

ESTIMATION OF BUSINESS EXPENSES

1. INTRODUCTION

1.1 OVERVIEW:

What are business 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. Types of business expenses

There are three major types of business expenses. They include:

Fixed: These expenses remain the same over reporting periods. Examples include rent or insurance payments. They are also known as overhead,

Variable: These expenses change throughout the reporting period. Examples include shipping costs and utility payments.

Periodic: These expenses happen occasionally across different reporting periods. Examples include emergency equipment repairs and annual bonuses.

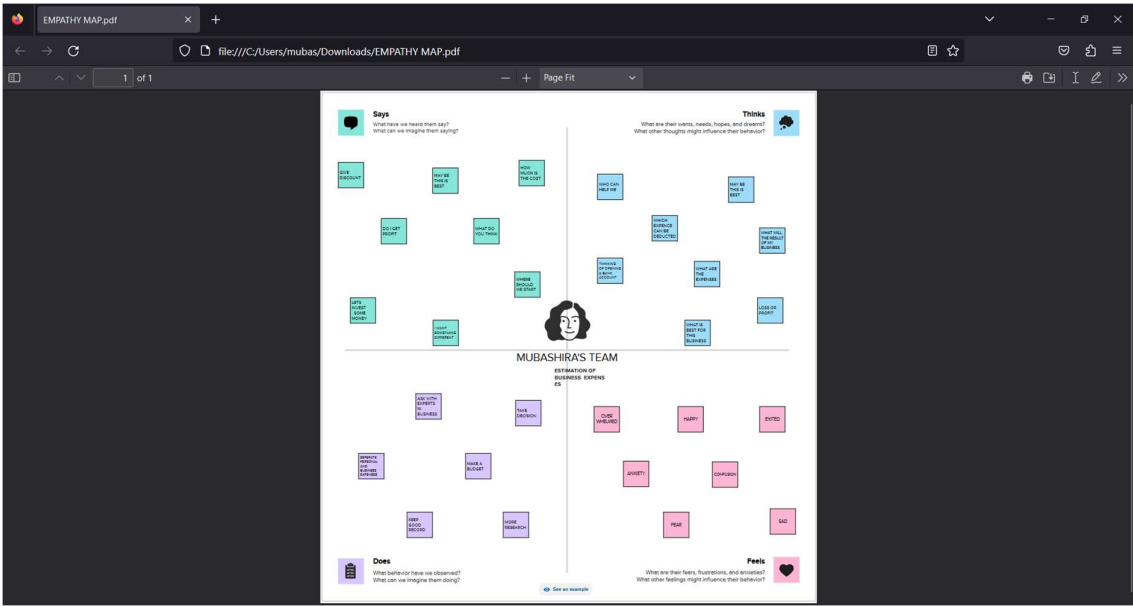
1.2 PURPOSES

The purpose of cost estimation is to predict the quantity, cost, and price of the resources required to complete a job within the project scope. Cost estimates are used to bid on new business from prospective clients and to inform your job and budget planning process.

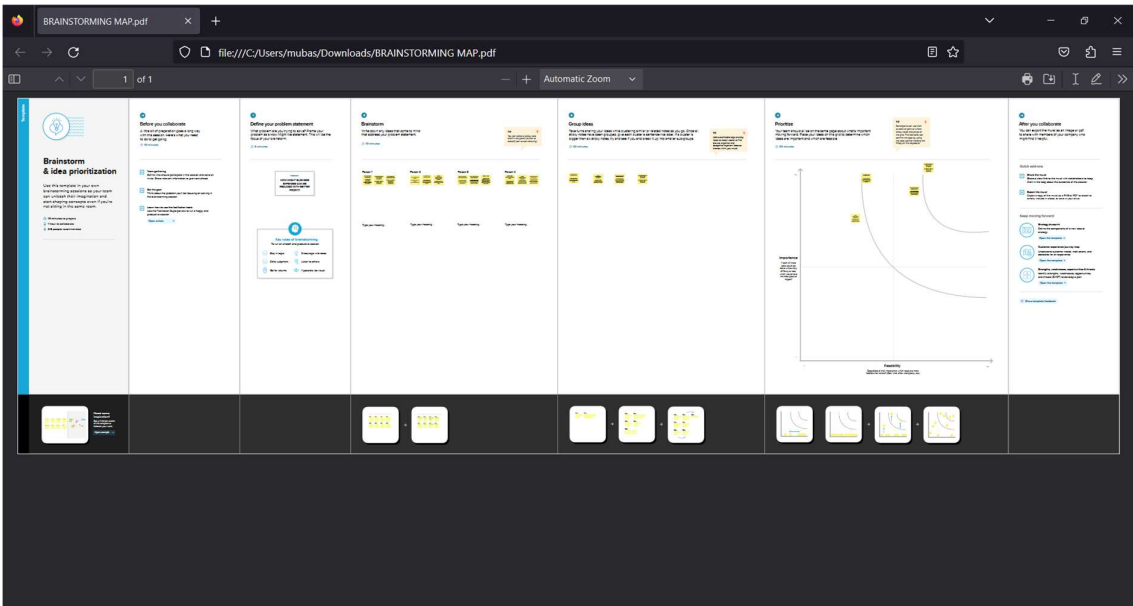
The purpose of cost estimation is to give project stakeholders accurate information concerning the related project costs. It is easier to make lasting decisions if there is information to back them up. Cost estimation also gives clients value-aided options and helps clients minimize expense

2.PROBLEM DEFINITION &DESIGN THINKING

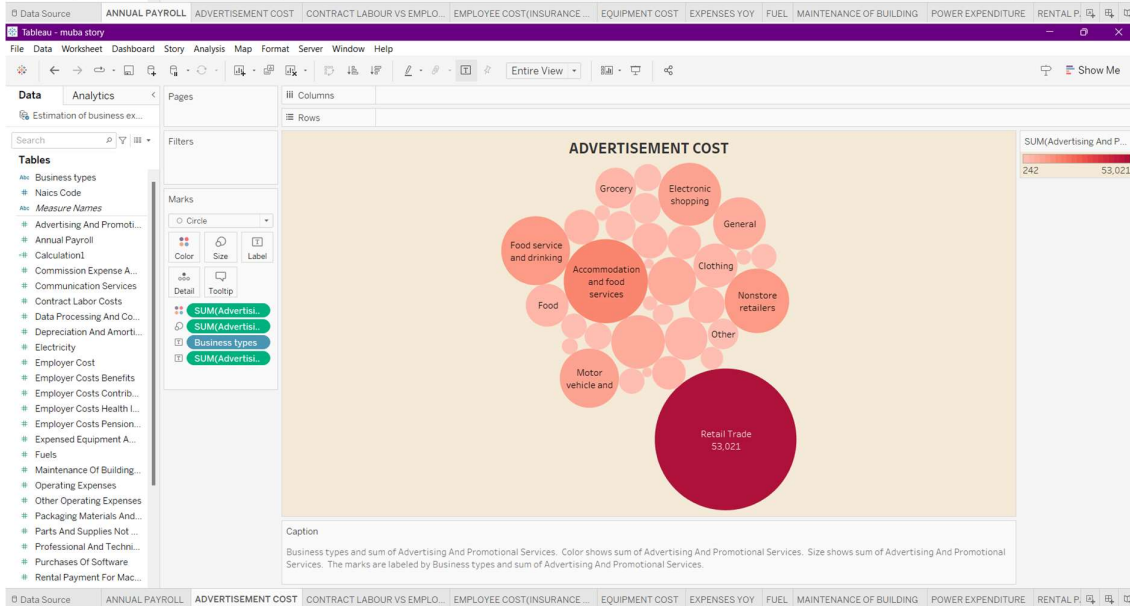
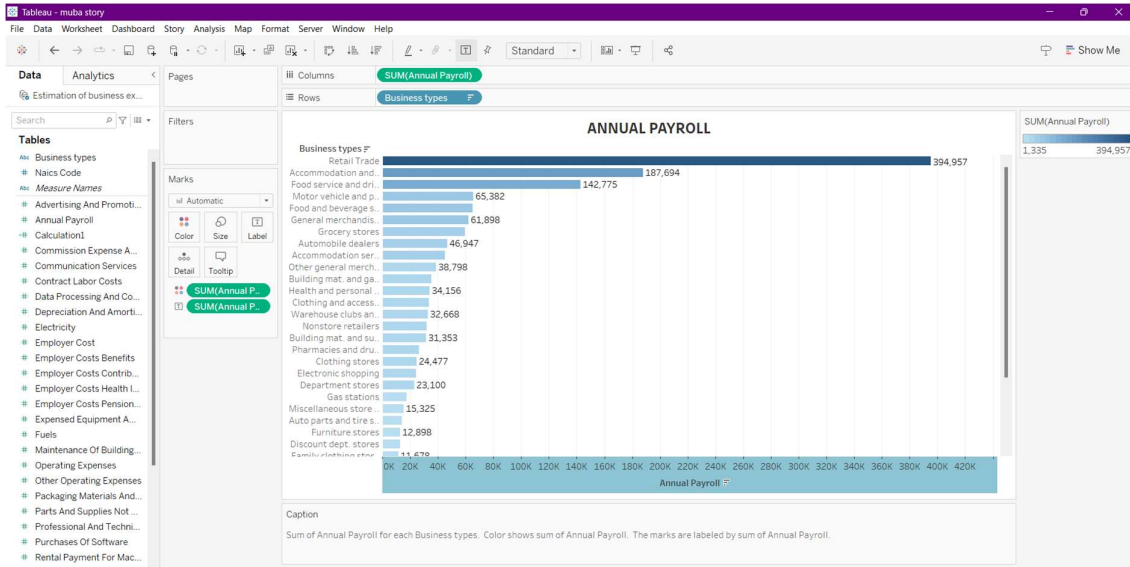
2.1 EMPATHY MAP

