UDC 658.5:338.512

O. Rodina,
senior lecturer of the Department of Finance and Accounting
Nikopol University of Economics,
Nikopol
e-mail: olga_gelevan@ukr.net
V. Nikitenko,
Candidate of philosophical Sciences, Associate Professor, Department of foreign languages,
Zaporizhzhya State Engineering Academy,
Zaporizhzhya
e-mail: vitalina2006@ukr.net

COST MANAGEMENT: ASPECT BETWEEN THEORY AND PRACTICE

Cost is encompass a broad variety of cost management functions focused on providing independent, objective, accurate and reliable capital and operating cost assessments usable for investment funding and project control.

The International Cost Engineering Council (ICEC) issued a White Paper outlining the similar and highly overlapping functions of cost engineering and quantity surveying, including a comprehensive list of typical cost functions. It also noted that with such an extensive number of cost functions, not all practitioners in the field perform all of these functions. The main goal is to provide guidance to owners, financiers and contractors [1].

A recent survey confirmed that half of the responding organizations are struggling with their project control functions [2]. Experienced project cost professionals know what should be done to manage and control costs successfully. However, simply knowing what should be done is not enough. This paper will delve into some of the obstacles that often impede the proper setup and execution of project cost control and present measures to eliminate or at least minimize negative impacts.

A major impediment to project control effectiveness. Despite being an integral part of project management, there is still some lack of understanding of the whole system of project cost control [3]. There are many people who think of project cost control as merely collecting and reporting costs.

Project control is a key factor in ensuring that business and project objectives are achieved through the provision of accurate and efficient information to support informed decisionmaking. Management is dependent on timely project control status and forecast information and recommendations to develop and implement timely and effective mitigation [4].

The basic project cost control cycle comprises the following steps:

1. Develop a baseline
2. Accumulate/collect data
3. Evaluate and analyze findings
4. Forecast
5. Recommend (to support decision making)

Although project cost control is not that difficult to follow in theory, it is a lot more difficult to do in practice [3].

The other “burning question” is “who controls costs?” Controlling costs is a project team endeavour. The project team members, including engineering, procurement and construction, need to actively control against the baselines. Only the project manager can exercise the authority and control to force compliance to both the budget and associated schedule.

This statement can be considered a mistake, because the cost management should not only the manager but also the head of the company.

The task of a project cost professional is certainly easier in organizations with high levels

of Project Management Maturity (PMM) where standard project processes are integrated with corporate processes, including the development and maintenance of estimates, budgets and schedules [5].

Project cost control effectiveness will be impacted by how well the basic project management practices are implemented on the project, including the definition of such items as governance, owner organization and rosters, roles and responsibilities, project execution strategies, reporting and communications.

It is imperative that project controls personnel be involved in these early discussions and planning activities as it would be risky to assume that other project personnel can speak on behalf of project controls. Each owner and each project have unique elements that need to be considered beyond simply repeating "what was done on a past project".

The following are examples of project cost control items that need to be addressed in order to enable the proper application of project cost control:

1.Terminology: Baseline budget and forecast (original and current); Estimate classifications and accuracy ranges; Types of costs: Incurred costs, committed costs, expended costs;Contingency and allowances.

2.Estimates

3.Owner codes

4.Reports

5.Time Pressure

6.Baseline Development

7.Collection of data

8.Analysis of findings

9.Forecasting

10.Recommendations

11.Change Management

"Cost management is not 'good' to cost accounting's being 'bad'" [6] - they both perform different but necessary functions. With recent advances in accounting and ERP systems, there is a veritable flood of "real time" financial data. Often mistaken for or confused with cost control, cost accounting provides a record and history of expenditures but does not by itself manage and control final cost at completion outcomes. Project cost control requires cost commitments and incurred costs (value of work done) at various levels of detail rather than accounting transactions. Accounting accruals only provide a partial picture of the current status. There is often conflict between corporate accounting/IT groups and project groups over what constitutes appropriate information for project control, especially in low-level PMM organizations.

Experienced project cost professionals know how to use the tools and technique, coupled with their inherent capability to forecast and present the project team and management with realistic recommendations. Many of the factors that are causing a gap between project cost control theory and practice are outside the control of the project cost professional. However, this is not unusual in project management. Being undervalued and misunderstood should spur project cost professionals to proactively embark on an educational campaign.

Project cost control is not performed in a vacuum, sitting in front of a computer. The project cost professional needs to talk to people and obtain information first hand. There are multiple informal and formal opportunities to educate personnel via one-on-one conversations, project review meetings, departmental meetings and teaching in company training programs.

There are also opportunities to volunteer in local sections of professional associations involved with project management, cost management and project controls. These groups have substantial amounts of educational and reference material on line [7].

LITERATURE

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