



STRENGTHEN YOUR BUSINESS WITH A POWERFUL JOB-COSTING SYSTEM

BY FOUNDATION SOFTWARE

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Ask most contractors, and you'll find that job costing is 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. It's not enough to know only whether your business is profitable *overall*, just as it's not enough to know your boat is above water; small leaks over time will hurt your bottom line if you don't know where they are and how much water you're taking on. To keep your business running optimally, you need a solid job-costing system with thorough reporting. A good software package will make this easy for you.

JOB COSTING 101 REVIEW

On a simple level, job costing as it applies to construction 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, 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 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.



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 THE RIGHT JOB COSTING SYSTEM

Most contractors know job costing is a good idea, but its benefits can be diminished without implementing a three-phase approach—*planning*, *practicing* and *probing*—to make sure your job-costing system will work *for* your business rather than your business for the system.

Planning starts by asking questions of your staff. What job costing is currently happening—even at the most basic level? Do your project managers accounting staff, or field laborers track or categorize anything related to cost? What reports would they like to see? Research the job-costing reports that your current and other software systems can provide. For each report, consider what business decisions the information will help you make. Don't ask what *they* offer before you ask what *you* need. Then ask who can deliver.

Practice lets you begin putting the system to use with a toe-at-a-time approach. 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, you can implement the costing system across the board.

Probing entails analyzing the results and how well the system works for you. Because putting the system into practice takes time, it's tempting to skip this crucial last step, but probing involves much more than glancing at some job-costing reports. And if you haven't given your current job-costing system a tough analysis, now is the time to do so.

PROBING THE STRENGTH OF YOUR SYSTEM

How do you know if your system is working well? You should have a usable cost structure that works for all of your jobs, you should be costing overhead, and you should be receiving an abundance of information from 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 does your system offer the levels of categorization you need?

- Are the reports adequate for analyzing the information in many ways—including filtering and sorting data for multiple criteria for any length of time?
- Are your bonding reports easily calculated, with the ability to post adjustments?
- Does your software allow you to write new reports based on your unique needs?

The three-phase process of implementing a job-costing system is an ongoing cycle. 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. For that reason, it's also important to select a software system that has the capacity to grow with your company and that offers the support to be a long-term partner.

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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, project management, and scheduling.

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