

QuickBooks® For Contractors Cost of Goods Sold vs. Expense

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Fast Easy Accounting

LORMAN®

Published on www.lorman.com - August 2018

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QuickBooks For Contractors

Cost of Goods Sold vs. Expense

Posted by Randal DeHart on Fri, Jun 28, 2013

During QuickBooks setup and especially QuickBooks for contractors one of the most dangerous and difficult steps is setting the Chart of Accounts.

Get this one thing right and your QuickBooks for contractors has a good chance of generating useful financial reports and job costing reports. Get it wrong and no matter who handles your contractors bookkeeping services needs you will never get useful reports - in fact, the reports you do get could lead you to make decisions based upon bad information that could cripple or destroy your entire construction company.

I Trust You Will Use This Checklist And That It Helps You!


Step One - Which of the Four Types of Contractors best describe your construction company. Dog and Pickup Truck, Salt of The Earth, Professional or Enterprise? For a full description of each one [click here](#).

Step Two - What type of construction is your construction company involved with? Land developer, spec home builder, custom home builder, general contractor, remodel contractor, specialty trade contractor, subcontractor, handyman contractor, commercial tenant improvement contractor or another type of contractor?

Step Three - Invoicing issues related to how you are being paid. Are you doing large projects requiring a schedule of values related to percentage of completion and change order management with progress invoicing and payment applications? Are you getting job deposits? Is there retention

being withheld and are you withholding retention? Are there any back charge issues to be tracked?

Sample Chart of Accounts Groups

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Contractors Bookkeeping And Construction Accounting Services			
Group #1	Work-In-Progress Accounts	Retentions Receivable	ASSET GROUP #1
		Land / Lot Purchase	ASSET GROUP #1
		Work-In-Progress - Land Development	ASSET GROUP #1
		Work-In-Progress - Construction	ASSET GROUP #1
Group #2	Cost of Goods Sold Accounts	Job Related Costs	COGS GROUP #2
Group #3	Expense Accounts	Business License & Fees	EXP GROUP #3
		Insurance	EXP GROUP #3
		Interest Expense	EXP GROUP #3
		Licenses and Permits	EXP GROUP #3
		Miscellaneous	EXP GROUP #3
		Office Supplies	EXP GROUP #3
		Professional Fees	EXP GROUP #3
		Rent	EXP GROUP #3
		Telephone	EXP GROUP #3
		Taxes	EXP GROUP #3
		Utilities	EXP GROUP #3

Land Developers And Home Builders - Will need work-in-progress accounts from group #1 to keep track of all of the costs being accumulated and cost of goods sold accounts group #2 when it is time to record the sale of lots, land and finished homes and finally expense accounts from group #3 to keep track of expenses.

Contractors Working Under Percentage Of Completion - May need the same accounts as land developers and home builders depending on several variables including the need to report over and under billing.

All Other Contractors - Will normally only need accounts from group #2 and #3.

Contractors Who Benefit From Professional QuickBooks Setup

New Construction Speculative - Land developers, home builders and light commercial builders. These are the contractors who build something in hopes a buyer will emerge during or shortly after the building is built

1. Typically they use QuickBooks for contractors to track all the costs and generate Bank Draws and Work-In-Progress (WIP) reports against budgeted estimates to monitor progress which we have in our QuickBooks Setup.
2. The Chart of Accounts is usually focused WIP Assets with a few Cost of Goods Sold Accounts (COGS) to allocate the sale of the building.
3. The successful contractors use the Five Key Performance Indicators (KPI) to monitor the financial health of the business.
4. There are between 200 and 6,000 Items setup to track all the costs of the construction process from the ground up through the roof and final cleanup.
5. This is the most difficult QuickBooks Premier Contractor Edition to setup because there is a mix of Direct, Indirect, WIP and COGS accounts.
6. The day to day input is also the most difficult and to be done properly requires accounting staff with specialized training in construction accounting.

7. Our experience has been this group generates a very unstable income and is extremely sensitive to the ups and downs of the new construction market which is why having a strategy with an external focus on the global housing market is so critical for them.
8. It is unfortunate that we do see the vast majority of them unable to reach their full potential because there is no overall strategy including a Business Plan for Contractors.
9. I believe a lot of speculative builders go bankrupt because they do not have accurate financial and Work-In-Progress (WIP) reports to base decisions on and that is as direct result of trying to save money by hiring Cheap Bookkeepers who have good intentions but lack training in construction accounting.

New Construction Custom - Builders of residential and light commercial buildings who build something specific for a client.

1. Typically, they use QuickBooks for contractors to track all the costs and generate Complex Payment Applications, Item Estimates vs. Actuals, Job Profitability Summary and Job Profitability Detail Reports to monitor progress.
2. The Chart of Accounts is usually focused on Goods Sold Accounts (COGS) to allocate project costs.
3. The successful contractors use the Five Key Performance Indicators (KPI) to monitor the financial health of the business.
4. There are usually 500 to 2,500 Items setup to track all the costs of the construction process from the ground up through the roof and final cleanup.

