

Project Tracking Part 4

It is easy for building trade contractors to turn away from the daily administration process in their business, while focusing on the building construction, after all it is more exciting! The theory is that working on a construction site will earn money, while administration tasks cost money. To some extent this is true; regardless, it is a necessary process for a business to function successfully.

Accounting conventions and taxation law dictate that a business must keep financial records, therefore it is no extra effort to record income and expenditure against individual projects and determine their profitability. There are many benefits for a business owner in having good administration procedures, one of those being the ability to predict the cash flow requirement for the business. Think of cash flow as being the equivalent to blood running through the veins of our body, without blood flowing we will die and without constant cash flow the business / company will most certainly cease to function.

There is a term '*the burn rate*', which means the amount of money required each month for the business to stay afloat. That is based on no income. It is important to know the committed expenses on a weekly and monthly basis. Without income the current cash will run out and a shortfall will be experienced. The finance or office manager must at all times be in a position to know what the income is likely to be and plan for the company growth, rather than leaving it to guesswork.

Cash flow is derived from the allowance made in a tender and found in the final summary under overheads which forms part of the overall mark-up. Predicting precisely when the income will be received does take a little effort and most likely will not be completely accurate, however, it will provide an extremely good indication. Setting up a cash flow spread sheet is a good investment of time, once the framework is complete it will become a valuable tool for your business. Business cash flows are best laid-out in a MS Excel spread sheet or equal software program.

Step 1

Using the business / company Chart of Accounts from your accounting system, list the overhead expense headings down the page in one column. At the top of the spread sheet and across the page, insert the months of the year. Extend the cash flow to cover three to five years. Now, insert the value of each expense in the month that it will occur. The task is much easier than it sounds, most business expenses are predictable, right down to the month that they will occur.

Step 2

In an appropriate location further down the spread sheet page, repeat the process for income by listing each project which has been successfully tendered. It can be difficult to actually know the income, but an estimate of each months progress claims will be adequate. More importantly the cash flow will identify the target income required to cover the overheads.

To establish the income from each project on a monthly basis that has been allowed in a tender for overheads; divide the overhead allowance by the number of progress claims. That is, if the overheads allowance on a project was \$10,200 and it is expected that there will be eight progress claims, each claim would have \$1,275.00 that should be allocated to overheads.

The income is entered for each project against the month in which it will be received. Remember the first claim will not be received for two months from the commencement date. Continue to enter values for each project and the sum of the income for each month will be known. As time progresses older projects drop off and new projects are entered.

Step 3

Enter a formula that provides the sum of the monthly income, plus the residual income from the previous month, and subtract the overhead expenses. The result will provide an indication of a surplus or shortfall in the cash flow. In the event of a shortfall, management needs to reduce the overhead expenses or increase turnover.

Cash flow projections are best when extended for a five year period, with a greater level of accuracy over the immediate three year period and highest possible accuracy for the current financial year. Cash flows are exciting in that, they will show management during difficult times if there is a light at the end of the tunnel and indicate which months have possible financial shortfalls, in which case management can rectify a potential problem before it occurs.

To receive your copy of a MS Excel format Cash Flow Spreadsheet visit the Small Business Club of Australia www.scbca.com.au

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