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Profit and Loss analysis in Construction Firm

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Abstract**—**The increasing trade across borders requires that accounting information is accessible to anyone interested in the economic position of a company, such as shareholders, creditors or potential investors not only in India, but also internationally. Disclosures in Profit Loss Statement Report might be considered to be one of the most important sources of financial information about a company. Information contained in the Profit and Loss statement is used to compare the performance and position of a company with its peers, as well as its performance and position over time.

Keywords— Profit, Loss, Account, Construction.

I. INTRODUCTION

A profit and loss account will display the business' income from sales, bank interest and any other income, goods to sell on to customers, or they may be more general administrative expense such as stationary. The expenses are subtracted from the sales to calculate how much profit (where income exceeds expenses) or loss (where expenses exceed income) a business is making. The costs would usually be arranged into groups, rather than listed individually for ease. For example, rather than listing stamps, paper, pens, pencils, envelopes etc, it is appropriate to group them all under the title of stationary. The financial audit of the profit and loss account is subsequent and implies a scheduled verification after the end of the financial year and submission of yearly statements to financial administration, as a confirmation that this activity was efficient, did not result in frauds. It thus follows that there is a direct relationship between the initial control proposed at the beginning of the building project and the final verification materialised through the annual financial audit.

II. OBJECTIVES

The main objective of the paper are:

- To understand the concept of Profit Loss statement account.
- To analyse the effects of Profit and Loss statement in accordance with company's financial budget.
- To Study the technological advances that are required in the statements to improve efficiency.
- To understand the need of profit loss account statement in the construction company.

III. LITERATURE REVIEW

Bernard Fontana, Thomas Aebische, 2001, Stated The statement Profit and loss statement is a tool to allow us to understand – and share with stakeholders – the extent of our impacts on society and the environment, and to track progress against the Holcim Sustainable Development Ambition 2030. By using this tool, we seek to build an objective and transparent base, for better strategy setting and better decision making. The statement and methodology, developed in conjunction with KPMG*, depends on a set of assumptions. The main assumptions used in calculating the statement are shown in the assumptions section.

Evita Campbell, 2010, the main objective of this thesis is to construct systematic contrastive concept systems of the profit and loss account in accordance with the Danish Financial Statements Act (DFSA) and the income statement in accordance with IFRS, and by contrasting the concept systems to determine the degree of equivalence between the concepts applied in these statements. the general objective of this thesis is to analyse the challenges the translator is faced with when deciding on the appropriate choice of accounting terminology when translating financial reporting texts into English.

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Renata Dylag, Malgorzata Kucharczyk, 2014, The objective of this work is a comparative analysis of Polish and international rules adopted by property development companies when recognising revenue and outcome of development contracts and a presentation of the effect that IFRIC Interpretation 15 „Agreements for the Construction of Real Estate" has on the reporting of such companies**.** Comparative analysis of Polish and international accounting standards relating to recognition of revenue from property development activities, Analysis and description of the accounting policy adopted by developers with respect to recognising revenue, costs and assets in financial statements prepared before the introduction of IFRIC Interpretation.

E Vítková, J Chovancová, D Veselý 2015, The main aim of the article is to identify the value drivers and on the basis of the choice of the one value driver to show it changes to effect the operating profit of the construction company. the resources that are essential to the implementation and fulfillment of the objectives are identified and made available. These resources include employees, suppliers, information, infrastructure, work environment or financial resources.

H. Bohušová, 2008, This paper aimed at the comparison of the methodical approaches for revenue recording used by IAS/IFRS and by CAS. The most important differences are caused by the diff8erent approach to the long term contracts (construction contracts, so ware development contracts) revenues recording. One of the most significant differences is in the fi eld of revenue recording. There are two standards concerning the revenues recording (IAS 18 − Revenue, IAS 11 – Construction Contracts) in IAS/IFRS. CAS 019 – Expenses and Revenue are dealing with the revenue recording in the Czech Republic. And concluded that There are revenues recorded up to incurred costs in the case of young contracts and contracts calculated with loss. IFRS are focused on the equivalent revenue recording during the whole construction contract. Expected loss must be recognized and provisions must be recorded.

