Committed Costs

- Costs that the company has committed to pay
- Costs are known, even if a bill has not been received for these costs
- Example:
  - Subcontracts
  - Purchase orders with costs

Estimated Cost At Completion

- Best estimate of final cost
- ECAC = Committed costs + Non-committed costs invoiced + Cost to complete
- Cost to complete is the non-committed costs that we expect to incur to complete the project

Earned Profit

- Earned profit = Estimated profit on project x Percent complete

Costs and Profits in Excess of Billings

- Based upon the assumption that the profit is uniformly spread over the project:
  - The project is under billed
  - We have billed for less profit that we have earned
  - We may pay taxes on profit even though it has not been paid
- Is an asset to the company

Costs and Profits in Excess of Billings

\[
\text{Earned profit} = \frac{\text{Actual costs to date} + \text{Cost to complete}}{\text{Total billed}}
\]

Cost and profits in excess of billings
Billings in Excess of Costs and Profits

- Based upon the assumption that the profit is uniformly spread over the project:
  - The project is over billed
  - We have billed for more profit that we have earned
  - Taxes may be deferred on profit even though it has been paid
- Is a liability to the company

Billings in Excess of Costs and Profits

\[
\text{Total Billed} - \text{Earned profit} - \text{Actual costs to date} = \text{Billings in excess of costs and profit}
\]

Internal Controls

- Separation of duties
- Proper paper trail
- Review by owner or manager
- Track all assets
- Keep accounting current
- Limit access

Selecting a Construction Accounting Systems

- Reliability
- Cost
- Training and Support
- Ease of use
- System protection
- Integration
- Backup and recover procedures
- Customization