5. This is the second most difficult QuickBooks Premier Contractor Edition to setup because there is a mix of Direct, Indirect, COGS and only a few WIP accounts.
6. The day to day input is also the second most difficult and to be done properly requires accounting staff with specialized training in construction accounting.
7. Our experience has been this group generates a relatively unstable income and is somewhat sensitive to the ups and downs of the new construction custom built market.
8. It is unfortunate that we do see the vast majority of them unable to reach their full potential because there is no overall business strategy including a Business Plan for Contractors.
9. I believe a lot of custom builders go bankrupt because they do not have accurate reports to base decisions on and that is a direct result of trying to save money with Cheap Bookkeepers who have good intentions but lack training in construction accounting.

Remodel Contractors - Residential And Light Commercial Tenant Improvement Contractors

1. Typically, they use QuickBooks for contractors to track all the costs and generate Complex Payment Applications Item Estimates vs. Actuals, Job Profitability Summary and Job Profitability Detail Reports to monitor progress.
2. The Chart of Accounts is usually focused on Goods Sold Accounts (COGS) to allocate project costs.

3. The successful contractors use the Five Key Performance Indicators (KPI) to monitor the financial health of the business.
4. There are usually 1,000 to 5,000 Items setup to track all the costs of the construction process from beginning to end.
5. This is the third most difficult QuickBooks Premier Contractor Edition to setup because there is a mix of Direct, Indirect, COGS and only a few WIP accounts.
6. The day to day input is also the second most difficult and to be done properly requires accounting staff with specialized training in construction accounting.
7. Our experience has been this group generates a stable income and is not a sensitive to the ups and downs of the new construction market.
8. It is unfortunate that we do see the vast majority of them unable to reach their full potential because there is no overall strategy including a Business Plan for Contractors.
9. And of course Cheap Bookkeeping is the one area where short term savings is overwhelmed by making bad decisions based upon inaccurate QuickBooks for contractors reports.

Trade contractors - Plumbers, Electricians, HVAC, Flooring, Sheetrock, Painters, Landscapers and others.

1. Typically they use QuickBooks for contractors to track all the costs and generate Simple Invoices which can then be input into QuickBooks Premier Contractor Edition, QuickBooks Pro or QuickBooks Enterprise Edition.

2. The Chart of Accounts is usually focused Goods Sold Accounts (COGS) to allocate project costs.
3. The successful contractors use the Five Key Performance Indicators (KPI) to monitor the financial health of the business.
4. There are usually 500 to 2,500 Items setup to track all the costs of the construction process from beginning to end.
5. This is the **fourth most** difficult QuickBooks setup is QuickBooks for Contractors because there is a mix of Direct, Indirect, COGS accounts.
6. The day to day input is also the third most difficult and to be done properly requires accounting staff with specialized training in construction accounting.
7. Our experience has been this group generates a stable income and can be sensitive to the ups and downs of the new construction market.
8. It is unfortunate that we do see the vast majority of them unable to reach their full potential because there is no overall strategy including a Business Plan for Contractors.
9. And of course Cheap Bookkeeping is the one area where short term savings is overwhelmed by making bad decisions based upon inaccurate QuickBooks for contractors reports.

Service and Repair Contractors - companies like drain cleaners, emergency service electricians etc.

1. Typically they use QuickBooks for contractors to track all the costs and generate Simple Invoices which can then be input into QuickBooks Premier Contractor Edition.
2. The Chart of Accounts is usually focused Goods Sold Accounts (COGS) to allocate project costs.
3. The successful contractors use the Five Key Performance Indicators (KPI) to monitor the financial health of the business.
4. There are usually 500 to 2,500 Items setup to track all the costs of the construction process from beginning to end.
5. This is the **fourth most** difficult QuickBooks Premier Contractor Edition to setup because there is a mix of Direct, Indirect, COGS accounts.
6. The day to day input is also the third most difficult and to be done properly requires accounting staff with specialized training in construction accounting.
7. Our experience has been this group generates a very stable income because they are not as sensitive to the ups and downs of the new construction market.
8. It is unfortunate that we do see the vast majority of them unable to reach their full potential because there is no overall strategy including a Business Plan for Contractors.
9. And of course Cheap Bookkeeping is the one area where short term savings is overwhelmed by making bad decisions based upon inaccurate QuickBooks for contractors reports.

A lot of information was covered in a short space and believe it or not I actually condensed it down to the most important points. If you are a contractor I sincerely encourage you to contact us about QuickBooks setup, QuickBooks cleanup, QuickBooks catch up and general contractor bookkeeping services. You will be glad you did!

Profitable Construction - Companies have known about the value of outsourced bookkeeping services for a long time and now you know about it too!

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