

# Construction CPAs: the Key to a Surety's Heart

BY SOPHIA BENNETT

One of the hardest things about owning a small- to medium-sized construction company is that you have to wear so many different hats. Besides putting on your hard hat every day, you have to shuffle between your marketing, information technology and accounting caps.

The last one can be the most challenging because tracking income and expenses for a construction business isn't like keeping the books for any other company. That means there are fewer people you can turn to for help when you need it.

"In other industries, you don't recognize revenue until you deliver a final product," says Jim Christian, who leads the construction niche practice at Jones & Roth CPAs and Business Advisors. "In construction, everything is focused around a job."

*"We spend a lot of time educating clients on what sureties want to see."*

How that job is treated from a financial perspective can have serious implications for your company's ability to find work, secure surety bonds, pay taxes and determine profitability.

"That's why we've always emphasized that it's important for any decent-sized contractor to work with a firm that works with a lot of other contractors," Christian says. Just as you wouldn't ask just anyone with a hammer to swing

at a building's framing, you shouldn't ask just anyone with an accounting degree to advise you on your construction company's finances.

## Meeting the Specific Needs of Contractors

Christian runs through several things that make general contractors and subcontractors different from other businesses.

"In construction, revenue is based on a percentage of completion. You recognize income and expenses as work progresses. It's a large and subjective estimation, and if your accountant doesn't know how to record it correctly, your financial statements may not be as appropriate or high quality."



Jim Christian, CPA, CCIIFP  
Shareholder



Evan Dickens, CPA  
Shareholder



Carrie Fortier, CPA  
Senior Manager

The differences in accounting practices can have serious tax implications. "There are situations where you can elect to not recognize profit until you've finished a job," Christian says. "It's good for tax planning, but you have to understand what you're doing. Owners have to understand that they're pushing these taxes off and they will be due at some point."

Having the right information on financial statements is also key to a company's ability to get work, says Jones & Roth's Evan Dickens. That's because surety companies go through a contractor's financials with a fine-toothed comb before granting bonds. If they don't like the way information is presented, they may refuse to issue a bond. If they find the company is too slow on billing for their work, or is experiencing consistent profit fade, they can stamp a request with a big "no."

"We spend a lot of time educating clients on what sureties want to see," Dickens says. "We know a lot of sureties and talk with them frequently. I can look at a

financial statement and tell a client, 'Your surety is going to like this, and like this, but have an issue with this.' That type of education is invaluable to a company because they can't get work without the power of the surety behind them."

### Tips for Analyzing Profitability

Another area where Jones & Roth can really help their clients is analyzing profitability on individual jobs. Like many companies, contractors bid on work. But unlike companies that produce lots of small products, contractors have a lot riding on their bidding because their jobs are so large.

It makes sense for contractors to go back at the end of each job and determine if their bid was accurate enough to earn them a profit. Few actually do it, says Jones & Roth's Carrie Fortier, but more people should.

"Owners often say, 'Every job is different. What happens on one job doesn't affect the future.' But past history does have some impact on future activity. You can learn from your successes and failures and make adjustments to your bidding process accordingly," says Fortier.

Members of Jones & Roth's construction team advise contractors to compare estimated and actual expenses in all categories. It's essential to break

out different costs when doing your comparison, Christian says.

"Most contractors can come pretty close on the materials side. The labor is the unknown. If you have overtime, or if your team's not as productive as they should be, it's important to monitor that so you can either manage the team to better meet your expectations, or change the way you're estimating."

### Direct Advice

Busy contractors will appreciate that Jones & Roth is a jack of all trades. Besides helping with financial statements and tax preparation, the company can provide a wide range of services that include audits, business coaching, human resources, and policy and procedures reviews. They can even assist with things like retirement planning, wealth management, business valuation, and helping you sell your company or transfer it to a family member.

Owners interested in advice from Jones & Roth can call any of the company's three offices in Eugene, Hillsboro and Bend.

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