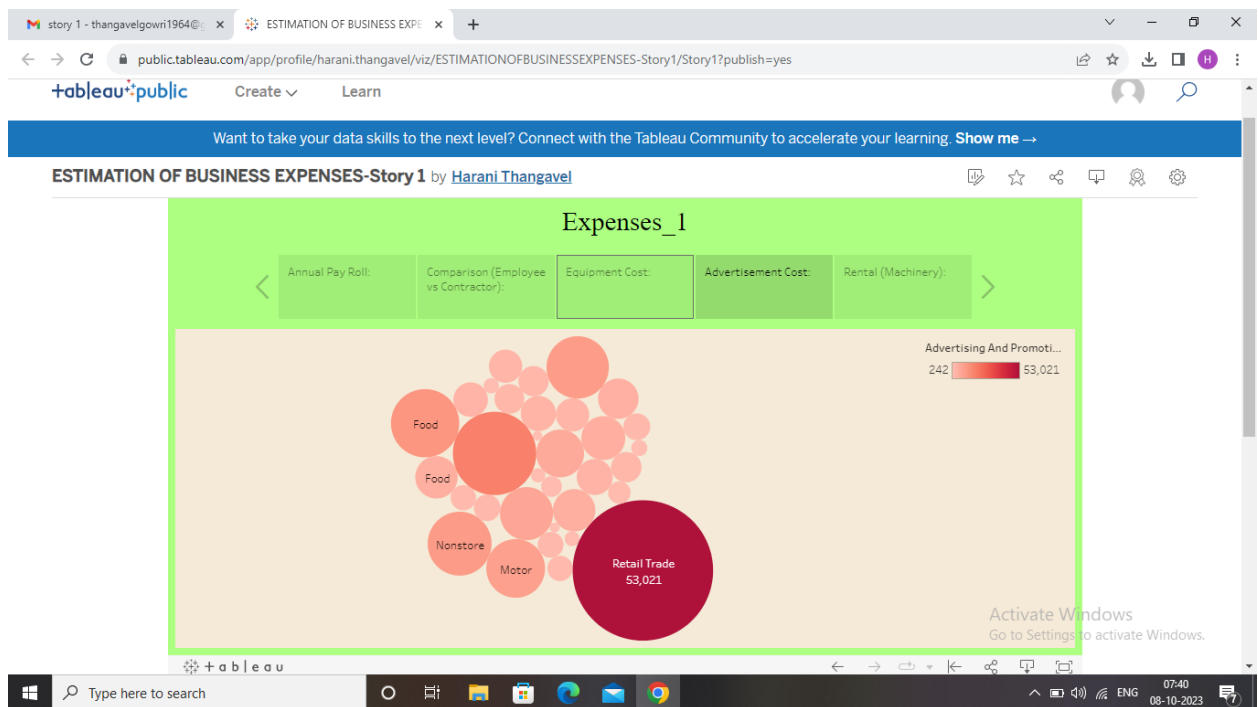
### 3. RESULT

