

Project expenses are primarily composed of two main categories: Direct Costs and Indirect Costs

Direct Costs

Direct costs are expenses that are directly attributable to a specific project.

Examples in IT projects include:

- Salaries of project team members who are exclusively working on the project.
- Costs of software or hardware purchased specifically for the project.
- Expenses related to specific project activities, like special software licenses or specialized consultancy fees.
- Direct costs are usually variable and fluctuate based on the project's scope and duration.
- They are easier to trace and allocate to a particular project.

Indirect Costs:

Indirect costs, on the other hand, are not directly traceable to a specific project.

These costs support the project but are shared across multiple projects or the organization as a whole.

Examples include:

- Utilities, rent, and maintenance costs of facilities used by the project team.
- Salaries of administrative staff or management, who may oversee multiple projects.
- General office supplies and equipment used by various projects.
- Indirect costs are usually fixed or semi-variable and are allocated to projects based on a predetermined formula or rate.
- They are harder to attribute to a single project, requiring a method of cost allocation for accurate financial reporting.
- Understanding and accurately categorizing these costs helps in creating a realistic budget, ensuring efficient resource allocation, and providing clear financial insights for decision-making in IT project management.

How to Manage Project Costs in 4 Steps

The four steps below outline how the cost management process works in project management.

1. Resource Planning

Resource planning is the process of forecasting future resource requirements for a business, project or scope of work. To create a resource plan, you need to start by defining the project scope, a document that details the project activities that will be done.

Once the project activities have been defined, project managers usually rely on historical data, expert opinions, and resource planning tools such as a resource breakdown structure (RBS) to estimate the resources that will be needed.

2. Cost Estimating

Cost estimating consists of assigning costs to the resources you need to execute your projects, such as labor, materials and equipment. Cost estimating is one of the most important steps in the cost management process because it lays out the base for your project budget. There are several project cost estimating techniques you can use depending on the characteristics of your project.

3. Cost Budgeting

Based on your cost estimates, you can now create a project budget, which is simply the sum of all your project costs. Make sure to include all types of project costs, including direct, indirect, fixed and variable costs. A project budget should also include contingency reserves in case there's work that needs to be redone, or a risk has struck the project and risk mitigation strategies need to be taken.

Once the project starts, the project budget is a baseline that's used to compare actual costs vs. estimated costs. Therefore, project budgets allow project managers to quickly understand if their costs are too high and if there's a risk of cost overrun.

4. Cost Control

Cost control refers to all the activities, guidelines and procedures taken to minimize and track project costs. Poor cost control can affect the profitability of a project, but luckily project management software can help you to easily keep track of costs with tools such as timesheets, workload planners and project dashboards.