IV. AREA OF STUDY

An income statement summarizes a company's income, expenses, and profit over a period of time. Also known as a profit and loss statement, the income statement is an essential tool in managing a construction business. An income statement shows the total income the company received during the period and the expenses incurred during that same timeframe. The bottom line on the statement is the net income or profit for the period. Companies typically produce this statement on a monthly or annual basis.

Every year thousands of contractors go bankrupt partly because of the high level of uncertainty in the construction industry. Although many factors could be the cause of business failure, financial and budgetary factors are the most common causes. More than 60% of contractor failures have financial causes. The lack of finance causes 77%–95% of contractor failures. The absence of the linkage between financing and project scheduling affects the cash flow and creates nonexecutable schedules that lead contractors to a high rate of failure. Having financing problems not only affects cash flow, but also may influence the interactions among project participants. Conflicts among parties may increase more claims may be filed and contract failures may increase. Thus, not only the integration of financing and scheduling, but also the minimization of financing cost of the project is of vital importance in managing construction projects successfully.

Profit represents for the company the amount of funds that will remain after the payment of all its payment obligations. Under the provision of when pricing a construction work, it is possible to calculate reasonable profit only. "Reasonable profit means profit based on development of the normal share of domestic goods profit in economically eligible costs, taking into account the quality of the goods, the usual risk of production or circulation and the development of market demand." What is the reasonable profit in construction contract?

The starting point of this issue will be methods for calculating (quantification) reasonable profit on the contract, their analysis and review of established and new calculation formulas in terms of necessary background, advantages and disadvantages of their possible application. Based on this specification and presentation of methods of profit calculating in Slovakia and foreign way, there is an elaborated proposal of determination of reasonable profit in contract in terms of construction experience. The whole research process is presented by a model case from a real situation and all of these methods can also be used abroad. However, the method of using valuation tools must be adapted according to the type of valuation tools used in that country.

Financial statements do more than just report on a company's finances. Businesses can use them to make better decisions. Analyzing trends and forecasting expenses into the future help construction businesses know when it's time to expand or buy new equipment. An income statement is an important piece of any construction company's financial analysis: not only does it show whether the business turned a profit, but it also summarizes business expenses, allowing management to spot trends and make key business decisions.

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Contractor Cash Flow Forecast Job 1001

Month	Start	One	Two	Three	Totals
Money In		$20,000.00	$20,000.00	$20,000.00	$60,000.00
Money Out					
Cost of Goods Sold		$25,000.00	$15,000.00	$0.00	$40,000.00
Overhead Expenses		$5,000.00	$5,000.00	$5,000.00	$15,000.00
Total Money Out		$30,000.00	$20,000.00	$5,000.00	$55,000.00
Cashflow Positive / Negative		($10,000.00)	$0.00	$15,000.00	
Beginning Checking Account Balance	$2,500.00	$2,500.00	($7,500.00)	($7,500.00)	
Ending Checking Account Balance	$2,500.00	($7,500.00)	($7,500.00)	$7,500.00	
Gross Profit					$5,000.00

V. OBSERVATIONS

New machinery can be acquired, contracts of bigger values can be won and financed. As a result of that, higher profit can appear in a company financial statement. A tendency to making profit higher and higher can be explained by safety of a company existence on the market. The significant part of profit usually is not spent, but left in a company as a reserve for crisis time. This is one of the most important reasons for making a profit—willingness to survive.

Appropriate profit should be calculated in the prices of construction works in order to ensure their competitiveness. Profit and risk calculations are processed transparently, based on data from the Statistical Office of the Slovak Republic and compliance with applicable legislation in the same way as indirect costs.

According to the Statistical Office of the Slovak Republic, the nationwide profit is 15.2% on average, for building development it is 18.2% and for civil engineering it is 13.1%.

