



The Importance Of A Financial Model

Section 1

Important both during and after a project is tracking costs. This may seem like a simple function, but in a construction project, different entities need different financial information, and being able to track finances in real time saves a lot of work (and costs) later on. Let's look at some of the costs and how Construction Management Accounting Software fills the need.

Direct material is either raw material such as wood, wiring, paint, and the like, or assemblies such as plumbing fixtures, cabinets, light fixtures, etc. In a nutshell it is anything where money is exchanged for a tangible with no labor added. As with any accounting software these are classified in a separate ledger because in most cases, these items may be purchased tax free, and a direct cost, need to be accounted for properly for a profit and loss statement.

Section 2

Direct Labor is another budget or ledger that is important to track separately. Labor on the project may be in the form of payroll employees, contract employees, or sublet employees. For payroll employees, Construction Management Accounting Software should have built in features to track labor and track withholding taxes. As an option, it may have an export feature to allow the software to work with a payroll software or payroll service.

For contract employees, it is not required to track or even take withholding, but Construction Management Accounting Software should also have a feature to allow generation of 1099 forms for work without withholding. As with direct labor or any ledger, this software allows easy review and retrieval of information at the conclusion of the project and at tax time.

Action Steps

Services, subcontracting and sublets may also be part of the project. Services are like labor, but unlike direct labor or contract labor, they are in the employ or under contract to others. These may be service to repair equipment, provide fuel for equipment and the like. With Construction Management Accounting Software, these have a ledger to include these as a direct expense.

Subcontracts and sublets are slightly different than services. This is usually because they are a combination of labor and materials, and more extensive than a simple service. Examples of these include, contracted grading, foundations and concrete, framing services and the like. This is important in today's economy because many builders, using corporate manufacturing models have very few actual employees and sublet entire portions. Construction Management Accounting Software allows the company to track and review these at the conclusion of projects in order to help a builder review and control costs.





This can all be done using standard accounting software, however standard software is essentially a blank sheet. With Construction Management Accounting Software, the ledgers and forms are pre-defined. Depending on the extent of the construction project, it still may be substantial work, but still a lot less than starting from scratch.

David Kraft is a freelance author that specializes in the field of construction accounting software. He writes articles that are aimed at helping construction professionals choose the right software for their business, which is often a difficult decision. Please check out his construction software site for more information.

