PURCHASING AND JOB COSTING FOR CONTRACTORS

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Leslie Shiner

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- Certified QuickBooks ProAdvisor
- Certified QuickBooks Enterprise Solution 7.0
- CEDIA Certified Trainer, Top 10 Instructor
- Author:
  - *Best Fit Construction Management Software*
  - *Implementing New Business Management Software*
  - *Health Checkup for Your Construction Business*
Goals

• Utilize job costing to get a handle on your direct costs
• Create and manage a workable item list for purchasing and job costing
• Implement purchase order and subcontract control to better control job costs
• Fully burden your labor to discover the real costs of putting your employees in the field
• Better analyze and report job costs
Agenda

• Best practices for items and classes
• Managing vendors, including tracking certificates, purchase orders, and bill paying
• Using payroll for accurate job costing
• Job analysis through contractor reports
• Let’s WIP your company into shape!
Better Project Management

Through improved:

• Estimating
• Purchase orders
• Subcontract control
• Change order management
• Reporting
• Analysis
Value of Better Job Costing

• Ability to:
  • Compare estimate to actual costs by line item
  • Manage procurement
  • Track costs during production
  • Track profitability during production
  • Track gross margin during the job
  • Determine gross margin at the end of the job

• Benefits
  • Become a better estimator
  • Win more jobs
  • Win more profitable jobs
## Basic Income Statement

### Multi-Step Profit and Loss (P&L)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (Revenue)</td>
<td>$XXX</td>
</tr>
<tr>
<td>COGS – All job costs</td>
<td>$(XX)</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>$XXX</td>
</tr>
<tr>
<td>Expenses – Overhead, non-job</td>
<td>$(XX)</td>
</tr>
<tr>
<td><strong>Net Income (Net Profit)</strong></td>
<td>$XXX</td>
</tr>
</tbody>
</table>
Agenda

- Best practices for items and classes
- Managing vendors, including tracking certificates, purchase orders, and bill paying
- Using payroll for accurate job costing
- Job analysis through contractor reports
- Let’s WIP your company into shape!
Using Items

- **Choice – items or expenses**
- **Use items for job cost expenses**
  - Assign to Cost of Goods Sold (COGS) accounts in Chart of Accounts (General Ledger)
  - If it’s **above the line**, it **is** job costed!
- **Use expenses for overhead expenses**
  - Assign to Expense accounts in Chart of Accounts (General Ledger)
  - If it’s **below the line**, it **is not** job costed!
- **Provide detail of job costs through items, not through Chart of Accounts or P&L**
Items – Service or Non-inventory

- Can you use the same item for estimates and invoices that you use for purchase orders and bills?
- Check the box – allows for better job costing and ability to compare estimates to actuals
For the Accountant in You!

- Track ledger transaction for all items
  - Verify how items are set up
  - Verify where dollars are going
- Drill down into the Journal Entry created by item transaction
  - Or “Control Y” keystrokes
Use Subitems

- When estimate has more detail than you can use for costs
- Or, when job costs are more detailed than estimate
- Collapse the report for better tracking

<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td>14 Plumbing</td>
<td>12,500.00</td>
<td>6,500.00</td>
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<tr>
<td>Plumbing Fixtures</td>
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<td>Finish Plumbing</td>
<td>4,000.00</td>
<td>0.00</td>
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<tr>
<td>Rough Plumbing</td>
<td>5,000.00</td>
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<tr>
<td>14 Plumbing - Other</td>
<td>0.00</td>
<td>6,500.00</td>
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<tr>
<td>Total 14 Plumbing</td>
<td>12,500.00</td>
<td>6,500.00</td>
</tr>
<tr>
<td>Total Service</td>
<td>12,500.00</td>
<td>6,500.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>12,500.00</td>
<td>6,500.00</td>
</tr>
</tbody>
</table>
Using Classes – Many Theories

• Do not confuse ‘Classes’ with ‘Items’
• Class for cost type
  • Material
  • Labor
  • Equipment
  • Subcontract
• Class for departments (profit centers)
  • Commercial
  • Residential
  • Handyman
• Class for geographical areas
  • Multi-state
• Can only use one of the above, cannot combine
Multiple Levels of Detail

<table>
<thead>
<tr>
<th>Item 1</th>
<th>Item 2</th>
<th>Item 3</th>
<th>Item 4</th>
<th>Item 5</th>
<th>Item 6</th>
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<th>Item 8</th>
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<tbody>
<tr>
<td>Class1</td>
<td>Class2</td>
<td>Class3</td>
<td>Class4</td>
<td>Class1</td>
<td>Class2</td>
<td>Class3</td>
<td>Class4</td>
</tr>
</tbody>
</table>
What about Journal Entries?

