CONTRACT MANAGEMENT

CHAPTER 1: CONTRACTING

#

A. **Introduction:**

"Labour", one of the major parameter of succession of Construction Industry. Labours categorized as a) Skilled Labour, b) Un-skilled Labour. Succession of Construction Project depends on time availability of labours.

A.1 **Types of Contracting:**
   a) Departmental Labour contract / Daily Basis Contract
   b) Labour Contract.
   c) With material Contract
   d) Lum-Sum Contract

   a) Departmental Labour contract:
   In this case Owner appoints the labours directly on daily basis and their Payment made weekly/monthly basis. Normally such type of contracting used for less quantum work / maintenance work in private sector.

   Payment of labour = Attendance (Days) x Wages (Rs/Day).

   In this case, Payment made irrespective of Quantity of work completed by labour, but it based on number of attendance of that labour.

   b) Labour Contract:
   This type of contract mostly used in private sector. In this case, work allotted to contractor and owner provides material for task & Contractor provides labours for it.

   Payment to Contractor = Quantity of Task is completed by contractor **x** Pre decided Unit rate for that task.

   In this case, Payment made irrespective of number of labours required for completion of task but it based on Quantum of Task completed by labour.

   c) With Material Contract:
   In this type contractor uses his material as well as the labor to execute the work. In this type of the contract, client's role is only to monitor material quality, work schedule, work quality and make regular payment.

   Advantage of 'Contract with material' is to reduce material wastages. In case of 'Labour Contract' wastage percentage is very high due to negligence of labour, which leads to unnecessary high construction cost.

   Payment to Contractor = Quantity of Task completed by contractor **x** Pre decided Unit rate (Material + Labour) for that task.

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d) Lum-Sum Contract:
In this case Payment made not on daily basis/quantum of work, but on the basis of completion of task. This is useful for those tasks which unable to measure in any Engineering Units [i.e. cleaning work, Shifting etc].

A.2 **Labour Bill:**
a) R A Bill (Running Account Bill)
b) Full & Final Bill.
c) Advance Bill.
d) Departmental Labour Bill.

a) **R A Bill:**
This is Intermediate bill made on partial completion work periodically. This period is normally of 1 week or 1 month.

R A Bill Amount = Quantity of Task completed by contractor during predefined time period **x** Pre decided Unit rate for that task.

b) **Full & Final Bill:**
In this case, there is no any intermediate bill. Bill paid to the contractor only after total completion of task. This is useful for those tasks that have lesser quantity and completion period.

R A Bill Amount = Quantity of Task completed by contractor **x** Pre decided Unit rate for that task.

c) **Advance Bill:**
This is advance given to Contractor due to any reason like, Festival advance, Labour Advance etc. This advance later on debited from his final bill.

d) **Departmental Labour Bill:**
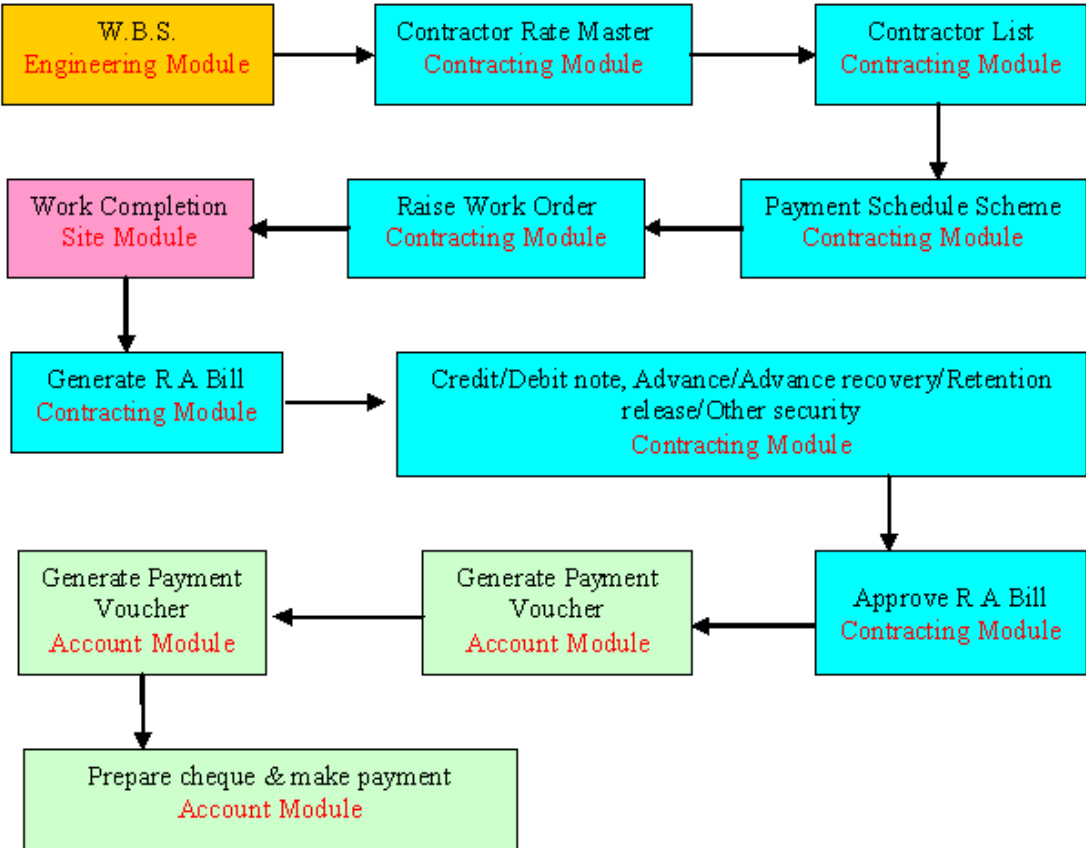This is muster role payment of departmental labours, directly made by company.