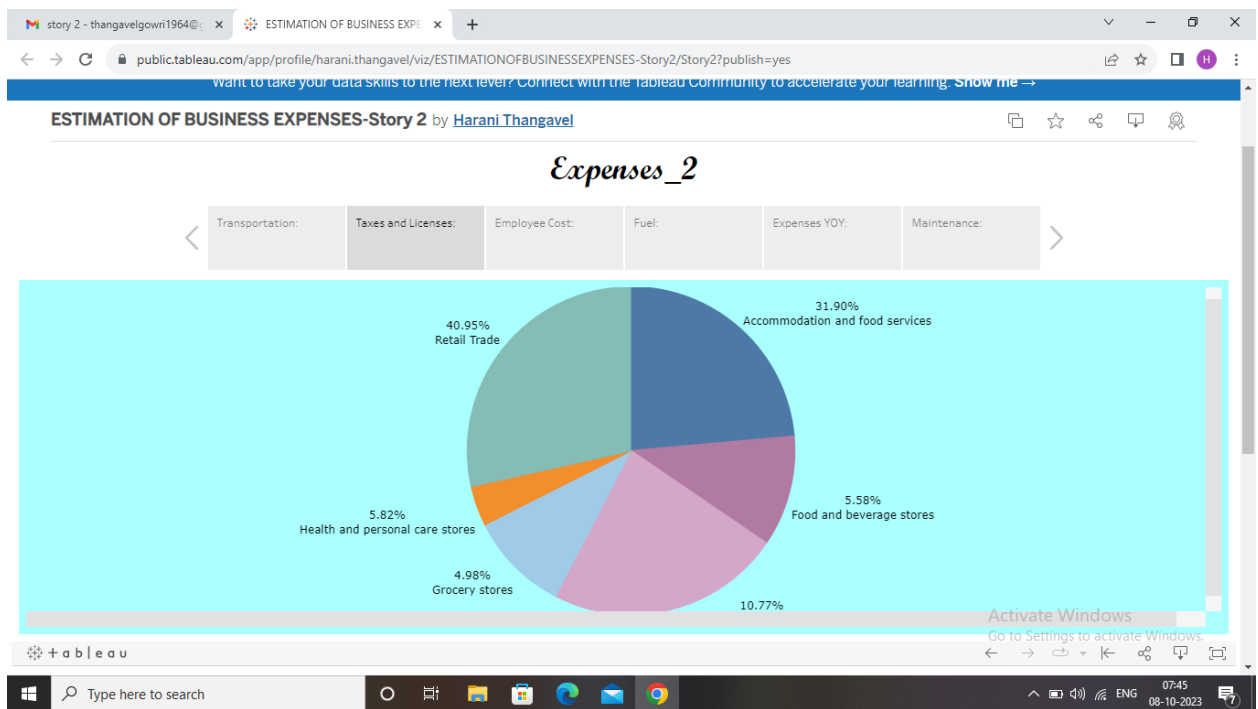
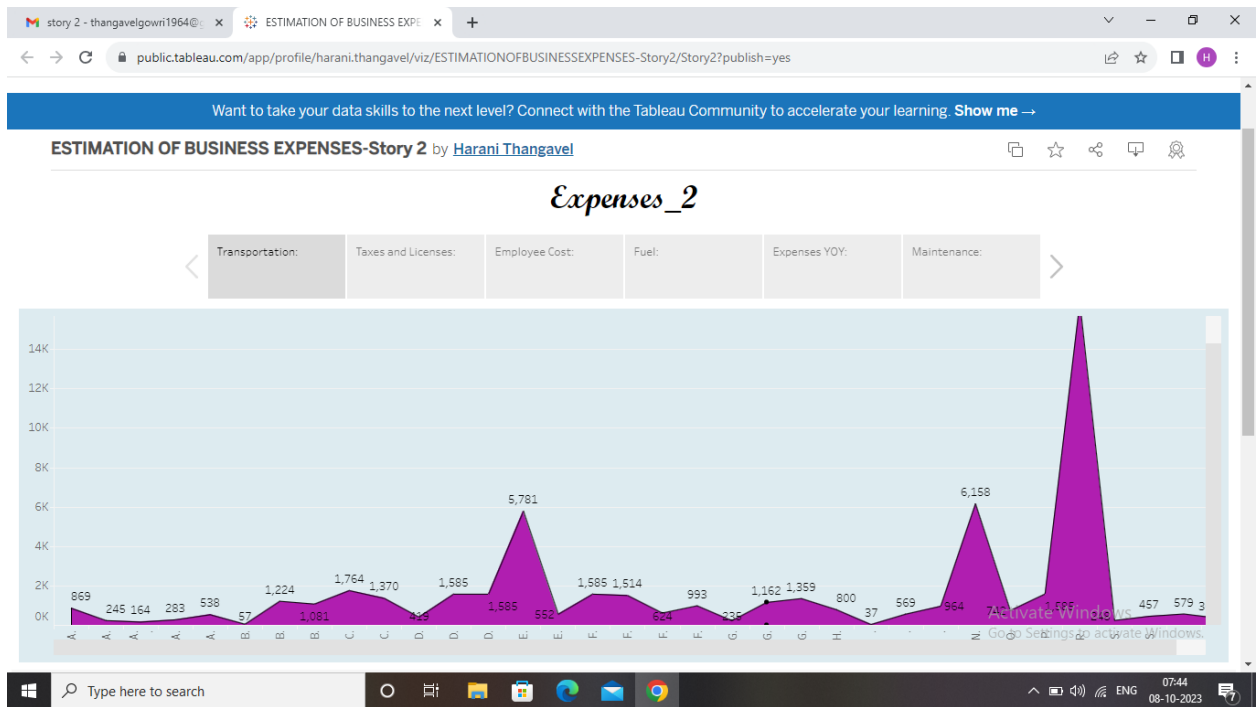


