

Project Accounting: 5 Best Practices for Contractors

INTRODUCTION

Project accounting is essential to maintaining control of your budgets and resources, generating timely and accurate billing, and establishing the profitability of all your projects. Any project accountant can tell you that it's the only way to manage project budgets and resources. Project-based industries like construction—rely on project accounting to give them accurate estimates, manage time and resources, generate billing, and, most importantly, determine if the project was profitable.

And yet, many project-based businesses are not using project accounting software to help them manage their projects. Consider these statistics:

- Contractors see “capturing time/costs against projects” as their biggest challenge in project management (Capterra)
- Nearly 40% of contractors currently do not use project management software (2019 ConTech Report)
- 52% of projects experience scope creep (Project Management Institute)

In this eBook, we'll discuss project accounting best practices and how, with the right project accounting tools, you can ensure profitability for your projects, regardless of size or complexity.

LET'S TAKE A CLOSER LOOK AT ALL 5 BEST PRACTICES



1. Managing Scope Creep



2. Reducing Project Risk



3. Accurate Budgeting



4. Time Keeping Management



5. Managing the Project Close

Project Accounting Defined

While financial accounting is more interested in the company's overall financial performance, project accounting focuses on the financial performance of individual projects. Projects have specific start and end dates, and project accountants are concerned that the project meets the financial contracts in place. They are responsible for estimating, forecasting, cost accounting, revenue recognition, and cash flow processes of the project(s).

Areas of interest to the project accountant are:

- The availability of resources to take on a new project
- Creating budget forecasts for the project using previous projects as a baseline
- Determining if the start and end dates are realistic taking into consideration time, costs, and resources
- Establishing sufficient reserves in the budget to account for unplanned risks and overruns
- Tracking costs and revenues against planned costs and milestones
- Identifying the role, task, or milestone that is creating the most drag on project profitability

In fact, the project accountant is often described as having one foot in accounting and the other in project management.



BEST PRACTICE #1

Managing Scope Creep

There are several areas in project accounting which pose potential pitfalls—but also provide opportunities.

Here are some common pitfalls and opportunities in project Accounting, and how acumatica can help:

Adding new requirements that impact the project timeline and budget occurs in most construction projects. In some instances, changes cannot be avoided. Construction projects could run into problems with the availability of specified building materials, building code requirements, or the discovery that additional work will be needed to remove hazardous material that was previously unknown.

In other cases, the client might request additional changes that were not part of the original contract. These requests frequently occur once the project is underway where the customer begins to anticipate future needs and requests a change in project scope or direction.

The best way to mitigate scope creep is to discuss the project thoroughly with the client and understand their vision of what they expect the project to accomplish. Often, this allows you to uncover those requests during the discovery process and build them into the project plan from the beginning. The project plan and project requirements, as defined in the contract, serve as your commitment to the client of what the finished project will look like once completed.

Still, change requests will occur, and, even though it is always tempting to maintain goodwill by accepting a new request, you should establish a formal change request procedure before the project starts. Having a change request procedure ensures that the project team can assess each change request for any impacts the change will have on the design of the project, the availability of personnel and equipment necessary to make the change, as well as the cost and project milestones. Change requests are also a great time to upsell the client on better or additional functionality.

One key to success is to track change requests and have complete transparency with the client on the impacts the change will have on the current project. This communication allows both you and the client the opportunity to assess the financial and timeline effect of the change and decide whether to accept the change request...and keep the project on track!

HOW ACUMATICA CAN HELP

Acumatica Construction Edition is a complete, native, and cloud-based construction and accounting software solution. This easy-to-use software includes powerful financials, job cost accounting, project management, payroll, inventory, order management, service management, CRM, mobile, and more.

Acumatica Construction Edition helps by controlling changes to the project scope, including customer and internal requests. Working in tandem with Project Managers, users can create a change request that can be converted to a change order and attach electronic copies of all documentation, including the request being made, the revised project plan, and reports showing the impacts the change will have on the revenue budget, cost budget, and commitments. Tracking requests and documentation within Acumatica Construction Edition ensures the project budget is always up to date and accurately reflects resource allocations along with all revised project team notes and documents.

Acumatica also allows users to define automated workflows to route change requests to the appropriate people for approval, including the client.



BEST PRACTICE #2

Reducing Project Risk

No plan is foolproof. Unforeseen or overlooked details can derail any project.

Project risk can take on many forms, from the untimely departure of a critical project team member due to illness to design flaws uncovered during construction. It would be senseless to try to predict every possible risk in a project plan. However, you can anticipate that something will happen that will significantly impede the project and build in contingencies to adapt and correct for them without delaying the project or exceeding the project budget.

Project Accountants and Project Managers must plan on uncertainty in their projects and build contingency into the schedule to provide enough time on crucial tasks that allow for rework if the initial execution of that phase fails or requires adjustments. For example, a sink hole was discovered at the site blocking the movement of equipment. The Project Manager must notify the superintendent of the issue and provide a change order to the owner - to accommodate the time and effort to fix the issue.

Another characteristic of successful Project Accounting is always having the ability to communicate and collaborate with the team at all levels. A principle of agile project management is short, but frequent, group conversations to identify problems as early as possible and to work together to develop and implement solutions.

HOW ACUMATICA CAN HELP

Acumatica Construction Edition lets you track and manage all activities—for drawings, photos, change orders—and all-important documentation that impacts a contract and informs the audit trail. With automatic alerts and mobile access, Project Accountants and Project Managers will be proactive and have the information needed – and not leave to chance whether projects are generating or consuming cash.

You can even adjust the assignments of staff, equipment, and other resources to individual projects and tasks. Timesheets and resource allocations link to specific projects, so you always have accurate, up-to-date information on the status of every project.