Departmental Labour Bill = $\sum$ (No. of labour per day of category **x** per day salary of labour for that category).

B. **Pre-requisites**
Before to start the Contract module, we need to follow some guidelines:
a. Defined project in H2K Engineering with WBS structure.
b. Approval from 'Estimation and Purchase Department'.
c. List of all Contractors along with their Office/Residence Address, Phone & Fax Nos.
d. Person, who handles Contract module, must have knowledge about estimation; working style, taxation, and procedure of allot work completion.

C. **Workflow Diagrams:**

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┌─────────────────────┐      ┌─────────────────────┐      ┌─────────────────────┐
│      W.B.S.         │ ───> │ Contractor Rate Master│ ──> │   Contractor List   │
│ Engineering Module  │      │  Contracting Module  │      │  Contracting Module  │
└─────────────────────┘      └─────────────────────┘      └─────────────────────┘
                                                                      │
                                                                      ▼
┌─────────────────────┐      ┌─────────────────────┐      ┌─────────────────────┐
│  Work Completion    │ <─── │  Raise Work Order   │ <─── │ Payment Schedule Scheme│
│   Site Module       │      │  Contracting Module  │      │  Contracting Module  │
└─────────────────────┘      └─────────────────────┘      └─────────────────────┘
          │
          ▼
┌─────────────────────┐      ┌───────────────────────────────────────────────┐
│  Generate R A Bill  │ ───> │ Credit/Debit note, Advance/Advance recovery/Retention │
│ Contracting Module  │      │           release/Other security               │
└─────────────────────┘      │             Contracting Module                 │
                             └───────────────────────────────────────────────┘
                                                                      │
                                                                      ▼
┌─────────────────────┐      ┌─────────────────────┐      ┌─────────────────────┐
│ Generate Payment    │ <─── │ Generate Payment    │ <─── │   Approve R A Bill  │
│    Voucher          │      │    Voucher          │      │  Contracting Module │
│ Account Module      │      │  Account Module     │      │                     │
└─────────────────────┘      └─────────────────────┘      └─────────────────────┘
          │
          ▼
┌─────────────────────────────┐
│ Prepare cheque & make payment│
│      Account Module          │
└─────────────────────────────┘
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D. **External Module Dependency:**

Related Module	Related Function	Effected window in Contract Module	Explanation
Engineering	WBS	Raise work order	Can not raise work order till WBS is not completed.
	Labour Library	Labour Rate Master	It is necessary to add labour in 'Labour Library Master' to enter rate in 'Rate Master'.
	Task status	Work completion	If the status of task is 'Tentative' then you can not give the work completion. Task status must be 'Started' for giving work completion.
Site	Work completion	Generate R A Bill	Before generating R A Bill it is necessary to give work completion from 'Site Module'.
	Material Debits	Material Debit Note	Before generating material debit note it is necessary to make issue debit able material against respective Tasks
Account	Account Groups /Definition	Account Links	Before to link Account of any transporter[contractor], it's Credit / Debit / Retention / Service Tax / VAT must be defined in 'Account Groups/ Definition' window.

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CHAPTER 2: DATA ENTRIES IN CONTRACTING

A. **Contractor List**

This window provides you enter all contractor details. This is maintaining database of Contractor list.

Path – H2K Contracting/ Contractor/ Contractor

To create Contractor list:

Step 1   Click Add Contractor.

To create Contractor list:

Step 1   Select Contractor group. Click add contractor. Contractor can be directly created below all contractors.

Step 2   Select New Contractor and add following details.

Step 3   **Name:** Name of the contractor's firm have to enter in the 'Capital form' so as to identify easily.

Step 4   **Owner:** Enter name of the Proprietor. As far as possible enter full name of the Proprietor. In case, more than one contractor in the single firm mentions only one name.

Step 5   **Office address:** Enter full address of contractor's firm. It will print in the work order report along with the name of the firm.

Step 6   **Residence address:** Enter residential address of contractor. This is just for the detail information.