• While you *can* job cost journal entries, you *cannot* use items in journal entries

• Enter zero dollar check
  • Enter items as necessary, with job costs
  • Enter negative items or negative expenses

• Allows you to correct prior periods without editing original transactions

• Allows you to make corrections to pass through to T&M billing

• Maintains the integrity of job costs

• Note: ‘Make General Journal Entries’ moved to Company drop down in 2006
Agenda

☑ Best practices for items and classes
  - Managing vendors, including tracking certificates, purchase orders, and bill paying
  - Using payroll for accurate job costing
  - Job analysis through contractor reports
  - Let’s WIP your company into shape!
Set Up Vendors

• Create for subcontractors
• Don’t forget 1099 information
  • Best to set up to require and then research later
• Expiration dates
  • Only in Contractor Edition
  • No need to use custom fields any more!
  • Customize Vendor list to include and search on these fields
• Use create letter right from Vendor Center
Did You Know?

• Do not pay Vendors with expired certificates
• QuickBooks now warns you if a Vendor has expired insurance certificates?
Manage Certificates

- Create custom report (and memorize)
- Start with simple Vendor List (such as Vendor Phone List)
  - Modify report
    - Click on display for 1) Work Comp Expires, 2) Gen Liab Expires, and 3) Balance Total
  - Create Filters
    - Pick “Work Comp Expires” – between 01-01-07 and today
    - Pick “Gen Liab Expires” – between 01-01-07 and today
  - Add Balance if needed
    - Pick “Balance Total > 1”
- Create report that filters “next month” to stay ahead of the game
Purchase Orders (PO) – Why?

• Not just for inventory!
• Better control job costs
• Have the right material on the right job at the right time
• Avoid wasted hours looking for materials
• Allow project manager to pre-code all invoices
• Let the bookkeeper do bookkeeping, not coding
• Verify dollars billed against dollars quoted
• Use POs as subcontract control
## Purchase Order

**Vendor**
Brenda's Framing Service  
112 Bowden Road  
Bayshore, CA 94326

**Ship To**
Twice Right Construction  
10856 Fun Circle  
Santa Clara, CA 94567

**DATE**  
11/01/2007

**P.O. NO.**  
7

**Work Comp Ex...**  
06/2005

<table>
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<tr>
<th>ITEM</th>
<th>DESCRIPTION</th>
<th>QTY</th>
<th>RATE</th>
<th>Customer</th>
<th>CLASS</th>
<th>AMOUNT</th>
<th>R...</th>
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<tr>
<td>06</td>
<td>Draw #1 - Floor Framing</td>
<td>1</td>
<td>3,000.00</td>
<td>Campbell, ...</td>
<td>Subcon...</td>
<td>3,000.00</td>
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<td>✓</td>
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<td>07</td>
<td>Draw #2 - Wall Framing</td>
<td>1</td>
<td>5,000.00</td>
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<td></td>
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<tr>
<td>08</td>
<td>Draw #3 - Roof Framing</td>
<td>1</td>
<td>10,000.00</td>
<td>Campbell, ...</td>
<td>Subcon...</td>
<td>10,000.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Vendor Message**
As agreed work to start on 11/15/07

**Total**  
18,000.00

**To be printed** ✔  
**To be e-mailed** ✗  
**Closed** ✗
Purchase Orders – How?

• **Can be created from an estimate**
  - Hidden under “create invoice”
  - Purchase orders do not include markup
  - You may not want to because of differing levels of detail

• **Use POs as subcontract control**
  - What to do about lump sum POs?
  - Create multiple lines with same item that match payment schedule
  - Reverse Quantity and Rate to avoid closing too soon

• **Note: Purchase Orders closed by quantity, not cost**
  - Drill down to history to see bill (Ctrl + H)
  - Drill down to history to see check
Enter Bills

• Goal: determine job costs as soon as possible!
• Can start from Purchase Order
  • Pre-coded
• Enter Credit Card Charges
  • Better tracking and control
  • Enter from receipt (or find purchases on-line)
• Create item called “Unknown”
  • You might even need to create “Unknown” job
• Better to overstate job costs than to be surprised later
Pay Bills

Never “Write Checks” if you have entered a bill!
Agenda

☑️ Best practices for items and classes
☑️ Managing vendors, including tracking certificates, purchase orders, and bill paying

• Using payroll for accurate job costing
• Job analysis through contractor reports
• Let’s WIP your company into shape!
Payroll Issues – More Job Costing

