

## What is the Final Accounting? What does it look like?

Virtually all construction contracts provide for how the payments will be made. This specifically includes a determination for Final Payment. For AIA contracts in particular (that are based on reimbursable Costs of Work) and most other contracts in general, the starting point for determination of Final Payment requires the contractor to submit a *final accounting* of the Cost of Work. Though the term final accounting is used throughout the Final Payment section, it is not really defined as to what it is or what it should look like. Thus, many Owners and Contractors alike, are left to forge their own path in making this determination. Some do not even bother with preparing such. Rather they rely upon the Final Billing to serve as the basis for a final accounting, a practice we *strongly discourage*. Therefore, we have defined what we believe the spirit and intent of what a final accounting should be.

### **Final Accounting:**

The term Final Accounting shall mean an accounting of all actual and FINAL costs incurred by the Contractor relating to the specific project, as defined by contract. Most often, Contractors maintain a *job cost system* for each project where costs are recorded so that a “record” of costs incurred is defined. In general, costs entered into a job cost system are commonly referred to as “recorded costs” and such information is used for the purpose of reporting cost or other financial information - the most common of which is referred to as a “job cost report” (generically speaking).

In order to produce a “Final Accounting,” the Contractor should be expected to produce a job cost report as the starting basis. From that, various manual adjustments are often needed to remove non-reimbursable costs, add unrecorded costs and/or adjust recorded costs so that they are in compliance with the specific reimbursable terms of the contract. In addition, it is often necessary to recalculate the Contractor Fee in accordance with the contract terms. When complete, the stated objective of the Final Accounting should be to “prove” that the Total Cost of Work plus Fee equals the *Total Completed and Stored to Date* on the Final Payment Application.

### **Cost Accounting /Job Cost System:**

In construction, the “industry standard” for cost accounting is promulgated by the Construction Specifications Institute (aka CSI). Specifically, costs are organized and recorded in a system and in a prescribed manner by classifying costs by cost code, based on the type of costs incurred (CSI “format”). For example, there are specific divisions of cost (and related cost codes) for various types of trade work. Examples of such include sitework, concrete, masonry, metal, wood framing, paint, roofing, plumbing, mechanical and electrical, among many others.



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Invoices from vendors, for example, constitute a transaction of cost. The entire cost associated with a single invoice may constitute a single transaction of cost (even though the invoice may have multiple items listed on it). In some instances, contractors may choose to record many items of costs from a single invoice into multiple cost codes (based on the respective type of cost incurred). Invoices from vendors can represent many different types of cost. Examples include material suppliers, subcontractors, equipment rental companies, miscellaneous vendors (for any number of things), contract labor companies, etc.

Labor transactions, for self-performed work, also constitute transactions of cost. However, they are not normally a product of invoices. Rather, labor costs are typically recorded and maintained in payroll systems. In addition to base wages or salary, there are also “burdens” on labor, such as payroll taxes, insurance, and other fringe benefits. How these costs are recorded in job cost systems is largely dependent upon the respective methodologies and preferences of each Contractor (as there is no single uniform approach that works for all). Regardless, labor costs also follow the CSI format, generally speaking.

Lastly, Journal Entries (an accounting term used to describe manual entries to a system) also represent transactions of costs in a job cost system. Their purpose and use vary widely. Regardless, every Journal Entry should be supported with sufficient detail to describe what it is for.

Within the job cost system, it is typical for each transaction of cost to be recorded and classified into accounts or cost codes, based on the type of transaction. All recorded transactions should contain the most basic and fundamental components of cost. These include:

- Cost Code (and Cost Code Description)
- Invoice Date
- Post Date (date entered in system)
- Invoice Number
- Vendor Name
- Invoice Amount
- Description of Cost

The entirety of all transactions recorded in a Job Cost system comprise the total *recorded* Cost of Work, and theoretically represent a Contractor’s full cost for the performance of their scope of work on a given project. However, for the purpose of preparing a Final Accounting, manual adjustments (both additive and deductive) are most often needed to arrive at the appropriate Cost of Work, as defined by contract.



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