

Project Accounting

**Prof Chris Brown and George Nel, University of Stellenbosch.*

1. Introduction



According to Wideman (2002: 4) project accounting is the process of identifying, measuring, recording and communicating actual project cost data. To which can be added, "to compare with the planned data", so as to enable the project manager to benchmark the progress on the project against the planned. In practice the project accounting function would either be absorbed between the project manager and the accounting department or a dedicated project accountant would be appointed.

The paper begins with describing the project accounting function and then continues to analyse the above-mentioned two alternatives for organising the function. It will be shown that appointing a dedicated project accountant renders the better results. Since no reference to formal training programs for project accountants could be found, this paper will primarily investigate the feasibility or not, of such a program.

2. The Project Accounting Function

According to Schneider, Teplitz & Bruton (1995: 353) firms generally store cost information in accounting information systems – systems designed, however, to meet the financial reporting needs of accountants. Project managers use only a portion of such information. Some sort of interface, between the accounting department and the project office is therefore needed – the project accounting function.

In the accounting department distinction is normally made between the management accountant and the financial accountant. According to Garrison & Noreen (1997: 7) financial accounting reports are prepared for the use of external parties such as shareholders and creditors, whereas managerial accounting reports are intended to be used by managers inside the organisation. This contrast in basic orientation results in several major differences between financial and managerial accounting, as summarized in Table 1, even though both rely on the same underlying financial data.

Table 1: A comparison of financial and managerial accounting

Financial Accounting	Managerial Accounting
<ul style="list-style-type: none">• Reports to those <u>outside</u> the organisation Owners Lenders Tax authorities Regulators• Emphasis is on summaries of financial consequences of past activities.• Objectivity and verifiability of date are emphasized.• Precision of information is required.• Only summarized data for the entire organisation is prepared.• Must follow GAAP.• Mandatory for external reports.	<ul style="list-style-type: none">• Reports to those <u>inside</u> the organisation Planning Directing and motivating Controlling Performance evaluation• Emphasis is on decisions affecting the future.• Relevance and flexibility of date are emphasized.• Timeliness of information is required.• Detailed segment reports about departments, products, customers, and employees are prepared.• Need not follow GAAP.• Not Mandatory.

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Source: Garrison & Noreen (1997: 7)

Wideman (2002: 1) reports a differentiation of financial accounting from project accounting. A comparison of project accounting with financial accounting indeed shows that a case can be argued that project accounting is substantially different from financial accounting, as follows:

Table 2: Differences between project accounting and financial accounting

Project accounting	Financial accounting
Not a mandatory activity	A mandatory activity
Takes a historical and futuristic view	Takes a historic view
Reports to those inside the organisation	Reports to those outside the organisation
No established standards	Established standards (GAAP)
May or may not be subject to audit	Subject to a regular financial audit
Spans the project life cycle	Spans fiscal periods
Referenced to a point in time	Referenced to a point in time and period of time
Cash accounting	Accrual accounting
Accountability	Stewardship
Effectiveness of money	Money flow
Ad-hoc	Continuous
Localised	Corporate wide
Activity based	Corporate based
Product based	Functions based
Benchmarking against standard costs	Benchmarking against budgets
Internal users	Mainly external users
No external regulating body & exam	External regulating body & exam
Estimated to a reasonable round number	To the nearest penny
Timeliness of information is required	Precision of information is required

Source: The authors (2002)

A similar comparison of project accounting with management accounting in tables 3 and 4 shows that a case can be argued that project accounting will be more a management accounting function than a financial accounting function as follows:

Table 3: Differences between project accounting and management accounting

Project accounting	Management accounting
Spans the project life cycle	Spans fiscal periods
Ad-hoc	Ad-hoc and continuous
Localised	Corporate wide
No external regulating body & exam	External regulating body & exam
Cash accounting	Cash and accrual accounting
Effectiveness of money	Effectiveness of money and money flow

Source: The authors (2002)

Table 4: Similarities between project accounting and management accounting

Project accounting	Management accounting
Not a mandatory activity	Not a mandatory activity
Takes a historical and futuristic view	Takes a historical and futuristic view
No established standards	No established standards
May or may not be subject to a audit	May or may not be subject to a audit
Timely reporting needed	Timely reporting needed
Accountability	Accountability
Activity based	Activity based
Product based	Product based
Internal users	Internal users

Source: The authors (2002)

3. Organising the project accounting function

It was stated earlier that the project accounting function could either be absorbed between the project manager and the accounting department or a dedicated project accountant could be appointed.

In a substantial literature search only Archibald (1992: 174-175) and Wideman (2002) lists the responsibilities of the project accountant. Based on the arguments towards this position having its own characteristics, the question is: "do companies actually employ project accountants in practise as part of their project teams?"

An extensive search on the web of a number of recruiting agencies showed that a vast number of positions for project accountants are currently available. A comparison of the job descriptions of these positions revealed that:

- The majority of these positions are in the construction/engineering/oil industry.
- The majority of the positions required an accounting qualification, but do not differentiate between a financial accountant and a project accountant, while few required any project management skills.
- The job specifications differ from position to position.

