

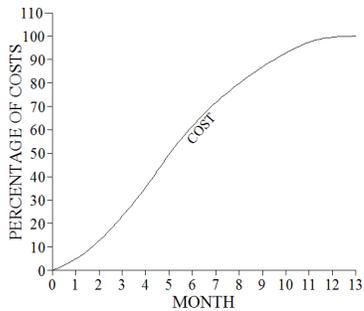
# Construction Accounting and Financial Management

## Chapter 12 Cash Flows for Construction Projects

### Cost of Work

- Cost of work performed without profit and overhead markup

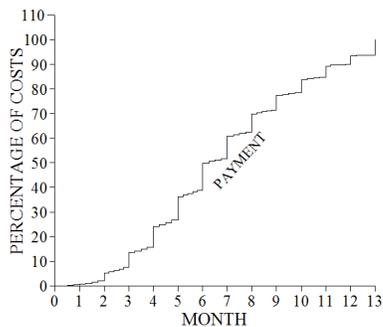
### Cost of Work



### Payment

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

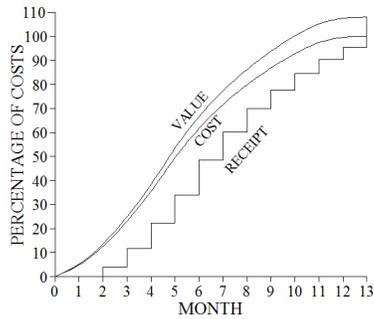
### Payments



### 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

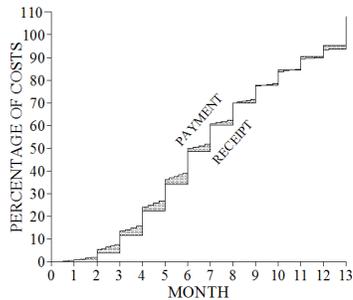
## Value, Costs, and Receipts



## Cash Provided by Contractor

- Difference between payments and receipts

## Cash Provided by Contractor



## 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)

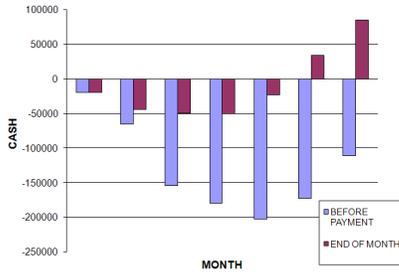
## Determining a Project's Cash Flow

- 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
  - Cash required = Payments – Receipts

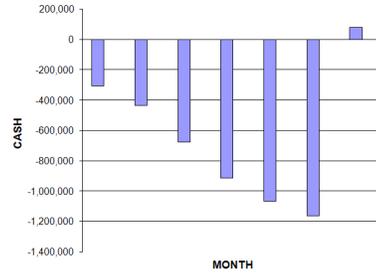
## Maximum Cash Required

- 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



### Cash Invested on Project without Progress Payments



### 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