Committed, Incurred & Actual Cost

March 2014

What is 'Committed Cost'?

I have seen '**Committed Cost'** defined as an investment that a business entity has already made and cannot recover by any means, as well as obligations already made that the business cannot get out of.

In a construction dictionary, I found committed costs described as "*a cost which has not yet been paid, but an agreement, such as a purchase order or contract, has been made that the cost will be incurred*". Simply, a committed cost may be regarded as a cost which the construction entity has committed to incur.

Committed Costs and Actual Costs on Construction Projects

In construction projects, the generally accepted definition of Committed Cost is the commitment arising from purchase orders and subcontracts.

Actual cost is generally defined as the cost resulting from invoices received from suppliers and subcontractors, and actual cost is generally recognised when the invoice is received rather than when the invoice is paid.

There is also a group of other costs – journals, payroll, etc., that have no pre-commitment – they just appear as actual cost. Of course, these must be considered as committed costs also. (We must have been committed if we have paid it!)
The actual cost should not be less than the committed cost (If we have recognised an invoice, or another form of cost, then we must have accepted the commitment).

Committed costs, actual costs, and any other project cost will never include GST.

Subcontract retention is also excluded. The incurred cost and actual cost is the full payment value before retention is deducted (we have the actual cost, even if we have not paid the full amount).
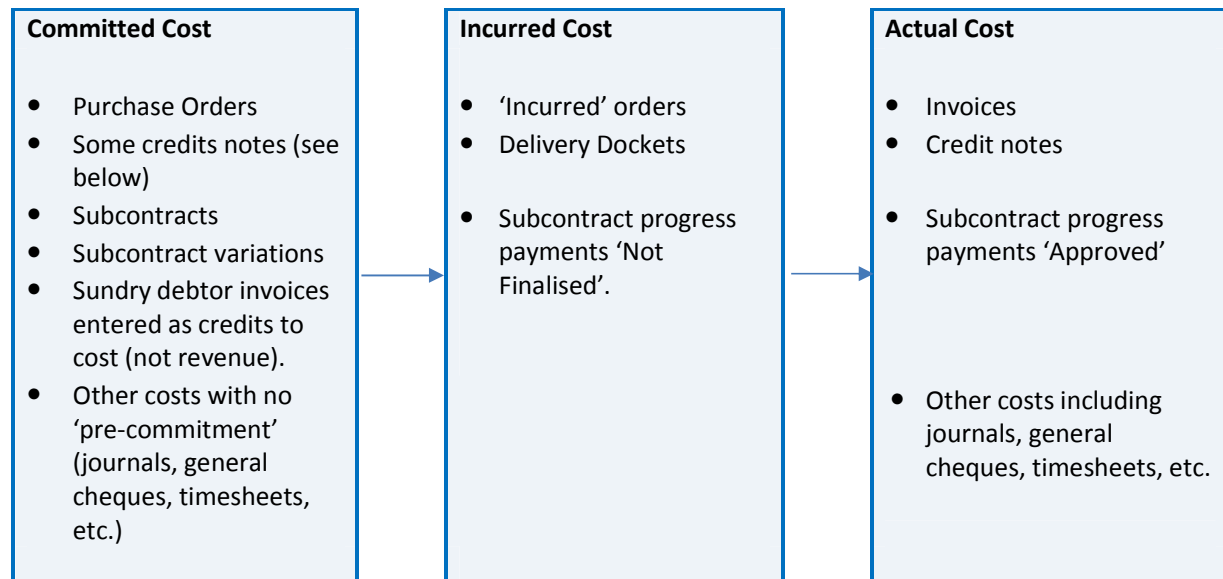
What about Incurred Costs?

Incurred cost is an interesting term. It is used in Cheops to describe that step where the goods have been received, or the work has been done, and the actual cost is not yet recognised as the invoice has not been received.

Accounts staff would most likely refer to this as an 'accrued' cost but Cheops uses the term 'incurred', and Cheops generates the incurred value from delivery dockets (materials) and not-finalised subcontractor progress payments.   Cheops also allows for the entry of manual accruals, so the system provides some flexibility with alternative methods.