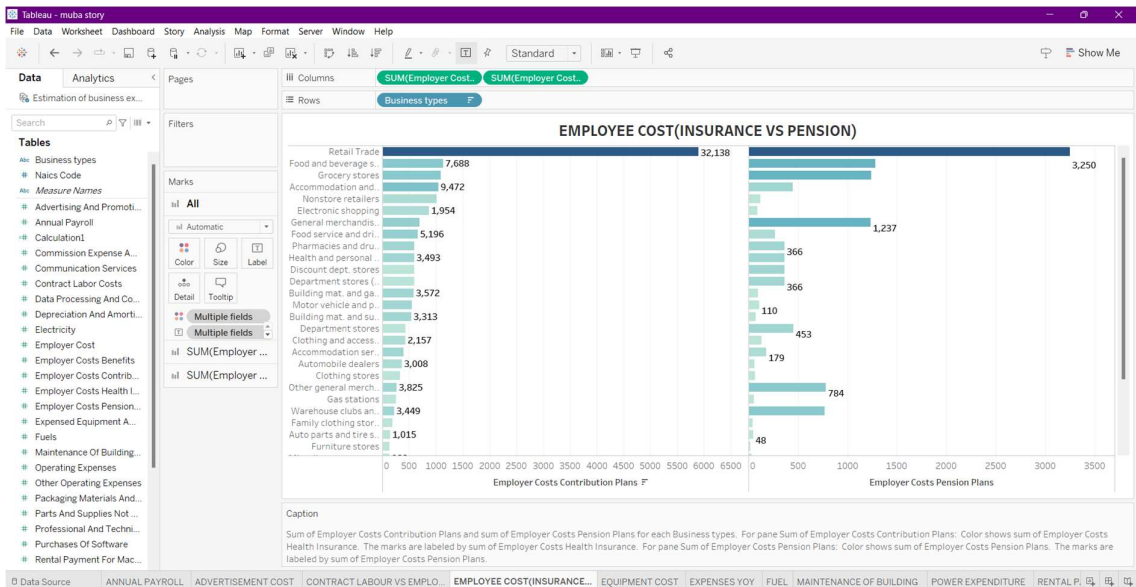
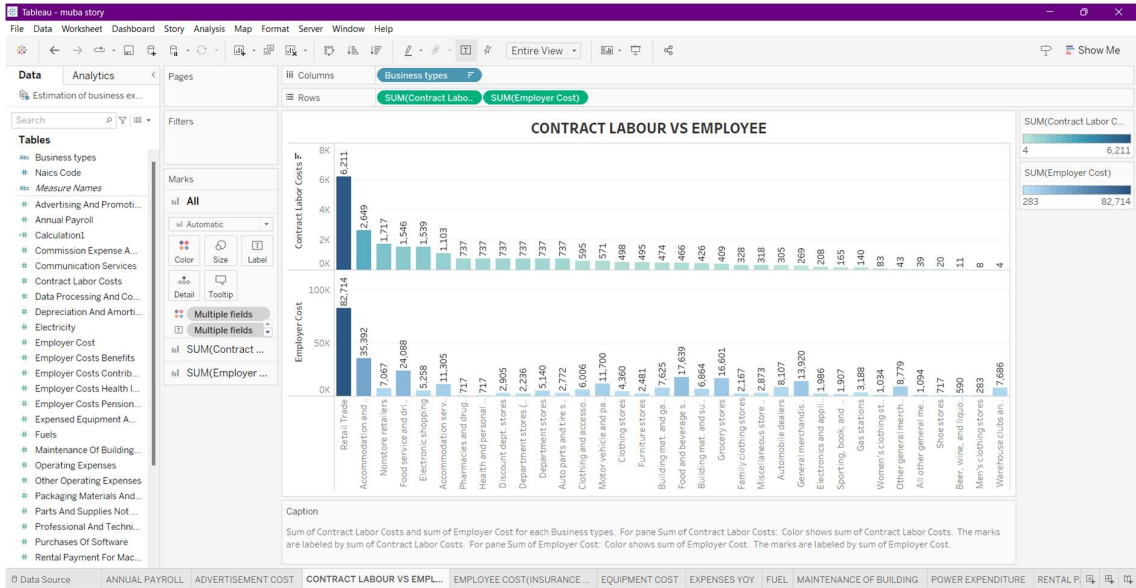


