

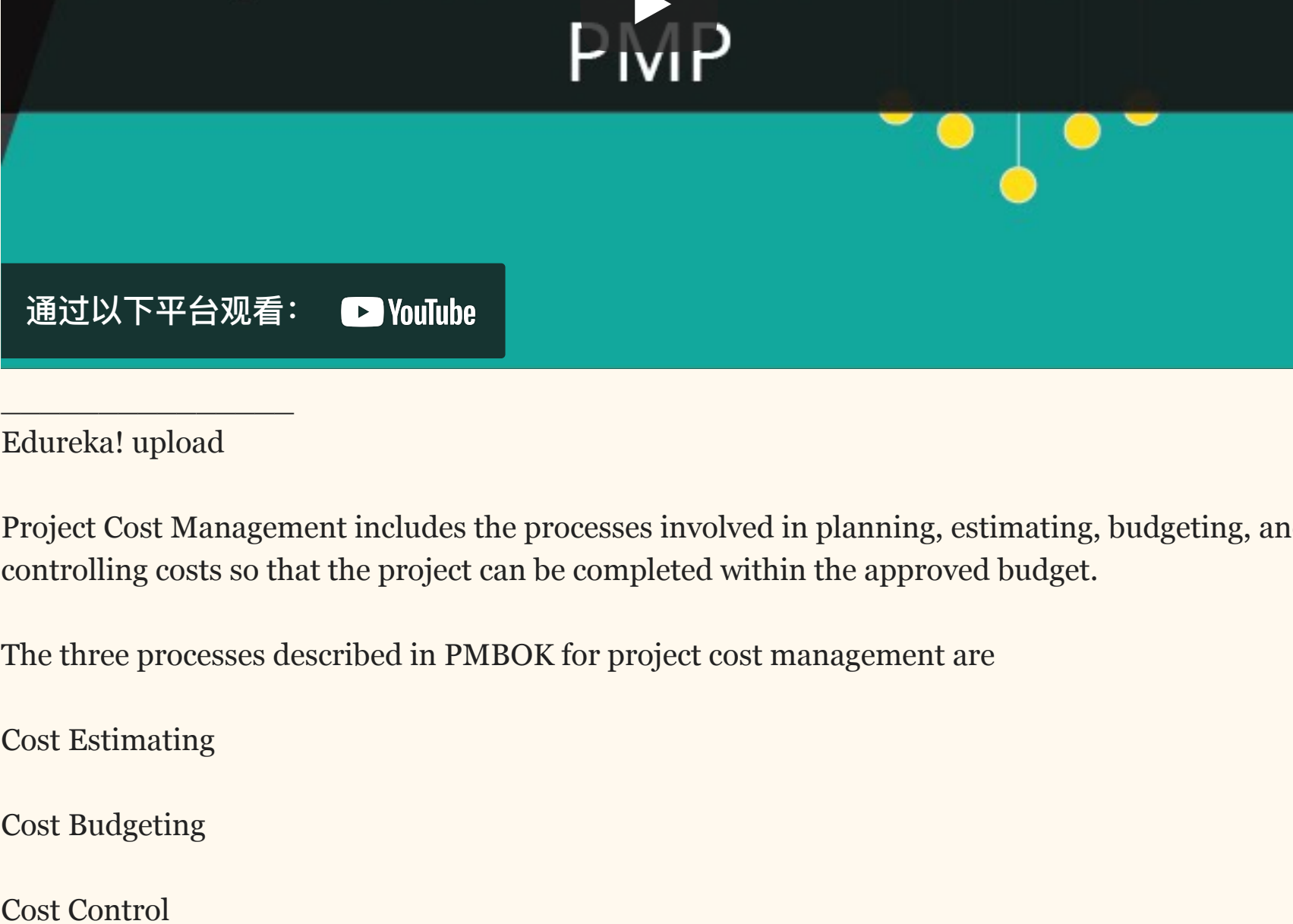
Management Theory Review

Articles on Management Subjects for Knowledge Revision and Updating by Management Executives ---by Dr. Narayana Rao, Professor, NITIE---3 MILLION Page Views--- Global Top Blog for Management Theory---Management for Effectiveness, Efficiency and Excellence.

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February 25, 2019

Project Cost Management



Project Cost Management includes the processes involved in planning, estimating, budgeting, and controlling costs so that the project can be completed within the approved budget.

The three processes described in PMBOK for project cost management are

Cost Estimating

Cost Budgeting

Cost Control

Cost Estimating

Plan Cost Management

The Cost Management Plan establishes: i) level of accuracy and level of precision, ii) unit of measurement, iii) WBS procedure links (to control account (CA)), iv) control threshold, v) earned value rules of performance, reporting, funding and processes

Life cycle costing = total cost of ownership : production cost, running and maintenance cost, etc. Estimate Costs

Similar to Estimate Activity Resources

Look for ways to reduce cost

ensure the SME to deliver the estimates (more accurate)

based on WBS

Cost Types

Variable costs – costs change with the amount of work, e.g. hourly consultants

Fixed costs – costs that are constant, e.g. equipment leases

Direct costs – directly attributed to the project

Indirect costs – shared costs like AC, lighting, etc.