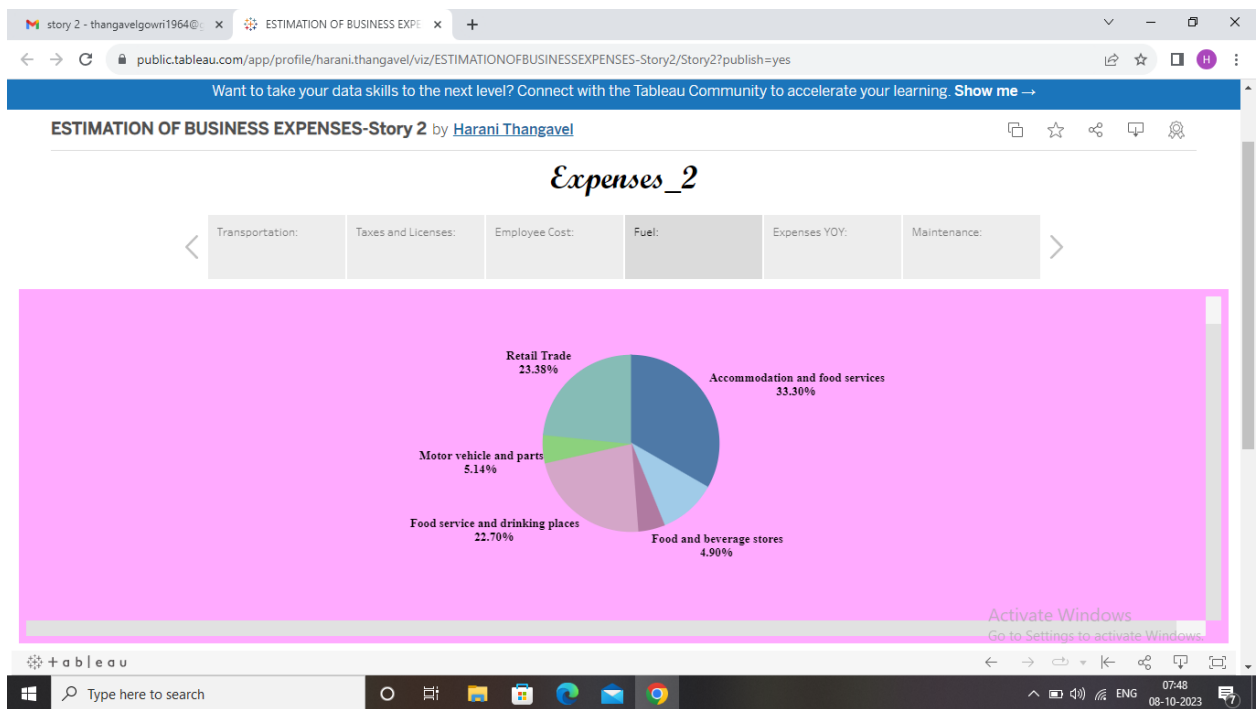