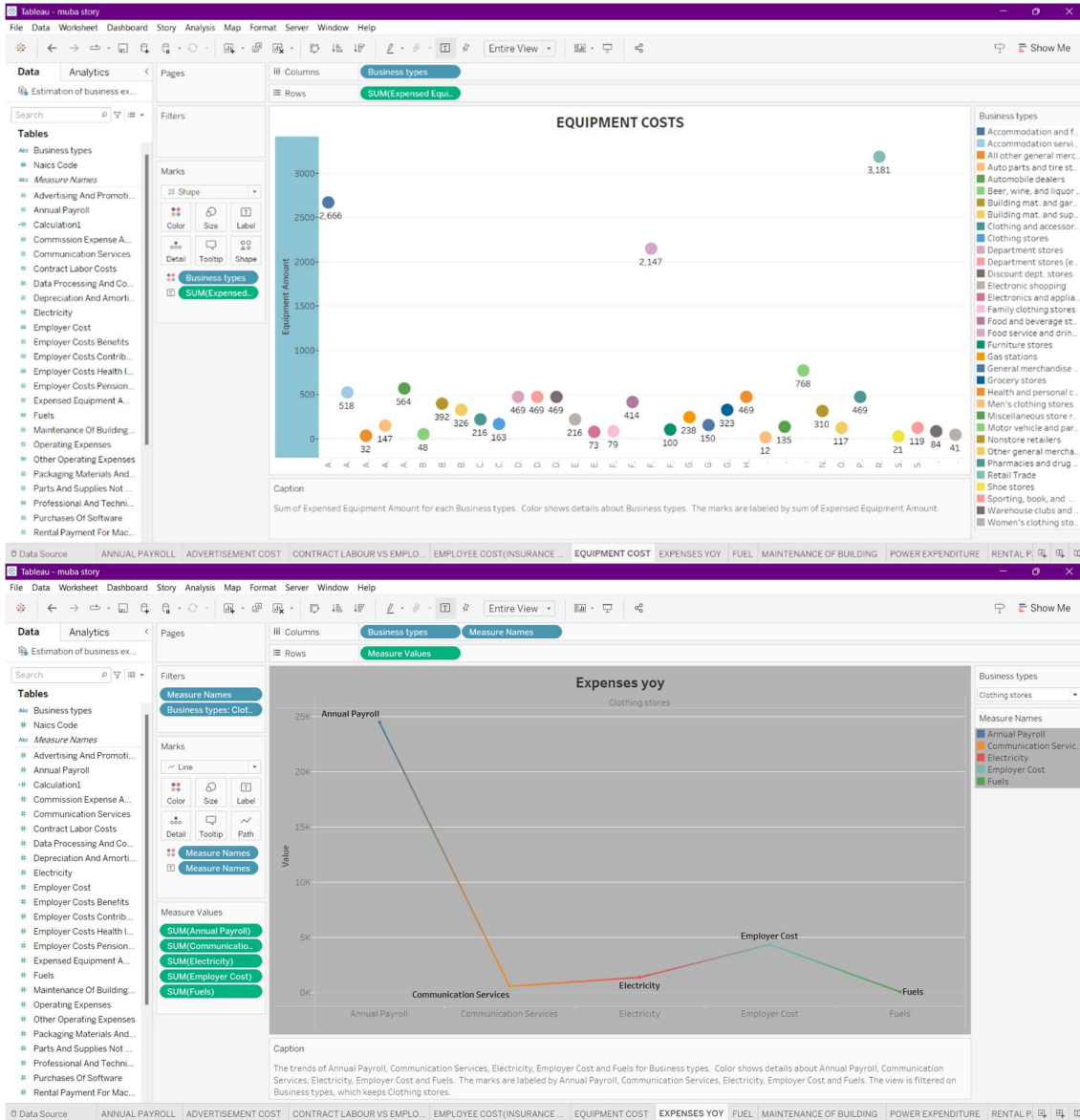
2.2 IDEATION AND BRAINSTORMING MAP

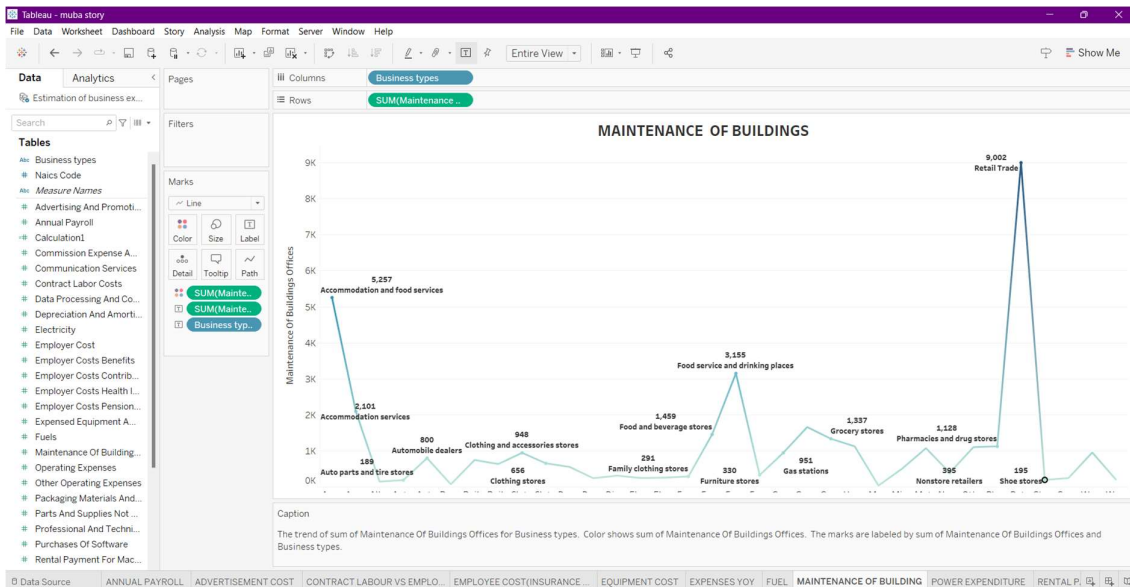
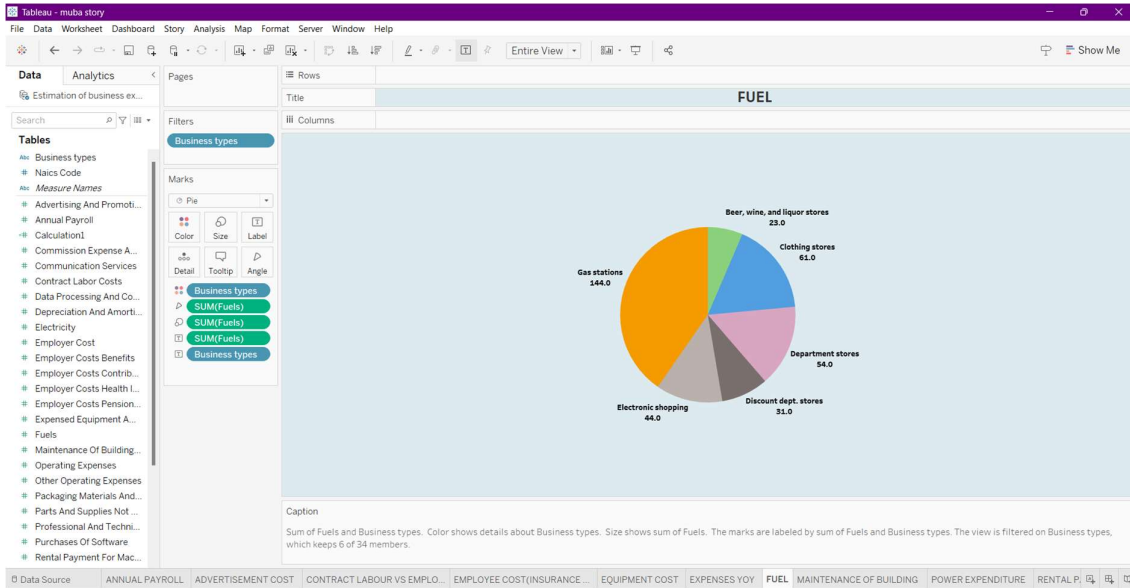


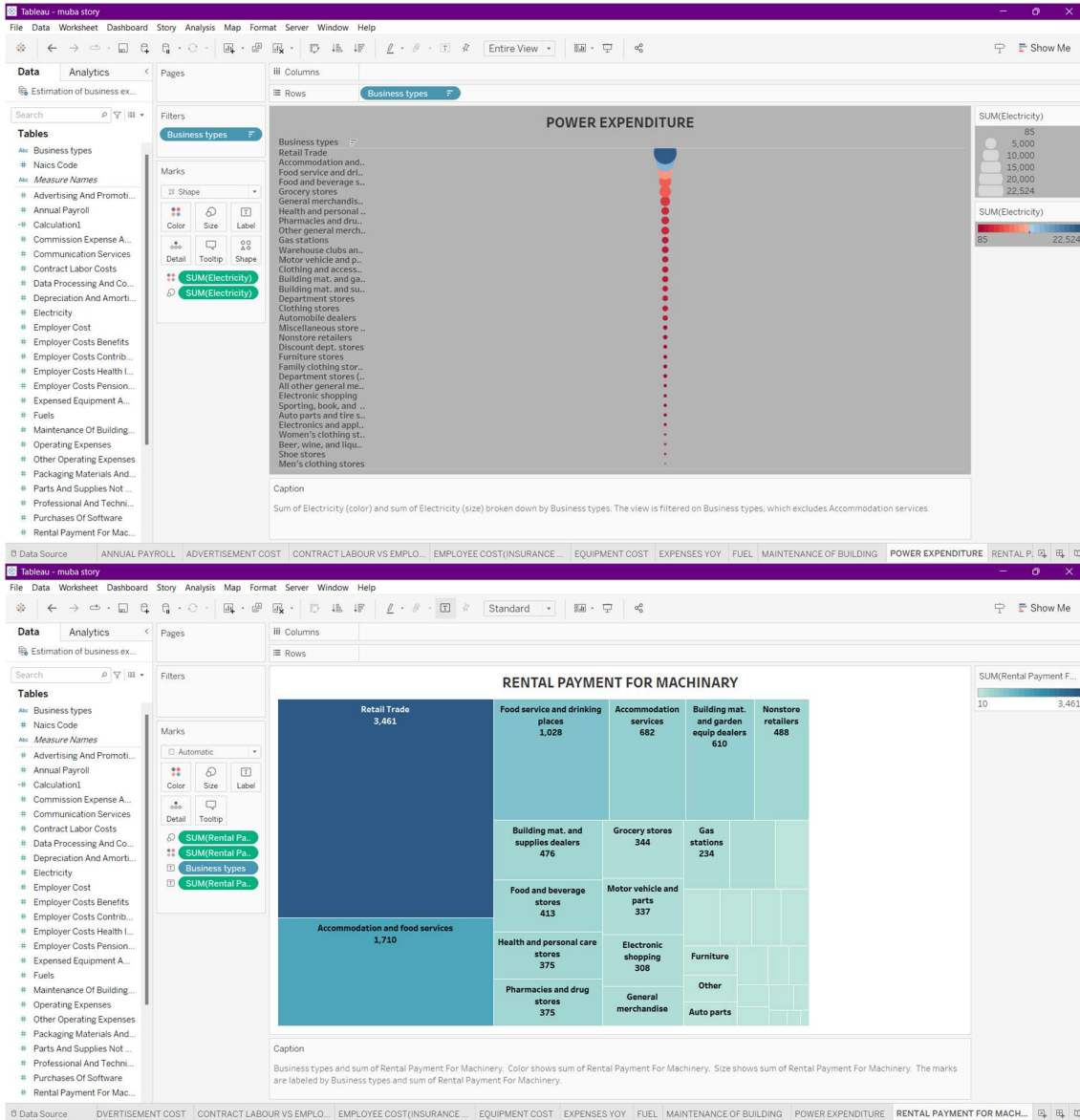
3.RESULT:

