

## FORECASTING FOR ACTIVITY COST CONTROL

Types of Assets:

- 1) Current Assets
- 2) Liquid Assets
- 3) Fixed Assets
- 4) Intangible Assets

### **Forecasting for Activity Cost Control**

For the purpose of project management and control, it is not sufficient to consider only the past record of costs and revenues incurred in a project. Good managers should focus upon future revenues, future costs and technical problems. For this purpose, traditional financial accounting schemes are not adequate to reflect the dynamic nature of a project. Accounts typically focus on recording routine costs and past expenditures associated with activities. Generally, past expenditures represent sunk costs that cannot be altered in the future and may or may not be relevant in the future. For example, after the completion of some activity, it may be discovered that some quality flaw renders the work useless. Unfortunately, the resources expended on the flawed construction will generally be sunk and cannot be recovered for re-construction (although it may be possible to change the burden of who pays for these resources by financial withholding or charges; owners will typically attempt to have constructors or designers pay for changes due to quality flaws). Since financial accounts are historical in nature, some means of forecasting or projecting the future course of a project is essential for management control.

- Budgeted Cost

The budgeted cost is derived from the detailed cost estimate prepared at the start of the project. The factors of cost would be referenced by cost account and by a prose description.

- Estimated total cost

The estimated or forecast total cost in each category is the current best estimate of costs based on progress and any changes since the budget was formed. Estimated total costs are the sum of cost to date, commitments and exposure. Methods for estimating total costs are described below.

- Cost Committed and Cost Exposure!! Estimated cost to completion in each category is divided into firm commitments and estimated additional cost or exposure. Commitments may represent material orders or subcontracts for which firm dollar amounts have been committed.

- Cost to Date

The actual cost incurred to date is recorded in column 6 and can be derived from the financial record keeping accounts.

- Over or (Under)

A final column in Table 12-4 indicates the amount over or under the budget for each category. This column is an indicator of the extent of variance from the project budget; items with unusually large overruns would represent a particular managerial concern. Note that variance is used in the terminology of project control to indicate a difference between budgeted and actual expenditures. The term is defined and used quite differently in statistics or mathematical analysis.

**methods of measuring progress of work:**

Ratio method

Repetitive type of work progress

Non Repetitive complex work progress

Start/Finish method