

## A Definitive Guide on Accounting for Construction Companies

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Good accounting gives business owners the information their firm needs to make better decisions regardless of the business industry. And construction is not an exception.

The construction sector is unlike others. It has a distinct organizational structure.

Running a successful construction business requires good accounting practices. But handling a company's finances effectively isn't always possible, especially if contractors are not very good with numbers. In addition, owners of construction sector businesses confront particular difficulties compared to owners of other sector firms.

### How Is Construction Business Accounting Different?

Because of the nature of the job, the pricing for individual projects, the shifting operational costs and other factors, construction accounting is more complicated than it is for firms in other industries. Construction companies must be able to manage payroll, bid on projects, track and report spending, and perform a wide range of other accounting duties. The main distinctions between construction and other accounting types are listed below.

#### PROJECT-BASED

Contractors manage numerous jobs simultaneously while



moving from one to the next. It may be necessary to pay a deposit in advance. Sometimes the projects may be paid in full, or it may take months before the entire bill is cleared. Projects aren't always paid for right away after completion.

These factors may necessitate that construction firms provide distinct profit and loss accounts for each job.

#### SALES

Contrary to construction enterprises, which provide a wide range of services, regular businesses typically offer one to five distinct types of goods or services. Service work, design services, consulting, engineering, procuring materials, and other activities may fall under this category.

Due to this, it may be challenging to keep track of spending and accurately determine the profit from each service category.

### **VARIABLE OVERHEAD EXPENSES**

Overhead expenses frequently change for construction enterprises as well. Consider the price of materials, subcontractors, equipment, travel, insurance, and more. This needs to be taken into consideration in construction accounting.

### **THE COST OF GOODS SOLD**

Contrary to most firms, which only keep track of the costs of the goods they sell, the construction industry is unique. Each job has direct and indirect costs that can be categorized into various areas. Contractors must have a reliable system to track their earnings and expenses and reconcile each transaction.

### **LONG-TERM AGREEMENTS**

Construction businesses might oversee short-and long-term contracts with flexible termination dates. You might not receive your paycheck at the same time each month as a result. You will require an adaptable yet structured accounting system to manage cash flow and maintain your accounts in order.

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## **Three Most Common Construction Accounting Mistakes**

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Accounting is one of the most crucial components of management and administration in any firm. To ensure openness and profitability in organizations with multiple divisions, the accounting staff must precisely document the entry and exit of assets.

However, accounting mistakes in a construction company might have serious consequences. There are three typical accounting errors in the construction industry that business owners should be aware of, including:

1. Lack of organization;
2. Overestimating or underestimating costs and time; and
3. Shoddy accounting procedures.

The Percentage of Completion Method is typically used by construction businesses to reconcile income. This is based on the anticipated profit from a contract and the extent to which the project has been finished. When errors happen, they result from underestimating expenses, inaccurately accumulating actual costs, or unintentionally omitting modifications because of a change order.

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## **Five Ways to Avoid Mistakes and Manage Finances Better**

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### **1. Schedule Payments**

Finance will operate well if customer payments are managed and agreements are met. Use an all-encompassing accounting system to manage all costs to be confident in the financial health of the business. Vital sales records and regular billing make managing accounts less complicated and help keep track of monthly income. Additionally, integrated accounting software for businesses can be used to manage it.

### **2. Advance Payments**

Refrain from funding every project with company money. Try a billing contract arrangement to shift financial risk from the contractor to the client early on. This type of contract protects you from dangerous economic hazards. With the advance payments, you can organize your job more systematically and effectively.

### **3. Material Management**

There are two strategies to reduce high prices. Make sure the materials are adequately managed first. Second, effectively and efficiently control the use of materials.


Using tools that track the availability and utilization of materials across numerous projects can make managing these commodities easier. Using the best inventory system, contractors can efficiently operate the material outflow required to execute the project. Businesses can efficiently control the utilization of materials with an inventory system. This advantage can stop companies from wasting money on extra or needless purchases of basic materials. Download the software pricing calculator to get a quick overview before using the system.

#### 4. Delivery Timeline

Each project that is carried out requires materials to function—ensuring all essential supplies arrive on time. This will make it simpler for the contractor to complete the current project. Additionally, it can provide a quick and effective work method to lessen the likelihood of excessive charges. Because each project requires more money to complete, the longer it takes.

#### 5. Labor Management

It's not simple to keep an eye on workers' activities to ensure that the project is finished correctly and quickly. A valuable observation for the company's evaluation is how many workers are needed to complete a task or how many people are needed to work on one component of the project. Managers can create adequate budgets for any project that will be undertaken in the future by understanding the information on the activities of these workers.

Being a general contractor and needing to manage cash flow, job costs, overhead costs, the bidding process, compliance, and other factors can be difficult. Contractors need an all-in-one construction software with qualified experts for implementation and guidance. Good construction software is an overall solution for all of your accounting requirements. 



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### About the Author

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Ed Williams is the Director at [ProjectPro](#), an integrated construction accounting software. He holds tremendous industry experience and is a Microsoft Dynamics expert focused on successful implementations. He is a visionary leader and always aims to deliver the best to the construction and project-oriented industries.

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### About the Article

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