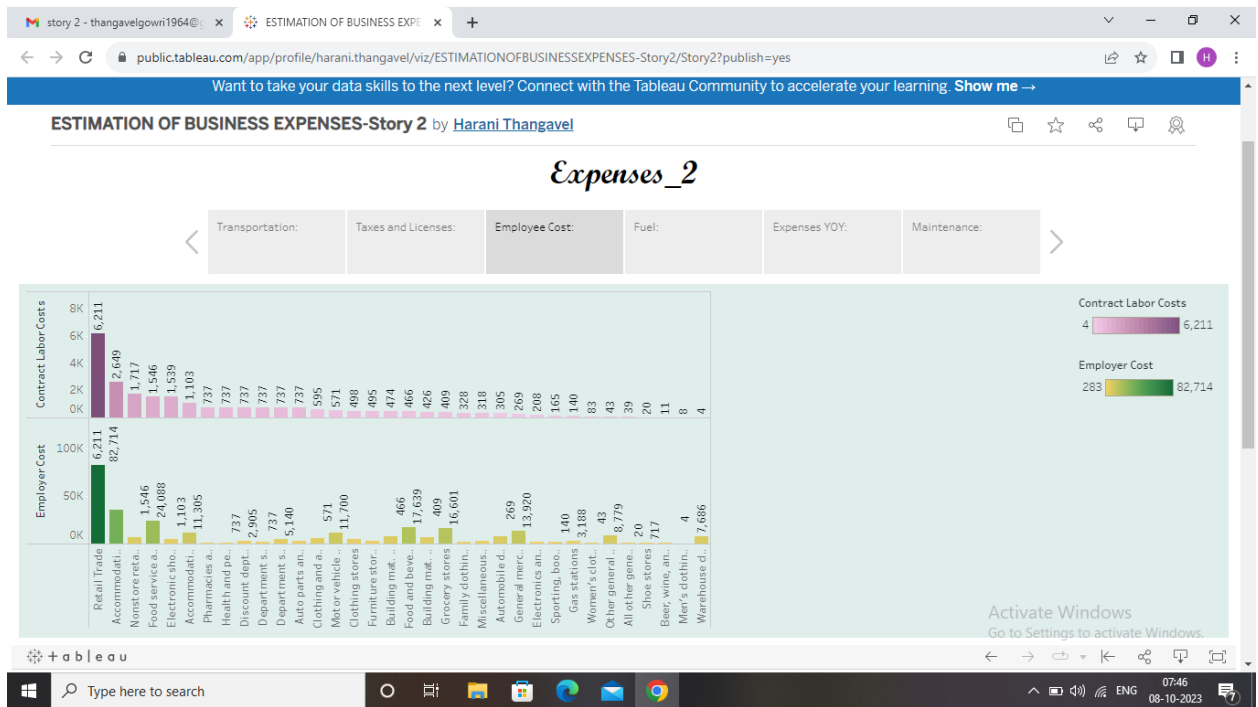


