



Version 6.1 Updated for the 2021  
Project Management Professional (PMP)<sup>®</sup> Exam



## **Crosswind Success Series: PMP<sup>®</sup> Exam Bootcamp Manual**

**[www.crosswindpm.com](http://www.crosswindpm.com)**

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Version 6.1 aligned with the Project Management Institute, *A Guide to the Project Management Body of Knowledge, (PMBOK<sup>®</sup> Guide)* - Sixth Edition, Project Management Institute Inc., 2017

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This formula can be used for earned value management (EVM) or other less evolved means of capturing the schedule status. Typically, it is used on shorter duration activities or those generally **not exceeding two reporting periods**.

### 12.9. Weighted Milestone

The weighted milestone approach is utilized for activities that typically are **longer than two reporting periods**.

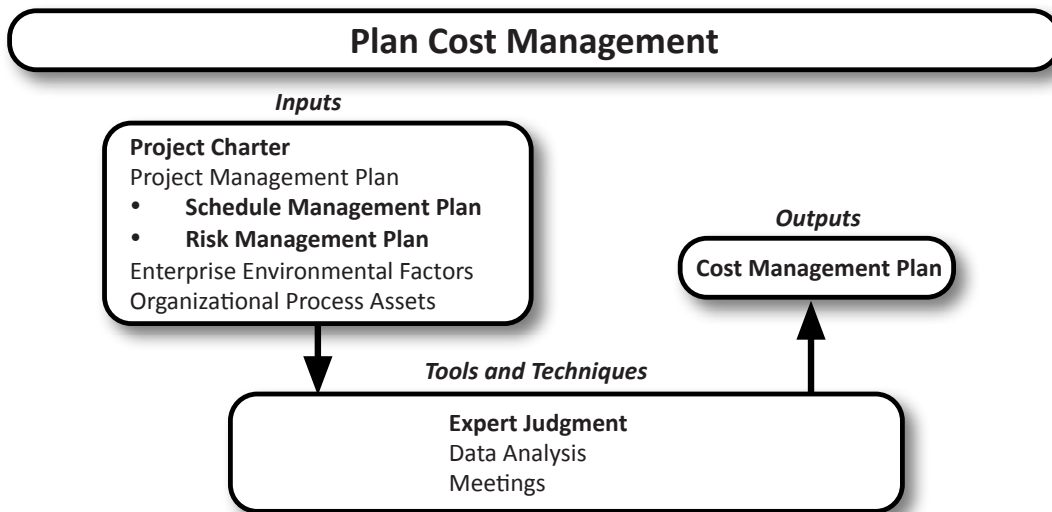
For the weighted milestone approach, the work is divided into multiple milestones with a measurable output for each section of work and fixed formula progress reporting is applied to each milestone.



### 12.10. Plan Cost Management (Planning Process Group)

The Plan Cost Management process is used to create the cost management plan.

The cost management plan can be formal or relaxed and provides guidance for selecting the methods that will be used to establish and modify cost estimates, budget, performance baseline, and control thresholds. It also establishes the appropriate degree of detail that will be applied to the budget. The cost management plan is part of the project management plan.



**Figure 12-2: Plan Cost Management Data Flow Diagram**

The source for the above figure is the Project Management Institute, *A Guide to the Project Management Body of Knowledge, (PMBOK® Guide)* – Sixth Edition, Project Management Institute Inc., 2017, Figure 7-2, Page 235

Plan Cost Management (Planning)		
<b>Key Inputs</b>	Project Charter	The project charter is the document that provides authorization for the existence of the project and gives the project manager the power to use organizational resources to execute the project. The project charter typically lists the key deliverables, the milestones, and the preliminary roles and responsibilities of the project. It details preapproved resources used to elaborate detailed project costs and defines project approval requirements impacting cost administration. Note that the high level assumptions and constraints listed in the business case are often included in the charter. An assumption is an idea or statement taken to be true even though it is not known to be true. As an example, the statement “there will be a robust market for the product created as a result of this project once it is available to the public” is an assumption. A constraint is a restrictive or limiting factor. As an example, the operations manager insistence that a key subject matter expert must dedicate at least six hours a day to operations is a constraint on the project.
	Schedule Management Plan	The schedule management plan is a component of the project management plan that details the delineation, evolution, monitoring, and control of the schedule. It documents the standards and processes that will evolve, monitor, and control the schedule. It also delineates scheduling methodology, the degree of expected accuracy needed to estimate the duration of the scheduled activities, the mechanism used to produce the schedule, and the manner in which the schedule will be calculated.
	Risk Management Plan	The risk management plan is a component of the project management plan that details the manner in which risk management activities are configured and implemented. Typically it addresses risk strategy, risk methodology, roles and responsibilities, financing, timing, and classification. It documents processes and controls that influence the estimation and administration of cost.

**Plan Cost Management (Continued)**

<b>Key Tools &amp; Techniques</b>	Expert Judgment	Expert judgment is judgment based on expertise acquired in a specific area. It is often more significant and accurate than the best modeling tools available and can be provided by stakeholders, company personnel external to the project, professional organizations or groups, and consultants. It is important to consider expertise related to authoritative information in cost estimation and financial administration, earned value management, and similar projects.
<b>Key Outputs</b>	Cost Management Plan	The cost management plan is a component of the project management plan that details the manner in which project costs are planned, configured, and controlled. It documents the processes and tools that will be used to manage project costs. Typically, it addresses metrics, the establishment of earned value management techniques, the junctures in the work breakdown structure (WBS) used to measure control accounts, acceptable cost performance variances, reporting configurations, satisfactory levels of accuracy (range) and precision (rounding), and the unique codes that associate the control accounts to the organization's accounting system.

**Situational Question and Real World Application**

Failure to effectively perform the Plan Cost Management process can result in the project manager spending money without established controls or guidance, leading to inconsistency. Additionally, the project would likely fail to align with other projects at the company, which is critical to effective program and portfolio management.

### 12.10.1. Cost Management Plan

The cost management plan helps the project manager and team do the following:

- Establish the cost of activities and work packages on the project
- Establish the cost accounts and the procedures necessary to use the chart of accounts with the WBS and schedule
- Establish policies associated with updating the budget and distribution of the budget through the work of the project
- Update actual costs and adjust the cost baseline
- Establish the policies and procedures for changes to cost

The cost management plan can be used to establish:

- Level of accuracy
- Units of measure
- Organizational procedures links, which includes control account (CA) links to the project WBS and company accounting system
- Control thresholds
- Reporting of cost performance

The source for the above text is the Project Management Institute, *A Guide to the Project Management Body of Knowledge, (PMBOK® Guide)* – Sixth Edition, Project Management Institute Inc., 2017, Pages 235-239

### 12.11. Estimate Costs (Planning Process Group)

The Estimate Costs process is vital because the accuracy of cost estimates directly impacts the likelihood that a project does not exceed its budget. The focus is on establishing the costs of either the work packages or the activities in order to establish the total project cost.

There are a number of cost estimating methods that can be used to establish activity cost estimates:

- Analogous (comparison to a previous, similar project)
- Parametric (parameters for building the estimate)
- Bottom-up (estimates of individual items that are added together to establish a total cost estimate)
- Computerized tools

Depending on what is known about the scope of the project, the choice of method can be influenced by schedule, resources, and risk.

