

Construction Accounting and Financial Management

Chapter 4 More Construction Accounting

Construction Accounting & Financial Management, 3/e
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Committed Costs

- Costs that the company has committed to pay
- Costs are known, even if a bill has not been received for these costs
- Example:
 - Subcontracts
 - Purchase orders with costs

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Estimated Cost At Completion

- Best estimate of final cost
- $ECAC = \text{Committed costs} + \text{Non-committed costs invoiced} + \text{Cost to complete}$
- Cost to complete is the non-committed costs that we expect to incur to complete the project

Earned Profit

- $\text{Earned profit} = \text{Estimated profit on project} \times \text{Percent complete}$

Costs and Profits in Excess of Billings

- Based upon the assumption that the profit is uniformly spread over the project:
 - The project is under billed
 - We have billed for less profit that we have earned
 - We may pay taxes on profit even though it has not been paid
- Is an asset to the company

Costs and Profits in Excess of Billings

$$\begin{array}{r} \text{Earned profit} \\ + \text{Actual costs to date} \\ - \quad \quad \quad \text{Total billed} \\ \hline \text{Cost and profits in excess of billings} \end{array}$$

Billings in Excess of Costs and Profits

- Based upon the assumption that the profit is uniformly spread over the project:
 - The project is over billed
 - We have billed for more profit that we have earned
 - Taxes may be deferred on profit even though it has been paid
- Is a liability to the company

Billings in Excess of Costs and Profits

	Total Billed
—	Earned profit
—	<u>Actual costs to date</u>
	Billings in excess of costs and profit

Internal Controls

- Separation of duties
- Proper paper trail
- Review by owner or manager
- Track all assets
- Keep accounting current
- Limit access

Selecting a Construction Accounting Systems

- Reliability
- Cost
- Training and Support
- Ease of use
- System protection
- Integration
- Backup and recover procedures
- Customization