Summary

Below is a simple summary of which costs are included under each heading. Note that this summary is simplified, and the detailed explanation is included in the tables on the following pages.

Committed Cost	Incurred Cost	Actual Cost
• Purchase Orders • Some credits notes (see below) • Subcontracts • Subcontract variations • Sundry debtor invoices entered as credits to cost (not revenue). • Other costs with no 'pre-commitment' (journals, general cheques, timesheets, etc.)	• 'Incurred' orders • Delivery Dockets • Subcontract progress payments 'Not Finalised'.	• Invoices • Credit notes • Subcontract progress payments 'Approved' • Other costs including journals, general cheques, timesheets, etc.

Note that once a committed cost becomes an actual cost, it then reports as both committed and actual and therefore at Job completion Committed should equal Actual.

Whereas, an Incurred Cost is automatically removed from incurred once it becomes an actual and therefore the total incurred cost at Job completion should be zero.

Committed, Incurred, and Actual Costs

	Transaction	Committed Cost	Incurred Cost	Actual Cost
	Job Cost			
1.	**Project Cost Opening Balance Journals**	The journal value allocated to each cost reference.	Not updated.	The journal value allocated to each cost reference.
2.	**Supplier Purchase Order Type = 'Committed'**	The order value allocated to each cost reference on the order.	Not updated.	Not updated.
3.	**Supplier Purchase Order Type = 'Incurred'**	The order value allocated to each cost reference on the order. Note that for orders 'ticked' as incurred, the committed cost still applies.	The order value allocated to each cost reference on the order. When the invoice(s) are entered, the incurred cost is reduced by the invoice value allocated to each cost reference (it becomes an actual cost). If the order is **closed** (final invoice), the incurred cost becomes zero.	Not updated.
4.	**Supplier Delivery Docket**	Not updated. (Committed value comes from the order) If the value of delivery dockets exceeds the order value, the committed cost is increased to match the value of the dockets for each cost reference.	For orders **not** 'ticked' as **incurred,** the delivery docket value allocated to each cost reference on the order. When the invoice is entered for the delivery docket(s) the incurred cost is reduced by the invoice value allocated to each cost reference (it becomes an actual cost).	Not updated.

	Transaction	Committed Cost	Incurred Cost	Actual Cost
			Note that an incurred value may still remain, if some dockets have not yet had invoices entered.	
	Creditors			
5.	**Supplier Invoice – Linked to an order**	Generally Not updated (Committed cost comes from the order). However, if the invoice exceeds the order (if allowed by a system parameter) then, for each cost reference, the committed cost is updated by the excess of the invoice value over the order value.	Not updated.	The invoice value allocated to each cost reference on the invoice.
6.	**Supplier Invoice – Entered as 'Invoice Only'**	The invoice value allocated to each cost reference on the invoice. The system creates an order (as a duplicate of the invoice) to track the committed cost. The committed cost matches the actual cost.	Not updated.	The invoice value allocated to each cost reference on the invoice.
7.	**Supplier Credit Note Linked to an "*invoice only*" invoice**	The committed amount created by the order (ie. invoice only) will be reduced by the amount of the credit, allocated to each cost reference on the order (invoice only). If the full invoice value is credited, then the committed cost is zero	Not updated.	The actual cost for each cost reference is reduced by the credit value allocated to each cost reference on the credit. If the full invoice value is credited, then the actual cost is zero

