



VARZA SCHOOL · THE FOUNDATIONAL 100

Control before Spending: Project Budgets, Commitments, Purchase Orders, and Change Orders

Chapter 73 · Track 8 — Project, Service, Labor, and Contract Finance

THE QUESTION IT ANSWERS

How can project management see the cost already promised but not yet invoiced and distinguish approved change from hopeful recovery?

CONCEPTS DEFINED

Baseline · Commitment · Purchase order · Change order · Contract value · Accrued project cost · Estimate at completion · Approval

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track treats projects, services, labor, and contracts as time-based financial systems. Scope, schedule, cost, billing, cash, obligations, and performance must be integrated; otherwise a project can appear successful in one view while failing in another.

Central question: How can project management see the cost already promised but not yet invoiced and distinguish approved change from hopeful recovery?

Budget control must include actual cost, accruals, open commitments, remaining estimate, and risk. Purchase orders and subcontracts consume financial capacity when authorized; change orders move through requested, priced, submitted, approved, implemented, and rejected states without being treated as certain revenue too early.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish baseline in plain and professional language.
- Define and distinguish commitment in plain and professional language.
- Define and distinguish purchase order in plain and professional language.
- Define and distinguish change order in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor

requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Baseline

Working definition. Baseline is the formally approved scope, schedule, cost, or performance plan used as the reference for control.

A baseline is protected history. Forecasts may change as reality changes; baseline changes require governed change control. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. The approved project budget and schedule become the basis for variance and earned-value measurement.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Commitment

Working definition. Commitment is an authorized obligation or reserved amount arising from a contract, purchase order, subcontract, or other decision before final cost is invoiced.

Committed cost prevents the available budget from appearing larger merely because suppliers have not billed yet. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A CU 200,000 purchase order reduces uncommitted project budget when issued.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Purchase order

Working definition. Purchase order is an authorized commercial document issued to a supplier specifying what may be supplied and under which terms.

The purchase order is a commitment control and reference. It is not evidence that goods arrived or that an invoice is correct. The concept should be measured at the smallest level that still supports a real action.

Simple example. The PO identifies item, quantity, price, delivery site, tax, terms, and project code.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept

may still be useful for discussion, but it is not yet decision-ready information.

4. Change order

Working definition. Change order is a formally controlled modification to project scope, price, schedule, responsibilities, or other contract terms.

Separate requested, priced, submitted, negotiated, approved, rejected, and implemented states. Unapproved work can create both delivery pressure and collection risk. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. The customer approves an additional facility at CU 80,000 and ten extra days.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Contract value

Working definition. Contract value is the consideration stated or expected under a contract, adjusted for approved variations and governed by contract terms.

Contract value is not automatically revenue, billing, cash, or profit. Variable consideration, claims, taxes, financing, and scope changes may require separate analysis. This is where operational activity and financial reporting meet.

Simple example. An original CU 5 million contract plus CU 300,000 approved variation produces CU 5.3 million current contract value.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Accrued project cost

Working definition. Accrued project cost is project cost recognized for goods or services received or work performed before the related supplier invoice or payroll posting is complete.

Accruals prevent understated cost and false margin. Estimate basis and reversal should be explicit. In Varza language, the concept becomes useful when it changes a decision.

Simple example. Subcontract work completed in March is accrued although billed in April.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Estimate at completion

Working definition. Estimate at completion is the current forecast of total project cost at completion.

Choose the forecasting method that matches the expected persistence of performance, remaining risks, and latest bottom-up knowledge. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. A simple EAC using budget divided by CPI assumes current cost efficiency continues.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Approval

Working definition. Approval is an accountable decision authorizing a proposed action after required evidence and conditions have been reviewed.

Approval is not a decorative click. The approver needs authority, information, independence where relevant, and a recorded basis. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A purchase order above CU 25,000 requires finance and operating approval before commitment.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Baseline, Commitment, Purchase order, Change order, Contract value, Accrued project cost, Estimate at completion, and Approval describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Available budget

Available budget = Authorized budget – Actual cost – Accrued cost – Open commitments – Other reserved amounts, under defined treatment

The result shows uncommitted financial capacity.

