

# Types of Cost in Projects

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# Ricardo Viana Vargas, MSc, IPMA-B, PMP

Ricardo Viana Vargas is a project, portfolio and risk management specialist. During the past 15 years, he has been responsible for over **80 major projects** in various countries in the areas of petroleum, energy, infrastructure, telecommunications, information technology and finances, comprising an investment portfolio of over 18 billion dollars.

He was the first Latin American volunteer to be elected Chairman of the Board for the **Project Management Institute (PMI)**, the largest project management organization in the world with close to 500,000 members and certified professionals in 175 countries.

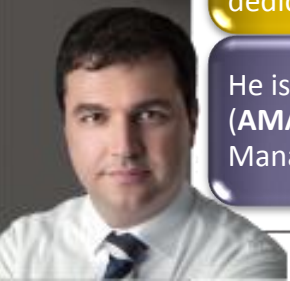
Ricardo Vargas has written **ten books** on project management, published in Portuguese and English, which have sold over 200,000 copies throughout the world. In 2005 he received the PMI Distinguished Award for his contribution to the development of project management and the PMI Professional Development Product of the Year award for the PMDome® workshop, considered the best project management training solution in the world.

He is a project management professor for various MBA courses, and actively participates on editorial boards for specialized journals in Brazil and the United States. Vargas is a recognized reviewer of the **PMBOK Guide**, the most important reference in the world for project management, and also chaired the official translation of PMBOK into Portuguese.

He is a chemical engineer and holds a master's degree in Industrial Engineering from UFMG (Federal University of Minas Gerais). Ricardo Vargas also holds a Master Certificate in Project Management from George Washington University and is certified both as a Project Management Professional (PMP) by PMI and as IPMA-B by the International Project Management Association. He attended the Program on Negotiation for Executives at **Harvard Law School**.

Over an eleven year timeframe, which began in 1995, Ricardo, in conjunction with two partners, established one of the most solid Brazilian businesses in the area of technology, project management and outsourcing, which had a staff of **4,000 collaborators** and an annual income of 50 million dollars in 2006, when Ricardo Vargas sold his share of the company to dedicate himself on a fulltime basis to the internationalization of his project management activities.

He is a member of the Association for Advancement of Cost Engineering (**AACE**), the American Management Association (**AMA**), the International Project Management Association (**IPMA**), the Institute for Global Ethics and the Professional Risk Management International Association (**PRMIA**).



# Cost

Cost can be described as

- Direct and Indirect
- Variable, Fixed and Semi-variable
- Recurring and non-recurring



# Direct Costs

Can be traced back to a product and can be measured

Are specifically identified by their objectives

Include materials, labor and other direct costs



# Direct Costs - Examples

Direct  
materials

Direct labor

Direct work  
hours

Use of  
equipments

Use of  
facilities

Number of  
employees

Use of  
materials

Consumption  
of services

# Indirect Costs

Not directly identifiable

Costs not directly related to the project product

Belong to the core supporting business, but cannot be directly assigned to projects or individual contracts

Include

- Fringe benefits
- Indirect manufacturing expenses
- General indirect expenses
- General and administrative expenses

# Variable Costs

Vary as changes in the production are implemented

Can or cannot be proportional to these production changes

Include expenses with equipments and materials, performance bonuses, freight and sales comissions, for example

If there's no production, there's no variable cost

# Fixed Costs

Remain constant in the total, independently of the amount of work performed

Remain the same even when the production line pauses or is null

Include costs like rent, depreciation, administrative team salaries and general expenses





# Recurring and non-recurring Costs

## Recurring Costs

- Repetitive, direct or indirect, which vary depending on the production
- Daily/weekly/monthly/etc costs

## Non-recurring costs

- One-time expense only
- Development, investment and other costs that are paid only once



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