• Be sure to turn on preferences to job cost all burdens

• Workers’ compensation by work codes
  • Preferences
  • Setting different tasks and different rates

• Labor has the most risk of variance
  • Enter time cards to job cost time for better management
  • Allows for T&M billing and time tracking

• Find ways to fully burden your job costs
Small Tools
Payroll Tip - Job Cost Additional Burdens

- **Allocate other “indirect-direct” costs**
  - Small tools
  - Vehicles
  - Communication equipment

- **Set up new payroll item**
  - Payroll Item type: ‘Company Contribution’
  - Name: Labor Burden Allocation
  - Liability Account: “Less applied overhead” (Expense range)
  - Expense Account: “Applied overhead” (COGS range)
  - Either dollars per hour or dollar percentage of gross pay
### Labor Burden Allocation

#### Payroll Item List

<table>
<thead>
<tr>
<th>Item Name</th>
<th>Type</th>
<th>Amount</th>
<th>Annual</th>
<th>Tax Tracking</th>
<th>Payable To</th>
<th>Account ID</th>
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</thead>
<tbody>
<tr>
<td>5188-Plumbing Costs</td>
<td>Company Contrib...</td>
<td>9.1%</td>
<td></td>
<td>None</td>
<td>State Comp...</td>
<td></td>
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<tr>
<td>5213-Concrete</td>
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<td></td>
<td>None</td>
<td>State Comp...</td>
<td></td>
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<tr>
<td>5475-Painting Costs</td>
<td>Company Contrib...</td>
<td>4.2%</td>
<td></td>
<td>None</td>
<td>State Comp...</td>
<td></td>
</tr>
<tr>
<td>5553-Roofing Costs</td>
<td>Company Contrib...</td>
<td>24.2%</td>
<td></td>
<td>None</td>
<td>State Comp...</td>
<td></td>
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<tr>
<td>5646-Carpentry Costs</td>
<td>Company Contrib...</td>
<td>10.2%</td>
<td></td>
<td>None</td>
<td>State Comp...</td>
<td></td>
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<tr>
<td>9891 Office</td>
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<td></td>
<td>None</td>
<td>State Comp...</td>
<td></td>
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<tr>
<td>9899-Supervision C...</td>
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<td></td>
<td>None</td>
<td>State Comp...</td>
<td>9807-0978</td>
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<tr>
<td>Labor Burden Alloc...</td>
<td>Company Contrib...</td>
<td>100.0%</td>
<td></td>
<td>None</td>
<td></td>
<td></td>
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<tr>
<td>Advance Earned In...</td>
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<td>0.8%</td>
<td>7,000.00</td>
<td>Advance EIC</td>
<td>Internal Re...</td>
<td>12-3456789</td>
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<td>Federal Tax</td>
<td></td>
<td></td>
<td>FUTA</td>
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<tr>
<td>Federal Withholding</td>
<td>Federal Tax</td>
<td>1.45%</td>
<td></td>
<td>Federal</td>
<td>First Nation...</td>
<td>12-3456789</td>
</tr>
<tr>
<td>Medicare Company</td>
<td>Federal Tax</td>
<td>1.45%</td>
<td></td>
<td>Comp. Medicare</td>
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<tr>
<td>Medicare Employee</td>
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<tr>
<td>Social Security Com...</td>
<td>Federal Tax</td>
<td>6.2%</td>
<td>90,000.00</td>
<td>Comp. SS Tax</td>
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<td>12-3456789</td>
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<td>Social Security Empl...</td>
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<td>-90,000.00</td>
<td>SS Tax</td>
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<tr>
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<td>-79,418.00</td>
<td>SDI</td>
<td>Employmen...</td>
<td>123-12345</td>
</tr>
</tbody>
</table>
Allocate Your Overhead

- Increase COGS and decrease expenses
- No change to Net Profit
- Jobs now reflect true labor costs
**Why Create an Admin Job?**

- **Gross Wages – split above and below the line**
  - Create items for job labor = above the line
  - Create items for admin = below the line

- **But what about the burden?**
  - Burden will either be above or below the line
  - What if an employee works in the shop?

- **Create admin job**
  - Code admin time to admin job

- **Zero out admin job each month**
  - Create monthly process to reclassify
  - Move overhead costs from above the line to below the line
Agenda

- Best practices for items and classes
- Managing vendors, including tracking certificates, purchase orders, and bill paying
- Using payroll for accurate job costing
  - Job analysis through contractor reports
  - Let’s WIP your company into shape!
Better Job Costing in QuickBooks

• Be consistent
  • Items vs. expenses

• Have you ever asked: “Why are my jobs all coming in around 30% gross margin, while my Profit and Loss Statement shows only a 25% gross margin?”
  • Do you have COGS not assigned to jobs?
  • Do you have a “shop” or “admin” job?

