Accounts Payable Obligations to pay for goods and services that have been acquired on an open account from vendors. Accounts Payable are classified as a current liability on the balance sheet.

Accounts Receivable Amounts due from sales to customers on an open account. Accounts Receivable are classified as a current asset on the balance sheet.

Accounting System A system, including all of the activities required, that provides management with the quantified information needed for planning, controlling, and reporting the financial conditions and operations of a business.

Accrual Method The recognition of revenue and expenses when incurred. These are recorded at the end of an accounting period whether or not cash has been received or paid.

Accumulated Depreciation The total depreciation that has been collected to date for one asset account.

AEC Acronym for Architects, Engineers and Contractors. Stands for a potential weekly update meeting between the parties during the course of a construction project.

AIA Acronym for American Institute of Architects. The AIA produces copyrighted documents that are used routinely throughout the course of a construction project. Typical forms utilized for billing are AIA G702 (Architects certificate for payment) and AIA G703 (Schedule of Values).

AICPA Acronym for American Institute of Certified Public Accountants.

Allocation of Costs The partitioning of costs to specific periods of time. This allocation can include the assignment of assets to expense and liabilities to revenue. Examples are depreciation and the amortization of intangibles over a specified period of time.

Alternative Minimum Tax (AMT) Tax levied with the intent that each taxpayer will pay their fair share.
American Institute of Certified Public Accountants (AICPA)  A professional organization comprised of practicing Certified Public Accountants. Its objectives are to develop standards of practice for its members and provide technical assistance and advice to its membership and governmental agencies.

AMT  Acronym for Alternative Minimum Tax.

Assets  Economic resources expected to provide benefit and value to a business. Basic characteristics of assets are to provide future probable economic benefit, controlled by the entity and resulted from a prior event or transaction. Assets are most commonly expressed in money or are readily converted to money. Assets are often deferred charges that are not considered to be a resource. Assets can be classified as current (having a life of less than one year) or noncurrent (having a life in excess of one year). Examples of current assets are cash, marketable securities, and accounts receivable. Noncurrent assets include real estate, machinery and equipment, land, furniture, and fixtures. Assets are either tangible or intangible. Tangible assets have physical substance, such as construction equipment, whereas intangibles lack physical substance, such as goodwill.

Audits  Examination of records and procedures with the objective of formulating an opinion as to compliance to prescribed standards, either internal or external, to the company.

(a) Financial audits are conducted by an independent Certified Public Accountant with the intent of expressing an audit opinion as to whether information examined in its examination of the accounting records conform to Generally Accepted Accounting Principles (GAAP) and fairly represent the financial position of the company.

(b) Internal audits are performed by an internal auditor as a means to evaluate and monitor the company’s procedures and operations to ensure compliance with established policy.

(c) Compliance audits are conducted to ascertain company compliance with specified rules and regulations. An example of a compliance audit would be a safety audit conducted by OSHA.

Back Charges  Charges for work performed, services provided, or costs incurred by the one party to a contract (usually the general contractor) that should have been performed or incurred by another party to the contract (usually the subcontractor).

Backlog  Remaining amount of expected revenue to be recognized from uncompleted contracts inclusive of new contracts that have not begun.

Balance Sheet  Statement showing the company’s financial position at the end of an accounting period. It presents the company assets, liabilities, and equity.

Benchmarking  Management tool used to measure a company’s performance against its strategic initiatives.
**Beta Factor** Measure of a security’s volatility relative to an average security.

**Bid** Formal offer prepared in accordance with the specifications of the project, to perform all or a phase of work on the project for a specified sum of money. Properly completed bids will include the terms and conditions of the offer and often list exclusions or alternates.

**Bid Bond** A bond issued by a surety on behalf of the contractor that provides assurance to the recipient of the contractor’s bid, that if the contractor’s bid is accepted by the recipient, then the contractor will execute a contract and further provide a performance bond.