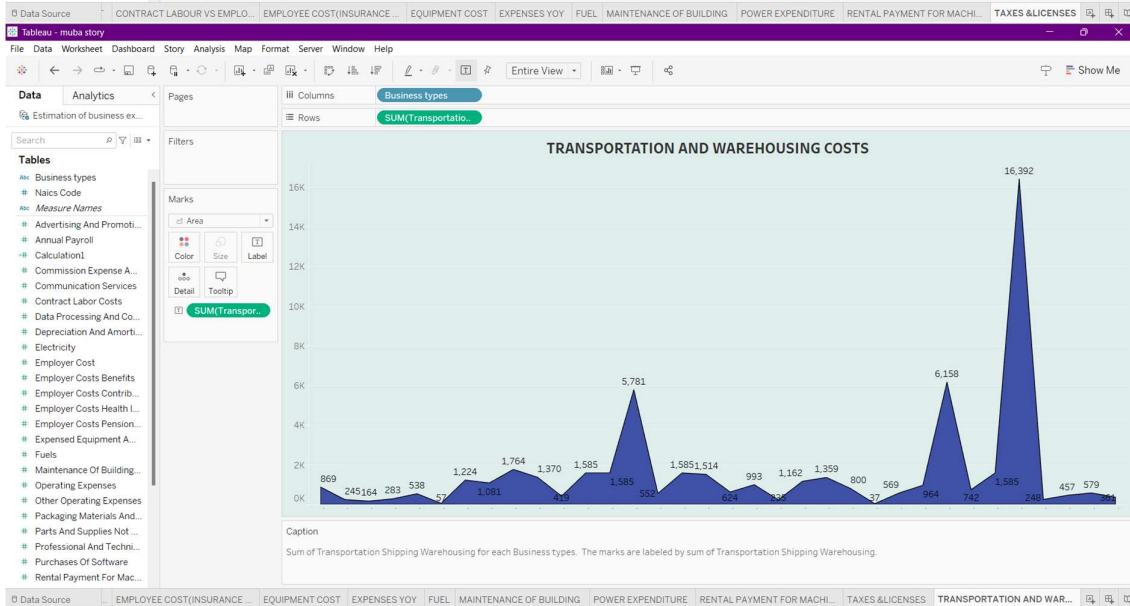
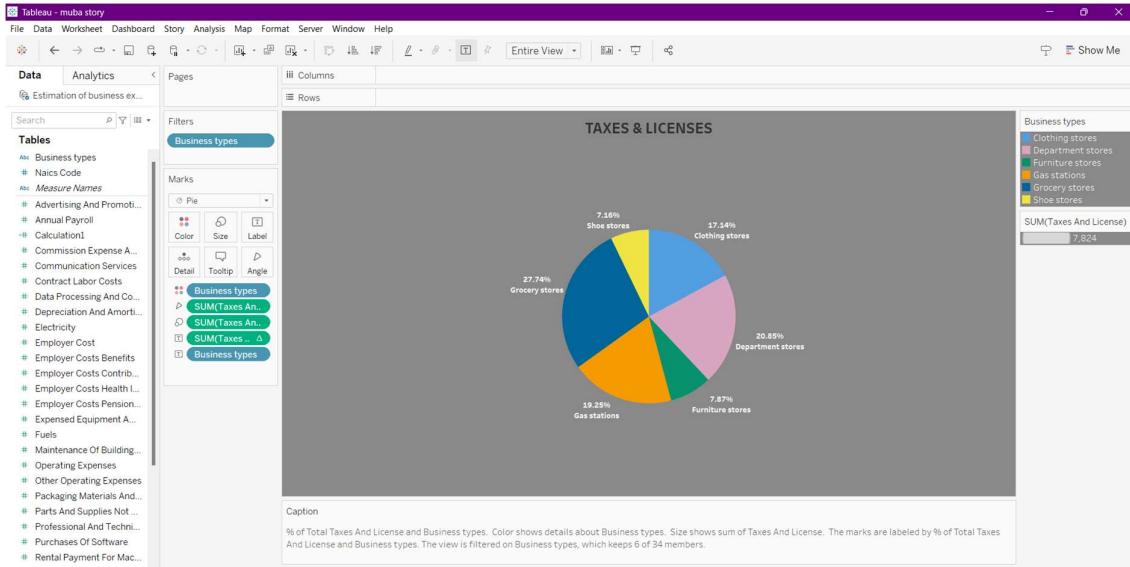


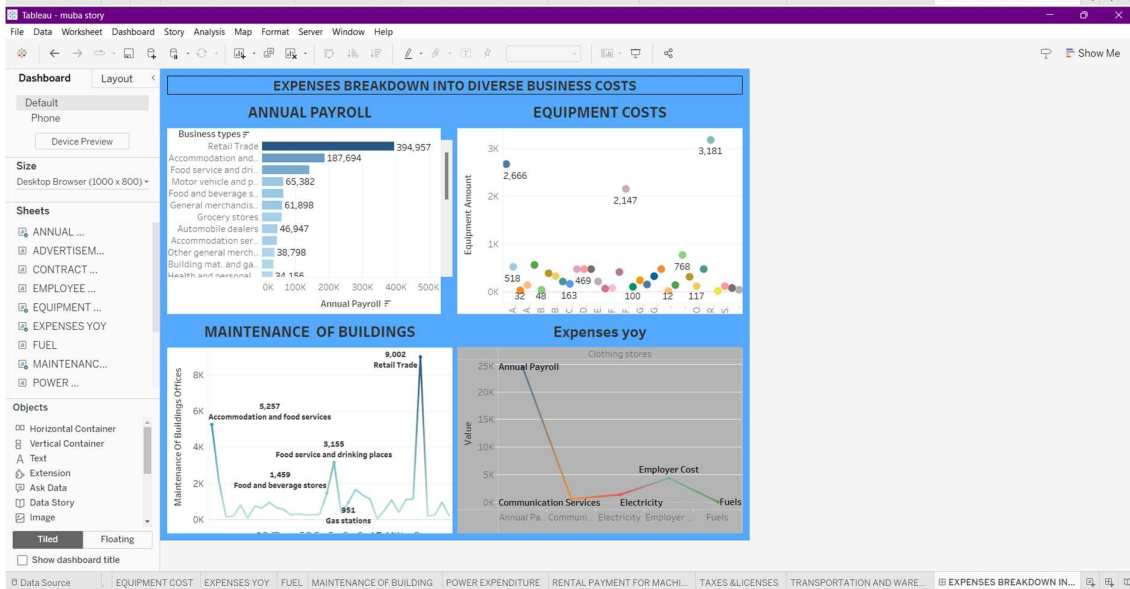
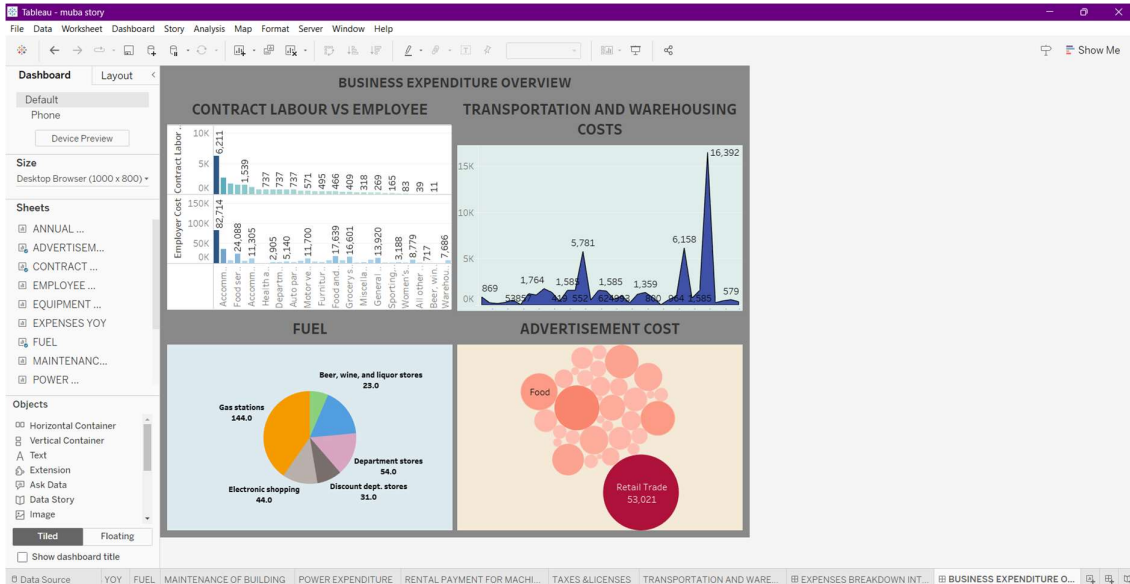