• Avoid Gross Profit Fade
Reconcile Job Costs to GL

- **Run Profit and Loss for Period**
  - Print, write down COGS number

- **Change Columns to Customer: Job**
  - Print, write down COGS number

- **Compare COGS**
  - *Warning:* amount may not be the same
  - Drill down to the “No Name” column (for payroll)

- **Run ‘Expenses Not Assigned to a Job’ report**
  - Contractor Edition only
  - Modify to filter by all ordinary income/COGS
  - Memorize this report
  - *Warning:* this report does not include payroll
Watch Out for the “Shop” Job

• What should be the goal of job costing?
  • Gross Margin on P&L represents average Gross Margin on jobs

• What about the “shop job”?
  • Treated the same as Admin Job
  • Code to it, but make sure to allocate it to other jobs or reclassify back into overhead

• Allocation methods
  • Can create spreadsheet to determine allocation
  • Allocate by percentage of total labor, revenue, or COGS
  • Or create Labor Burden Allocation payroll item to automatically allocated overhead

• Everything above the line belongs to a job!
Job Analysis

• Start at the summary, move to the detail
  • Job Profitability Summary - all jobs
  • Job Profitability Detail - by job
  • Profit and Loss by Job

• Compare actual costs to estimated costs
• Compare actual costs to actual revenue
  • Both included in: Job Estimates vs. Actuals Details
Check Out the Job Costing Center

- See important job info with drill down
- Quick access to job reports
- Expenses not assigned
- Outstanding bills

### Job Costing Center

<table>
<thead>
<tr>
<th>Customer Job</th>
<th>Profit</th>
<th>Revenue &amp; Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wessinger, Gay, Guest Cottage</td>
<td>$135,762.00</td>
<td>Red</td>
</tr>
<tr>
<td>Albrecht, Henry Cottage - New Construction</td>
<td>$130,052.14</td>
<td>Red</td>
</tr>
<tr>
<td>Wessinger, Gay, Bathroom Addition</td>
<td>$87,086.08</td>
<td>Green</td>
</tr>
</tbody>
</table>

### 3 Least Profitable Jobs

<table>
<thead>
<tr>
<th>Customer Job</th>
<th>Profit</th>
<th>Revenue &amp; Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality-Built Construction/Marketing</td>
<td>-$113,121.24</td>
<td></td>
</tr>
<tr>
<td>Quality-Built Construction: Client Meetings</td>
<td>-$14,113.13</td>
<td></td>
</tr>
<tr>
<td>Quality-Built Construction/Admin Paperwork</td>
<td>-$16,534.50</td>
<td></td>
</tr>
</tbody>
</table>

### Job Costing Highlights

- Your actual costs are **$513,172.94 under** your estimated costs.
- You have **$25,557.46 in expenses not assigned** to any jobs. Did you forget to assign some expenses to jobs?
- You have **$55,400.04 in outstanding bills** due to vendors.
Job Cost Reporting

• A big part of controlling the job consists of continuous monitoring through reports

• Compare costs to budget
  • Only as good as the budget
  • Only as good as the costing
  • Do you suffer from too many items?

• Under budget doesn’t guarantee profit
  • Avoid surprise bills at the end of the job
  • Look for open purchase orders

• Look for costs that have not been billed by vendor
• Look for costs that have not been invoiced to customer
Job Analysis – Contractor Edition

- **Expenses not assigned to a job**
  - This is a “must run” report

- **Unpaid Bills by Job**
  - Are you in a “pay when get paid state?”
  - Or try the ‘Unpaid Job Bills by Vendor’ report

- **Report that require Estimates and Items**
  - Job Estimates vs. Actuals Summary
  - Job Estimates vs. Actuals Detail

- **Don’t forget to include open Purchase Order report**
  - Look at job costs estimate to actuals
  - Then look at PO reports
  - Open PO by Vendor, Open PO by Job
Cost to Complete Report

• Interactive report
  • Not just looking at percent of budget spent
  • What about percent of item completed?

