



## Project Budgets & Expenditure

Neville Turbit

### Overview

Hands up all those Project Managers who have spent hours trying to reconcile their project expenditure with the corporate General Ledger? In almost every project, the GL is an impediment to project management rather than an aid.

### Why the Corporate GL is an Impediment

#### Project Financial Period

The corporate GL is typically based around financial years. Projects are not. A project may span more than one financial year. By the time you are into year 2, to see how you are going against budget, you need to work out what should be charged to year 1, and add expenditure from year 2. Even worse, sometimes you have expenditure spanning two years and have to allocate to the correct year. Doing a year end is a big enough task for a company. You don't want to do it for a project.

#### Level of Granularity

Often the corporate GL chart of accounts does not break down to the level of granularity required in a project. There may be one GL account code for external consultants but you need to know the expenditure for particular organisations. Computer peripherals may be one GL account but you need to know printers versus scanners.

#### Currency of the Data

By the time an account is processed, the information is out of date. You might have a contractor who you know will cost \$10k over two months. \$2k is in month one, and \$8k is in month two. You need to be able to quickly identify the projected expenditure so that at the end of month two, the figures you know the expected expenditure figures even though the bill has not arrived. A proper project accounting system needs to show committed and actual expenditure.

#### Business Resources

Business resources are sometimes not included in the project costs. If you want a true measure of the cost of the project, you need to factor in the cost of time spent by Business resources.

### A Project Accounting System

You can always buy a project accounting package. In some cases this may be warranted however those cases are usually multi million dollar projects spanning several years. They may even have a full time project accountant. For a normal project, they will probably be more trouble than they are worth. You can end up spending even more time trying to reconcile with the corporate accounts. It doesn't matter if it is in the area of IT project management or construction project management, taking on additional project management tools can be a big load on a project manager.

A compromise solution is to set up your own set of accounts linked to the Corporate General Ledger. You create your own chart of account but map each account code back to the Corporate GL. It is essentially a set of accounts you can sort in two ways. One gives you information you need to run the project, and the other information to reconcile with the GL.

The project chart of accounts used in Project Perfect’s “Project Administrator” project management Software uses this approach.

**Example – Project Chart of Accounts**

The GL has a code 1000, which is “External contractors”. In your project accounts you create project account codes

- 200 for company X contractors
- 210 for company Y contractors

Both have an alias of 1000. If you look at them in a project context, you have an account for each company. If in a GL context, they are combined. You could develop these accounts in an Access database or even in a spreadsheet if you have some VBA skills.

GL Code	Project Code	Amount
1000	200	\$250
1000	210	\$450
1000	200	\$200

We have paid both contracting companies \$450

- Account 200 (\$250 + \$200)
- Account 210 - \$450

If sorted and added by GL Code (account 1000) the total is \$900.

**Accrued v Actual Project Expenditure**

You also need to be able to enter the information as either actual or accrued. Accrued means you have committed the money, but it has not been billed yet. Accrued amounts are usually ignored when looking at reconciliations. You do need accrued for your own purposes when managing the project budget.

To take the example a step further, suppose we are doing a reconciliation with the corporate accounts. Our project accounts show the following.

GL Code	Project Code	Amount	Actual
1000	200	\$250	Yes
1000	210	\$450	Yes
1000	200	\$200	No

What we would expect to see in the corporate GL is expenditure against account 1000 of \$700 (\$250 + \$450). We know we have actually committed to spend \$900 but we can quickly filter out the accrued figure and reconcile with the corporate figures that only track actual billed amounts.

Be sure when you set up project accounts, they are identifiably different to the Corporate General Ledger account codes. Having a corporate GL that has four digit codes and a project general ledger with four digits is bound to lead to confusion. You probably need at least four digits but to ensure there is no confusion, make it six digits.

### **Linking Timesheets to the Project Financial System**

In talking with potential purchasers of our software (Project Administrator) I have heard people say that they want to automatically link timesheets to the project financial system. As soon as someone fills in a timesheet, they want it to update the financial accounts.

If everyone is on a standard hourly rate, it might work. But consider this.

- How do you cater for overtime? One organisation I know we spoke to does not pay overtime until a person has 10 hours in any one day. The rate is +50% for the first 4 hours over 10 hours and then double time after that. And these rules only apply to some of the project staff. Do you want to try and build those rules into a spreadsheet?
- How do you cater for weekend rates?
- How do you cater for different rates on public holidays?
- If the rates change for the person mid project, will the financial system cost everything at one rate, or two rates over the life of the project?
- Is all the time a person spends on the project billable to the project or are things like training exempt?
- Do you have access to all internal salary details? Do you know what the Sponsor is paid?
- If an internal person spends 3 hours one day on the project, then does another 8 hours at their normal job without being paid overtime, how do you split the cost? Is there a cost?
- If your organisation has a proportional quarterly allocation charging basis for resource recruitment and placement, do you build this into the rate or treat separately?