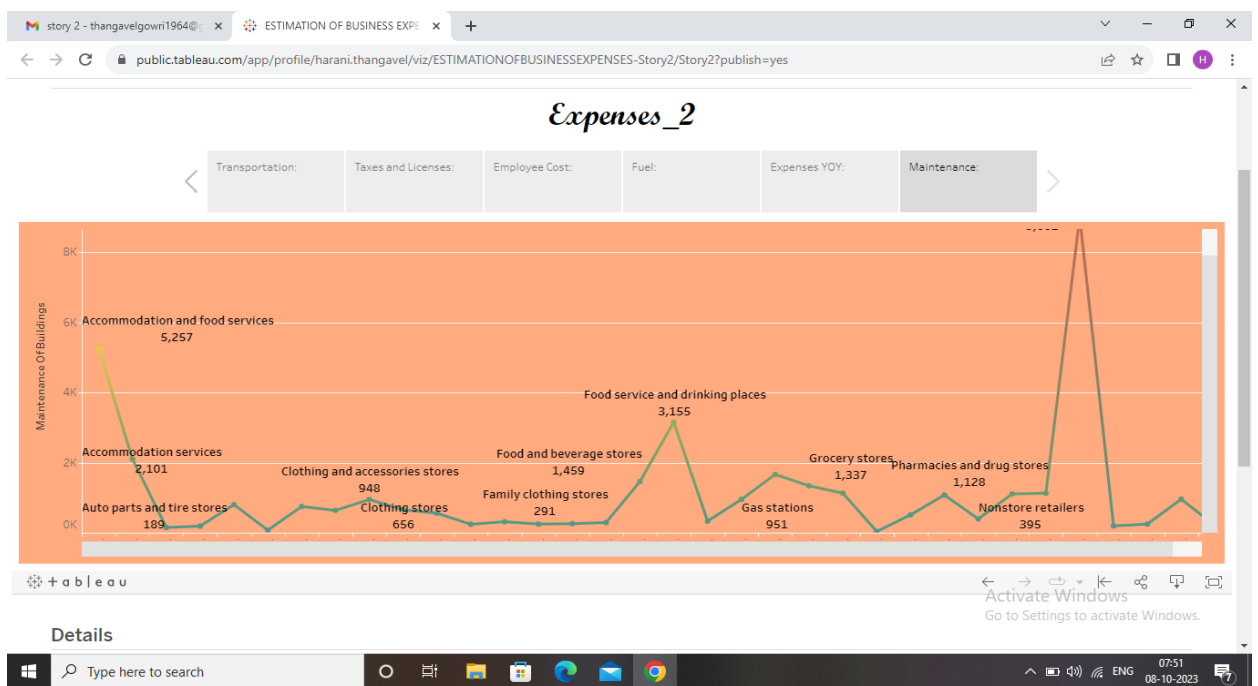
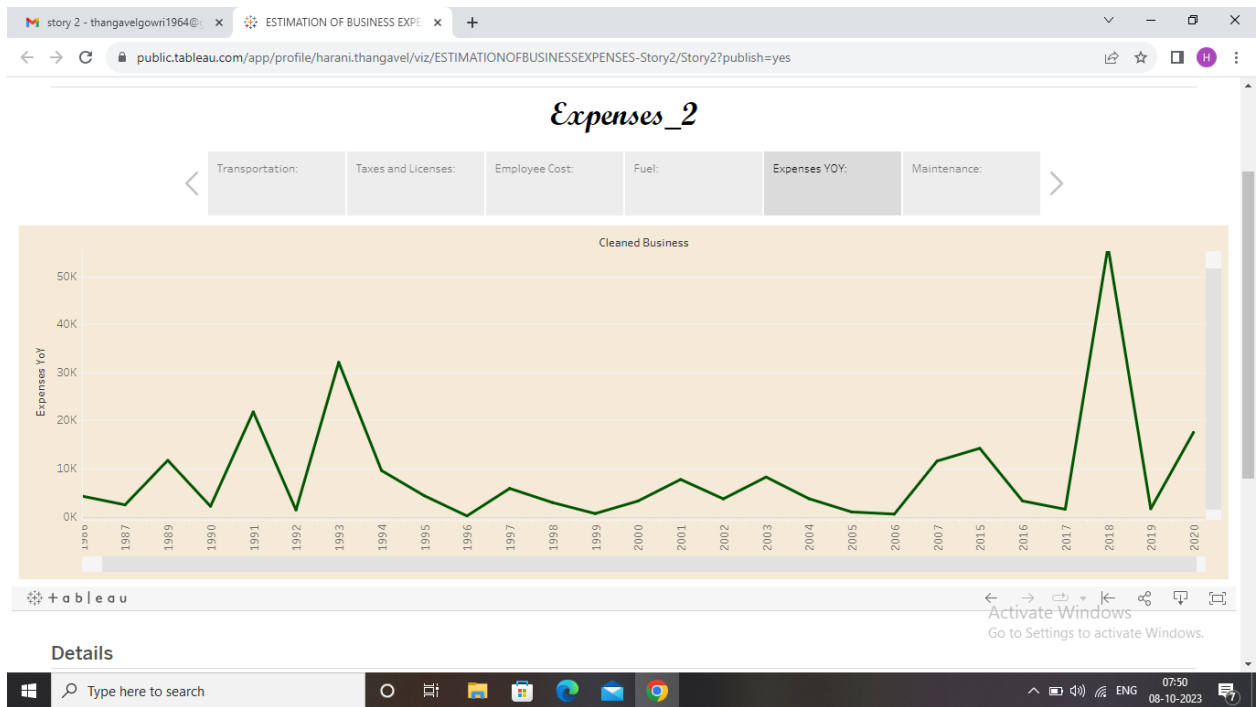












