

Construction Accounting and Financial Management

Chapter 12 Cash Flows for Construction Projects

Construction Accounting & Financial Management, 3/e
Steven Peterson

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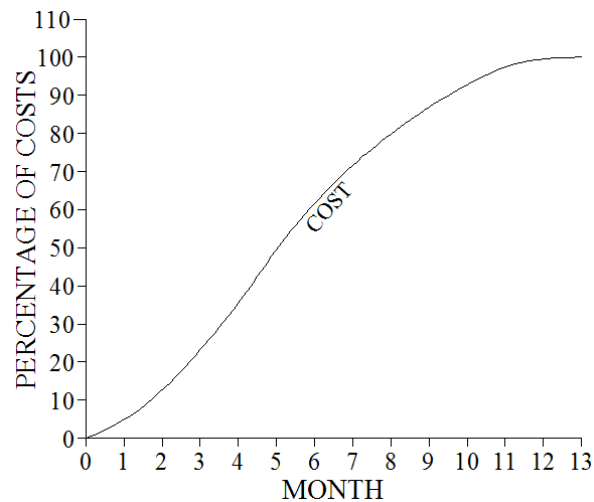
Cost of Work

- Cost of work performed without profit and overhead markup

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Cost of Work



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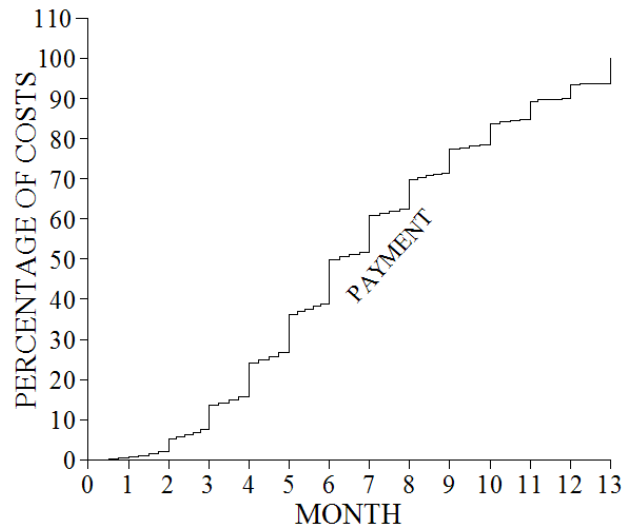
Payment

- Suppliers
 - Monthly (preferably when paid)
- Labor
 - Weekly
- Subcontractors
 - When paid
 - Withhold retention

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Payments



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Value, Costs, and Receipts

■ Value

- Value of work based upon contract with the owner (schedule of values)
- Includes costs and profit and overhead markup