Step 7   **C.S.T./S.T./Vat (WCT)/PAN Number:** Enter Central Sales Tax Number, service tax number, WCT or Vat number or PAN of Contractor. *This entry is not mandatory.*

Step 8   **Shop act Number:** Enter shop act number and shop act expiry date of Contractor. *This entry is not mandatory.*

Step 9   **Category:** Check on service categories provided by contractor. *This entry is not mandatory.*

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B. **Contractor Rate Master:**

This is labour rate library. Rates from such library will used while raising 'Work Order'. Highrise gives you a facility to group rates as per project/location wise because rates of labour available at different locations are not same. Here you can group the labour rates based on user's requirement.

This is very handy tool which utilizes very effectively e.g. consider a case you have three sites going on simultaneously at Pune-Kothrud, Satara and Pune-Warje, if you wish to enter the rates for contractors working on those sites, create new rate list by clicking on 'New' button and add three rate lists as "PUNE –KOTHRUD","SATARA PROJ","PUNE-WARJE".

As rates of contractor will differ by location wise. Enter respective rates by selecting appropriate rate list. In case of no difference in rates, enter rate from common rate list like "PUNE-PROJECT" etc.

Path – H2K Contracting/Work Order/Labour Rate Master

To create Rate Master-

Step 1   Select Library [Name of Labour library, in most cases it single one].
Step 2   Select 'Rate List'
Step 3   Labour Category / Labour and Contractor
Step 4   Click on 'ADD New Rate' to create new Rate

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Step 5   Select the particular Labour & fill the further necessary field i.e. Conversion factor, Commercial unit, Contractor, Credit in days. After filling, all above detail Net rate will automatically display.

Step 6   Click on 'Save' Button to save this rate.

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C. **Payment Schedule Templates:**
Payment Schedule mentions the activities, percentage (%) of the Rate and the amount to release against the completion/commencement of the activity. Payment Schedule used to generate R.A. bills of the contractors.

After completion of particular work, respective amount paid to the contractor.
In most of the cases it's not possible to pay bill to the contractor just after completion of task. Due to any reason like less holding capacity of contractor, high completion period of indusial tasks etc. Therefore payment made on the basis of percentage completion of that indusial task. In such condition, the task breaks in to measurable stages & its payment made on completion of this pre-defined stages.

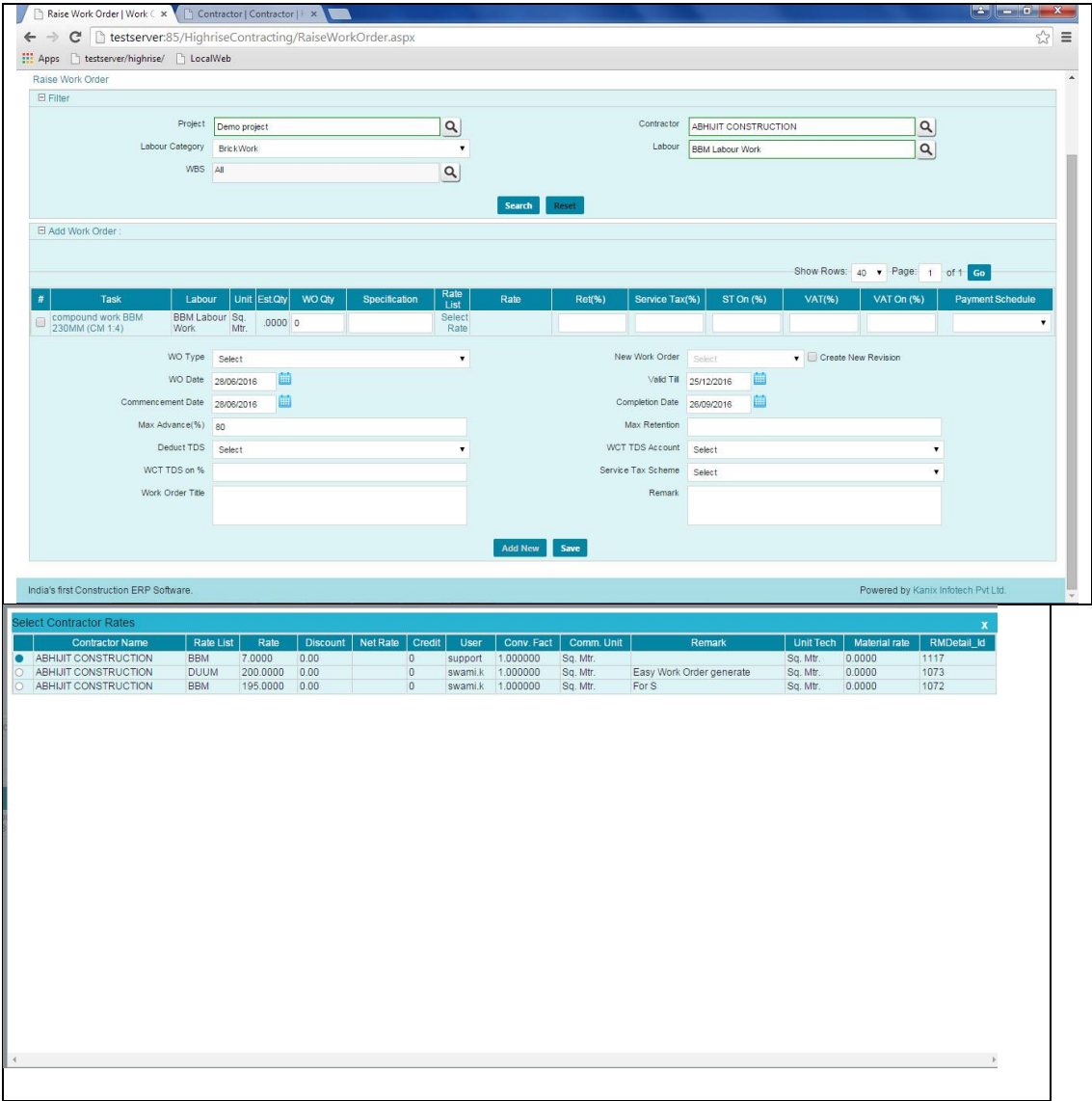*Path – H2K Contracting/ Payment Schedule Template /Payment Schedule Template*

