Construction Accounting and Financial Management

Chapter 11
Profit Center Analysis

Sources of Profit

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

Minimum Profit & Overhead Margin

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

Estimating/Buyout Profit

- Profit or loss from:
  - Purchase of materials at start of job
  - Signing contracts with subcontractors

  below or above costs in bid
- $Profit_{Est}$ = Price – Budget – $Profit_{Min}$

Crew Based Profit

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

Project Management Based Profit

- Profit or loss from the management of the project
- $Profit_{MGT}$ = Budget – 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

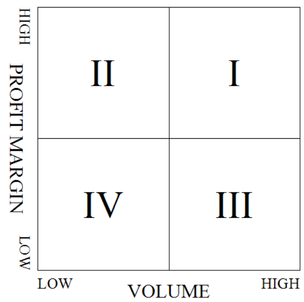
Estimators

- 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



Equipment

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