By using the above-mentioned sources, as well as the authors' personal experience, the responsibilities or duties of the project accountant were summarised and subsequently compared with the responsibilities of respectively the management (**MA**) and financial accountant (**FA**) as follows:

Table 5: The responsibilities of the project accountant compared to the responsibilities of respectively the management (MA) and financial accountant (FA)

The project accountant	MA	FA	Note
Forecast costs (Make estimates)	✓		1
Develop norms and standards	✓		2
Feasibility study	✓		3
Set up a project chart of accounts (establish account numbers)		✓	4
Ensure that the information being recorded and reported is valid, properly charged, and accurate.		✓	4
Transferring functional costs to the project		✓	
Coordinates with accounts payable and receivable		✓	4
Responsible for reconciliation's (bank accounts and project loans)		✓	4
Coordinating projects cash needs with the financial manager	✓		1
Verification of overhead charges	✓		5
To provide the project with appropriate reports for exercising the needed control	✓		6
To identify current and future deviation from the budget	✓		6
Ensuring the final payment and the closing of accounts on project completion		✓	7
Transfer of project expenditure from project financing to the organization's fixed asset records		✓	7
Prepare project financial statements		✓	7

Source: The authors (2002)

Notes to Table 5:

1. Management accountants are trained to implement various tools and techniques to make cost estimates (Drury, 2000: 955). However, the more technical and specialized the nature of the project becomes, the more dependent the management accountant becomes on the inputs of "technical" people to apply those tools and techniques. Various people will be involved in making estimates in a project and preparing the project budget, but the project manager will co-ordinate these and be ultimately responsible. The management accountant's role will therefore be to provide the project manager with assistance and expert advice on preparing the estimates, budget and cash flow forecasts.
2. Management accountants often use standard costing, as a means to plan, budget, control and report on activities. Standard costs are pre-determined target costs that should be incurred under efficient operating conditions and are based on standards such as standard labour hours per unit of work and quantity of material per unit required.
3. As with cost estimates, management accountants are trained to implement various tools and techniques to perform the financial side of a feasibility study. According to Akalu (2001: 382) these methods have been used for decades and needs renovation to adjust to the constantly changing project management environment. Nel (2001: 15-17) also identified shortcomings of these techniques when applied in a project management environment.
4. According to Archibald (1992: 224), Gregory (1996: 63) and Wingard & Becker (2001: 133) the financial accountant will be responsible for developing a system whereby all project related expenses are recorded in such a manner as to ensure both compliance with GAAP and timely information as needed by management accountants and project managers.
5. The management accountant will be responsible for choosing an allocation base / method to allocate overheads to the project. The allocation of overheads and costs to the project will have a direct impact on the project manager's ability to complete the project within the set cost targets.
6. Although the project manager, with assistance from the work package managers, will ultimately be responsible for project cost control (Archibald, 1992: 275-277), they will be dependent on the management accountant to provide them with the necessary information at the appropriate time in the correct format.
7. Project related income and expenses could be treated in a number of alternative ways in the financial statements of the company – the financial accountant is responsible for choosing the correct alternative for every project and for preparing the financial statements. The closing of accounts form an integral part of this process.

Although it was concluded earlier that project accounting would be more a management accounting function than a financial accounting function, it is clear from the above that the project accountant's responsibilities would include functions of both the management and financial accountant. It also appears that conventional accounting techniques are not always applicable in a project management environment due to the special nature of projects, for which accountants are not usually trained.

It would therefore not be advisable to absorb the project accounting function between the project manager and the accounting department due to three specific reasons.

- Project managers are not trained to be accountants and accountants are not trained project management skills.
- One of the key characteristics of project management is the organization of responsibilities. Responsibilities should be clearly defined and described in the organizational breakdown structure to ensure that the project is completed as planned. If the project accounting function is left to drift somewhere between the project manager and the accounting department there will be no single point of responsibility.

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- The project accounting function will stretch wider than what could be defined by the conventional accounting function.

From the above it is evident that a project accountant should be appointed as part of the project team. Archibald (1992: 157) also advocates that the project team should include a dedicated project accountant as one of the key people. This is however easier said than done, due to the following reasons:

- In smaller and less complex projects it will not be feasible to appoint a separate project accountant.
- Neither project management nor accounting textbooks fully defines or describes the responsibilities of the project accountant.
- Given the diversity of projects it would be difficult to prepare a generic list of responsibilities for all project accountants
- The absence of a recognized qualification and training program for project accountants, such as those for Chartered Accountants and Certified Management Accountants.

4. Conclusion

This paper compared the project accounting function with the management and financial accounting functions, as well as the responsibilities of the project accountant with the management and financial accountant.

It appears that although project accounting tends to be closer to management accounting than financial accounting, project accounting is a good mixture between the management accountant and the financial accountant.

Since few of the advertised project accountant positions actually mention project management skills the feasibility and the need for a separate project accounting qualification should be seriously considered.

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