To Create New Payment Schedule Template:

Step 1 Open 'Payment Schedule Template' & click on 'Add Payment Schedule Template' button to add new payment scheme.

Step 2 Add name & percentage of predefined stages belonging to this scheme. Check that the summation of this stages 100%.

Step 3 Click on 'Save' button to save this payment scheme.

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A.1. Raise Work Order

Work Order is Legal document showing allotment of work to the contractor.
Work Order contains task-details like its quantity, unit, rate, retention, service tax detail and general terms & conditions..

Path: H2K Contract/ /Work Order/Raise Work Order

To Raise Work Order:
Step 1   Select Project.
Step 2   Select Category of labour & select labour from 'Select Labour' window.

Step 3 As soon as we select the labour, window below shows all tasks [along with its estimated labour quantity], which have selected type of labour for selected project.

Step 4 Type in all the details like WO Qty, Rate, Retention%, Service Tax, Payment Schedule.

Step 5 Click on Select rate link and select appropriate Rate.

Step 6 Select Work order Type

Step 7 Enter all the dates & click in 'New Work Order' box incase of raising first timework order.

Step 8   Click on save to save work order.

Step 9 To make revision of already raised WO, tick in 'Make New Revision Box'. Then select the number [WO] in which you wish to revise & Click on save to save work order.

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A.2. Work Completion:

It is process to measure quantum of work periodically. This is useful for generating R.A. Bill.

Path: H2K Site/ Work Completion/Work Completion

To give Work Completion:
Step 1 Select Project.
Step 2 Select Labour Category / Labour.
Step 3 Select proper work order (WO) & Click on Search.
Step 4 Select MB (Measurement Book) and enter details of measurement. Use add row to add more lines and click back.
Step 5 Work over quantity will automatically come from MB. Or Enter quantity of work completed in 'W.O. Qty.'
Step 6 Enter the date, remark.
Step 7 Click on 'SAVE' Button to SAVE this Quantity against that stage of WO.

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A.3. Credit/Debit Notes, Advance Sanction/Recovery, Retention Release and Other Security:

a) <u>Credit/Debit Note</u>: In accounts of bad quality of work, delay in work completion, etc., debits charged to the Contractor. Such debits deducted from R.A. Bills of Contractor. Also credit for good quality and timely completion of work etc. awarded.

b) <u>Advance Sanction/Recovery</u>: Advance given to Contractor against his work completion & R.A. Bill due to reasons like Initial advance, Festival Advance, Demand by Contractor etc.

This advance is less/equal to total amount of work allotted to him & such advance get recovered through succeeding R.A. bills.

c) <u>Retention Release</u>: Retention is partial amount deducted from every R.A. bill of contractor in account of security from contractor for bad quality of work etc. The retention is normally fix percentage (i.e. 5%, 10%). Such retention releases to contractor only after 'Defect Liability Period'.

There is one additional field 'Other Security' for any special case. In case of with material contract –Divided type we can give advance to registered suppliers using material advance sanction option

d) Payment Release Advance : User can release payment for any perticula RA bill from here. The entry will get posted in accounts as Bank Payment or Cash payment..

Path: H2K Contracting/Tools/Advance & Debit

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For Advance & Debits:

Step 1   Open 'Advance & Debit' window & select Project.

Step 2   Select Contractor & its Work Order No.

Step 3   Select voucher [Debit, Credit note, etc] and its type (debit/credit note type)

Step 4   Enter Amount.

Step 5   Enter Narration.

Step 6   Enter Date.

Click 'Save' button to save this 'Voucher'.

