

FAQ's

1. Define activity cost slope.

Activity cost slope is the rate of increase in the cost of activity per unit with a decrease in time. The cost slope indicates the additional cost incurred per unit of time saved in reducing the duration of an activity.

Activity Cost slope = $\frac{\text{Crash cost} - \text{Normal cost}}{\text{Normal time} - \text{Crash time}}$

Normal time - Crash time

2. List out any 5 indirect cost.

Temporary utility, Cleaning, Unloading, Ware housing, Work shop

3. What is meant by Contingencies?

Contingency is a cushion of cost to deal with uncertainties. Few factors resulting in contingencies are minor design changes, under estimate of cost, lack of experience, unanticipated price changes, safety problems etc.

4. What are the types of cost flow? State their sources.

1) Cash Inflow

2) Cash outflow

The following are the sources of cash inflow

- Sales of goods
- Investment from the owner
- Debt financing (loan)
- Sales of shares
- The following are the sources of cash outflow
- Purchase of shares
- Payment of dues on loan
- Payment of bills
- Taxes

5. Explain the steps in cost optimization

Following are the steps to be followed in cost optimization,

- Establish - calculate time and direct cost
- Determine - cost slope of each activity
- Compute - direct cost for network with normal duration of activities
- Crash - crash critical activities starting with activity having lowest cost slope.
- Continue - crash activities in ascending order of cost slope.

- Crash - by now few non critical activities must have become critical activities crash them.
- Continue - until no further crashing is possible.
- Find - total cost of the project at every stage of adding indirect and direct cost
- Plot - total cost duration curve
- Pick up - optimum duration corresponding to which least total project cost is obtained.