My advice if someone says they want to link timesheets to financial systems is:

“Be afraid. Be very, very, afraid”

You are about to enter very murky water. If it is a 20 million dollar project and you have a project accountant available, buy a package that will allow you to program in all the rules. If it is a \$200k project, and you only have Microsoft Excel, enter figures manually. Alternatively, create a download file from the payroll system to update your spreadsheet or database.

## **Project Cash Flow**

Any project should develop a projected cash flow for the life of the project. Cash flow is often not even considered which can lead to significant problems as the project progresses. There are a couple of issues to be considered.

Expenditure is usually low for the first half of the project. It typically jumps in the third and fourth quarters of the project. For a senior manager who scans a monthly report and sees your project which has been costing \$10k per month, make a sudden jump to \$100k it is going to cause heart palpitations. You need to be able to relate it to a cash flow that forecasts a 10-fold increase.

Any scope variations need to be built into the forward cash flow. If you get approval to vary the scope, where will the expenditure occur? Do you want to be put on the spot by someone asking why expenditure has jumped and you cannot provide the answer?

Cash flow also means you don't just spend from one big bucket. You spend from a cup full of cash at any one time. If you know your projected expenditure is \$20k for the month, you will start to get more focused if it is mid month and you have already spent \$18k. You can start to look at why, and take action.

Imagine if we were all payed our annual salary once a year. Many of us would be destitute by mid year unless we rationed out the money on a weekly or monthly basis. Unless we did a personal cash flow, we would be in serious financial trouble.

## **Reconciliation of Project Expenditure**

If your project is spanning two or more years, it is useful to put a flag against each entry as to which year it will be included in. This will make reconciliation easier in that you can filter only year 1 or only year 2 entries.

You also need to determine how your General Ledger reports are delivered. For example:

- They only show actual payments
- They show actuals and purchase orders that have been raised
- They show actuals and invoices received but not paid.

How the reports are put together will determine how you treat "Accrued" in your project financial system.

## **Sample Project Chart of Accounts**

Here is a typical chart of accounts for a project. It will not fit all projects however it is a good starting point. By "Aggregated" we mean that the code is used to roll up lower level accounts. Whilst the example is for an IT Project Budget, the same structure would fit a Construction Project Budget. Items such as "Infrastructure" would become "Equipment" for example.

<b>Code</b>	<b>Name</b>	<b>Aggregated</b>
1000	Internal Resources	Yes
1100	Business Resources	Yes
1110	Marketing Dept	No
1120	New Business	No
Etc.		
1200	IT Resources	Yes
1210	Development	No
1220	Infrastructure	No
1230	Business Analysts	No
Etc		
2000	External Staff	Yes
2100	Company X	Yes
2110	BA's	No
2120	Programmers	No
Etc		
2120	Company Y	Yes
Etc.		
3000	Staff Support Costs	Yes
3100	Training	Yes
3110	Software Training	No
3120	LAN Training	No
Etc		
3200	Travel	Yes
3210	Airline	No
3220	Motor Vehicle Hire	No
Etc		
3300	Staff Amenities	Yes
3310	Meals	No
3320	Entertainment	No
Etc		
4000	Applications	Yes

Code	Name	Aggregated
4100	Project Software	Yes
4110	Project Management Software	No
4120	Development tools	No
4130	Testing Software	No
4200	Operating System	Yes or No
4300	Application	Yes or No
4400	Communications	Yes or No
5000	Infrastructure	Yes
5100	Desktop	Yes
5110	PC	No
5120	Monitor	No
5130	Printers	No
5140	Other	No
5200	Servers	No
5300	Mainframe	No
5400	Communications	Yes
5410	Firewalls	No
5420	Hubs, Switches & Routers	No
5430	Other	No

## Level of Detail for Project Expenditure

The level of detail for Project Expenditure depends on the size of the expenditure, the time you have available to manage the input, and what you can do with the output. For example, does it make sense to record details of firewalls, separate from hubs, separate from Router? There may be a reason or there may not. As a general rule, if you can't do anything with the information, roll it up to the next level and save yourself some work.

## Summary

Projects don't only exceed their budget because they turn out to be bigger than originally costed. They often blow the budget because the finances are badly managed. Ask yourself what will cause the biggest problem.

- Finding out 80% through the project that you are going to exceed the budget by a substantial amount

- Finding out 20% through the project that your rate of expenditure is higher than you forecast and that your projected expenditure is also growing.

At least in the later case you have time to do something about it. Even if the only thing you do is start to set expectations that the project will cost more than expected it is better than springing a surprise on everyone late in the project.

Neville Turbit has had over 15 years experience as an IT consultant and almost an equal time working in Business. He is the principal of Project Perfect. Project Perfect is a project management software consulting and training organisation based in Sydney Australia. Their focus is to provide creative yet pragmatic solutions to Project Management issues.

Project Perfect sell “Project Administrator” software, which is a tool to assist organisations better manage project risks, issues, budgets, scope, documentation planning and scheduling. They also created a technique for gathering requirements called “Method H”™, and sell software to support the technique. For more information on Project tools or Project Management visit [www.projectperfect.com.au](http://www.projectperfect.com.au)