

AACE
INTERNATIONAL
RECOMMENDED
PRACTICE

108R-19

**ACCOUNTING CONSIDERATIONS IN
COST CONTROL**

SAMPLE

AACE

INTERNATIONAL

Rev. April 9, 2022



AAACE® International Recommended Practice No. 108R-19

ACCOUNTING CONSIDERATIONS IN COST CONTROL

TCM Framework: 7.3 – Cost Estimating and Budgeting

7.4 – Resource Planning

7.5 – Value Analysis and Engineering

9.1 – Project Cost Accounting

Effective April 9, 2022

Note: As AAACE International Recommended Practices evolve over time, please refer to web.aacei.org for the latest revisions.

Any terms found in AAACE Recommended Practice 105-90, *Cost Engineering Terminology*, supersede terms defined in other AAACE work products, including but not limited to, other recommended practices, the *Total Cost Management Framework*, and *Skills & Knowledge of Cost Engineering*.

Contributors:

Disclaimer: The content provided by the contributors to this recommended practice is their own and does not necessarily reflect that of their employers, unless otherwise stated.

Ty Moore, EVP (Primary Contributor)
Larry R. Dysert, CCP CEP DRMP FAACE Hon. Life
Michael G. Ferguson, CCP
Felipe Andre Isore Gutierrez

Donny Lai
Richard C. Plumery, EVP
Dr. Stephen P. Warhoe, PE CCP CFCC FAACE Hon. Life

Copyright © AAACE® International

AAACE® International Recommended Practices

Single user license only. Copying and networking prohibited.

This document is copyrighted by AAACE International and may not be reproduced without permission. Organizations may obtain permission to reproduce a limited number of copies by entering into a license agreement. For information please contact editor@aacei.org

ACCOUNTING CONSIDERATIONS IN COST CONTROL

TCM Framework: 7.3 – Cost Estimating and Budgeting
7.4 – Resource Planning
7.5 – Value Analysis and Engineering
9.1 – Project Cost Accounting



April 9, 2022

TABLE OF CONTENTS

Table of Contents	1
1. Introduction	2
2. Recommended Practice	3
2.1. General Considerations	3
2.2. Cost Accounting Classification Methods	3
2.3. Cost Accounting Classification Methods Impacts on Performance Assessment	5
2.4. Selecting Cost Accounting Classification Methods	7
3. Conclusion	7
References	8
Contributors	8

SAMPLE

April 9, 2022

1. INTRODUCTION

The intent of this recommended practice (RP) is to document and provide reliable guidelines that practitioners can recommend or consider for use when planning budgets and using resources. Such guidelines and practices should work in concert with generally accepted accounting principles (GAAP) or international financial reporting standards (IFRS). Accounting methods, rules, and standards are specific to the project, company, and location. However, when possible, the standards for project reporting should be the benchmark for certifying, either officially or unofficially, to allow for repeatable processes and results. Every organization or project should define and document the accounting approach or methodology for allocating its actual costs in relation to direct, indirect, overhead, and other direct costs. These approaches should also be discussed in other documents such as financial disclosure statements and an earned value management system description. The intended audience is program and project managers, cost engineering professionals, project controls professionals, and earned value practitioners who develop or assess performance measurement baselines (PMB).

Total Cost Management™ (TCM) is “the effective application of professional and technical expertise to plan and control resources, costs, profitability and risks” [1]. It allows owners and customers to understand actual and potential performance impacts to the project plan. Understanding cost accounting methods and the impacts they can have on the baseline, and the impacts they will have on execution, helps provide a clearer and complete picture of how the effort is being monitored.

This RP is aligned with the TCM Framework, as well as the Electronic Industries Alliance (EIA) – 748 Earned Value Management Systems (EVMS) guidelines. (Guidelines 16 – 27). [2], [3] This document also provides additional insight to the impacts that accounting methods can have on variance reporting and baseline planning. [4]

Cost accounting¹ applies to all portions of the plan, do, check and act (PDCA) management cycle upon which TCM is based. [1] In TCM a key element is recording and checking the activity to understand what the next action should be. As performance is tracked and analyzed appropriately, the decision-maker can take the most beneficial actions for the company’s effort. Figure 1 shows the TCM process map for project cost accounting.