	Transaction	Committed Cost	Incurred Cost	Actual Cost
8.	**Supplier Credit Note** **Linked to a "*normal*" invoice (ie, an invoice entered against a user-created purchase order)**	Not updated. The committed cost remains as the purchase order amount	Not updated.	The actual cost for each cost reference is reduced by the credit value allocated to each cost reference on the credit. If the full invoice value is credited, then the actual cost is zero
9.	**Supplier Credit Note** **Not Linked to an invoice**	The committed cost is reduced by the amount of the credit, allocated to each cost reference on the credit. A credit not linked to an invoice will show as a separate line item in the transactions listing.	Not updated.	The actual cost for each cost reference is reduced by the credit value allocated to each cost reference on the credit.
10.	**Cash Receipt**	Cash receipts (on the 'Orders/Invoices' menu) are treated as a credit to cost. The committed cost is reduced by the cash receipt amount for each cost reference on the cash receipt.	Not updated.	The actual cost is reduced by the cash receipt amount for each cost reference on the cash receipt.
11.	**Subcontract** **- Lump-Sum or Rates**	The subcontract let value allocated to each cost reference on the subcontract. Applies equally to lump-sum subcontracts and to rates subcontracts.	Not updated.	Not updated.
12.	**Subcontract Variations**	The committed cost is updated by the subcontract variation at 'approved', 'submitted', or 'estimated' status; as set	Not updated	Not updated

	Transaction	Committed Cost	Incurred Cost	Actual Cost
		by your system parameters.		
13.	**Head Contract Variations**	Not updated	Not updated	Not updated
14.	**Subcontract Progress Payment – Lump-Sum Contract** **Not Finalised**	Not updated.	Where a subcontractor progress payment has been saved as '**not finalised**', the incurred cost is updated by the progress payment incremental amount for each cost reference on the payment. If the incurred cost includes a payment (part or full) of an unapproved subcontract variation, then the cost to date cost may exceed the committed cost.	Not updated.
15.	**Subcontract Progress Payment - Lump-Sum Contract** **Approved.**	Generally not updated- However, if the approved cumulative total payment exceeds the current adjusted contract sum (if allowed by a system parameter) then, for each cost reference, the committed cost will be increased by the amount by which the cumulative total progress payment exceeds the current adjusted contract sum.	Not updated.	The progress payment value for each cost reference on the payment.
16.	**Subcontract Progress Payment – Rates Subcontract** **Not finalised**	Not updated.	The incurred cost is updated by the progress payment incremental amount for each cost reference on the payment including subcontract variations.	Not updated.

	Transaction	Committed Cost	Incurred Cost	Actual Cost
17.	Subcontract Progress Payment – Rates Subcontract Approved	Generally not updated. See note 18 below.	Generally not updated. If the payment had been previously saved as 'Not finalised' (and incurred cost updated as per item 15 above), then when the payment is approved, the incurred cost is no longer applied (it becomes an actual cost).	The progress payment value for each cost reference on the payment.
18.	Subcontract Progress Payment – Rates Subcontract Approved payment of unapproved subcontract variation	The committed cost is updated by any amount paid on an unapproved subcontract variation (only on a rates subcontract) Note that the committed cost is not increased by the actual variation value, but by the extent to which the unapproved subcontract variation is paid. See note 1 below.	Generally not updated. Refer to comments above re 'not finalised' payments.	The progress payment value for each cost reference on the payment for the variation.
19.	Subcontract Progress Payment – Lumpsum Subcontract Approved payment of unapproved subcontract variation	The committed cost is NOT updated by any amount paid on an unapproved subcontract variation (different from the treatment of a rates subcontract) Note that if a system parameter is set to allow a subcontract payment on a lump sum contract to exceed the current adjusted contract sum, then the actual cost may be greater than the committed cost – by reason of the payment against an unapproved subcontract variation.	Generally not updated. Refer to comments above re 'not finalised'	The progress payment value for each cost reference on the payment for the variation.

	Transaction	Committed Cost	Incurred Cost	Actual Cost
20.	Subcontract Retention	Not updated.	Not updated	Not updated.
21.	Subcontract Cancelled Retention	Not updated.	Not updated.	Not updated.
22.	Suppliers Cheques	Not updated.	Not updated.	Not updated.
23.	Subcontractor Cheques	Not updated.	Not updated.	Not updated.
24.	General Cheques	The general cheque value allocated to each cost reference on the cheque. The committed cost matches the actual cost.	Not updated.	The general cheque value allocated to each cost reference on the cheque.
25.	WHT Cheques	Not updated.	Not updated.	Not updated.
26.	Cancelled Cheques	Generally not updated. If the cancellation is for a General Cheque, then the committed cost resulting from the cheque, is reversed.	Not updated.	Generally not updated. If the cancellation is for a General Cheque, then the actual cost resulting from the cheque, is reversed.
27.	GST Cheques/Receipts	Not updated.	Not updated.	Not updated.
28.	Project Cost Journals	The journal value for each cost reference.	Not updated.	The journal value for each cost reference.