**Billings in Excess of Costs** Amounts billed on contracts where billings exceed costs and estimated earnings. These amounts are accumulated and presented as a liability on the balance sheet.

**Cash** Money held on deposit at a bank or other financial institution. Items include paper money, coins, checks, and money orders.

**Cash Flow Statement** Financial statement presenting the sources from which cash has been derived into the business and on what cash has been spent or used over an accounting period. The net result of the sources and uses are reflected in the balance sheet of the cash account.

**C Corporation** Entity with authority under law to act as a single person, with rights to issue stock and exist indefinitely.

**Cash Method of Accounting** Method of recognizing revenue and expenses when cash is received or disbursed rather than when earned or incurred.

**CFM** Acronym for Construction Financial Manager.

**Change in Accounting Method** Contractors are required to adopt a method of accounting for contract income. Contract income may be accounted for by using the Percentage of Completion Method or Completed Contract Method. Switching from one accounting method to another constitutes a change. Permission to change accounting methods must receive approval from the International Revenue Service.

**Change Order** Increase or decrease in the original contract price or date by changing the work to be performed—such as specifications, design method, manner of performance, equipment required, materials, or the completion date.

**Chart of Accounts** A list of all accounts that a business maintains in its general ledger.

**Claim** Contractors request for additional money or time to perform work that has been rejected by the owner or the owner’s agent. Claims arise when the contractor has suffered financial damage as a result of owner-caused delays in design, specifications,
and unapproved change orders. Not every request for a contract modification should be considered a claim.

**Competitive Bid Contracts** Contracts that are awarded to the lowest, most responsible bidder and are the most frequent method used in contracting.

**Completed Contract Method** Method of recognizing profit only when a long-term construction contract is completed. However, if a loss on a contract is expected, then it should immediately be recognized as consistent with the conservatism principle.

**Certified Construction Industry Financial Professional (CCIFP) Certification** Certification granted by the CFMA after passing a three hour 200-question multiple choice test that spans all aspects of responsibility for a CFM including percentage of completion, IT and sureties. The basis for this exam is CFMA’s resource, “Financial Management and Accounting for the Construction Industry” a.k.a. “The Book”.

**Contracting Method** Manner in which the team of participants to the contract are assembled. Traditionally, the owner engages a design professional to solicit bids and negotiate contracts with the general contractor responsible for constructing the project. The general contractor engages the subcontractor for specific portions of the work. Other contracting methods used are Construction Management (CM), Design Build, and Turnkey.

**Cost** Price paid to acquire, produce, or maintain goods and services. Construction project costs are typically broken down into labor, benefits, materials, subcontract, equipment, rentals, and overhead.

**Cost Accounting** System of recording job costs and performing services in aggregate and detail. Cost accounting systems include: job order, process, and standard and direct costing.

**Cost Allocation** Identification of costs with cost objectives. Generally, there are three basic elements to the allocation of costs:
(a) choosing the object of costing
(b) accumulating the costs that relate to the object of costing
(c) selecting the method of identifying the accumulation of costs
Example: Consumable tools—accumulate for period and assign to labor hours.

**Costs in Excess of Billings** Amounts recognized on contracts where costs and estimated earnings exceed contract billings. These amounts are accumulated and presented as an asset (debit balance) on the balance sheet.

**Cost Plus-Award Fee Contracts** Contract where the contractor’s fee is comprised of two parts—fixed and variable. The variable portion of the award is based on the specific performance of the contractor.
Cost Plus-Fixed Fee Contracts Contract that reimburses the contractor for the costs incurred to complete a contract plus a predetermined fixed fee. The fee is generally expressed as a fixed flat dollar amount or a percentage.

Cost Plus-Time and Material Contract based on the actual time and materials used to complete the project.

Countertrade Contractual linking of a sale of service to the purchase of products by the seller.

Design Build Contract Method of contracting where the owner enters into one contract for the design and construction of the project.