## **4. ADVANTAGES & DISADVANTAGES**

### **ADVANTAGES:**

- Cost estimation helps you determine your project's budget, schedule the work necessary and manage new resources.
- Cost estimates are also very crucial when it comes to winning new business.
- Property owners also use cost estimates to assess the feasibility of their projects before embarking on actual construction.

### **DISADVANTAGES:**

- The disadvantages of estimating include the high level of detail required, the need for expert opinion, the time-consuming nature of decomposing a project, and the inherent costs associated with the additional time and team members required to generate such an estimate.
- It can be expensive to implement and it is time-consuming.
- It is not flexible enough to answer what-if questions.
- New estimates must be built for each alternative.

## **5. APPLICATIONS**

### **1) BUSINESS TRAVEL:**

- Business travel costs vary in each company, but may include:
- Company cars, including gas and insurance
- Parking and tolls
- Airplane, train or bus costs
- Hotel and meals
- Some of these expenses may be deductible. It can be helpful to keep receipts of all these costs for budgeting and tax purposes.

### **2) EDUCATION:**

- Sometimes a business might provide education opportunities for employees.
- You may be able to deduct these expenses when the education adds value to your company. This might include:
- Seminars, webinars and conferences
- Classes or workshops to increase a skill
- Subscriptions to specific industry publications
- Books related to your industry



## **6. CONCLUSION**

Estimation is indeed one of the essential requisites for the success of any project or business for that matter. When one knows the scope for the cost that the business can bear, it becomes much easier to set the goals and accordingly work towards it.

## **7. FUTURE SCOPE**

Before you can estimate and budget the project scope, you need to have a clear and detailed definition of what the project entails. This includes the project objectives, deliverables, requirements, assumptions, constraints, and exclusions. You can use tools like a scope statement, a work breakdown structure, and a requirements traceability matrix to document and communicate the scope to all stakeholders. A clear scope will help you avoid ambiguity, confusion, and conflicts later on.

### **Use reliable estimation methods**

There are different methods to estimate the project scope, depending on the level of detail, accuracy, and certainty you have. Some of the common methods are analogous estimation, parametric estimation, bottom-up estimation, and three-point estimation. You can also use expert judgment, historical data, and industry standards to support your estimates. The key is to choose the most appropriate method for your project and apply it consistently and transparently.

## **Consider the risks and contingencies**

No project is risk-free, and you need to account for the potential uncertainties and challenges that might affect the project scope. You can use a risk register, a risk matrix, and a risk response plan to identify, analyze, prioritize, and mitigate the risks. You also need to include a contingency reserve in your budget to cover the unexpected costs or delays that might arise from the risks. A contingency reserve is usually a percentage of the total estimated cost or duration, based on the level of risk exposure.

## **Review and validate the estimates and budget**

Once you have estimated and budgeted the project scope, you need to review and validate them with the project team, sponsors, and other stakeholders. You can use tools like a cost baseline, a schedule baseline, and a scope baseline to compare the estimates and budget with the approved scope. You can also use techniques like variance analysis, earned value analysis, and trend analysis to monitor and control the performance of the project scope. If there are any changes or deviations from the baselines, you need to follow a change management process to evaluate and approve them.

## **Communicate and update the estimates and budget**

Finally, you need to communicate and update the estimates and budget regularly and clearly to all stakeholders. You can use tools like a communication plan, a stakeholder register, and a status report to define the frequency, format, and content of the communication. You can also use tools like a change log, a lessons learned register, and a project closure report to document and share the changes, lessons, and results of the project scope.

## 8. APPENDIX

1. <https://public.tableau.com/app/profile/harani.thangavel/viz/ESTIMATIONOFBUSINESSSEXPENSES-1/Dashboard1?publish=yes#WelcomeQuestionnaire>
2. <https://public.tableau.com/app/profile/harani.thangavel/viz/ESTIMATIONOFBUSINESSSEXPENSES-Dashboard2/Dashboard2?publish=yes>
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