¹ Specific accounting methods such as accrual basis, case basis, and percent completion are not addressed in this RP.

April 9, 2022

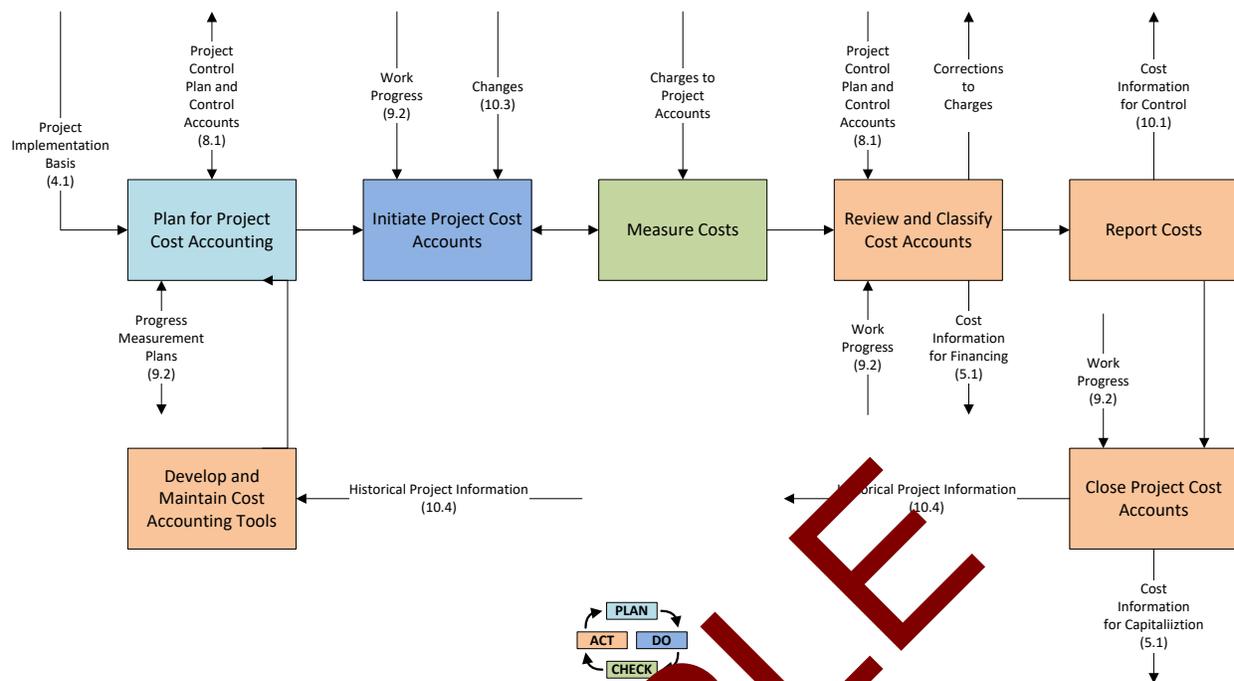


Figure 1 – Process Map for Project Cost Accounting (TCM Figure 5.1-1)

2. RECOMMENDED PRACTICE

2.1. General Considerations

General standards and practices must be followed for an effective cost reporting system. One major factor in tracking cost appropriately within a project accounting system is ensuring the budgets used with the project coding structures follow standard cost element categorization. The elements of a budget should be broken down into respective work breakdown structures (WBS), and cost breakdown structures (CBS). The WBS provides the framework for organizing and ordering the activities that makes up a project; it provides a hierarchical product-oriented (functional) structure. The CBS provides a hierarchical breakdown of a project into cost categories (e.g., labor, materials, equipment, subcontractor, and other cost elements). Comparing and reconciling the WBS and the CBS for both budgeted and actual costs will ensure elements of cost are allocated correctly. The accounting system general ledger codes need to roll-up to the CBS to ensure accrual and other allocation methods are effective.

2.2. Cost Accounting Classification Methods

Understanding the rules or standards that govern financial reporting in a particular industry and/or regulatory environment is key to understanding the effects they may have on PMB reporting.

Cost accounting is the method used to accurately calculate and record fixed and variable costs of the provided product or service. It is important to remember that companies must conform to GAAP, IFRS or other accounting standards. These support external financial and reporting functions. Note that GAAP and IFRS may be used together