• Summary for all jobs or detail for one job
• Determine how much it will take to finish the job
• Just because you spent 50% of the estimate doesn’t mean you are 50% complete
## Quality-Built Construction

### Cost to Complete by Job Detail for Albrecht, Henry: Cottage - New Construction

#### All Transactions

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Albrecht, Henry: Cottage - New Construction</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>01 Plans &amp; Permits</td>
<td>100.00</td>
<td>100.0%</td>
<td>1,210.80</td>
<td>0.00</td>
<td>1,210.80</td>
<td>1,110.80</td>
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<td>01.1 Plans</td>
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<td>125.00</td>
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<td>90.36</td>
<td>0.00</td>
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<td>-9.64</td>
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**Notes:**
- Manually Entered

### Subtotals

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</tr>
<tr>
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<tr>
<td>Beg Bal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Albrecht, Henry: Cottage - New Constr.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAL</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Values:**
- Total Service: 198,825.00
- Total Albrecht, Henry: Cottage - New Constr.: 198,825.00
- TAL: 198,825.00

**Manually Entered:**
- The percentages and costs listed are marked as manually entered.
Agenda

- Best practices for items and classes
- Managing vendors, including tracking certificates, purchase orders, and bill paying
- Using payroll for accurate job costing
- Job analysis through contractor reports
  • Let’s WIP your company into shape!
Work In Process

Two different meanings

1. WIP – for production builders, spec builders
   • Sometimes called Completed Contract
   • Capitalize all job costs
     • All job costs start on Balance Sheet
     • All items are assigned to Asset accounts
   • Job costs become Expenses on Profit and Loss Statement at end of job

2. WIP – for long term jobs with both income and job costs
   • Smoothes out fluctuations from trended financial statements
   • Recognizes Underbillings and/or Overbillings
Work In Process

- WIP is based on the “Matching Principle”
  - Income and expenses for same activity during same period
- Recognizes true profit during course of project
- Cost driven – dates and amounts of invoicing become irrelevant for financial statements, not for cash flow
- Requires accurate job costing
- Requires monthly WIP adjustment
  - Recommendation: reverse in next period

Income statement should reflect **earnings** not **billings**
Create a WIP report in QuickBooks

- Start with Estimates vs. Actuals Summary
- Modify report to delete columns ($ difference)
- Export to Excel
- Add Under/(Over) column
- Create formula
  - Act. Cost/Est. Costs = % Complete
  - % Complete * Est. Revenues = Earnings
  - Earnings – Act. Revenue = Under/(Over) Billings
- Create journal entry to adjust revenue and recognize additional asset (underbillings) or additional liability (overbillings)
**Same Revenue!**

Notice after adjustment:

<table>
<thead>
<tr>
<th></th>
<th>Company A</th>
<th>Company B</th>
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</thead>
<tbody>
<tr>
<td>Income Per Invoices</td>
<td>75,000</td>
<td>60,000</td>
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<tr>
<td>WIP Adjustment</td>
<td>(9,750)</td>
<td>5,250</td>
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<tr>
<td>Total Income</td>
<td>65,250</td>
<td>65,250</td>
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</table>
### Over/Under Billings

<table>
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<tr>
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<tbody>
<tr>
<td>Albrecht, Henry</td>
<td>398,825.00</td>
<td>333,485.86</td>
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<td>531,650.00</td>
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<td>Campbell, Heather</td>
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<td>Molotsi, Hugh</td>
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<td>450,000.00</td>
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<td>Wiessinger, Gary</td>
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<td>305,864.88</td>
<td>369,505.00</td>
<td>488,205.00</td>
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<td>Wilson, Brandon</td>
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<td>113,400.00</td>
<td>113,400.00</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,368,030.00</strong></td>
<td><strong>1,252,964.06</strong></td>
<td><strong>1,659,412.50</strong></td>
<td><strong>1,933,437.50</strong></td>
<td><strong>-381,615.92</strong></td>
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</tbody>
</table>

Only column that needs a formula
Special Issues – Inventory for Contractors

• Who needs it?
• Who uses it?
• Are you making it more difficult than you need to?
• Do you have growing phantom profit?
  • Problem inherent with Inventory
    • Easy to put into inventory
    • Harder to take out of inventory
• Be sure to distinguish between true inventoried items and consumables
• Inventory to control costs and better recognize expenses when there are significant timing issues
Summary

• Better manage job costs for maximum profits by utilizing the features within QuickBooks Enterprise Solutions
• Determine how to better enter bills, pay bills and track costs by job
• Create a process to track true costs of each job by line item
• Improve overall project management through better purchasing and improved cost control on jobs
Agenda

☑ Best practices for items and classes
☑ Managing vendors, including tracking certificates, purchase orders, and bill paying
☑ Using payroll for accurate job costing
☑ Job analysis through contractor reports
☑ Let’s WIP your company into shape!
Questions and Answers
Thank You

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