	Transaction	Committed Cost	Incurred Cost	Actual Cost
29.	**Plant/Time Sheets**	The costed value of the plant/time sheet allocated to each cost reference on the plant/time sheet. (Matches the actual cost)	Not updated.	The costed value of the plant/time sheet allocated to each cost reference on the plant/time sheet.
	Debtors			
30.	**Progress Claim**	Not updated.	Not updated.	Not updated.
31.	**Difference (Claim-Cert)**	Not updated.	Not updated.	Not updated.
32.	**Sundry Debtor Invoice**	(1) Where the invoice is allocated to revenue – not updated. (2) Where the invoice is allocated as credit to a cost reference, the committed cost is reduced by the value of the invoice line item for each cost reference on the credit.	Not updated.	(1) Where the invoice is allocated to revenue – not updated. (2) Where the invoice is allocated as credit to a cost reference, the actual cost is reduced by the value of the invoice line item for each cost reference on the credit.
33.	**Progress Claim Credits, Applied to** • **A Progress Claim,** • **Stand alone, or** • **Sundry Invoice allocated to revenue.**	Generally not updated. Stand-alone credits will update committed **cost if allocated to a cost reference** (ie. not treated as revenue)	Not updated.	Not updated. Stand-alone credits will update actual **cost if allocated to a cost reference** (ie. not treated as revenue)

Cheops Committed-incurred-Actual Cost

	Transaction	Committed Cost	Incurred Cost	Actual Cost
34.	**Progress Claim Credits, Applied to Sundry Invoice allocated as a credit to cost.**	Where the credit is linked to a Sundry invoice which was allocated as credit to a cost reference, the committed cost is increased by the value of the credit line item for each cost reference.	Not updated.	Where the credit is linked to a Sundry invoice which was allocated as credit to a cost reference, the actual cost is increased by the value of the credit line item for each cost reference.
35.	**Progress Payment Receipt**	Not updated.	Not updated.	Not updated.
36.	**Progress Payment (WHT)**	Not updated.	Not updated.	Not updated.
37.	**Progress Payment Retention**	Not updated.	Not updated	Not updated.

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Reports – Where do we see these costs?

Cheops provides many reports which include committed and actual costs, and several reports that show incurred costs.

Project Cost Reports		
Report Title	*Short Code*	*Report Content*
Project Transactions by Cost Reference	ALLCOST	Shows Budget, Actual, Incurred and Cost to Date, but not Committed Cost
Commitments by Cost Reference – Period	COSTPERCOM	Shows only committed cost.
Transactions by Cost Reference	COSTPER	Shows Budget, Committed, Actual and Forecast. **This is one of the most useful reports.**
Transactions by Resource Category	COSTRC	Shows Actual cost only.
Job Cost Transactions by Resource Category	COSTRCI	Shows Actual cost only.
Actual Cost by Cost Reference (Date)	ACTCOST	Shows Actual cost only.
Actual Cost by Cost Reference (Period)	PERCOST	Shows Actual cost only.
Details Costs by Cost Summary	DETCOST	Shows Actual cost only.
All Cost Summary – Resource Category		Shows Budget, Actual, Incurred and Cost to Date
All Cost Summary – Resource Item		Shows Budget and Cost to Date
Incurred Cost by Cost Reference (Period)		
Project Information Report	PROINF	The Project Information report has an option to include the 'Incurred' costs, and there is now (in Release 5.0.0) a drill-down available to show the detail transactions which are included in the total.