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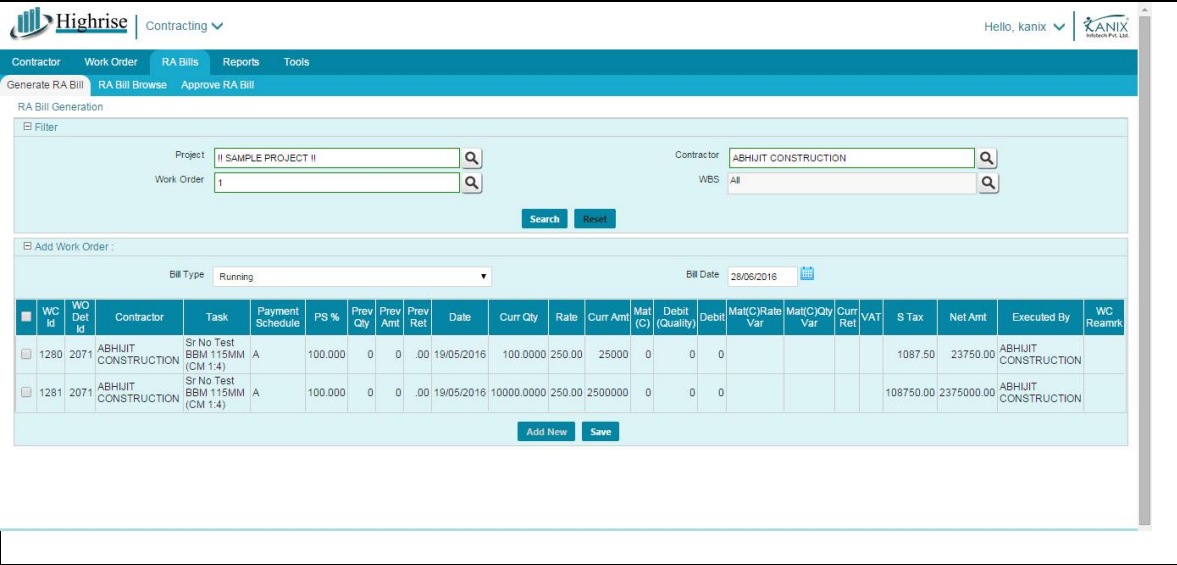## A.4. Generate R.A. Bill:

Procedures of payment to the contractor as:
1) R.A. Bill (Running Account bill).
2) Full & final Bill.

But in case of 'Highrise', both of above called 'R. A. Bill'.

R.A. Bill (Running Account Bill) raised by the Contractor periodically or after completion of certain portion of task. As the account of contractor is not complete, it called as the Running Account Bill.

The final bill of the contractor after completion of the work called as 'FULL AND FINAL BILL'.

Before generating RA Bill make sure that you have entered work completion quantity for tasks under particular work order from site module. If you have not entered, click on 'Next' button, will not show any data to generate RA bill. Click on 'Next' button to see R.A. Bill screen.

Path: H2K Contracting /R A Bill/Generate R A Bill

To generate R.A. Bill:
For 'Labour Contract'
Step 1   Select Project, Contractor, & WO number & click 'Search' button.
Step 2   In 'Select Completion Entry' window shows all that of completion entry against selected WO.
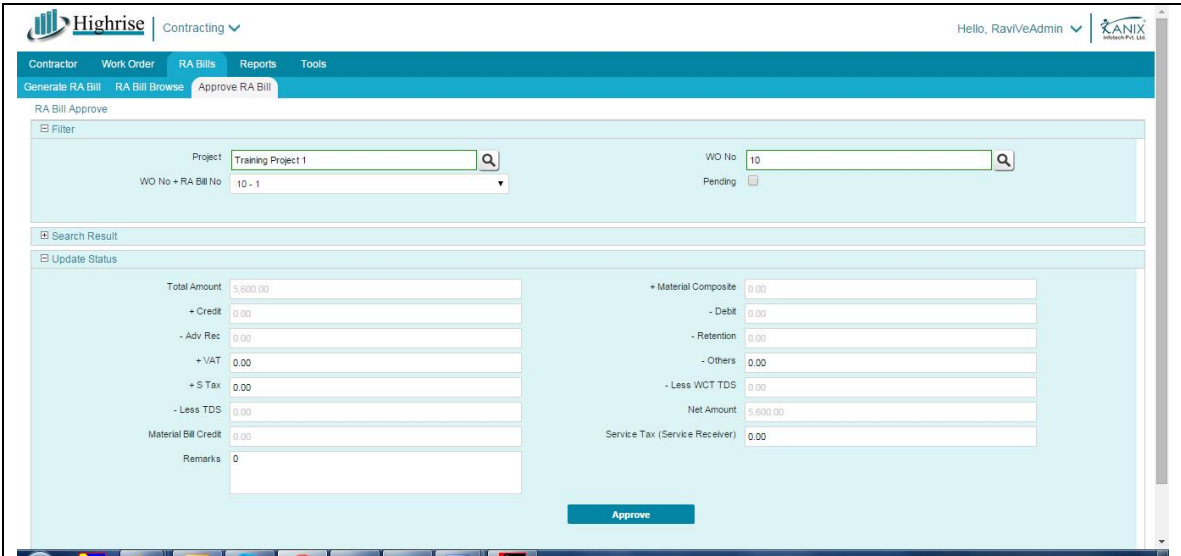Step 3   Click 'Save' to save this RA Bill.

