

FACTSHEET



Management Accounts for your Construction Business

One of the key components of making sure your construction business is profitable, is having access to accurate management accounts.

An accurate Profit and Loss and Balance Sheet will help you make financial decisions, based on accurate information, in a timely manner.

An accurate P&L will include the following:

- Work in progress
- Stock
- Accruals
- Prepayments

Work in Progress (WIP)

This is a measure of the value of work completed but has not yet been invoiced. WIP is important in helping you understand not only the monthly profitability of your firm, but also of each individual job.

To calculate work in progress properly we look at four areas:

1. Sales price of the project
2. Total costs estimated for the job
3. Costs to date
4. Billed to date

We take Costs to Date and divide Total Costs Estimated to get the percentage complete for the job.

For example, imagine a job which is estimated to cost £90,000 to complete and by the end of the month we have completed £45,000, or expressed as a percentage: $\frac{£90K}{45K} * 100 = 50\%$

Next, we look at Sales Price which is $£150,000 * 50\%$ complete = £75K. We should have invoiced £75,000 by the end of the period. If we haven't invoiced this month, we can accrue for this income and if we have over invoiced, we can reduce the Sales Income recorded.



This way we accurately represent the costs of these jobs in progress in the profit and loss.

Stock

If you buy material (assuming it's not included in your work in progress calculations) and you still retain this at the end of any given month then its stock. The value of this needs to be carried over for use in future months. If you don't do this your monthly P&L will be incorrect.

Stock should be valued at cost, net of any VAT incurred.

Accruals

These are often expenses that relate to the month we are working in, for which we haven't received the invoice for. We know these invoices are coming and how much they are, and that they relate to the month, so we can account for them.

We recognise Accruals in the accounts at the expected cost to ensure these expenses are recognised in the profit and loss even though we haven't received the invoices yet.

Prepayments

These are costs we have had the invoice for but relate to future months. The date of the invoice is in the month we are working on, but the cost relates to future months. These then need to be stripped out of the accounts and the cost spread over the months which the invoice covers.

Budgeting

Another key aspect of management accounts is simple and accurate budgeting. It's important to budget so that you can measure what you are achieving against the budgets. Budgets should be monthly.

Job Estimated Costs Vs Actual

Following on from overall budgeting, an important management tool is to track the actual costs received on jobs vs estimated costs. This exercise has a few important functions including making sure you are not overspending and ensuring your pricing or estimating is correct.

Cost Value Reporting/ Measurement

For construction businesses who invoice for work on an application for payment basis at agreed stages of projects, Cost Value Reporting is an important tool.

What this enables you to do is to measure the costs of the job against the expected profit margin for the job and will flag up when you need to make an application.

Xero Projects can help you to do this. By allocating costs to specific projects, you can calculate the margin you are currently working at vs the margin you are expecting and have a percentage target that you do not drop below - when the project report shows a margin below this threshold, it is time to apply for payment.

Xero Projects is quite a detailed way of breaking down projects, but this can also be monitored in a simplified way via tracking categories, although this will not enable you to measure actual cost vs expected, so it all depends on how detailed you want to go.

How Xero can help

Xero helps you achieve accurate management accounts and budgeting in several ways:

1. Shared access with your accountants
2. Easy journals
3. Simple budgeting
4. In build projects
5. Comprehensive reporting
6. Cost Value Reporting/ Measurement

How we can help

We work with construction companies to ensure that all the important steps in achieving management accounts are taken. [Our Financial Controller Service](#) allows us to work closely with clients to get good financial information.