Boundary: Avoid double counting invoices already reducing commitments and distinguish remaining estimate from available budget.

Estimate at completion

EAC = Actual and accrued cost to date + Open commitments expected to be consumed + Forecast uncommitted remaining cost + Risk allowance

The bottom-up relation integrates known and future project cost.

Boundary: Remove duplicates and update for change, escalation, productivity, and closeout.

Worked case — Budget appears available until commitments are included

A work package has CU 500,000 authorized budget.

Item	Amount or observation
Posted actual cost	CU 180,000
Accrued uninvoiced work	CU 40,000
Open purchase orders	CU 210,000 remaining
Forecast uncommitted work	CU 95,000
Unapproved customer change cost	CU 35,000 expected
Submitted change price	CU 50,000 not approved

Calculation and reasoning

1. Simple ledger view suggests CU 320,000 remains, which is misleading.
2. Committed and accrued exposure is CU 430,000: 180,000 + 40,000 + 210,000.
3. Adding CU 95,000 remaining work gives EAC CU 525,000 before the unapproved change.
4. Including CU 35,000 at-risk change cost gives CU 560,000 exposure, while the CU 50,000 price remains uncertain until supportable approval.
5. Escalate forecast overrun and commercial action before placing more orders.

What the result means

Control before spending means seeing obligations when they are authorized, not when accounting eventually receives an invoice.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Check scope, budget, cash, authority, and contract before commitment.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Record full committed value and expected timing when an order or subcontract is authorized.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Maintain change status, cause, cost, price, schedule, evidence, and contractual notice.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Forecast approved and at-risk changes separately and update estimate at completion.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes `project_budget`, `commitment`, `purchase_order`, `subcontract`, `actual_cost`, `accrual`, `remaining_estimate`, `change_request`, `change_order`, `forecast`. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.

3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Keep value, cash, profit, and ownership distinct until their relationship is proven.
- Attach every important number to a source, period, currency, entity, and responsible person.
- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **No purchase order without project and work-package budget check.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Commitment changes and cancellations approved.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Unapproved change exposure reported separately from contract value.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Supplier work cannot begin from an informal instruction above threshold.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing

low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Waiting for supplier invoice before showing the cost

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Counting an open purchase order and its later invoice twice

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Adding a submitted claim to contract revenue as though approved

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Using remaining budget as the remaining cost estimate

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain baseline in plain language and in professional terms?

- ☐ Can I explain commitment in plain language and in professional terms?
- ☐ Can I explain purchase order in plain language and in professional terms?
- ☐ Can I explain change order in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Baseline to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Commitment. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Purchase order could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Purchase order: an authorized commercial document issued to a supplier specifying what may be supplied and under which terms.",
    "Change order: a formally controlled modification to project scope, price, schedule, responsibilities, or other contract terms.",
    "Contract value: the consideration stated or expected under a contract, adjusted for approved variations and governed by contract terms.",
    "Accrued project cost: project cost recognized for goods or services received or work performed before the related supplier invoice or payroll posting is complete.",
    "Estimate at completion: the current forecast of total project cost at completion.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.

- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S208 — U.S. Government Accountability Office, *Cost Estimating and Assessment Guide*.** 2020-03-12. Reliable estimating, work breakdown structures, assumptions, risk and estimate updates. Source: <https://www.gao.gov/products/gao-20-195g>
- **S209 — U.S. Department of Energy, *Earned Value Management*.** accessed 2026-08-31. Integrated measurement of scope, schedule and cost. Source: <https://www.energy.gov/projectmanagement/earned-value-management>
- **S210 — U.S. Department of Energy, *EVMS Implementation Guidance*.** accessed 2026-08-31. Implementation of earned value management systems. Source: <https://www.energy.gov/projectmanagement/evms-implementation-guidance>
- **S114 — IFRS Foundation, *IFRS 15 Revenue from Contracts with Customers*.** 2026 standards set. Principles for recognizing revenue from customer contracts. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/>
- **S203 — Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control — Integrated Framework*.** 2013 framework; accessed 2026-08-31. Control environment, risk assessment, control activities, information and monitoring. Source: <https://www.coso.org/internal-control>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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