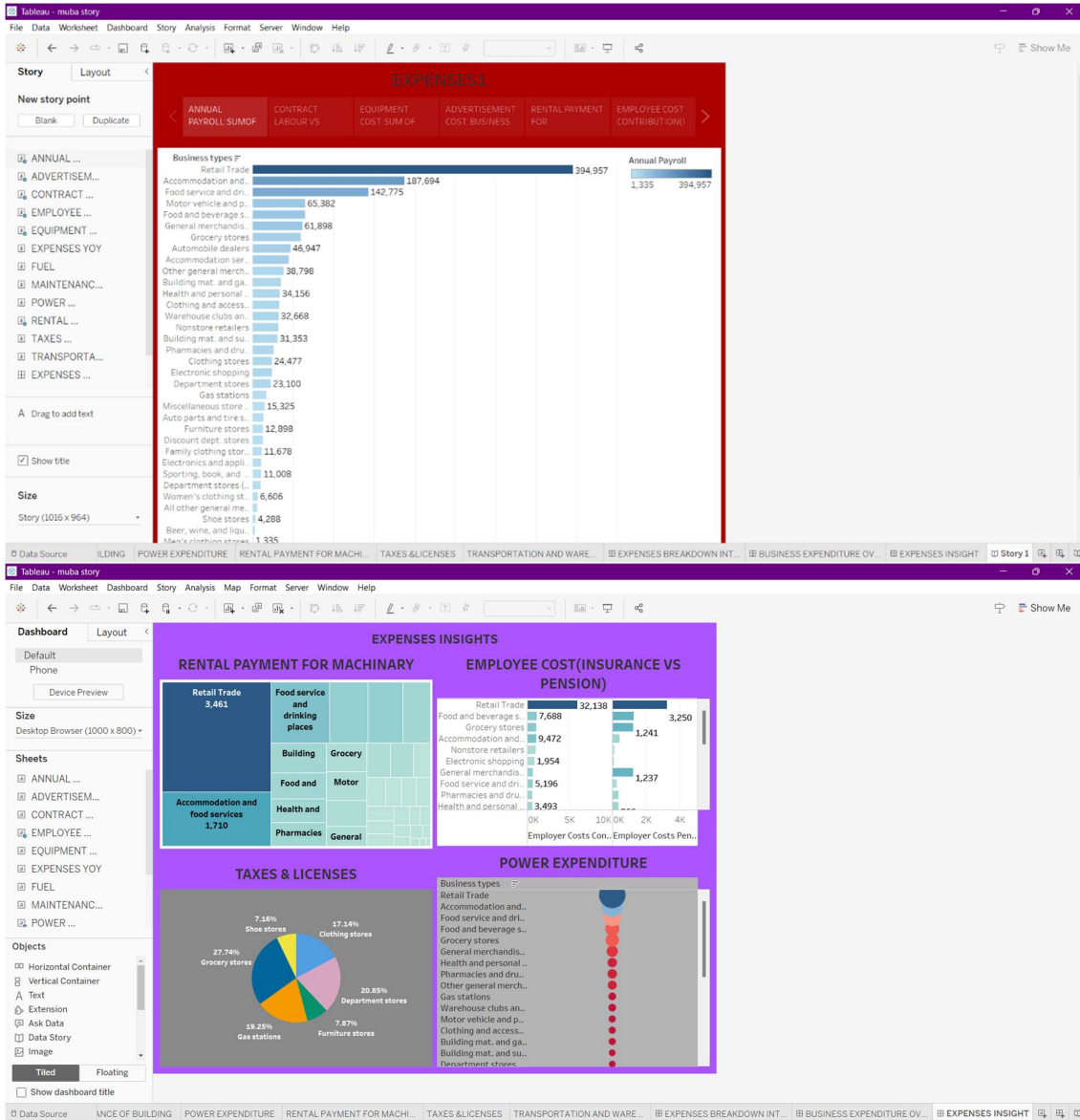


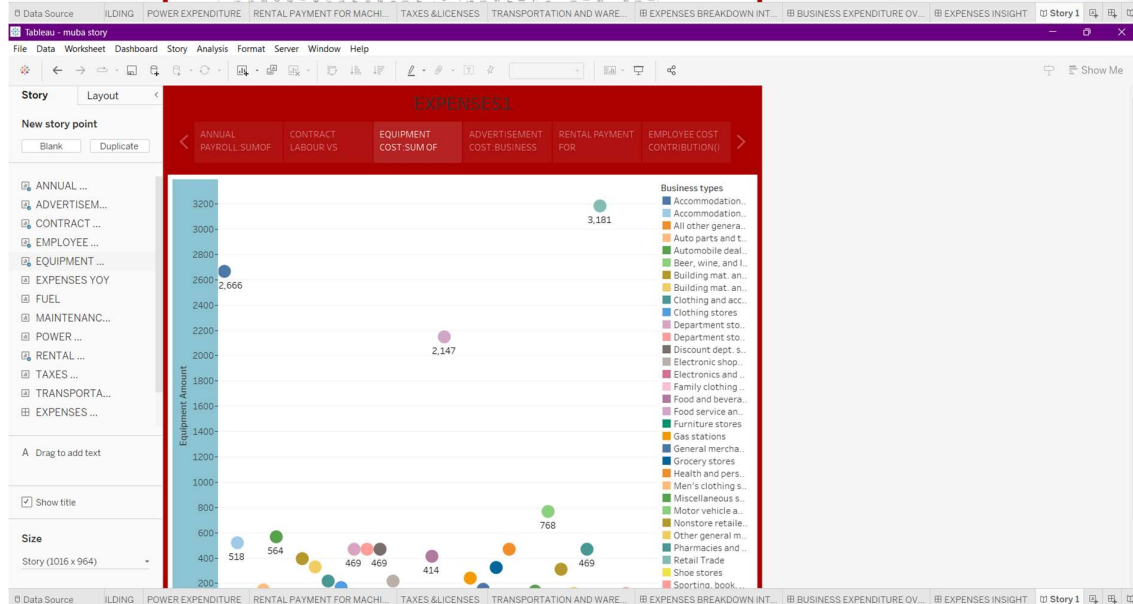


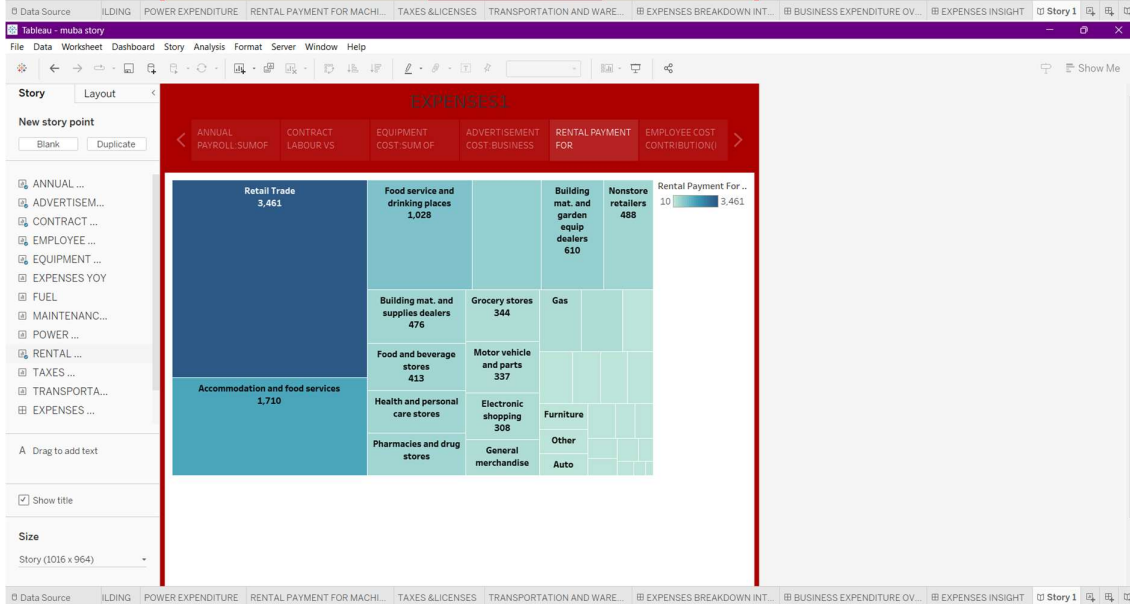
