

# Job Costing

by Fred Ode

# 101

Developing or tweaking your company's job-costing system can help your construction business run more efficiently.

According to the U.S. Census Bureau, in 2004, more than 2.5 million construction-related firms existed in this country. That's a lot of competition. The good news is, just like you, they started their business and grew it from the ground up. They made mistakes, learned from them, and gradually improved not only their quality of work but also their efficiency. The even-better news is that, by expressing an interest in implementing a job-costing system, you've made an important step toward improving your business.

In a survey by Construction Research Corporation, 75 percent of contractors indicated job costing was among their top business concerns. That's not surprising, considering successful job costing can mean the difference between a profitable business and one that struggles to stay alive.

**Use the information you gather from job-costing reports to improve not only your business but also your way of doing business.**

## The Purpose of Job Costing

On a simple level, job costing as it applies to builders in the modern world, can be defined as a management-control process of tracking and categorizing every cost incurred in business. The costs are usually associated with a particular job or construction project and then further categorized by the costs' relation to labor, burden, materials, subcontracts, equipment, etc.

In most job-costing systems, the costs are also associated with tasks on the job or types of work completed. The goal, of course, is to pinpoint very detailed information about how and why costs are incurred. Knowing this information can help a contractor with the following:

- Tracking the progress of jobs as they are worked, as opposed to after they are finished.
- Improving the estimating and scheduling process by discovering where estimated costs frequently vary from actual costs.
- Controlling purchasing and use of materials and labor by uncovering trends in spending.

- Determining which areas of the business are most or least profitable.

Obviously, job costing can benefit contractors of every trade and size. The ability to pinpoint the specific areas where money is made or lost is the key to success for any business. If you're not currently doing this, you're losing money.

## Implementing Job Costing

Most contractors know job costing is a good idea. However, knowing where and how to start can seem overwhelming. But don't let this paralyze you into inaction. It's just like a building project. If you only look at the whole project and realize the infinite number of details that must be attended to, it's easy to throw up your hands and give up. As an experienced contractor, however, you know even the largest project can be broken down into phases, and those phases taken individually are much more manageable.

Implementing a job-costing system can be broken down into manageable phases. If you focus on the tasks involved in each of these phases individually, the project loses much of its

vastness and becomes much more controllable. Implementing or tweaking a job-costing system requires a three-phase process: planning, practicing and probing.

### Phase I: Planning

Planning a new system can seem very daunting. The key is to just dive in. Start by asking questions of your staff. What job costing is currently accomplished — even at the most basic level? Do your accounting staff, project managers or field laborers track or categorize anything related to cost? Are complete quantities recorded? What reports would they like to see? How important are things like production reports? Will they be able to provide you with the information you need to produce them? Research the job-costing reports that your current and other software systems can provide. These can serve as examples in discussion with your staff and will give you a good idea of the possibilities of job costing. For each report, consider the possible affects of the data. In other words, what business decisions will the information help you make? What view of your company will they help illuminate?

### Phase II: Practicing

After the planning phase, it's time to put the system to use. However, now may not be the time to dive in head-first. When it comes to implementing a new job-costing system, the toe-at-a-time approach is often wiser.

You may want to start small by costing just one job or one type of job. For example, you may want to forgo costing any jobs already in progress, and you may want to worry only about those jobs for which you've already created a budget. As you get used to the processes involved and you begin new jobs, deploy the costing system across the board.

### Phase III: Probing

Putting your new system into practice may take some time. As a result, it's tempting to skip the final phase — analyzing the results and how well the system works. The last step in the

three-phase process is to probe the results of the job-costing system, and this entails much more than printing out and glancing at some job-costing reports.

If your new system works well, you should have a useable cost structure that works for all your jobs. You should be costing overhead, have a finely tuned billing procedure and be receiving an abundance of information from all those job-costing reports.

However, be sure to ask yourself some additional questions. Are you getting all the information you need? Are all costs categorized — and is the categorization correct? Are the reports adequate for analyzing the information in many ways?

Wait, you're not done! The three-phase process of implementing a job-costing structure is a neverending circle. The probing

and analysis stage inevitably leads back to the planning and questioning stage. Just as your business will grow from your use of job costing, your job-costing system will change from the growth of your business. Use the information you gather from job-costing reports to improve not only your business but also your way of doing business. Isn't it time you looked into growing your company into much more than it is today? ⓘ

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## Job Costing Checklist | ✓ |

1. What reports are needed?
2. Who needs the reports?
3. Does a bank/bonding agency need a particular report?
4. Are all of the desired reports really essential?
5. Do all jobs get budgeted/estimated?
6. Should the costs to be tracked mirror the budget?
7. Does the budget process need to be changed before the cost system is based on it?
8. If jobs are not budgeted or the tracking system does not mirror the budget, what costs should be tracked?
9. Is a purchasing/requisition process used for materials?
10. When and by whom will orders be purchased and/or payable invoices be coded with job-costing information?
11. Will timecards come in from the field with correct job costing information?
12. If not, when and by whom will timecards be coded?
13. Should labor costs be tracked separately from payroll burden costs?