

Construction Accounting and Financial Management

Chapter 11 Profit Center Analysis

Construction Accounting & Financial Management, 3/e
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Sources of Profit

- Minimum profit and overhead margin
- Estimating/buyout profit
- Crew based profit
- Management based profit

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Minimum Profit & Overhead Margin

- Minimum profit and overhead margin required to:
 - Cover general overhead costs
 - Provide a return for the investors
- $\text{Profit}_{\text{Min}} = \text{Budget} \times \text{P\&O Markup}$

Estimating/Buyout Profit

- Profit or loss from:
 - Purchase of materials at start of job
 - Signing contracts with subcontractorsbelow or above costs in bid
- $\text{Profit}_{\text{Est}} = \text{Price} - \text{Budget} - \text{Profit}_{\text{Min}}$

Crew Based Profit

- Profit or loss for in-house crews performing the work under or over budget
- $\text{Profit}_{\text{Crew}} = \text{Budget} - \text{Cost}$

Project Management Based Profit

- Profit or loss from the management of the project
- $\text{Profit}_{\text{MGT}} = \text{Budget} - \text{Cost}$
- Includes all work but in-house work

Allocation of Overhead

- Revenue
- Labor costs or hours
 - Labor burden or unallocated labor
- Material costs
 - Unallocated materials
- Actual or estimated usage of overhead
- Incremental
 - Changes in overhead if they went away
- Arbitrary assignment

Profit Centers

- Crews
- Project management
- Estimators
- Types of jobs
- Customers
- Equipment

Crews

- Compare to:
 - ❑ Other crews
 - ❑ Past performance
 - ❑ Subcontractors

Project Management

- Compare project management teams to:
 - ❑ Past performance
 - ❑ Other teams

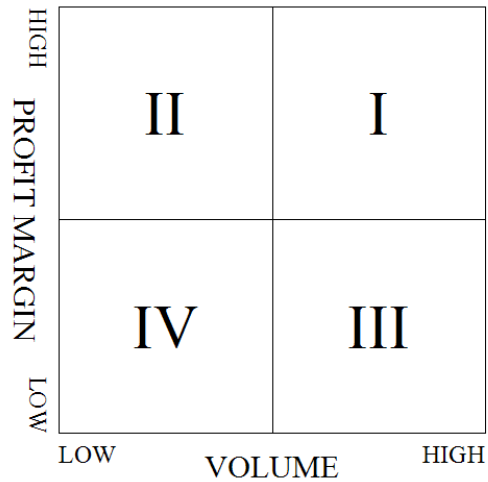
Estimators

- Compare estimators to:
 - ❑ Past performance
 - ❑ Other estimators

Types of Jobs

- Comparison should be based upon all of the following:
 - ❑ Gross profit margin
 - ❑ Return on cash invested
 - ❑ Consumption of management's time

Customers



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Equipment

- Enough use to justify ownership
- Economical to repair old equipment
- Identify poor maintenance practices
- Tire repair versus foam filled

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