Navigating construction accounting in a challenging environment

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ICAEW Construction & Real Estate webinar: Accounting in a challenging environment

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Introduction:

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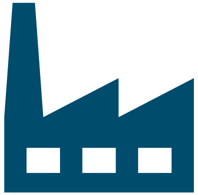
Introduction:

Industry typically has projects spanning multiple periods and accounting requires predication of project outcomes. How does this look in a volatile environment?



Key challenges in contract accounting

- Forecasting the future using historical data or data at a point in time
- Forecast drives the accounting with revenue and profit recognized over the life of contract
- Management's forecasts are the single most judgmental area
- Reflection of risk within projections?

1. Setting the scene: Sector challenges

Pricing remains competitive impacting margins

Materials inflation (geo-political impacts)

Skilled labour shortages

Supply chain disruptions (inc contractors)

Credit conditions / working capital pressure

Pipeline risk

1. Setting the scene: Poll

What are you most concerned about in the next 12 months?

- Profitability
- Credit risk
- Cash flow/ liquidity
- Pipeline
- Supply chain

2. Cost forecasting in practice

Fixed-price contracts transfer price risk to contractor

Initial cost estimation:

- Forecasting commodity prices
- Impact of inflation including energy shocks
- Cost of labour, prelims, subcontractors
- Supply chain disruptions and constraints

Accuracy of past forecasts

2. Cost forecasting in practice

What does the past tell you?

- Prolongation costs
- Remediation and defects
- Extension of time (EoT) / liquidated and ascertained damages (LAD)
- ‘The unforeseen’ and risk

Operational and financial interaction

2. Cost forecasting in practice: Poll

How would you rate the effectiveness of your estimation process including?

- Good
- Average
- Poor

2. Cost forecasting in practice: Poll

At what stage do you identify unexpected cost escalation

- Contingency is included in projection
- As event occurs
- At the end

3. Judgments in revenue forecasting

- Contract modifications
- Variable Consideration
- Scope creep (variations)
- Unapproved amounts
- Claims and dispute resolution
- Commercial relationships

3. Judgments in revenue forecasting: Poll

Which of these is the most challenging to forecast in your business?

- Contract modifications
- Variable Consideration
- Scope creep (variations)
- Unapproved amounts
- Claims and dispute resolution
- Commercial relationships

4. Dealing with changing circumstances

- Monitoring of actuals to initial estimate
- Process for updating forecasts and how often?
- Contract terms and agreement of scope changes
- Relationship between parties
- Tools to model risk and project outcomes

4. Dealing with changing circumstances: Poll

Do you use AI in assessment of projects?

- Yes
- No
- Would you like to know more?

Q&A

Thank you!

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