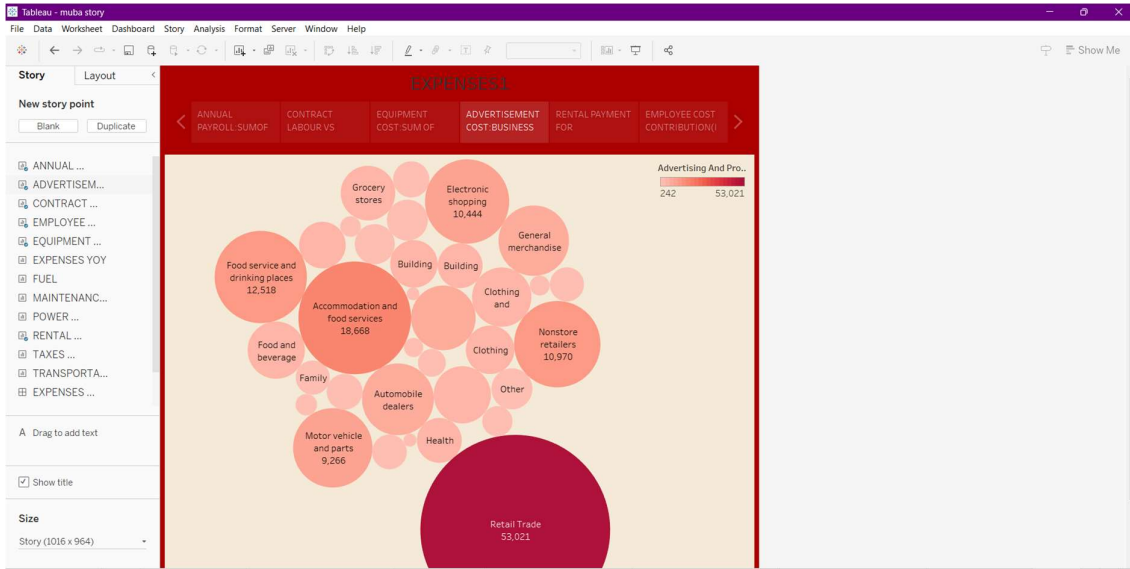


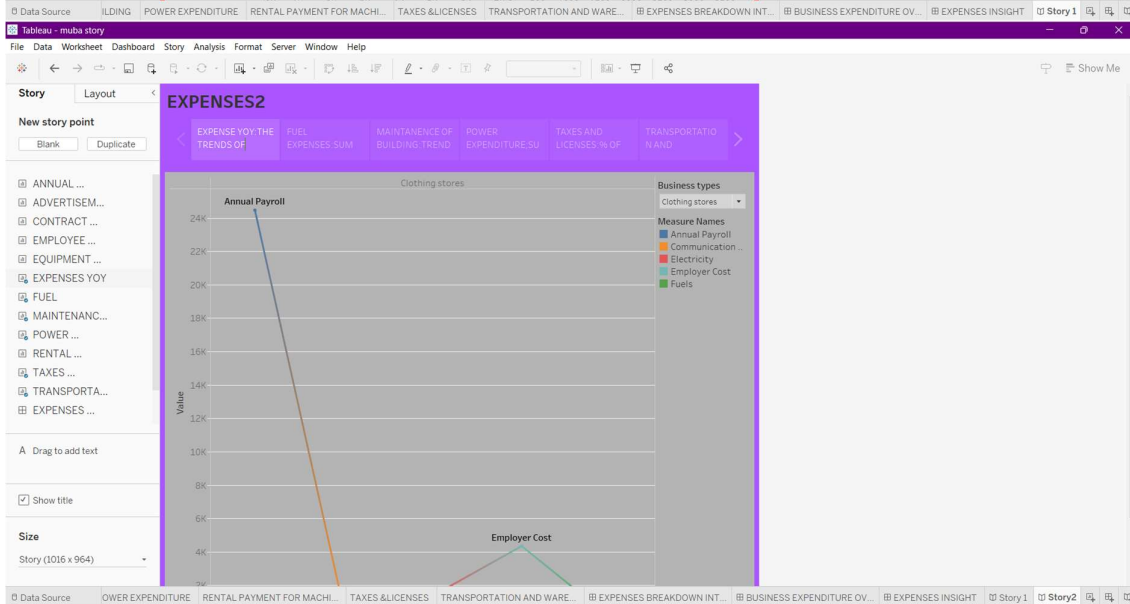
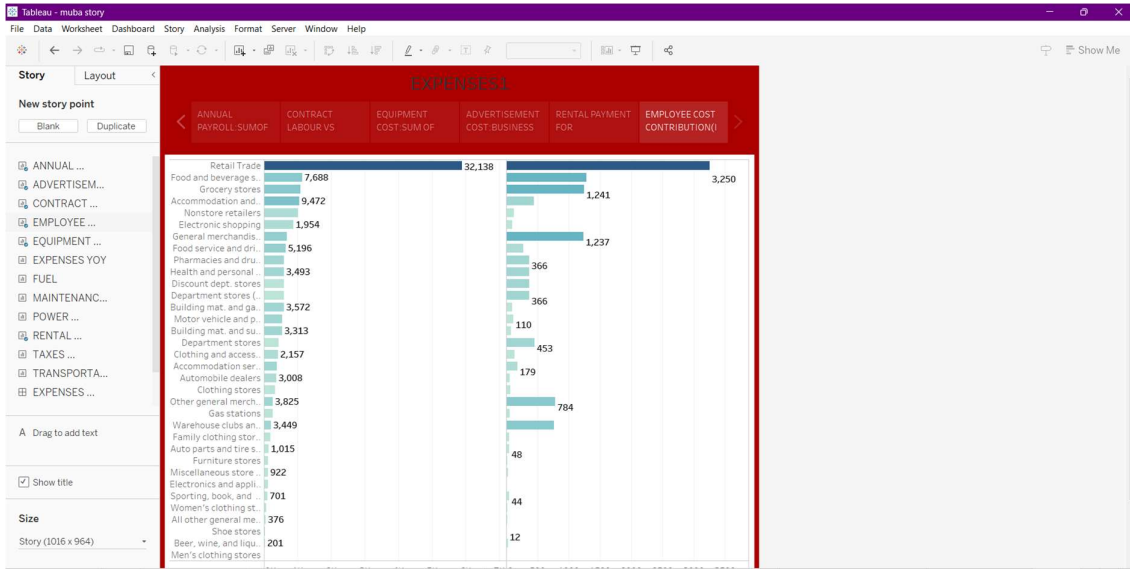


