Construction Accounting and Financial Management

Chapter 14
Cash Flows for Construction Companies

Step 1

- Estimated cash receipts and disbursements from construction operations
  - Determine cash flow from individual projects and sum

    -- or --
  - Estimate cash flow based upon historical data

Step 2

- Estimate general overhead
  - Set overhead budget
  - Estimate overhead wages

Step 3

- Estimate income tax, interest, loan payments, and cash balance
- Interest = Average balance for the month × Monthly Interest Rate
- Approximated by:
  - Interest = (Beginning Balance – Monthly Labor/2) × Monthly Interest Rate

Step 3

- Loan payment from loans
- Calculate taxes
  - Include underbillings and overbillings
- Calculate monthly cash flow
- Calculate cumulative annual cash flow:
  - Ending Balance = Beginning Balance – Cash Flow

Step 4

- Determine minimum monthly balance (MMB)
- Approximated by:
  - MMB = Beginning Balance – Monthly Labor

Step 5

- Fine tuning, what if, and sensitivity analysis
- Fine tuning—make adjustments to better fit reality (debug)
- What if—run alternate scenarios
- Sensitivity analysis—determine the sensitivity of each variable