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A6. Approve R.A. Bill:

The R.A. Bill generated by Junior Level Staff, requires to approve it. Senior level people have rights to approve this generated R.A. Bill for better control on work, minimizing human error before it transfers to 'Account Department'.

Generated R.A. Bill can proceed further to 'Account' module for its payment.

Path: H2K Contracting /R A Bills/ R A Bill Approve

To approving R A Bills:
Step 1   Select Project.
Step 2   Select WO, WO No. + RA Bill No.
Step 3   Click on 'Approve' button to approve selected R.A. Bill.

Note: Before Approving RA Bills 'Account Linkage' process must be over.

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A.7.Ra Bill Configuration

Please find following RA bill Calculation Configurations (0, 1, 2, 3) available in Highrise.
Please check with your accounts team and revert with final one.

Ra Bill Calculation Type: 0

	R.A. Bill no .1				
A	Total Bill amount				2000.00
B	S.T.		(On A)	12.36%	247.20
C	VAT		(On A)	0%	+0.00
D	Bill Amount	(A+B+C)			2247.20
E	Debit			-	500.00
F	Credit			+	0
G	Retention	(5% on A)	5%	-	100.00
H	Adv. Recovery			-	500.00
I	Other			-	0
J	TDS	(2.% on (D)	2.%	-	44.94
K	**Net Payable**	**(D-E+F-G-H-I-J)**			**1102.26**

Ra Bill Calculation Type: 1

	R.A. Bill no. 1				
A	Total Bill amount				2500
B	Debit			-	500
C	Credit			+	0
D	**Bill Amount**	**A-B+C**			**2000**
E	S.T.	(12.36% on D)	12.36%	+	247.2
F	VAT	(4% on D)	0%	+	0
G	Retention	(5% on D+E or F)	5%	-	112.36
H	Adv. Recovery			-	500
I	Other			-	0
J	TDS	(2.266% on **D-H**)	2.266%	-	33.99
K	**Net Payable**	**(D+E+F-G-H-I-J)**			**1600.85**

RABill Calculation Type: 2

	R.A. Bill no .1				
A	Total Bill amount				2500.00
B	Debit			-	500.00
C	Credit			+	0
D	**Bill Amount**	**A-B+C**			**2000.00**
E	S.T.	(12.36% on D)	12.36%	+	247.20
F	VAT	(4% on D)	0%	+	0
G	Retention	(5% on A)	5%	-	125.00
H	Adv. Recovery			-	500.00
I	Other			-	0
J	TDS	(2.266% on D)	2.266%	-	45.32
K	**Net Payable**	**(D+E+F-G-H-I-J)**			**1576.88**

Ra bill Calculation Type: 3

	R.A. Bill no .1				
A	Total Bill amount				2500.00
B	Debit			-	500.00
C	Credit			+	0
D	**Bill Amount**	**A-B+C**			**2000.00**
E	S.T.	(12.36% on D)	12.36%	+	247.20
F	VAT	(4% on D)	0%	+	0
G	Retention	(5% on A)	5%	-	125.00
H	Adv. Recovery			-	500.00
I	Other			-	0
J	TDS	(2.266% on D+E+F)	2.266%	-	50.92
K	**Net Payable**	**(D+E+F-G-H-I-J)**			**1571.28**

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A.9. Service Tax Scheme –

Various service tax schemes can be defined from here. First organization type has to be defined like Pvt. Ltd. Or Proprietor or Partnership firm etc.

Path: H2K Contracting/ Tools / Tax Scheme

Accordingly you can create different service tax schemes to separate service tax percentage for provider and receiver.

After creation of Service tax scheme, it need to assign the account ledgers for service tax for receiver, provider and for Provision. The account posting will do accordingly.
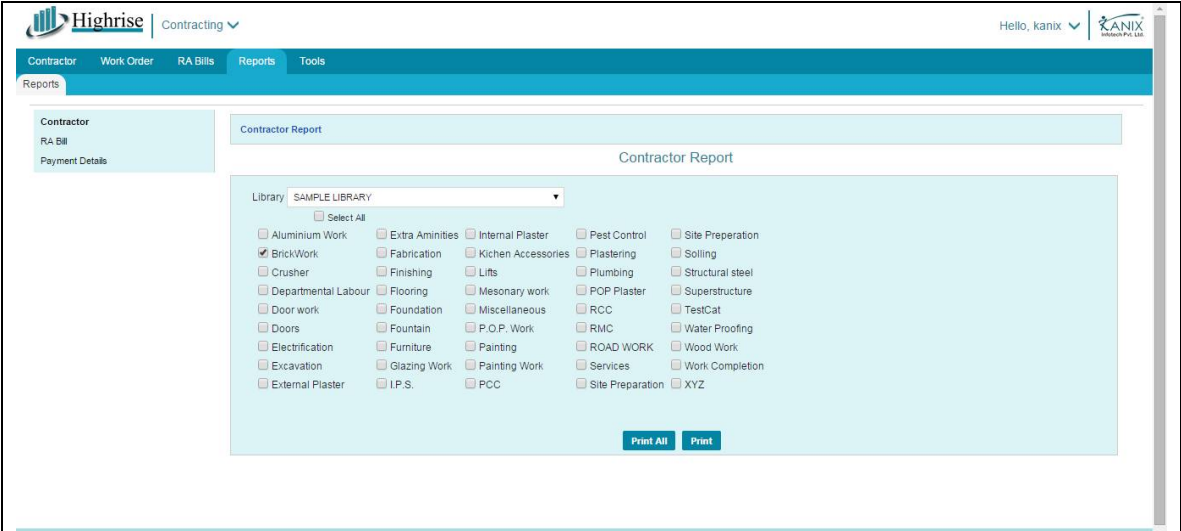
CHAPTER 3: REPORTS

