How to Manage Properly Project Cost Time-Phasing to Avoid Project Financial Reporting Surprises at the End of the Accounting Year

Percentage-of-Completion (POC) accounting amplifies any change in the project forecast at completion when it comes to the short term financial results recognition (refer to our previous White Paper 2014-10). In this White Paper we give Project Managers strategies to manage the time-phasing of their project costs in a way that will avoid as much as possible surprises at the end of the accounting year – thus preserving a trusting relationship with the organization’s executive management.

Because the financial results of a project-driven company are to a large extent driven by the project P&L, POC – and hence, proper time-phasing of costs, is a serious issue for the organization’s management.

Time-phasing of costs: principles

The project cost model must be time-phased month by month for each section of the Cost Breakdown Structure (often called Work Packages). This should be implemented in the Cost Control tool. Downloads from the Cost Control Tool will then feed the financial models. Having Work Packages of limited time duration will make this time-phasing easier; however it is not always possible depending on the contracting strategy.

It takes a certain degree in maturity of the organization, and the implementation of specialized cost control tools, to effectively maintain this cost time-phasing in the Project Cost Model. Unfortunately many organizations do the time-phasing exercise outwith project Cost Control. Sometimes it is done by the Accounting without a real handle on the actual expected expenditures of the project, which leads to difficult situations when it comes to explain poor profit recognition at the end of the year. It is important to review the time phasing on a monthly basis to make sure that costs that are known to slip to the next accounting period (fiscal quarter or year) have effectively been pushed as soon as this information is known. This is critical to ensure the quality of the time-phasing as seen from the financial function, and avoid any unpleasant surprises in the last few weeks of a Quarter the last few months of a Financial Year.

Managing Time-Phasing to avoid surprises

It is a general syndrome that cost time-phasing happens to be excessively optimistic in terms of expenditure during the current accounting period. This leads to disappointments and degradation of financial results expectations towards the end of the accounting period (fiscal year). When not properly managed, time-phasing issues can easily result in an actual profit recognition for the year of only half of what was forecast a few months before! Obviously such a poor financial forecasting does not generally enhance the market confidence in the ability of the organization’s management to control its operations.

The cost time-phasing is not entirely under the control of the Cost Controller because it needs to be consistent with the other project execution monitoring tools – in particular, the project schedule. Still, from the project schedule to the cost time-phasing, there are some margins of interpretation in terms of actual cost expenditure, in particular when it comes to procurement and contracts, and even more when it comes to related allowances.

As a general rule it is important that the Cost Controller be reasonably pessimistic, within the framework of the overall project schedule, on the actual costs that will be spent during the accounting period. In case of doubt, it is better to consider the cost will be spent in the next period.

Some particular cost elements to consider:

- Allowances, unless specifically allocated to an activity, should be pushed to the next period
- Contingency should not be considered as part of the cost phasing for the next 3 to 6 months and should be time-phased only beyond this period
- Purchase orders or contracts always start slower than expected in terms of physical progress, so that costs for such contracts that are planned to be awarded and start in the last 2 or 3 months of the accounting period should be scrutinized and conservatively pushed to the next accounting period where appropriate.

In general, it is critical that the Cost Controller reviews the time-phasing of the entire cost model on a monthly basis to push any cost which is doubtful to happen in the current fiscal year to the next year. This is particularly important from the middle of the current Financial Year onwards. Failure to do this will create an apparent sudden degradation of the Financial Year’s expected financial result in its last months, which is not recommended for the longevity of the Project Manager. While most of the details of cost time-phasing will be managed by the Cost Controller, it is essential that the Project Manager keep an eye on the process and makes sure that the time-phasing is properly conservative based on his experience and his views of how the project will effectively unfold.
The secret resides in making the changes immediately and progressively every month and avoiding sudden cliff effects where significant chunks of costs get moved to later accounting periods in the Project Cost Model. It sometimes required a bit of strategy development between the Cost Controller and the Project Manager.

**Conclusion: Advice for Project Management survival: be pessimistic in your time-phasing!**

As a general observation it is important to be conservative (pessimistic) when it comes to the time-phasing of the cost that will be used as a basis for POC calculation and hence, profit recognition for the accounting period. While not the priority of the Project Manager, she needs to understand the importance of this issue for the organization’s senior management and check that a proper process is in place, together with the relevant awareness of her Cost Control team.

Advice for Project Managers: a good Project Manager is a Project Manager that retains responsibility of projects because she knows how to manage senior management expectations. Don’t give senior management unrealistic expectations as to the profit that could be recognized for your project in this particular year or quarter!

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**Find all these principles of Project Cost Control exposed in a comprehensive manner in our Handbook (2nd edition), Practical Project Cost Control for Project Managers**

(available in [Paperback](https://www.amazon.com/PPractical-Project-Cost-Control-Managers/dp/0996474914) and [Kindle](https://www.amazon.com/PPractical-Project-Cost-Control-Managers-ebook/dp/B00R82FX2A) versions!)

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