

# WHAT IF EVERYTHING YOU KNEW ABOUT YOUR JOBS WAS WRONG?

BY FRED ODE

**T**If a respected consultant with years of construction financial management experience walked into the office, researched job status, analyzed the accuracy of estimating, and examined the overall financial picture, what would he say? And worse, what if the analysis of the jobs and the business as a whole varied significantly from what you thought?

Thousands of contractors across the country have experienced the pain of learning, sometimes too late, that their job cost practices duped them into believing all was well, when it really wasn't.

What have they done to resolve this problem? They implemented a regimented job costing system. Some found that the information they've been gathering informally or in countless spreadsheets was incomplete at best, wholly inaccurate at worst. Others found that the jobs they considered most profitable were actually losing money. Most found that their off-the-cuff estimating wasn't right.

## LEARN TO RECOGNIZE WHAT YOU DON'T KNOW

For example, Rocko Excavating, a small construction firm owned by an individual with years of field experience. The owner started the company knowing a great deal about construction and excavating but little about running a business. In the early days of Rocko Excavating, the owner did all the estimating and ran an off-the-shelf accounting software that a friend with a

retail shop recommended. For job costing, he used a hodgepodge of spreadsheets that had to be updated separately.

At first, the company made money. The market was good and Rocko did great work. The owner followed his instincts in

estimating and bid on the type of jobs he thought were his bread-and-butter.

Winning a bid was seldom a problem. But even as he worked more jobs, the margins just weren't growing and cash remained tight. Eventually, something

## **FIVE** Characteristics of a Successful Job Costing System

Almost every contractor does some type of job costing. However, the most successful contractors use job cost systems that share the following five characteristics.

- **ACCOUNTING INTEGRATION**

Job costing that seamlessly integrates with accounting eliminates repetitive work and risk of error involved when entering data in multiple places. For example, job costing should automatically update when performing such tasks as entering payroll or accounts payable invoicing.

- **SUITABLE REPORTS**

Reporting is key. The system should provide both "canned" and customizable job cost reporting options. Must-have reports include ones that show cost breakdowns on multiple levels. Additionally, look for drilldown capabilities and built-in custom report designers that are easy to use.

- **FLEXIBLE STRUCTURE**

The system should permit complete flexibility in the design of job cost categories, including multiple levels of detail based on job, phase of the job, task and classification, such as labor, materials, equipment, etc.

- **OVERHEAD ALLOCATION**

Most contractors know that direct job expenses should always be costed, but the system also should allow costing and automatic reporting of overhead expenses to get a true big-picture view of the business.

- **ESTIMATED AND ACTUAL COMPARISON**

From quantities to costs, job costing can have real impact on the accuracy of the estimating process. Look for a system that offers integrated production reports, unit pricing, and side-by-side reporting of budget-vs.-actual numbers.

## What Is Going on with Your Jobs?

Being aware of what you don't know is the first ingredient in the recipe for success. The second is filling in those blanks with complete and accurate information. So, how do you determine if current knowledge about your jobs is accurate?

Answer the following questions. If you find your job-costing information lacking, it might be time to implement a more rigorous system.

- **DO YOU KNOW THE GOALS?** If you're tracking job costs at all, what are you hoping to learn? More specifically, what does each of your employees stand to learn? Everyone from the owner to the project managers to the outside CPA may have different goals for job costing. Are these all being met?
- **HOW DO YOU USE THE INFORMATION?** Do you control cash flow and billings based on data provided by job costing? Do you know which types of jobs or work are most and least profitable? Can you make informed decisions about what should be subcontracted out and what should be kept in-house?
- **IS YOUR INFORMATION REAL-TIME?** Can you track the progress of jobs as they are worked, as opposed to only after they are finished? Are reports date sensitive, allowing you to view information at any point in time? For example, can you see data across past fiscal years? Or look back a day, a week or a month at a time?
- **WHAT KIND OF CONTROLS DO YOU HAVE IN PLACE?** Do you always get complete and accurate information from the field? Is all of that information entered correctly every time? Do you categorize and track every cost from committed to budgeted to actual?

had to change. Either the owner had to figure out a way to make the company grow beyond the mom-and-pop stage where he remained involved in every

aspect of the business ... or the company would stagnate and die.

Rocko contacted a construction-specific CPA, and, on his advice, began shop-

ping for a construction-specific accounting package that also could handle job costing. As Rocko implemented the new package, it learned details about job costs that the company had been completely blind to before. Production reporting proved that it was under-bidding. Work-in-progress reports verified that purchasing and scheduling were poorly managed.

This information helped change the business for the better. Now decisions were based on hard facts rather than instinctual "guesstimates" and everything improved. By learning what it didn't know, Rocko Excavating was freed from the small business trap.

As Rocko Excavating learned, using spreadsheets and instinct to track job costing was a mistake. To grow the business beyond its current bounds, have a firm grasp of both the big-picture status and the detailed costs on jobs. Construction-specific accounting software with a strong job costing element is the answer.

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**Ode is CEO/chairman of Foundation Software. For more information, contact Ode, (800) 246-0800 or fred@foundationsoft.com.**