



Calculating Costs and the Value of a Construction Bookkeeping System

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Fast Easy Accounting

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Written by Randal DeHart

Owning a construction business means you understand that bookkeeping is just one of those mundane, nasty, dirty, aggravating, grubby little chores you get stuck with along with its rotten scoundrel cousin the Monthly/Quarterly Tax Reports.

If you have employees - look out! On top of everything else you have payroll to process, in some cases, you may decide to provide cash advances to your employees to keep them focused on the job and not on personal issues, and finally there are all the Payroll Taxes you need to keep track of and file the reports for on a regular basis.

Smart Contractors know their time is more valuable spent meeting prospective clients, putting together bids, managing job sites, and a whole lot of other things other than bookkeeping. So, they find someone else to do it.

Just like there are skilled construction workers and clowns trying to pass themselves off as skilled workers, there are Professional Bookkeepers and Bad Bookkeepers.

You know how to tell if someone knows what they are doing in construction because you have been doing it a while.

Any bookkeeping and accounting firm that does not know how to calculate complex algorithms that take into account fluctuations in the workload and generate a monthly fee that is fair to you needs to go back to school and take those courses on Decision Modeling, Statistical Analysis, and Business Process Management.

All Professional Construction Bookkeeping and Accounting Services have formulas for calculating fee structures. It is not

rocket science, but it does take a deep understanding of accounting:

1. How many employees do you have? From that, we know how much time and effort it will require to process payroll and do the tax reports.
2. What type of construction do you do? New, remodel, service, residential, commercial? From the number of employees and the kind of work you do, we know how much time and effort it will require to do all the bookkeeping, bank and vendor reconciliations, and the rest.

Many of you begin with the thought: I am just a contractor. I don't want to be the business owner. I just want to do the work. That is what is important. Yes, doing the work is important. Keeping track of your hard costs, soft costs, general expenses, and overhead is the difference between making a profit or having a loss.

Ignoring the costs do not make them go away; it just avoids putting them on the tax return. Any missed expenses make your profit on the job look higher than it really is and causes you to pay more income taxes because all net profit is taxable.

All businesses need to keep track of their company expenses, including the material and much more. Contractors usually go from one extreme (doing nothing) to the other (trying to count every bean, every paperclip, all the nails and, the scraps of 2x4's). The balance is somewhere in the middle.

Construction Company Owners Like You Need A Working Knowledge Of Business To Become Successful

- Customer Invoice Tracking - Knowing Who Owes You Money And How Much

A proper Construction Contractor Bookkeeping System is set up to create a Customer Invoice - receives payment. Seeing the balance if anything is owed. Accounts Receivable Aging Report is one of the reports banks look at before giving you a business loan.

Bankers want to know what is your volume (sales), what have you collected (customer payments), and how much do customers still owe you, and finally how long does it take you to collect. In some industries 30-60 days is standard.

- Accounts Payable is keeping track of the bills owed to a supplier or subcontractor

A proper Construction Contractor Bookkeeping System uses the Accounts Payable feature to track the unpaid bills. Again, the banker wants to know how long it takes to pay your bills. The bank wants to get paid, and unlike the contractor who is embarrassed to call an old customer, the bank is very willing to call early and often for any outstanding payments due.

Another reason to keep a proper Construction Contractor Bookkeeping System is to be sure you did not overpay a supplier or subcontractor, cell phone, the internet, liability insurance, vehicle insurance, and more.

The bills keep coming and depending on your payment schedule; you may receive the past due to reminder notice before the original bill has arrived. Some utility companies have a history of what appears to be randomly sending the original bill.

When you did not immediately pay the invoice, some insurance companies will mark this as late and subject you to a late charge. Based on where the Out of State payment needs to be mailed to, it may be impossible to send (by regular mail) and be received on time.

Hence – Online Payments Accepted. The benefit to The Contractor is proof the payment was made with a time and date stamp (Print) and usually an auto-generated email as backup confirmation that the payment was made.

Overpaying Sub Contractors can quickly happen if checks are written on the job site. When using handwritten checks, be sure to use "Carbon-less Checks" to have a written record of payments made. The payments than can be added to the Bookkeeping System without waiting for them to clear.

The Value Of A Proper Bookkeeping System

- Bankers like the reports from a Formal Bookkeeping System (QuickBooks for Example)

It is easy to understand the report. Bankers can usually tell if the numbers are off because there are missing transactions, no enough income, too many expenses.

Contractors who do their own bookkeeping and are sometimes "Just Lost" depending on the banker they use. Whether or not you get the loan or line of credit, you are after depends heavily on the way your Financial Reports are put together. The Net Result is that the Rates and Fees charged may be higher and Amount Loaned may be lower than expected!

- Local, State, and Federal Governments (IRS)

City governments can require their revenue reports and payment due to Monthly, Quarterly, Annually.

In Washington State, The Department of Revenue can make every contractor report and pay their Sales Tax Liability Monthly. For Companies with employees, Washington State Payroll taxes are due Quarterly.

The Internal Revenue Service wants the 941 Quarterly Payroll Reports filed Quarterly. If tax liability for the Quarter is over \$2500.00, then the payments are due Monthly. Larger companies have to pay their payroll tax liability at the time of each payroll. Reminder Estimated Tax Payments are due Quarterly.

In conclusion

The greatest obstacle to discovering the value of Construction Bookkeeping, which generates useful reports and being informed in time to seize opportunities and avoid disasters, is not ignorance, but the illusion of trying to save money doing it yourself or hiring cheap bookkeepers because proper bookkeeping like good construction is not cheap. Everyone fails now and then; goodness knows I have. But you don't have to take risks. Fast Easy Accounting offers bookkeeping solutions for you, outsource it, do-it-yourself, download the templates you need, and learn from our online courses, or schedule a consultation and training. You can always start over, rebuild, and go back into business again, a little older and a little wiser, and this time, you will know to seek wise counsel.

About The Author:

Randal DeHart, PMP, QPA **is** the co-founder of Business Consulting And Accounting in Lynnwood Washington. He is the leading expert in outsourced construction bookkeeping and accounting services for small construction companies across the USA. He is experienced as a Contractor, Project Management Professional, Construction Accountant, Intuit ProAdvisor, and QuickBooks For Contractors Expert. This combination of experience and skill sets provides a unique perspective that allows him to see the world through the eyes of a contractor, Project Manager, Accountant, and Construction Accountant. This quadruple understanding is what sets him apart from other Intuit ProAdvisors and accountants to the benefit of all of the construction contractors he serves across the USA.

Visit <http://www.fasteasyaccounting.com/randall-dehart/> to learn more.

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