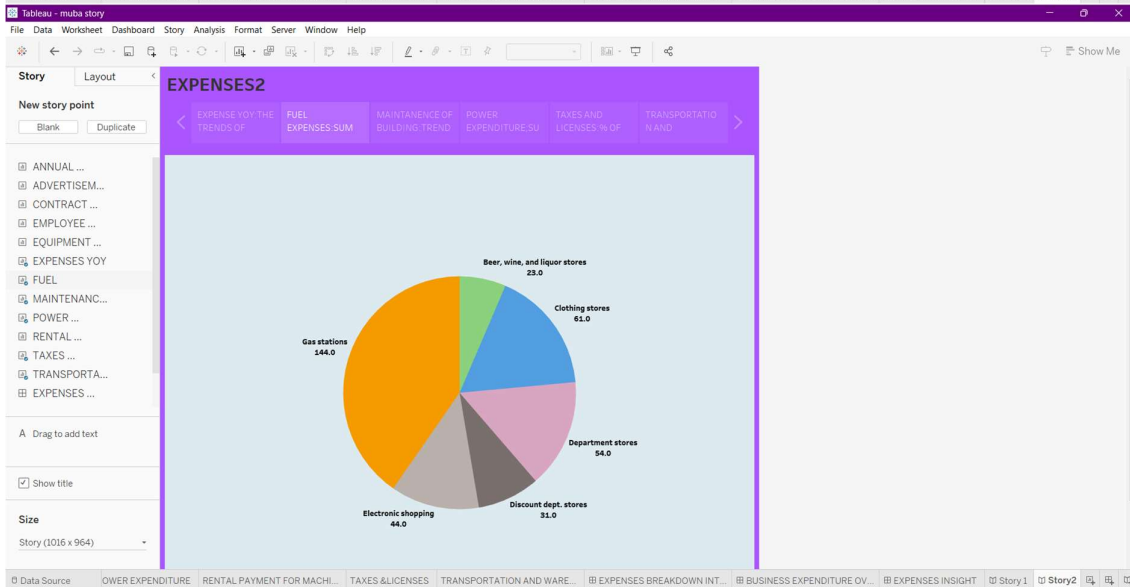
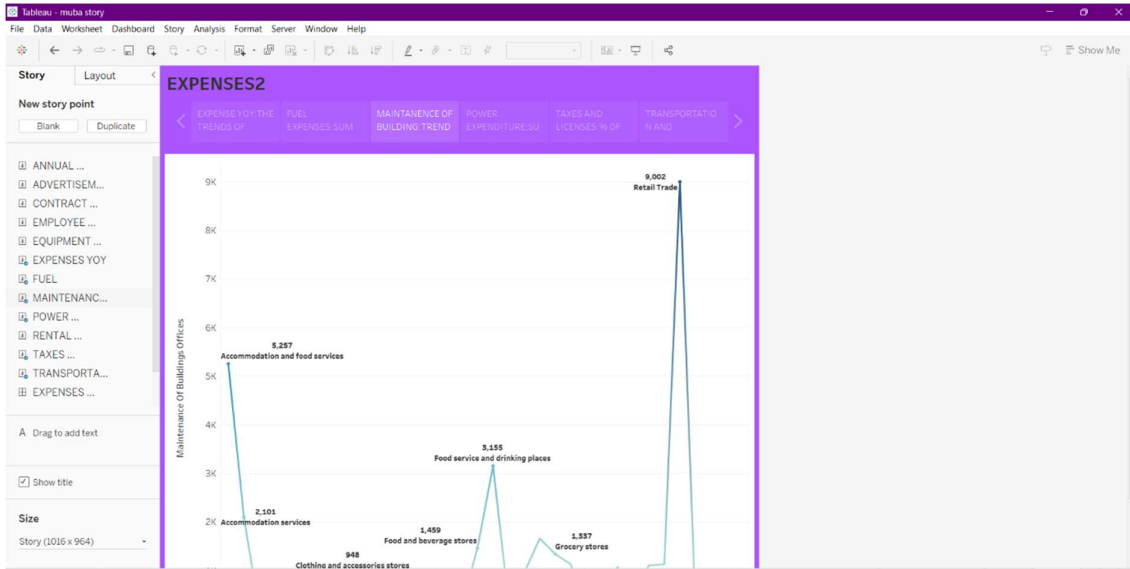


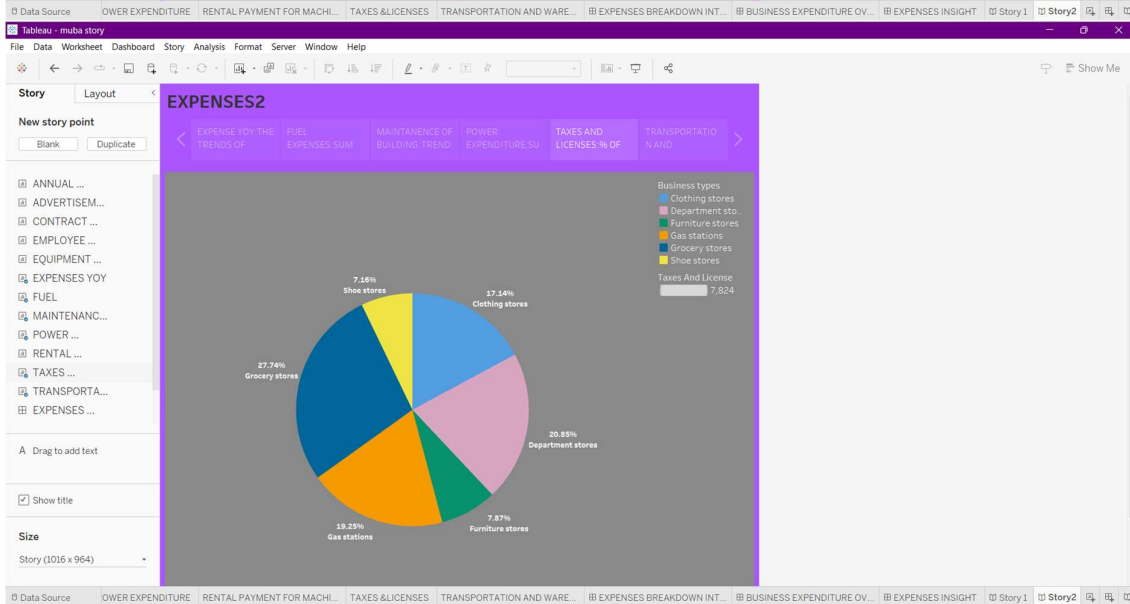
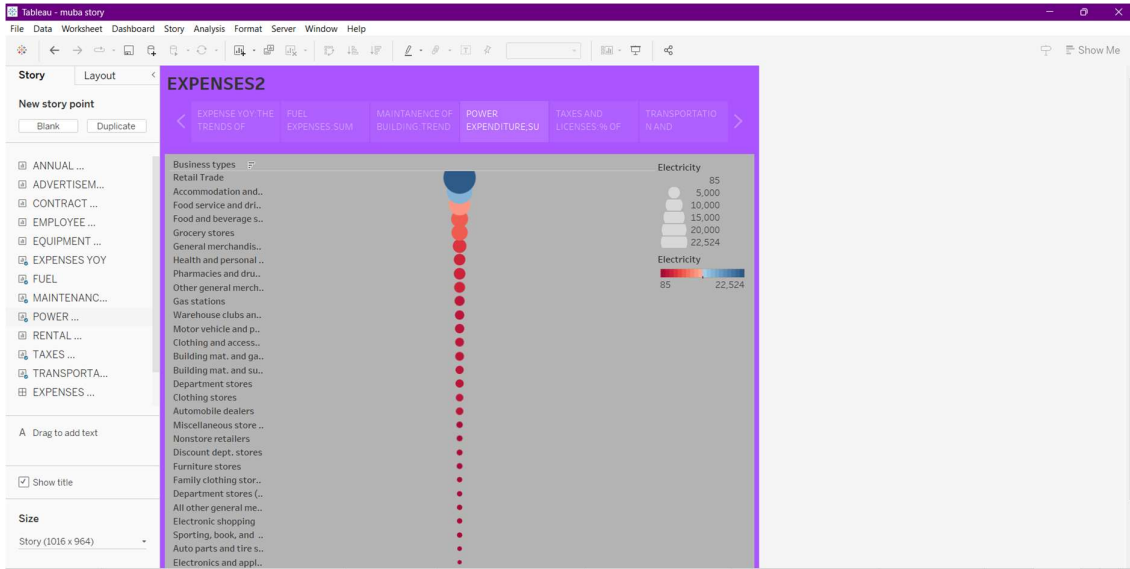


