

# **Construction Accounting - Everything You Need to Know**

Back to the days when the primary resources were mud and straw, life was simple. Buildings and other establishments don't require solid materials. Thus, financing was never a problem. But as the days go by, the demands change. Along with technology, the construction industry prosper. Part of today's construction project management is keeping a record that helps the company track progress. Through accounting, success in construction can now be achieved.

But how does it affect your business and organization? How is accounting in construction achieved? Before we break down methods and tips, let us first define what it is and why it is essential for your business.

## **Construction Accounting**

All too often, contractors face various challenges on the site. Financial estimates and work schedules are just among the problems that pose several risks. Documentation is necessary to secure the project elements. Other than that, it protects the organization from any allegation. With that, construction accounting is an excellent method to secure tracking records. It's a kind of bookkeeping that helps contractors to trace the tasks that certainly impacts the whole organization. Ensuring a form has a variety of benefits. It includes the safer keeping of records, control in project command, and easy access to credible information.

## **4 Construction Accounting Methods**

Construction businesses use and follow different accounting methods. To learn more about the practices of construction accounting, let's define each.

### **Cash Method**

In accounting, the cash method is also termed as a cash-basis method. With this, income is only considered as it is when there is a receipt that is received. The same goes for the expenses. It is deemed charged when it is fully paid. For startup businesses, the cash method is appropriately considered.

## **Accrual Method**

Unlike the cash method, the accrual provides a more precise expense and cost analysis on any construction project management. While the cash method doesn't bind the profit and the charges, the accrual resolves this risk. Generally, all the generated revenue and expenses within that same year must be documented and delivered. However, it is essential to gather the precise amount of cost and income before this still shall be reported.

## **Percentage of Completion**

The percentage of completion is commonly used in the construction industry. It is a known method used when accounting for the completed revenues and expenses with a scheduled timeframe. However, some construction organizations take this method for granted. This has been used to raise short-term outturns. But remember, only use this method when budget, payment and completion estimation is plain sailing.

## **Completed Contract Method**

For sectors in the construction industry that involve long-term contracts, the completed contract is a known method. This method is useful for its flexibility. Here, postponement or extension of expenses and revenues mandatory report is allowable until the contract completion. It's a method that supports taxpayers and businesses.

## **Construction Accounting vs. Regular Accounting**

So, you are probably confused about what differs construction accounting from regular accounting. But for businesses, these are standard terms that exist in daily operation. Let us understand it further by defining each term.

Construction accounting is accurate for mobile environments, whereas regular accounting is for fixed settings. Now, what does that mean? In construction accounting, it means convenience for contractors in following the earned cost of the related work within a mobilization situation. Besides, all of the construction-related business plans only cover 15% of the accounting, making it less critical. On the other hand, regular accounting means the handing over of products or services where clients come to an area where the business is anchored. Since it is typically used in different companies in the industry, it covers roughly 80% of the accounting.

Basically, regular accounting is commonly used because it neglects complexity. Naturally, it is a means of record keeping sold products and services. But it is ideally different from construction accounting. It goes through quality control, which poses complications in the project management checklist. But why is this complex? There are various categories. And generally, direct and indirect costs of all the jobs that are sustained may land into it.

## **Construction Accounting Tips**

Since business is business and time is money, you can't afford to waste more time for failures. When working with your accountant, expect to calculate revenue and expenses. Simply, you will face various failing attempts. But to help you through, follow the list of tips below.

### **Update Regularly**

Based on the analysis provided by the US Census, there is a 14% failure in the US construction industry. Part of that is the improper accounting management. So, to avoid this circumstance, get familiar with your accounting workflow. Secure that all the accounting software, cash flow, invoices, and employee knowledge are updated. Since all the income and revenue generated runs quickly, falling off behind can be severely risky. Use current and reliable software if there is a need to.

### **Use Automation Software**

It's easy to think that you are in the right lane looking for the best construction automation software. But remember, these software are made for various purposes and complexities. So, how will you find the best one? Initially, you need to do your research. Choose a software system that achieves your purpose. Then, pick a product that you can benefit from. Assess the functionalities that can help manage your construction projects. Eventually, it will help you enhance your workforce.

### **Know Your Tax Deductions**

Tax deductions are essential in lowering tax liabilities and taxable income. In the construction industry, allowable tax deductions help you decrease expenses in resources and tools. Thus, it can also deduct your expenses in some of the common items that are needed for your project. Take advantage of these credits. Knowing this aspect benefits your business the most.

## **Focus on Accurate Estimates**

Planning is vital for construction. But it is a likely different procedure when the funding is inaccurate. So, when there is an inaccuracy of costing, it is difficult to determine the project's market price. Without an accurate estimate, balancing the funds for labor and resources is daunting. Thus, it will result in a massive failure. That is why it is substantial to do the math and calculate every cash that goes out.

## **Hire the Right People**

Working with the right people affects the process of the project. Generally, this gets the job done effortlessly and error-free. Other than that, it continuously builds a good reputation allowing your company to compete in the industry.

When looking for an accountant or a labor worker, consider these three aspects.

- Choose a top talent employee.
- Be open to referrals.
- Consider a background check.

Securing these not only benefits you to work with the right individuals. But also, this will help your organization to achieve success.

It's good that you continue to look at the brighter future for your construction projects. But remember, a project without proper management is just a house without a good foundation—it is close to damages. For you to remain focused on the revenue and cost, accounting management is necessary. Take a look at the information above and assess your movement to keep you on the right track.