Short Term Loans

Short term loans are available from individuals, banks, and other financial institutions. They are required for the provision of working capital, carry a prescribed rate of interest upon the entire sum and cannot be recalled before the due date. Short term loans are usually obtained from commercial banks

The construction business may also consider internal sources of capital, which includes:

Provision for corporation tax

Payment of this tax is usually made one year in arrears. The cash therefore remains in the business during that time and becomes a valuable source of short term funds.

Depreciation

Depreciation is a bookkeeping and costing exercise by which the initial cost of an asset is written off over its useful life. It can be regarded as a source of capital. If no depreciation was charged on, e.g. equipment, a great amount of profit would be available for distribution to the owners. Thus, reserves created by the process of depreciating fixed assets represent a stake in the firm by the owners, in a similar manner to retained earnings. For purposes of corporation tax, the method to be used for depreciating any asset is prescribed in the tax regulations and so it may be necessary to produce two accounts, one for internal purposes and the other for taxation purposes.

The information contained in this brochure is intended to be used solely as a tips and advice guide and has been sourced with special thanks and acknowledgement from World Construction Today website www.worldconstructiontoday.com

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development through partnership

Contractor Tips & Advice:
ADDRESSING CONSTRUCTION BUSINESS CASH-FLOW PROBLEMS

ncdp
National Contractor Development Programme

ADDRESSING CONSTRUCTION BUSINESS CASH-FLOW PROBLEMS

Occasionally enterprises experience temporary or short-term cash-flow problems. In addressing this problem an entrepreneur has different options available to consider:

Construction Loans

Construction loans can be classified into long term and short term borrowings.

Long term borrowing

A capital loan required by a firm for five to ten years, either to start a business or to carry out expansion programs is a long term borrowing. Broadly the capital is used to purchase buildings, plant and equipment. The risks to the lender are high because of the time scale involved, consequently only established firms are generally considered by the lending institutions.

Short term borrowing

This is a short-term capital loan required by an established firm to overcome immediate cash flow problems, for example materials have to be purchased, plant hired, labor and sub-contractors paid, before payment is received from the Employer.

The common types of finance to be utilised by a construction business include:

Bank Loans

They are not easy to obtain. Most institutions are reluctant to lend long term, particularly to construction firms. They often request the borrower to provide a proportion of the finance from the firm's internal resources. Merchant banks tend to demand higher rate of interest than the commercial banks since they are normally dealing with large loans.

Retained earnings

This is profit that is retained within a firm and not distributed to the owners.

Bank overdrafts

This is a process whereby a customer of a commercial bank is permitted to overdraw on that customer's account up to an agreed limit for a prescribed period. This is rather similar to a bank loan except that interest is payable for the amount overdrawn only for the period it remains overdrawn and the account is usually repayable on demand or upon the termination of the overdraft period.

Credit Card

Small business use of credit cards has increased exponentially during the past decade and for good reason. Credit cards provide short term access to cash to help with cash flow management and the credit card user earns value through incentive programs. (It's hard to argue with a funding solution that provides the customer with a free cell phone or computer). At the same time, there's a potential downside to credit cards. As with all funding solutions, you need to borrow prudently and avoid burdening your business with high-interest debts.

Some considerations to keep in mind when using credit cards:

Before you reach for the plastic (Credit Card), consider these issues.

Keep current

Don't use a card to borrow unless you can stay current with your bills. Those perks may not seem as appealing as your debt mounts and you're faced with a high interest rate.

- Pay attention to interest rates
  When shopping for a card, review competitive interest rates and be wary of teaser rates (low introductory rates that increase after a few months).
- Don't borrow if your credit card balances are greater than 80% of your credit limits.
  If they are, you already have a credit card problem.

Trade creditors

Delayed payments to creditors and prompt ones from debtors, if handled with care, ease cash flow problems. The construction industry is well suited for this sort of financial arrangement since completed work is paid for by the client in periodical stages. CFF3 Cash Flow Forecasting software is a unique construction management software for estimating the difference between cash in and cash out amounts for construction projects, and hence you can realise the construction loan or external finance required for completion of the project.