

## HIRING A CONSTRUCTION CPA

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The smart construction contractors align themselves with construction professionals including their attorney, banker, bonding and insurance agent, and a construction CPA. Revenue recognition rules based on cost estimates and non-traditional accounting rules for industry specifics such as change orders, joint ventures and liquidating damages necessitate utilizing a CPA firm with construction accounting and taxation specialization. If your construction company is growing or if you have moved beyond the capability of your current CPA firm, you should look for a new financial partner for your business. Many contractors consider their relationship with a quality construction CPA firm to be one of the most important decisions they make. The construction CPA will most likely work closely with the contractor's surety and bonding agency, lawyer, banker and other professionals.

In the current business environment, many contractors are now looking to do bonded projects. Maximizing your bonding capacity allows you to consider large, more lucrative projects and usually requires independent CPA involvement. Banks and sureties want to see solid earnings retained in the business together with ample working capital and liquidity. An owner's instinct might be to minimize or defer profits in order to reduce the tax burden. A knowledgeable construction CPA can work with the contractor to manage this delicate balance.

Construction accounting and taxation are unique. There are different methods of reporting income for tax purposes that are available to contractors. The CPA firm should understand the complex accounting and tax issues required of contractors. A CPA firm that does not focus on contractors may not fully recognize all of the tax implications to a construction company, or the strategies to mitigate taxes that are available to a contractor.

A well prepared construction financial statement is presented on the percentage of completion basis. Revenues, costs and gross profit are presented on a contract by contract basis, and reconciled to the company's total revenues, costs and gross profit. There are footnote disclosures which are unique for contractors, such as joint venture reporting, revenue recognition policies, contract backlog, etc. Large under-billings on contracts in process should be explainable by having unprocessed change orders or billing timing differences for requisitions reported after the balance sheet date for work whose costs are reported prior to the balance sheet date.

The timing of the CPA's financial reporting is critical for bonding company support. A surety expects to review the contractor's fiscal year-end report within 90 to 120 days after fiscal year end.

Most construction companies, particularly subcontractors, require the use of a bank line of credit to help cash flow their operations. Even general contractors often have a bank line of credit facility in place for the occasional short term need for cash. A construction CPA firm that prepares the fiscal year-end financial statement could be beneficial to a contractor's banking relationship. Just like a construction-oriented CPA firm provides comfort to the surety that the financial information is accurate and appropriately prepared, a banker should also receive the same level of comfort from the CPA's financial information. Since borrowing ability is important to the business operations of most contractors, a construction-oriented CPA firm can only help when applying for bank credit.

Identifying a good CPA firm experienced in construction may involve the contractor to get references from your other business partners, such as your bonding company, bank or attorney.

The next step is to focus on the qualifications that you feel are most important to your company. Examples are:

- Does the firm have an excellent reputation in the industry?
- Does the firm service a large number of construction clients of all sizes and types in the same geographic region?
- Does the CPA owner assigned to your account want to be a partner with your construction company?
- Does the firm have a reasonable and fair fee structure?

**Daniel Castellano, CPA** is the Managing Partner at Castellano, Korenberg & Co., CPA's, P.C., with over 35 years of accounting experience in construction accounting and taxation. Mr. Castellano is also a member of various trade associations, such as the Subcontractors Trade Association, New York City Surety Association, the General Contractors Association, Mechanical Contractors Association and Long Island Contractors Association.

Castellano, Korenberg & Co., is a Long Island-based CPA firm. Our goal at Castellano, Korenberg & Company is to help our clients achieve success by providing customized and personalized attention from our outstanding professionals. Since our founding in 1991, we have been dedicated to contributing to our clients' reach for financial goals by providing timely, thorough and accurate solutions to our clients' accounting needs.

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