Equity Computed by subtracting assets from liabilities, the result is the net worth of the business. It may further be defined as any right to an asset (property right).

Estimated Cost to Complete The estimated cost of materials, labor and benefits, equipment, subcontract, and other expenses necessary to complete a project within the required amount of time.

Excusable Delays Delays experienced on a construction project that are not the fault of the delaying party.

Extras Additional work not included in the original scope. This work is invoiced separately and not included as part of the original contract.

Fair Market Value Amount that could be received on the sale of an asset when willing and financially capable buyers and sellers exist.

Financial Accounting Standards Board (FASB) A nongoverning board with the authority to define Generally Accepted Accounting Principles (GAAP) and reporting practices. The pronouncements are published in the form of FASB Statements.

Financial Reporting Presentation of information in conformance with Generally Accepted Accounting Principles.

Financial Statement Report containing the financial information of the organization. The required statements are balance sheet, income statement, and statement of changes in financial position.

Fixed Price Contract Contract for providing all or a portion of work on a construction project stated in a single price. Also called Lump Sum Contract.

Front-End Loading Process of accelerating progress billings relative to costs incurred by assigning a higher value to the early stages of the contract with the intent of generating increased cash receipts during those stages and not as earned throughout the project. A cash flow tool – results in Billings in Excess on the Balance Sheet.
General Contractor A contractor who enters into a contract with an owner of a project for the purpose of construction and has full responsibility for its completion.

**Generally Accepted Accounting Principles (GAAP)** Standards and rules followed by accountants to record and summarize transactions in the preparation of financial statements.

**Gross Profit** Excess between sales and cost of sales.

**Guaranteed Maximum Price (GMP)** A type of contract generally between an owner and a general contractor (but is allowable from a General Contractor down to a sub contractor) where costs are guaranteed not to exceed a certain price. Any savings left at the end of the project either reverts to the owner (100%) or occasionally there are incentive clauses where the General and the owner split the savings.

**International Accounting Standards Board (IASB)** is the independent standard setting body of the IFRS (International Financial Reporting Standards) responsible for the development and publications of the IFRS. GAAP is only pertinent to companies within the United States.

**Income Recognition** Recognition of income at the time of the sale or the provision of services.

**Independent Auditor** Certified Public Accountant (CPA) in public practice who has no financial or other interest in the client whose financial statements are being examined.

**Indirect Costs** Expenses that are difficult to trace directly to a specific costing objective, e.g., non-field supervision, expendables, etc.

**Insurance** Contractual agreement referred to as a policy whereby one party, for an agreed premium, will provide insurance or pay the insured a specific sum of money upon meeting conditions within the insurance contract.

**Interest** Amount charged by a lender to the borrower for the use of funds.

**Job Detail** The lowest level of an estimate or job to which costs can be posted. Details are used to record specific labor, material, equipment, subcontractor, overhead, and miscellaneous costs necessary to complete a phase or activity within an estimate or job.

**Job Number** An alphanumeric name used to identify a job.

**Ledger Balance** The total amount of funds net of all receipts/disbursements for one business day or specified period at a bank or other financial institution.

**Liabilities** Amount payable in dollars or future services to be rendered.

**Lien** Legal right of a party to hold, posses, or control the property of another in satisfaction of a debt, duty, or liability.
**Liquidated Damages** A contract clause that obligates the contractor to pay damages, generally specified in daily amounts, to the owner, as compensation for damages suffered by the owner for the contractors’ failure to complete work within a stated period of time.

**Liquidity** Ability of current assets to meet current liabilities when due.

**Litigation** Act or process of engaging in a lawsuit.

**Losses** Excess expenses over revenues or decrease in net assets where no revenue has been obtained.

**Negotiated Contract** Contract agreed to through meetings between buyer and seller. For example, owner and general contractor or general contractor and subcontractor.