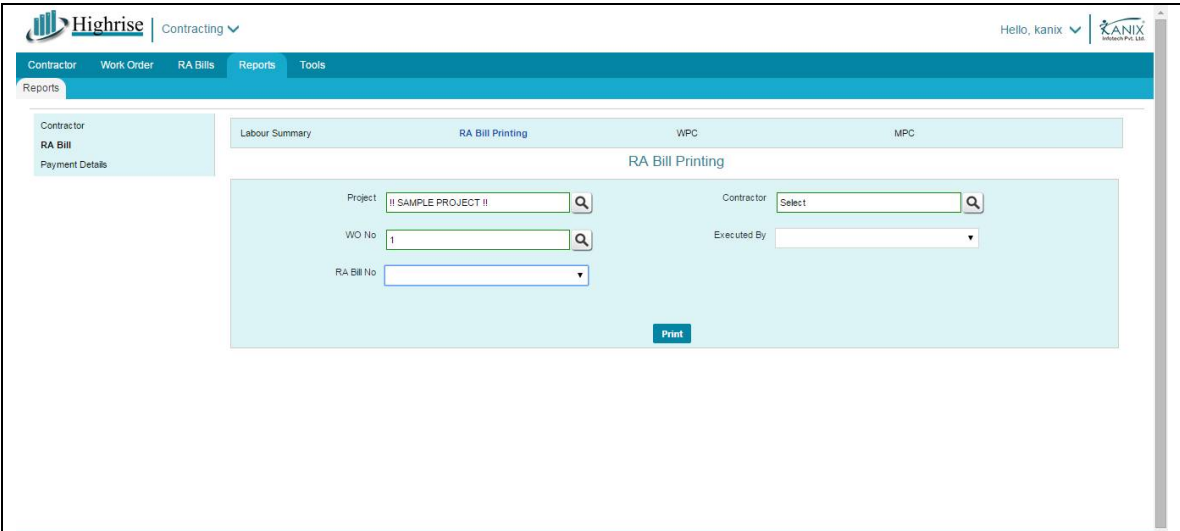There are numbers of reports generated from 'Contract Module' as follow:
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A. **Contractor List**
This report gives us database of Contractor List [i.e. Name of Contractor, Firm, Address, Phone etc].

B. **RA Bill**
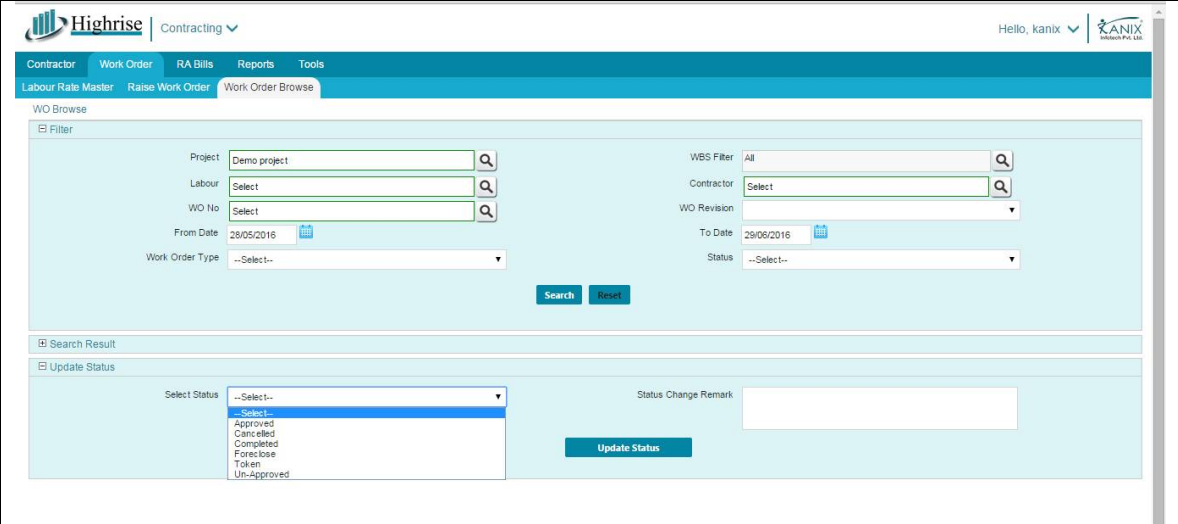This report gives Ra Bill Summary and Ra bill Printing

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C. **Payment Details**
   This report gives Payment Detail Reports.

