

for Residential Construction

SIXTH EDITION

This is a preview. Click here to purchase the full publication.

ACCOUNTING & FINANCIAL MANAGEMENT

for Residential Construction





Accounting & Financial Management for Residential Construction, Sixth Edition

BuilderBooks, a Service of the National Association of Home Builders

Patricia Potts Senior Director

Tess Wittler Writing Services Editor

Ian PamplonaCover DesignRobert BrownCompositionIndex PlusIndexer

Gerald M. Howard Chief Executive Officer

John McGeary NAHB Senior Vice President, Business Development and Brand Strategy

Denise Miller NAHB Vice President, Event Product & Brand Marketing

Disclaimer

This publication provides accurate information on the subject matter covered. The publisher is selling it with the understanding that the publisher is not providing legal, accounting, or other professional service. If you need legal advice or other expert assistance, obtain the services of a qualified professional experienced in the subject matter involved. The NAHB has used commercially reasonable efforts to ensure that the contents of this volume are complete and appear without error; however the NAHB makes no representations or warranties regarding the accuracy and completeness of this document's contents. The NAHB specifically disclaims any implied warranties of merchantability or fitness for a particular purpose. The NAHB shall not be liable for any loss of profit or any other commercial damages, including but not limited to incidental, special, consequential or other damages. Reference herein to any specific commercial products, process, or service by trade name, trademark, manufacturer, or otherwise does not necessarily constitute or imply its endorsement, recommendation, or favored status by the NAHB. The views and opinions of the author expressed in this publication do not necessarily state or reflect those of the NAHB, and they shall not be used to advertise or endorse a product.

© 2021 by NAHB. All rights reserved. This *Accounting & Financial Management for Residential Construction*, *Sixth Edition* is a copyrighted work owned by the National Association of Home Builders of the United States ("NAHB"). Without advance written permission from the copyright owner, no part of this book may be reproduced, distributed, or transmitted in any form or by any means, including, without limitation, electronic, optical or mechanical means (by way of example and not limitation, photocopying, or recording by or in an information storage retrieval system). For information on permission to copy material exceeding fair use, please contact: BuilderBooks, 1201 15th Street NW, Washington, DC 20005-2800. Phone (800) 368-5242.

Trademarks: "National Association of Home Builders," "NAHB," "BuilderBooks," and the "NAHB" logo are registered trademarks of the National Association of Home Builders of the United States.

Published in the United States of America

24 23 22 21 1 2 3 4 5

ISBN-13: 978-0-86718-781-6 eISBN-13: 978-0-86718-782-3

For further information, please contact: National Association of Home Builders 1201 15th Street, NW Washington, DC 20005-2800 BuilderBooks.com

TABLE OF CONTENTS

List of Figures	
About the Author	
Acknowledgn	nentsxi
Introduction	xiii
Chapter 1	Designing the System and Choosing an Accountant
Chapter 2	Basics of Accounting11
Chapter 3	Accounting Methods and Terms
Chapter 4	Chart of Accounts
Chapter 5	Bookkeeping Procedures43
Chapter 6	Internal Control
Chapter 7	Integration of the Management Systems
Chapter 8	Financial and Management Reports
Chapter 9	Financial Analysis89
Chapter 10	Key Metrics
Chapter 11	Overview of Job Cost Accounting121
Chapter 12	Utilizing Technology
Chapter 13	Tips for Multiple-Project Companies
Chapter 14	Tips for Developers
Chapter 15	Tips for Remodelers
Chapter 16	Financial Planning and Budgets
Chapter 17	Technical Aspects of Accounting161
Appendix A	Part A: Outline of NAHB Chart of Accounts 171
Appendix B	Part B: The Complete NAHB Chart of Accounts 183
Appendix C	Basic Account for Small-Volume Businesses
Appendix D	Basic Accounts for Remodelers217
Appendix E	Direct Construction Costs, Subsidiary Ledger223
Appendix F	Indirect Construction Costs, Subsidiary Ledger 227
Appendix G	Land Development Costs, Subsidiary Ledger 229
Glossary	231
Index	239

This is a preview. Click here to purchase the full publication.