**Open Bid Process** The solicitation of bids by the owner usually by advertisement for all qualified contractors to participate. The open bid process is typical for public sector work and, with few exceptions, the contract is awarded to the lowest bidder.

**Operating Cycle** The average time period between purchasing goods or services and the actual cash proceeds received from its eventual sale.

**Overhead Costs** The total of all costs of a project less direct costs, often referred to as burden.

**Owner Architect Contractor (OAC)** Typically referred to as a type of meeting held between all parties during the course of construction. Topics discussed during the meeting include but are not limited to: pending change orders, schedule changes, RFI’s, Submittals, etc.

**Penalty Clause** Provision in a construction contract that reduces the amount payable to a contractor for its failure to meet project targets, schedules, or specifications.

**Percentage of Completion** Method of recognizing income on a long-term construction contract as it’s earned over the construction period.

**Prime Contractor** Contractor that has a contract with the project owner for the completion of all or a portion of a project, under which the contractor assumes full responsibility for the completion of the work.

**Receivables** Claims against customers or others for money, goods, or services. Receivables are classified on the balance sheet as trade or non-trade. If the collection period is one year or less, then they are presented on the balance sheet as a current asset. If not, then they are classified as noncurrent.

**Retainage** The amount of money held back on a progress billing by the owner of a construction project to insure that the project is completed according with the term of the contract. This amount is billed separately at the end of the contract period and pertains
primarily to commercial construction projects. The common industry standard for retainage is 10% of the value of the contract inclusive of change orders.

**Revenue** Increase in a company’s assets or decrease in a company’s liabilities over an accounting period that are derived from operating activities.

**Schedule** The timing and sequence of tasks with a project, as well as the project duration. The schedule consists mainly of tasks, dependencies among the tasks, durations, constraints, and time-oriented project information.

**S Corporation** Type of corporation whose stockholders may be taxed as partners. Certain qualifications must be met, specifically, the number of shareholders is limited to 75% or less, it cannot have more than one class of stock, and may not have any nonresident foreigners as shareholders. The primary advantage of this form of corporation is to receive all of the benefits of a corporation while avoiding the double taxation of a corporation.

**Strategic Planning** Process of implementing a company’s long-term objective relative to products or services provided and its marketing strategy.

**Subcontractor** A contractor that enters into a contract with a general contractor for a specific phase of a construction project. Subcontractors are specialists in a given trade, such as electrical, mechanical, etc.

**Subsidiary Ledger** A group of accounts other than general ledger accounts that show details underlying the balance of a controlling account in the general ledger.

**Surety** Individual or entity—generally a bonding company—that guarantees the performance of a party, either general contractor or subcontractor, on a construction project.

**Tangible Asset** Asset having physical substance with a useful life greater than one year and not held for resale through the course of normal operations.

**Tax Year** Time period that a tax return covers. Typically, taxpayers file on a calendar basis but may elect to file on a fiscal year calendar, which is subject to approval by the Internal Revenue Service.

**Unbalanced Items** Result from the conversion of the contractor’s day-to-day accounting records related to long-term contracts to the percentage of completion basis. For example, when accrual basis revenues and costs are adjusted to percentage of completion.

**Unit Price Contract** Contract where the owner pays the contractor a set amount for each unit of work. For the most part, unit price contracts are used if the number of units (quantity) cannot be accurately determined at the start of the contract.

**Work in Process (WIP)** A schedule typically included with a contractor’s financial statements that lists jobs in progress, how much has been spent, how much is
forecasted to be spent to complete the job, how much you have made so far, how much you expect to make, and what portion of the revenue you get to recognize.

Zero Gross Profit Option Measurement of contract progress to report proportionate amount of revenues and costs on a break-even basis. This method may be used if conditions prevent a percentage of completion method, but there is no reasonable assurance that a loss will not be sustained. This method is seldom used and does not provide an accurate estimate of profit earned.