After analysing this situation and having consulted several times, the guide-makers of indicative prices in the guideline profit calculated from price level 2018. We took into account the price range profit of 14%–16% in the construction works of buildings and civil engineering works.

At present, indicative prices of construction work cost are calculated with a profit by percentage surcharge of the processing cost, which is the sum of the costs of direct wages, operation of construction machinery, other direct costs, production and administrative overheads.

The necessary amount of the minimum necessary profit for the company can be determined by calculating the total need of funds necessary for the fulfilment of all managed funds (prescribed reserve fund and other voluntarily managed funds in the company). The expected credit volume resulting from necessary frontloading and advance spending for construction production shall be added. The necessary funds for own investments, extraordinary remuneration of employees, funds to cover unforeseen expenditure (elimination of risk in the process of realization of construction work) will be added. The amount thus obtained will be increased by the amount of depreciation and tax will be added, as profit as a source of income is subject to taxation in accordance with applicable legislation (for 2019: 19% self-employed, 21% legal entity).

Based on the knowledge of the competition, the amount of profit calculated in this way can be used to predict the necessary percentage rate for profit in the unit prices of construction works:

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P = PROFIT/PC × 100(%)
P—percentage of rate of profit
PC—processing costs
The presented method in profit calculations is not the final solution. For the needs of training it is necessary to put into practice a progressive tool of calculating objectification of profit.

Algorithms of Profit Calculation:
The bases for calculation of profit may vary, depending on the calculation formula. It is important that the same base is used to calculate the percentage of rate of profit as well as the calculation of the amount of profit when calculating the unit price.

Algorithms for calculation of the amount of profit in unit prices of construction work are based on the used cost models.

TABLE P4.3 Balance Sheet, CPM Construction Company (31 December, 2013)

Assets		Liabilities	
	75,000	Accounts payable	85,000
Cash			
	110,000	Notes payable	50,000
Accounts receivable			
	300,000	Long-term loans	60,000
Buildings			
Less accumulated depreciation on the buildings	(150,000)	Total liabilities	195,000
	240,000	Net worth	
Construction equipment			
Less accumulated depreciation on equipment	(80,000)	Capital stocks	250,000
	20,000	Retained earnings	70,000
Other assets			
	515,000	Total net worth	320,000
Total assets			
		Total net worth and liabilities	515,000

VI. ADVANTAGES & DISADVANTAGES

Advantages:

1] The basic records that should be kept with the help of this statement.
2] To get to know the profits/losses earned/incurred by a business.
3] Exchange differences in translating the financial statements of a foreign operation.
4] The effective portion of gains and loss on hedging instruments in a cash flow hedge can be determined easily.
5] When used together, the P&L statement, balance sheet, and cash flow statement provide an in-depth look at a company's financial performance together.

Disadvantages:

1] A big disadvantage of the profit and loss statement lies with businesses that report the data too often.
2] A business manager runs the risk of looking at the profit and loss statement as the only picture of the health of the business.
3] Data on depreciation and asset value is usually subjective or volatile; and, it is difficult to attribute accurate values to these fields.
4] P&l A/c is based on historical data. Sometimes it might be late for stakeholders for decision making and may result in an incorrect decision.
5] Financial decisions based solely on profitability analysis may not be appropriate as one also needs to understand its financial position, the value of risk undertaken etc.

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VII. RESULT AND CONCLUSION

P&l accounting can be defined as summarizing of all revenue nature transactions incurred during an accounting period and determining its net profit/ loss earned during that period. This forms an important part of the financial statement and is widely used by different stakeholders for their independent analysis. This statement has its own pros and cons, which needs to be considered while conducting its analysis.

The managers, the management, are the ones who are firstly and to the highest degree responsible for detecting frauds, errors and misreports, as part of their management roles. The auditor is responsible for planning, conducting and evaluating the audit, so that he can reasonably hope to find the declarations.

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