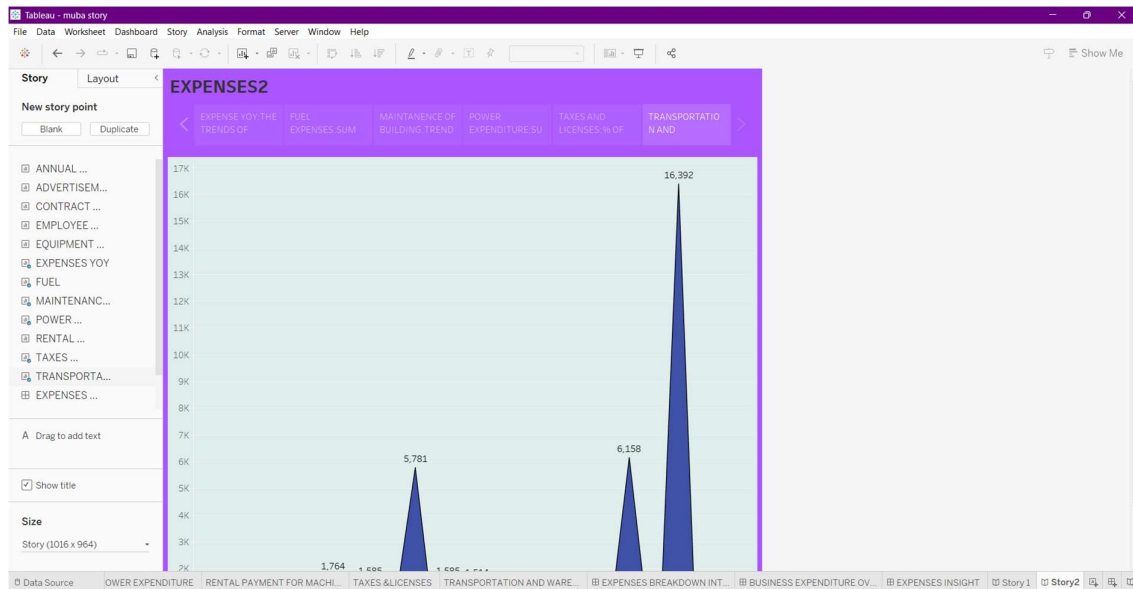












4.ADVANTAGES & DISADVANTAGES:

The cost accounting method is an internally focused, firm-specific system used to estimate cost control, inventory, and profitability.

It can be much more flexible and specific when compared to general accounting methods.

The complexity of cost accounting, however, means that it can be costly in a number of ways.

4.1 Advantages of Cost Accounting

The benefits of cost accounting include:

Adaptability

Managers appreciate cost accounting because it can be adapted, tinkered with, and implemented according to the changing needs of the business. Unlike the Financial Accounting Standards Board (FASB)-driven financial accounting, cost accounting need only concern itself with internal eyes and internal purposes.

Ease of Monitoring and Controlling Labor Costs

Labor costs are easier to monitor and control through cost accounting. Depending on the nature of the business, wage expenses can be taken from orders, jobs, contracts, or departments and sub-departments. This means management can pick and choose how it determines efficiency and productivity. This is very important when estimating the marginal productivity of individual employees.

Ability to View Data in Different Ways

Cost accounting can be thought of as a sort of three-dimensional puzzle. Accounts, calculations, and reports can be manipulated and viewed from different angles. Management can analyze information based on criteria that it values, which guides how prices are set, resources are distributed, capital is raised, and risks are assumed. It's a crucial element in management discussion and analysis.

4.2 Disadvantages of Cost Accounting

Cost accounting is not without drawbacks.

Costs

The benefits of cost accounting come with a price. Since costing methods differ from organization to organization, it's not clear how these costs might manifest themselves until a specific firm is examined.

Complexity

Generally speaking, complex cost accounting systems require a lot of work on the front end, and constant adjustments need to be made for improvements.

Additional Steps to Verify Accuracy

Even if the rigidity of financial accounting creates some inherent disadvantages, it does remove the uncertainty and misapplication of accounting guidelines of cost accounting. Uncertainty equals risk, which always comes at a cost. This means additional—and often more vigorous—reconciliation to verify accuracy.

Reliance on Highly-Skilled Talent

Higher-skilled accountants and auditors are likely to charge more for their services. Employees have to receive extra training and must sufficiently cooperate with data input. Non-cooperation can render ineffective an otherwise beautifully constructed system.

Special Considerations

The repeated trade-off in any accounting method is accuracy versus expediency. Cost accounting reflects this more dramatically than other accounting methods because of its pliability. Every business needs to find its own balance between the two.

Costing methods are typically not useful for figuring out tax liabilities, which means that cost accounting can't provide a complete analysis of a company's true costs. It's easy enough to compensate for this by combining financial accounting with cost accounting but it, nevertheless, highlights a flaw in cost accounting.

5.APPLICATIONS:

Cost accounting was originally developed in manufacturing firms, but financial and retail institutions have adopted it over time.

Contrasted with general accounting or financial accounting, the cost accounting method is an internally focused, firm-specific system used to estimate cost control, inventory, and profitability. Cost accounting can be much more flexible and specific, particularly when it comes to the subdivision of costs and inventory valuation. Unfortunately, this complexity-increasing auditing risk tends to be more expensive and its effectiveness is limited to the talent and accuracy of a firm's practitioners.

APPLICATION OF ESTIMATION OF BUSINESS:

1. Increased understanding of costs
2. For funding requirements
3. To understand material requirements
4. To aid preconstruction
5. To know equipment and tooling requirements
6. To pre-plan labor requirements
7. To understand the cost to benefit ratio
8. To understand rebuild costs for a valuation
9. To compare rates during a tender
10. To control costs

6.FUTURE SCOPE:

Cost estimation in project management is the process of forecasting the financial and other resources needed to complete a project within a defined scope. Cost estimation accounts for each element required for the project — from materials to labor — and calculates a total amount that determines a project's budget.

To determine an estimate's scope, cost analysts must identify the customer's needs. That is, the cost estimator must determine if the estimate is required by law or policy or is requested. For example, 10

U.S.C. § 2434 “Independent cost estimates; operational manpower requirements” requires an independent cost estimate before a Major Defense Acquisition Program (MDAP) can advance into system development and demonstration or production and deployment. The statute specifies that the full life-cycle cost—all costs of development, procurement, military construction, and operations and support, without regard to funding source or management control—must be provided to the decision maker for consideration.

Where appropriate, the Program Manager (PM) and the cost estimating team should work together to determine the scope of the cost estimate. The scope will be determined by such issues as the time involved, what elements of work need to be estimated, who will develop the cost estimates, and how much cost estimating detail will be included. Where the program is in its life cycle will influence the quantity of detail for the cost estimate as well as the amount of data to be collected. For example, early in the life cycle the project may have a concept with no solid definition of the work involved. A cost estimate at this point in the life cycle will probably not require extensive detail. As the program becomes better defined, more detailed estimates should be prepared.

Once the cost analysts know the context of the estimate or the customer’s needs, they can determine the estimate’s scope by its intended use and the availability of data.

7.CONCLUSION

cost estimation is an important component of project management that ensures projects are finished on schedule and within budget. Since inaccurate cost estimates can have serious financial consequences for businesses, accurate cost estimating is crucial for all stakeholders engaged in a project.

project cost analysis is used to determine the costs and benefits associated with a project. It’s a process used to determine if the project is feasible.