■ Cost

- Cost of work performed without P&O markup

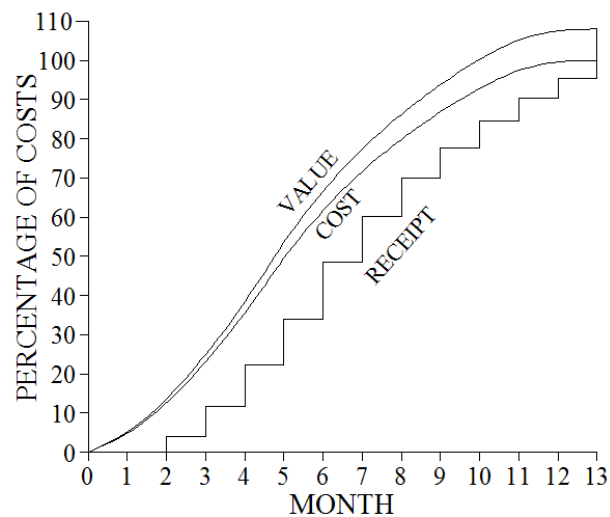
■ Receipts

- Payments from the owner

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Value, Costs, and Receipts



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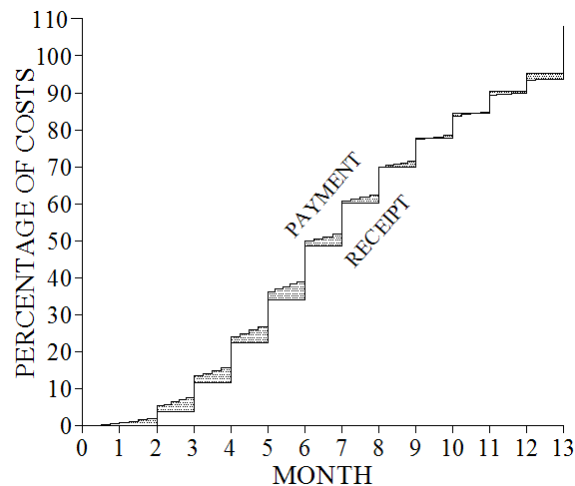
Cash Provided by Contractor

- Difference between payments and receipts

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Cash Provided by Contractor



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Determining a Project's Cash Flow

- Step 1: Prepare a cost-loaded schedule
- Step 2: Determine when costs will be paid
 - Following week (e.g., labor)
 - End of month (e.g., some materials)
 - When paid, paying retention (e.g., some materials)
 - When paid, holding retention (e.g., subcontracts)

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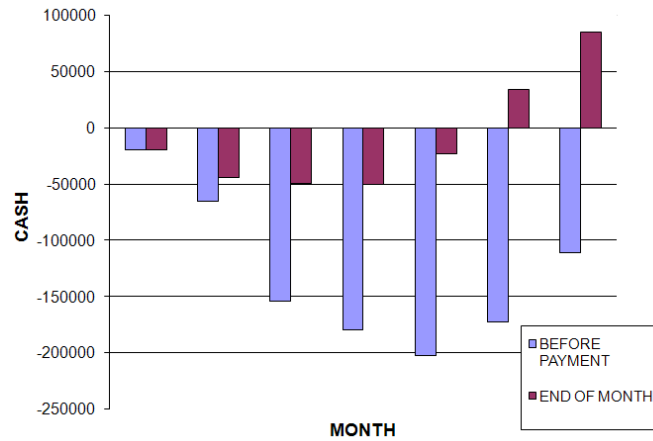
Determining a Project's Cash Flow

- Step 3: Determine when payments will be received from owner
 - When will cost be billed
 - When will bills be paid
- Step 4: Difference in cash flows
 - $\text{Cash required} = \text{Payments} - \text{Receipts}$

Maximum Cash Required

- When payments are received at the end of the month, the maximum amount of cash required often occurs during the month
 - Not at months end

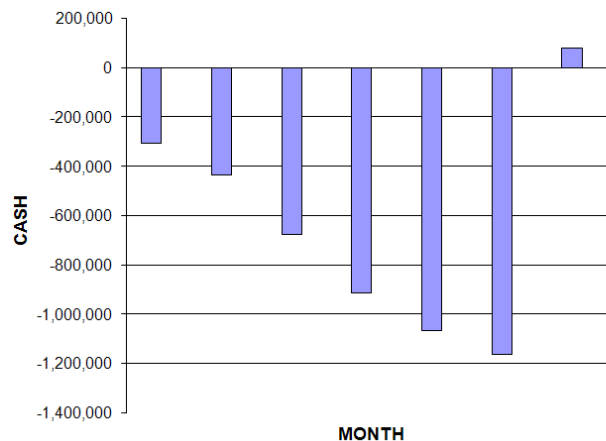
Cash Invested on Project with Progress Payments



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Cash Invested on Project without Progress Payments



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Reducing the Cash Required

- Increased use of subcontracts that are paid when paid
- Reduce retention rate
- Increase profit and overhead markup
- Front-load the schedule of values
 - Increase value of early work and decrease value of later work