

Budgeting the Project

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Introduction

- *Budgets* are plans for allocating organizational resources to project activities.
 - forecasting required resources, quantities needed, when needed, and costs
- *Budgets* help tie project to overall organizational objectives.
- *Budgets* can be used as tool by upper management to monitor and guide projects.

METHODS OF BUDGETING

Top-Down Budgeting

- Based on collective judgements and experiences of top and middle managers.
- Overall project cost estimated by estimating costs of major tasks
- Advantages
 - accuracy of estimating overall budget
 - errors in funding small tasks need not be individually identified

Bottom-Up Budgeting

- WBS or action plan identifies elemental tasks
- Those responsible for executing these tasks estimate resource requirements
- Advantage
 - more accurate in the detailed tasks
- Disadvantage
 - risk of overlooking tasks

COST ESTIMATING

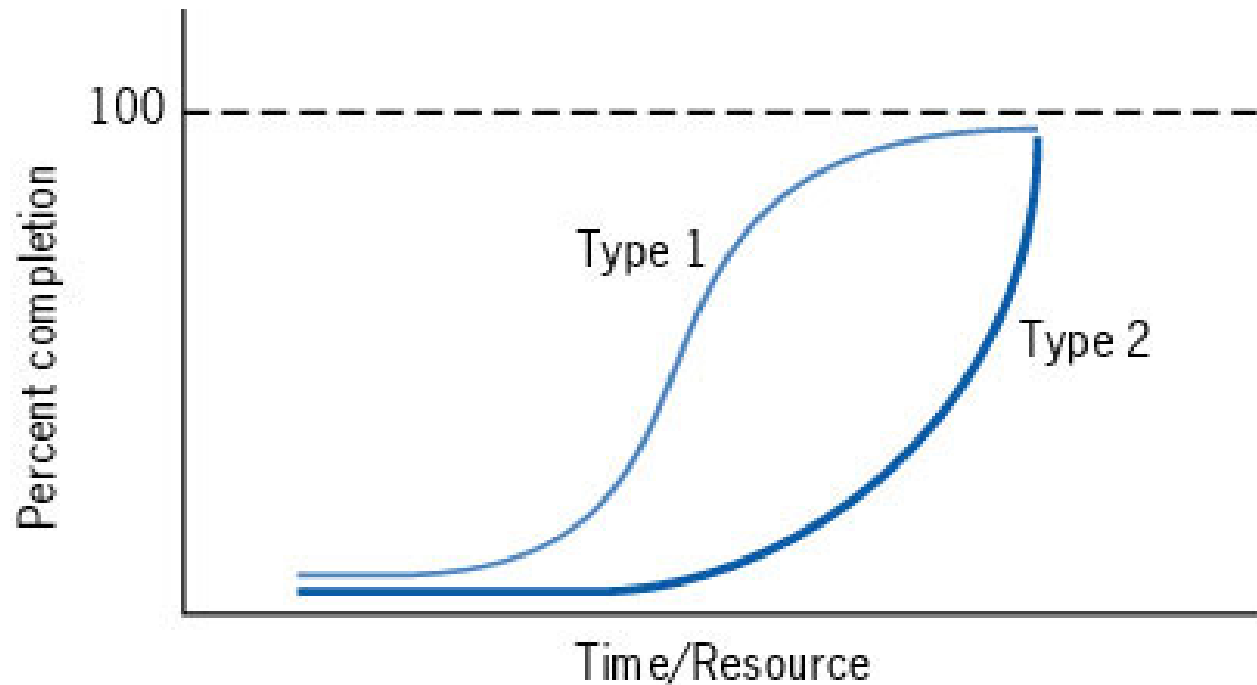
Work Element Costing

- Determine resource requirements and then costs for each task
 - costs (e.g., materials)
 - labor time
 - labor rate
 - equipment time
 - equipment rate
 - overhead
 - GS&A



The Impact of Budget Cuts

Two project life cycles



Activity Versus Program

Budgeting

- **Activity** oriented budgets are based on historical data accumulated through an activity-based accounting system.
 - expenses assigned to basic budget lines
- With **program** budgets, each project has its own budget.
 - expenses by task and time period are shown