SO YOU THINK YOU’RE JOB COSTING... ARE YOU REALLY?

BY FOUNDATION SOFTWARE
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Job costing is a huge term in construction — yet it can be one of those phrases we say so often, we don't stop to think of what it means. If you tag each of your expenses and bills to a customer’s project, you might be “costing to a job,” but there's so much more to job costing than that — and it's all positive. So whether you think you're job costing or not, here's what you might be missing out on.

The Forgotten Goal of Job Costing

Before anything else, it's important to know that the first goal of job costing is the benefit: It's supposed to help you and your business. If your company is job costing simply because your software allows you to or because someone said you should — stop! You don't need more work to do just for the sake of doing work.

Contractors absolutely should be job costing — but successful job costing results when you know why you’re doing it and when you have particular goals for it. What does all of this amount to in the end?

- detailed reports
- up-to-date job data
- actionable information

This can be as simple as comparing your detailed estimates to your actual costs. It can dive much deeper into any number of questions you want your job data to answer. What job costing is really about is giving you,
your project managers, your estimators and even your bonding agents a better look at your projects, their finances and their performance.

### Getting Half the Story

Many construction companies tie their costs to a job by tagging it with a customer, a job or, in QuickBooks® Online, a “sub-customer” category, and they leave it at that. This assigns your cost or your revenue to a particular bucket. If done well and consistently, doing that can give you profit-and-loss reports by job. In other words, you can weigh each bucket to see its balance — maybe you can even dig around a little to see some of what it contains.

However, let’s say you enter a $1,000 drywall invoice and a $2,000 concrete invoice into one customer’s job cost bucket, under your materials G/L account. In the moment, you can recognize these as two separate expenses for two different parts of your project. But when you look back after everything wraps up, your P&L would simply reflect $3,000 worth of costs buried somewhere in the total. The same can be true of your different labor costs, equipment costs, etc. It’ll depend on how detailed you break out your G/L — but as we’ll see later, that won’t be a solution either.

Even if you enter job estimates in your accounting software and compare them against your actual costs, a lot of important detail can be hidden from you. For example:

- What phase of the project actually ran over budget?
- Is one very efficient project area offsetting one that was misestimated?
- Is your billing progress on pace with progress of work completed?

These are all questions more detailed, multi-layered job costing can answer.
Taxing Your General Ledger

One common workaround as contractors grow under a small business accounting application is that their G/L will be used to split out cost areas. For example, you might create a G/L account for drywall material expenses, a G/L account for concrete material expenses, a G/L account for drywall labor costs, a G/L account for concrete labor costs, and so on. The result is a long, complicated chart of accounts that’s not easy to change when your business and your cost structure does.

The problem is that your G/L isn’t built for this kind of work. Think of it like this: your CPA might be able to lay brick for eight hours — but that’s not their job. So let your G/L track your financials. Then, with the help of an integrated job costing module, let a specialized component of your accounting software track your project costs.

Why two parts to your accounting instead of one? The G/L can be structured to configure expenses and revenues in a way that makes sense from a company perspective and for your financial statements. Meanwhile, your job costing module makes sense of and breaks out your costs, hours and quantities from a job perspective — whether that’s zooming into one job or looking across several jobs by:

- project manager
- geographic area
- project type
- and a whole lot more

In the end, the two halves of your construction accounting can be made to tie out to the penny so you can be confident in your numbers from both sides.
Job Costing With a Point

Incorporating cost categories, like cost codes, classes, phases and cost groups, will provide options so that you can build a job cost structure that gives your business data that helps. Not all contractors need a complex system with five layers and a hundred cost codes. You might just need a handful. But your ability to tie your project activity to specific categories of costs and track and report them makes sure you don't keep yourself in the dark.

So what are the questions you would want to ask your job data? That's where successful job costing begins. Bring your construction CPA into the conversation to work out a job cost structure built for your business. Then, bring us into the conversation so you can get:

- over/under billing and WIP
- estimated vs. actual
- production reporting
- cash flow analysis by job
- easy drag-and-drop job cost report designers

See how it all comes together in our online demo!

Foundation Software is the developer of FOUNDATION® – America’s #1 Construction Accounting Software. Since 1985, we've been dedicated to giving contractors the back office tools they need to manage their job cost accounting and project management, with on-premise, cloud and mobile.

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