Cost Estimate Tools

Analogous Estimating (Top Down Estimate) – compare to a similar project in the past (an estimating heuristic/rule of thumb)

Parametric Estimating – use a parameter and repetitive units of identical work

Bottom-up Estimating – detailed estimates of each individual activity from historical data, more accurate and time-consuming

Activity Cost Estimates may include indirect cost and contingency reserves

usually in a range of values

Basis of Estimates – detailed analysis on how the cost estimate was derived (assumptions, constraints, possible range +/-15%), confidence level of final estimate)

Cost Budgeting

Determine Budget

Budget is more about when to spend money

Historical Relationships – analogous/parametric estimation

Reserve Analysis – addresses Management Reserve (unknown unknowns) and Contingency Reserve

(known risks) [not included in calculation of earned value management]

Funding Limit Reconciliation – addresses variance between funding limit (e.g. monthly or yearly limit) and planned expenditure, may require rescheduling of work to level of the rate of expenditure

Value Engineering – to improve quality/shorten schedule without affecting the scope

Project Budget = Cost baseline (the approved time-phased budget) + Management Reserve

when management reserve is used during project execution, the amount is added to the cost baseline

S-curve : total project expenditure over project lifecycle

Cost Control

Control Costs

Check against the Project Funding Requirements

including informing stakeholders of all approved changes and their costs

Earned Value Calculation

Index > 1: under budget/ahead of schedule

Index < 1: over budget/behind schedule

Estimate at Complete: 1) new estimate required (original flawed), 2) no BAC variance, 3) CPI will continue, 4) sub-standard cost/schedule will continue

TCPI: >1 not enough funding remain (over budget), <1 more fund available than needed (under budget)

Earned Value Accrual

Discrete Efforts – describes activities that can be planned/measured for output, including Fixed

Formula (activity given a % of budget of work package at start and earn the remaining when completed, e.g. 50/50, 20/80 or 0/100), Weighted Milestone (earn value for milestones of deliverables of the work package), Percentage Complete, Physical Measurement

Apportioned Efforts – describes work that has a direct/supporting relationship to discrete work, e.g. testing, pm activities, calculated as % of the discrete work

Level of Efforts (LOE) – describes activities without deliverables, e.g. troubleshooting, assigned the earned value as scheduled, without schedule variance but may have cost variance

e.g. perform Control Cost weekly during execution where money is spent fastest

Variance Analysis – to check against the baseline for any variance

SPI at end of project must be 1

SPI is NOT telling much information to whether the project is on schedule as the Critical Path must also be investigated to get a meaningful picture.

Earned Value Management – Basics By Sathish Babu, PMP

Earned Value Management – Advanced By Sathish Babu, PMP

<http://edward-designer.com/web/pmp-project-cost-management/>

Updated 26 Feb 2019, 15 March 2016

Posted by Narayana Rao K.V.S.S. at 7:02 PM

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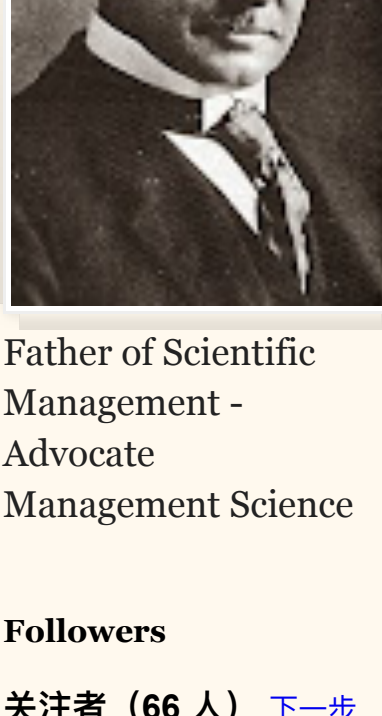
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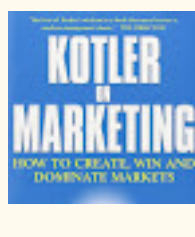
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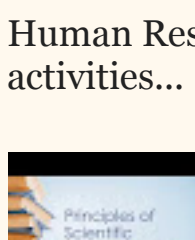
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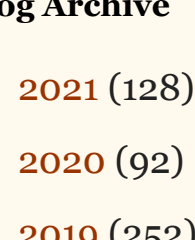
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I am a professor in the areas of management and industrial engineering. My blogs in management and industrial engineering appear at the top for blogs in both.

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