



Navigating construction accounting in a challenging environment

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

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Introduction:



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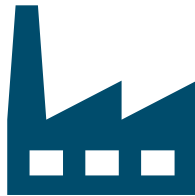
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Introduction:

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 (geopolitical 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?



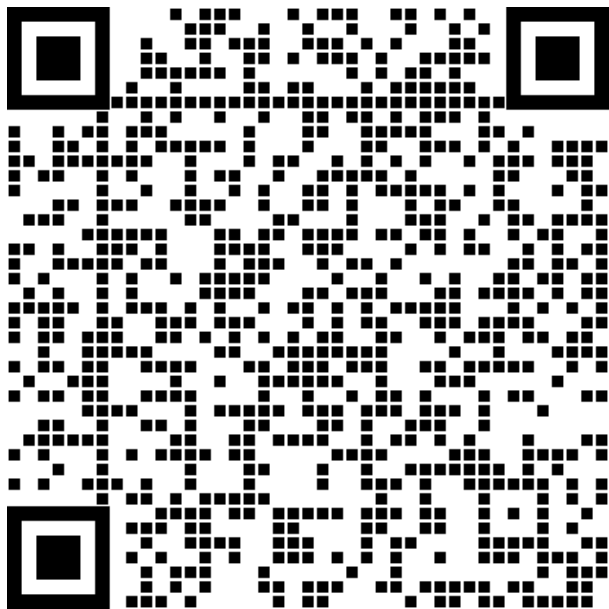
Q&A



Thank you!

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