LIST OF FIGURES

Chapter 1 Designing the System and Choosing an Accountant

- 1.1 Small-volume organizational chart
- 1.2 Medium- to large-volume organizational chart

Chapter 2 Basics of Accounting

- 2.1 Nature, structure, and output of an accounting system
- 2.2 Flow of data through the system
- 2.3 Purchase of construction materials on account
- 2.4 Purchase office equipment
- 2.5 Purchase a finished lot
- 2.6 Purchase a parcel of raw land
- 2.7 Sale of a house
- 2.8 Flow of costs through the system
- 2.9 ABC Homes income statement
- 2.10 ABC Homes income statement by function
- 2.11 ABC Homes balance sheet
- 2.12 ABC Homes cash flow

Chapter 3 Accounting Methods and Terms

3.1 Direct costing versus absorption costing

Chapter 5 Bookkeeping Procedures

- 5.1 Recording a construction invoice with double-entry bookkeeping
- 5.2 Levels of recording, general ledger and subsidiary ledgers

Chapter 6 Internal Control

6.1 Bank reconciliation statement January 31, 20__

Chapter 7 Integration of the Management System

- 7.1 Connect, Coordinate & Communicate
- 7.2 Just Say No to Silos

Chapter 8 Financial and Management Reports

- 8.1 Balance sheet
- 8.2 Income statement
- 8.3 Comparative income statement
- 8.4 Income statement with ratios
- 8.5 Gross profit by units
- 8.6 Gross profit report
- 8.7 Gross profit per unit
- 8.8 Gross profit analysis by project
- 8.9 Income statements by project
- 8.10 Variance report
- 8.11 Variances by project
- 8.12 Variances by reason
- 8.13 Month-to-date variance totals

Chapter 9 Financial Analysis

- 9.1 Gross profit ratio
- 9.2 Gross profit by product mix and pricing
- 9.3 Income statement with ratios
- 9.4 Calculation of the breakeven point
- 9.5 Calculation of the contribution margin ratio
- 9.6 Traditional cash flow statement
- 9.7 Cash flow report

Chapter 10 Key Metrics

- 10.1 Financial metrics
- 10.2 Traffic units
- 10.3 Sales by plan
- 10.4 Comparison of actual to goal sales by month and cumulative
- 10.5 Dollar variances per month
- 10.6 Variances by division
- 10.7 Variances by reason
- 10.8 Warranty expenses

Chapter 16 Financial Planning and Budgets

- 16.1 Planning information flow
- 16.2 Schedule 1, Sales plan—closings
- 16.3 Schedule 2, Land and land improvement plan
- 16.4 Schedule 3, Cost estimate summary
- 16.5 Schedule 4, Gross profit plan by product line
- 16.6 Schedule 5, Operating expenses plan
- 16.7 Schedule 6, Profit plan
- 16.8 Schedule 7, Cash flow

Chapter 17 Technical Aspects of Accounting

- 17.1 Sales value method
- 17.2 Number of units built
- 17.3 Total direct costs
- 17.4 Area method
- 17.5 Percentage method

ABOUT THE AUTHOR

mma Shinn, CPA, is an officer of the Shinn Group of Companies, including Shinn Consulting, and Builder Partnerships in Littleton, Colorado. In the 1960s, she worked for Touche, Ross and Company (now Deloitte & Touche). She has an MBA in accounting from The American University in Washington, D.C., and is a certified public accountant (CPA). She served as Chairman of the NAHB Business Management and Information Technology Committee in 1997.

Her background in the industry dates back to the 1970s and includes all aspects of the building process such as planning, design, supervision, sales and administration of single family projects. She received the MAME Award for the Rookie Salesperson of the Year presented by the Denver Home Builders Association in 1988. Emma's specialization is accounting for the home building industry, addressing not only financial reporting but also the use of accounting information in the management process. She has been a consultant and coach specifically in the area of accounting, financial analysis and software selection to many home building companies throughout the years.

For 27 years, she has conducted an annual financial and operational research study of a segment of the home building industry, which includes financial performance, organization and operational structure, utilization of management systems and procedures, staffing, salaries, insurance, use of technology, builders' response to economic industry cycles and general trends.