



SNS COLLEGE OF TECHNOLOGY

Vazhiyampalayam, Coimbatore, Tamil Nadu, 641035

An Autonomous Institution

**Approved by AICTE New Delhi & Affiliated to Anna University Chennai
Accredited by NBA & Accredited by NAAC with “A+” Grade, Recognized by UGC**

DEPARTMENT CIVIL ENGINEERING

19CEB302 - CONSTRUCTION MANAGEMENT

III YEAR / V SEMESTER

Unit 4 : COST CONTROL, MONITORING AND ACCOUNTING

Topic 3 : Financial Accounting Systems and Cost Accounts





Financial Accounting Systems and Cost Accounts



Further discussing the use of cost accounts in project control, the relationship of project and financial accounting deserves mention. Accounting information is generally used for three distinct purposes:

- **Internal reporting to project managers** for day-to-day planning, monitoring and control.
- **Internal reporting** to managers for aiding strategic planning.
- **External reporting** to owners, government, regulators and other outside parties.



Financial Accounting Systems and Cost Accounts



Financial accounting :

External reports are constrained to **particular forms** and procedures by contractual reporting requirements or by **generally accepted accounting practices**.

Preparation of such external reports is referred to as **financial accounting**.

Managerial accounting :

In contrast, cost or managerial accounting is intended to aid internal managers in their responsibilities of planning, monitoring and control



Financial Accounting Systems and Cost Accounts



Project costs are always included in the system of financial accounts associated with an organization.

At the heart of this system, all expense transactions are recorded in a **general ledger**.

The **general ledger** of accounts forms the basis for management reports on **particular projects** as well as the **financial accounts for an entire organization**.



Financial Accounting Systems and Cost Accounts



Project costs are always included in the system of financial accounts associated with an organization. At the heart of this system, all expense transactions are recorded in a general ledger. The general ledger of accounts forms the basis for management reports on particular projects as well as the financial accounts for an entire organization.

Other components of a financial accounting system include:

Accounts payable journal – Plan to provide records of bills received from vendors, material suppliers, subcontractors and other outside parties. Invoices of charges are recorded in this system as are checks issued in payment.

Charges to individual cost accounts are relayed or posted to the **General Ledger**.



Financial Accounting Systems and Cost Accounts



Accounts receivable journals provide the opposite function to that of accounts payable. In this journal, billings to clients are recorded as well as receipts.

Revenues received are relayed to the general ledger.

Job cost ledgers summarize the charges associated with particular projects, arranged in the various cost accounts used for the project budget.

Inventory records are maintained to identify the amount of materials available at any time.



Financial Accounting Systems and Cost Accounts



In **traditional bookkeeping** systems,

Day to day transactions are first recorded in journals.

With **double-entry bookkeeping**, each transaction is recorded as both a debit and a credit to particular accounts in the ledger.

For example, payment of a supplier's bill represents a debit or increase to a project cost account and a credit or reduction to the company's cash account. Periodically, the transaction information is summarized and transferred to ledger accounts. This process is called **posting**, and may be done instantaneously or daily in computerized systems.



Financial Accounting Systems and Cost Accounts



In reviewing accounting information,

the concepts of *flows* and *stocks* should be kept in mind.

Daily transactions typically reflect flows of amounts entering or leaving the organization.

Similarly, use or receipt of particular materials represent *flows* from or to inventory.

An account balance represents the *stock* or cumulative amount of funds resulting from these daily flows. Information on both flows and stocks are needed to give an accurate view of an organization's state.

In addition, forecasts of future changes are needed for effective management.



TABLE - Illustration of an Accounting Statement of Income

Income Statement for the year ended December 31, 19xx

Gross project revenues	72,00,000
Direct project costs on contracts	55,00,000
Depreciation of equipment	2,00,000
Estimating	1,50,000
Administrative and other expenses	6,50,000
Subtotal of cost and expenses	65,00,000
Operating Income	7,00,000
Interest Expense, net	1,50,000
Income before taxes	5,50,000
Income tax	2,20,000
Net income after tax	3,30,000
Cash dividends	100,000
Retained earnings, current year	2,30,000
Retention at beginning of year	6,50,000
Retained earnings at end of year	8,80,000.

Financial Accounting Systems and Cost Accounts



Financial Accounting Systems and Cost Accounts



Balance sheet

A balance sheet is a financial statement that reports a company's assets, liabilities, and shareholder equity. The balance sheet is one of the three core financial statements that are used to evaluate a business. It provides a snapshot of a company's finances as of the date of publication.



TABLE - Illustration of an Accounting Balance Sheet



Balance Sheet

Assets	Amount in Rs
Cash	1,50,000
Payments Receivable	7,50,000
Work in progress, not claimed	7,00,000
Work in progress, retention	2,00,000
Equipment at cost less accumulated depreciation	<u>14,00,000</u>
Total assets	Rs 32,00,000
Liabilities and Equity	Amount
Liabilities	
Accounts payable	9,50,000
Other items payable (taxes, wages, etc.)	50,000
Long term debts	<u>5,00,000</u>
Subtotal	15,00,000
Shareholders' funds	
40,000 shares of common stock (Including paid-in capital)	8,20,000
Retained Earnings	<u>8,80,000</u>
Subtotal	17,00,000
Total Liabilities and Equity	Rs 32,00,000

**Financial
Accounting
Systems and
Cost Accounts**



Thank you