

# Construction Accounting and Financial Management

Chapter 4  
More Construction Accounting

## 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

## 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

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

### 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

$$\begin{array}{r} \text{Total Billed} \\ - \text{Earned profit} \\ - \text{Actual costs to date} \\ \hline \text{Billings in excess of costs and profit} \end{array}$$

### 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