BEST PRACTICE #3

Accurate Budgeting

When you know your true costs—from subcontractors through materials and overhead—you can master the budgeting process and deliver more profitable construction projects. With construction job costing, you'll get the detailed job information you need to help you determine problem areas in your current jobs—and accurately budget future projects.

Before cloud construction accounting software became available, the typical budgeting process relied on guesstimating costs from labor to materials. Having the toolset you need to secure new business with concrete, accurate costing eliminates guesswork.

You can efficiently manage every project-related activity—including entering A/P invoices, billing customers, and charging time to jobs—so that your job cost and billing information is always up to date.

Project Accountants are also responsible for gathering accurate budgets for materials and labor, including the cost of rented and purchased equipment and the use of contract, hourly, or salaried workers (and their benefits). An often-overlooked element of project labor costs is the time spent in project meetings and reading emails, which can add a significant cost burden to the project.

Make sure your cost projections are accurate and up to date as the project progresses. These projections will help you track the accuracy of your project plan against the actual cost of time, equipment, and labor. Accurate budgets also will help you to identify areas of greatest cost to your projects as well as those projects that provide the most revenue for your company.

HOW ACUMATICA CAN HELP

Acumatica Construction Edition helps you create project budgets, revise these budgets while keeping track of revisions, and compare actual costs against estimated costs.

With Acumatica Construction Edition, you can:

- Track budgets, payroll, invoices, and billing so you can see your cash flow at-a-glance and give everyone in the field and at the office an up-to-date snapshot of the project
- Allocate overhead and shared expenses to individual projects, including billable or nonbillable items
- Include inventory items, labor, and more in project budgets and compare actual project costs with original and revised budgets by period with real-time reports
- Enter and modify project budget forecasts and compare these forecasts with the actual project costs and incomes for each financial period

“In construction there are a lot of pieces and moving parts, multiple vendors and subcontractors, and different expenses and financial controls that need to be tracked and communicated in multiple places. Integration is essential . . . Once we made the decision to go cloud, other software couldn’t compare to Acumatica’s Construction Edition.”

- BRUCE YOUNG, CURRAN YOUNG, PRESIDENT & CO-FOUNDER

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BEST PRACTICE #4

Time Keeping Management

Accurately recording time against a project is essential for payroll, invoicing, measuring productivity, and tracking costs. Knowing how much time was allocated to a project is vital in determining how profitable the project was.

Salaried staff members assigned to a project are often overlooked in the project budget, or, even if they are, the individuals simply do not keep accurate records of their time spent on a project. Invoices and timesheets from subcontractors can easily become lost or hard to reconcile.

Since labor is often the highest cost on most projects, it is important to track time spent on projects accurately. Keeping track of time lets you know where you stand against the project budget at any time, where you are relative to your project burn rate, and where an unexpected drain on resources or time is occurring.

HOW ACUMATICA CAN HELP

Acumatica's time, attendance and payroll features include:

- Tools to help contractors monitor labor and material costs by allowing employees to track their hours and expenses
- Manage both certified payroll and union wages
- Automated processes for field supervisors and finance to review and approve labor in real-time
- Once approved, timecards can generate a customer invoice and update contract status
- Reports to monitor and control labor costs

Real-time data synchronization through cloud-based mobile construction software allows the entire business to respond quickly and more efficiently.



BEST PRACTICE #5

Managing the Project Close

Effectively closing a project is critical for several reasons: It releases resources for use by other projects; it establishes the formal completion of the project and the final acceptance by the client; and it allows the project accountant to tally up the actual revenue, costs, profit, and margin.

Unfortunately, in the push to get the project across the finish line, the project closure is often overlooked or rushed. Issues that complicate the project close include the inability to find paperwork, like contracts, change orders, approvals, and emails; accounting for all expenses incurred in the course of the project; and accurately tracking and billing for the hours employees and contractors spent on the project.

To make the process of closing the project easier:

- Establish a process at the beginning to track all approvals, emails, paperwork, and any other documentation related to the project
- Make sure you have the formal delivery acceptance of the finished project by the customer
- Ensure you update all costs related to the project
- Release all employees, contractors, equipment, and material from the project, so they are available for other projects within the organization

HOW ACUMATICA CAN HELP

Acumatica Construction Edition can help make closing your project easier:

- Allows you to keep all project documents, photographs, and communications associated with the project in one place so you can access them digitally
- Integration with DocuSign and Adobe Sign allows you to accept digital signatures and attach them to your project
- Track all labor and material costs, including overhead, making it easy to calculate actual project costs and compare these against budget forecasts
- Once you complete the project, you can release personnel and resources from the project easily
- Close tasks as you complete them, making it easier to keep track of any outstanding or unfinished tasks. You might also choose to keep one outstanding task open specifically to capture work performed during the project close.
- Acumatica Construction Edition ties seamlessly with Accounts Payable and Purchase Orders giving you visibility into all outstanding transactions that might encumber your project, making you aware of your outstanding obligations and helping to eliminate surprises.



Conclusion

Project Accounting is responsible for managing the budgets, billing, and profitability of projects that involve any combination of employees, contractors, materials, and tasks. Each item can be assigned to projects and tasks with specific billing rules assigned to each task. Acumatica Construction Edition seamlessly ties to core financials: general ledger, accounts payable, accounts receivable, sales orders, purchase orders, inventory management, and CRM. The Construction Edition allows Project Accountants and Project Managers to create budget forecasts and track actuals against estimates through the life of the project.

Let us show you how to gain a complete view of project-related costs for materials, labor, equipment, and inventory items – [visit us online to request a free custom demo](#).



ABOUT ACUMATICA

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Learn more about how Acumatica Construction Edition can work in your business by visiting us online at Acumatica.com/build.