



**6 things to know before**

**committing to construction**

**accounting software**

The Ultimate Guide to  
Construction Accounting

## About this guide

Construction accounting is a complex topic that can be daunting to understand. But with the right guide to help, you'll know everything critical about the subject to help your construction company stay ahead.

This guide covers six key things you should know about construction accounting before committing to software.

After all, it's your money and resources on the line! We want to make sure you have the information you need to help you decide what's best for your company.



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## **What makes construction accounting different?**

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Construction accounting is different from general accounting because of the nature of work. Construction has many moving parts between many other people; it's easy for information to get lost, especially financial documents.

Construction accounting is project-based because the financial focus revolves around each job. That's why contractors must track accurate costs for each project individually, as well as the types of expenses and production activities that make up job costs.

It contains specialized contracts since the construction industry relies on more extended contracts flexible in their deadlines. It has overhead costs; things like hiring laborers, subcontractors, partners, training, insurance and more.

Construction accounting also has mobilization costs because production primarily happens on different jobsites rather than fixed locations. Equipment and labor costs always have to be tracked to each jobsite with the correct wage rate.

## **What to know about job costing**

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Job costing is the procedure in which expenses and profits are projected for phases of a job. In job costing, everything from materials, labor hours and overhead costs are given a projection. It provides a comprehensive, detailed look into financial statements.

Job costing is a way to help contractors identify their actual costs and profitability, which is otherwise very difficult to do in an industry with so many variables from contract to contract. It's used to inform their estimating, budgeting and decision-making for future projects and contracts.



## Popular construction accounting methods

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### 1. Cash method

Contractors count income when they receive it and deduct expenses when they pay.

Because of this, there are no accounts payable or accounts receivable. If money hasn't been accepted or delivered, there hasn't been a transaction to account for.

### 2. Accrual method

Income is counted as soon as a contractor establishes their right to receive it. The purpose of an accrual method of accounting is to match income and expenses in the correct year, even if cash hasn't come in or out yet.

Contractors match costs and revenues from specific contracts, making it more helpful for determining job profitability than the cash method.

There are two types of accrual accounting in the construction industry: the “completed contract method” and the “percentage of completion method.”

In the *completed contract method*, all income and expenses from a contract are reported in the year that the project is completed and accepted by the customer.

In the *percentage of completion method*, income is reported in proportion to the percentage of costs incurred to date compared to total estimated costs for a contract.



## Construction accounting best practices

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### 1. Understand job costing to create goals

Job costing is vital to your company, meaning that your team needs to be dedicated to reporting all finances for accuracy and streamlined communication.

Job costing provides a roadmap of where your company wants to go and the timeline set for those goals.

### 2. Use Construction Accounting Software

Construction accounting software keeps all of your finances secure and organized, leaving less room for error or headaches.

Automating your accounting will increase efficiency and effectiveness by streamlining processes.

## Benefits of using construction accounting software

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Construction software that supports accounting needs can bring numerous benefits to your business, some of which include:

- Improve job-costing accuracy in cost allocation, revenue recognition and other financial processes, expense reports, income reports and more.
- Save time by automating various accounting processes. Those can include invoicing, payroll and job-costing.
- Manage the finances by simplifying the process of budgeting, cost monitoring and profitability tracking.
- Integrate with other tools for project or document management and create a streamlined workflow.
- Scale your business with effective and consistent financial management strategies.
- Access your financial data securely anywhere at any time with a cloud-based solution.



## **Choosing the right construction accounting software**

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There are several choices for construction accounting software, including programs made for businesses of all sizes. Here are 7 questions to help you determine which software is right for you and your business.

### **1. Will my information move smoothly between different programs?**

We recognize that integration is important. Removing the need to enter the same financial data in multiple systems makes your job a lot easier. Integrations between accounting software and construction management solutions vary in the type of data mapped between systems. However, the best integration options allow for real-time financial data to be shared across platforms without the need for double-entry.

### **2. Can I find what I need quickly?**

Look for software with a robust search function and customized reports to make every step of the billing cycle easy. This will allow you to analyze and adjust as needed.

### **3. Can I set different access levels for multiple users?**

It's important to find a software program that lets you decide who can access specific parts of the software. This ability lets your team stay organized and removes unnecessary errors.

### **4. What can I automate?**

The more your accounting software can do for you, the more efficient your billing system will become. For example, look for software that provides calculation tools, document conversion, and updates that occur systemwide when you make changes.

## **5. Can I use it without reading the manual?**

Powerful software is a waste of money if nobody can figure out how to use it. Look for a user-friendly interface and easy access to comprehensive help functions.

## **6. Can I set up different tools for various projects?**

Unique jobs will require different elements, such as cost variations and negotiations. Your construction accounting software should be flexible enough to handle these changes.

## **7. Will I look professional?**

Software that can generate clear reports makes it easier for you and your team to communicate and will help you present the right image. Look for reporting templates and customization tools in both your accounting software and in the integrated construction management solution that'll enhance your professionalism.

Cost management and budget tracking must connect to how you handle your accounting internally. This is how you maintain best practices for internal standard operating procedures (SOPs) and for tax purposes.

Integrations with Quickbooks Online, Sage Intacct, Sage 300 CRE or Sage 100 Contractor should be top priorities since they are most commonly used.

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## About RedTeam

RedTeam's cloud-based software solutions are designed to help contractors face the day-to-day challenges of commercial construction. The company's suite of construction management solutions support the project review process end-to-end. From advanced preconstruction functionality, to real-time jobsite updates.



Request a demo today to see it in action.

