

The Importance of Project Tracking Part 2

Little consideration is given to correct procedures when ordering materials for a building project after it has been successfully tendered. In many cases there is an attitude that if the foreman on the building site wants something, the clerical staff should order it. In fact what is required is organised control by the office clerical staff.

It is not as simple as entering invoices into an accounting software program, considerations that need to be taken into account are:

- a) The ability to compare prices with the estimated cost.
- b) Just in time ordering, to assist cash flow.
- c) At all times know the company's commitments.
- d) Ease of checking the invoice.
- e) Ability to shop for better prices.
- f) Monitor profitability during construction.

It is not good practice to hand the foreman a set of plans and say, 'build the project'. They need the input from a material list, which is generated from the estimate for each section of the project. The foreman must follow the plans and not run pipes wherever they want. Such practices can lead to an overrun of materials and a loss of profits.

There are those contractors who feel 'it is not that simple, that there is always extra fittings'. Well, there shouldn't be! It is up to the estimator to have the experience to allow for such situations that may occur.

The company structure must clearly identify the policy for ordering materials and who will take responsibility for all purchases, the person is referred to as the 'Purchasing Officer' even though it could be a multi-tasking clerical staff member.

The purchasing officer is given the responsibility to receive material order requests, which include delivery dates and instructions. Supplier quotes can be obtained to supply the materials ensuring the best price is achieved. A purchasing officer will be able to justify their salary by the additional savings gained. What is astonishing is the number of companies who can't be bothered requesting quotes. It is critical that the successful quote is compared with the original tender price before the order is placed. In the case of a product being purchased which may have been missed, or under priced in the tender, the estimator needs to know. The estimator will use this information for future reference. Also, the purchasing officer is aware of the under-pricing.

Tip! Don't trust anyone, check the invoice and compare it with what was allowed for in the estimate.

Just in time ordering is where an order is placed and delivery received the day before the materials are required. This is achieved by ordering materials from the estimate for each section of work. By exercising such organised control over the purchasing process, it is unlikely an order will be placed too close to the end of the month, but rather at the commencement of the month, thus gaining a longer period of time to pay the supplier and coordinate the progress payment which provides the cash flow.

Knowing the company's commitment at any given time is also important. It is easy to view a Profit and Loss statement as well as a company Balance Sheet, which will reveal the outstanding debts to suppliers. What it does not show is the company's commitment for orders placed. Businesses fail for many reasons. One is due to the type of bookkeeping and accounting practices used.

Cashbook accounting has the disadvantage that it only records after the money has been received or paid out. It does not accurately report commitments. At any given time a business owner / director must reasonably know the following.

- a) The total accounts payable
- b) The total accounts receivable
- c) The value of work in progress. (per month)
- d) The potential future work
- e) Cost of committed material orders

This will provide a good indication of the businesses viability. This article only addresses the material orders. It is possible the company's financial accounts are showing that suppliers are owed say \$67,000, which represents unpaid invoices. What needs to be kept in mind is a further \$100,000 in committed orders that were placed in the preceding days. Although the orders are not at that time considered to be accounts payable, such information will be helpful and not come as a surprise.

Part 3 will address ease of checking invoices, ability to shop for better prices and monitoring profitability during construction.

Paul Funnell OAM