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D. **Work Order Browse –**

The work orders generated are available on this window for browse, Approved, Cancel, Foreclosed, and Completed.
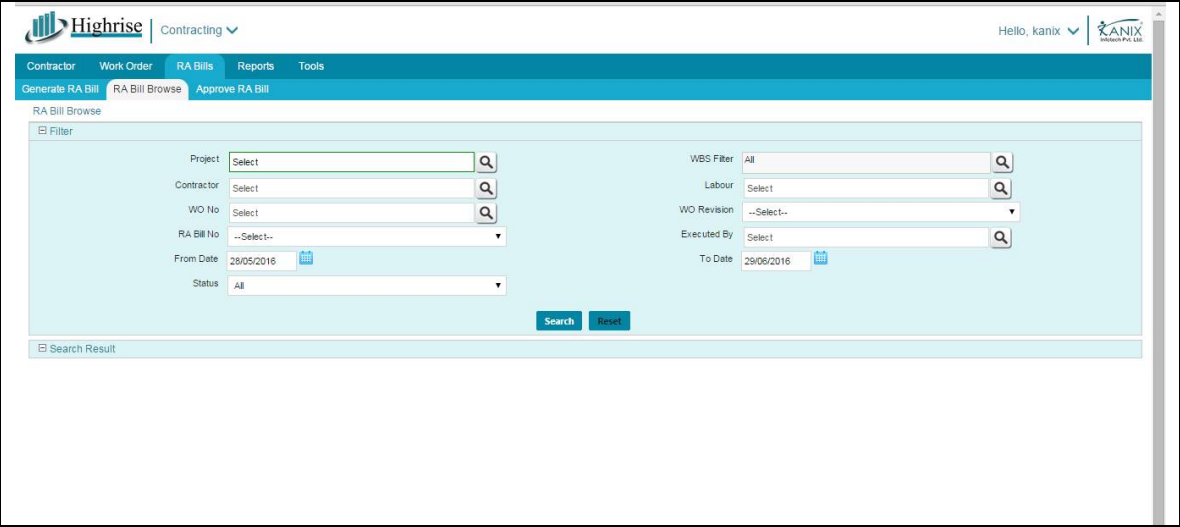

Path: H2K Contracting /Work Order/Work Order Browse

To define task wise requisition:

Step 1   Select Project.
Step 2   Select Work Order and Revision, click on Refresh.
Step 3   Select the rows we wish to approve or click on Entire WO
Step 4   Select the appropriate option from status list.
Step 5   Click on 'Update Status'

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E. **RA Bill Browse -**

Path: H2K Contracting /Reports/RA Bill Browse

A raised RA Bills can be browsed / viewed from this window. Project-wise, Contractor-wise, Bill no wise, Date Period-wise filters we can apply to view the details.

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CHAPTER 4: PRACTICAL ASSIGNMENTS

A. Create new contractor having following details:
- Name: 'Om Construction'
- Owner: Viswas Patil
- Adderss: S.no-20, Pune.
- Contact:
- Phone – 020-24363640
- Fax – 020- 24359640
- Mobile – 9823024945
- Legal:
- C.S.T. – 25-1254-2005
- L.S.T. – 20-1250-2004
- I.T. – 405/12/PUN
- Other:
- Register Date: 23-5-2005
- Credit Capacity: 30 Days
- Grading: A

B. Fill the Rate Master Having following Details:
- Rename 'New Rate' by 'RCC'
- Labour name 'LABOUR FOR RCC SLAB M20'
- Contractor = 'Om Construction'
- Rate = 50
- Credit = 30 days

F. Make 'Payment Schedule Scheme' in Payment Template having following detail:
- Payment Template name = 'RCC SLAB'
- Stage = 1) Fitter Work-25%
           2) Shuttering Work-40%
           3) Concreting Work-35%

G. Raise Work Order having following details,
- Project = 'World Trade Centre'
- Labour Name = LABOUR FOR RCC SLAB M20
- Quantity of work = 500 sft
- Name of contractor = Om Construction
- Retention = 5%
- VAT = 4%
- Service Tax = 12.5%
- Payment Template name = 'RCC SLAB' [From Ex no-3]
- Type of work order = NEW

IDH_ASSIGNMENTS

F. Give Work completion having following Details:
- Project = 'World Trade Centre'
- Labour Name = LABOUR FOR RCC SLAB M20
- Task name = 1 ST FLOOR SLAB
- Stage = Fitter Work-25%
- Work completion Quantity = 250 sq.ft.
- Work completion Date = 12-5-2006

G. Generates RA Bill having following Details:
- Project = 'World Trade Centre'
- Name of contractor = Om Construction
- Work Order No – 1

H. Approve RA Bill which generated in Pt. F.

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