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JOB COSTING: A GUIDE FOR CONSTRUCTION AND FIELD SERVICES

Learn How to Accurately Estimate Future Jobs

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INTRODUCTION

It's not uncommon for inaccurate job costing to result in financial pains. In fact, most companies' finances have been impacted by inaccurate job costing. According to attendees of our webinar, Job Costing: How It Impacts Your Bottom Line, the majority - 54 percent - said it sometimes did, and 33 percent said frequently. Only a small percentage - 13 percent - said rarely, and not one said never.

That's because construction job costing can vary, and it's tough to stay on top of going rates for the work you do, if you don't have accurate data. This, in turn, leads to under- or overbidding jobs, both of which cost you money either by going over budget or by losing bids.

If you own a construction or field service company, you have to know what job costing is and how to get it right.

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WHAT IS JOB COSTING?

Job costing involves having systems in place that help you determine what your actual costs are to ensure you're making money. It is the process of monitoring your costs for each job or project and keeping track of those costs.

Job Costing - when done properly - helps owners and managers to keep an ongoing record of costs associated with a job and also to identify problems early before they get out of control.

WHAT IS INCLUDED IN JOB COSTING?

There are direct and indirect costs associated with job costing. Experts explain that there are three types of construction costs that fall under one of two categories: Direct or indirect costs.

FIXED COSTS

These costs include expenses for a specific point in time, such as equipment or facility rental.

TIME-RELATED COSTS

Determined by the amount of time spent on a project or activity.

QUANTITY-PROPORTIONAL COSTS

Applies to expenses such as materials costs.

They say project overhead costs account for five to 15 percent of the total project cost and general overhead costs account for two to five percent. According to Carnegie Mellon University, costs associated with construction projects include:

- Planning and feasibility studies
- Architectural and engineering design
- Construction, including materials, equipment and labor
- Field supervision of construction
- Construction financing
- Insurance and taxes during construction
- Owner's general office overhead
- Equipment and furnishings not included in construction
- Inspection and testing

Accurate job costing reports are critical to staying profitable, so it is important to ensure you're getting the right data and getting it regularly. It is important to track costs on each individual project as well, since costs can vary from job to job.

WHO USES JOB COSTING?

Job order costing is unique to certain industries that have variable costs for different products or services. These industries include:

CONSTRUCTION AND TRADES
Because projects vary wildly in the construction space, contractors and construction company owners need to track costs closely, to be sure to stay within budget and to ensure future bids are profitable.

MANUFACTURING
Manufacturers need to use job costing to control the usage of raw materials, production equipment, and labor hours, which can vary depending on the supply chain.

WHITE COLLAR ORGANIZATIONS
Whether it's a law firm, accounting firm, or investment management firm, each customer/client is different and, thus, considered a "project" or job which will vary depending on the types of services being offered. These types of businesses calculate job costs daily to determine how much money they bring in each day versus the costs associated with job activities.

MEDICAL SERVICES
Hospitals, clinics, and specialty care services will also have variable costs and each patient will have different costs associated with the treatment(s) they receive. Tracking each job cost (patient) helps them track their profitability.

RETAIL COMPANIES
Retailers like, for example, clothing stores, need to track different types of clothing and determine the profitability (or cost) of carrying certain styles, types, colors, etc. to make sure they are providing profitable products.

ENTERTAINMENT INDUSTRY
Film makers, for example, need to track things like actor salaries, props, crew wages, etc. which will vary, depending on the budget of the film.
Job costing helps each of these industries in different ways but ultimately, to determine the cost of each individual project or client.

WHEN SHOULD JOB COSTING BE DONE?

Ideally, your job costing should be done throughout the process of a job or project. According to our poll of webinar attendees, the majority (33 percent) reported they completed their job costing at the end of a project. However, this can result in inaccurate information. 21 percent said they do their job costing monthly followed by 19 percent doing it daily, and 17 percent, weekly.

As research has shown, our memories are not always as accurate as we like to believe and relying on memory to manage and track job costs is likely costing you money. While most of our attendees - 26 percent - reported they use technology to track job costs, a very close second was spreadsheets at 21 percent and there are still those who rely on paper (seven percent) or memory (three percent).

JOB COSTING VS. PROCESS COSTING

Job costing and process costing are similar. In simplest terms, job costing is a means of quantifying all of the individual costs required to deliver a particular project, like a specific contract to renovate a kitchen or build a deck.

Process costing breaks down costs over a specific time frame. It's how companies assign the costs associated with projects - usually monthly - and use that to calculate a unit cost.

Job order costing vs process costing: Job costing requires you to tally all the material, labor, and overhead costs associated with a particular project. Process costing requires you to add all operating costs for consistent, large-scale, similar projects over time.

COMMON ROADBLOCKS IN JOB COSTING

While job costing is a necessity in construction and field service industries, it's not always a pleasant task. It's often either overlooked, forgotten, or done incorrectly.

AVERSION TO TECHNOLOGY
The number two reason on Forbes' top 10 reasons people leave their jobs is because they don't have the right tools or equipment to get the job done.

Today's construction companies need to embrace technology. Research from McKinsey & Company found this to be one of seven important areas that are reshaping the industry and boosting productivity by as much as 60 percent.

Having the right tools to collect job costing data will make the job easier and far more accurate and technology is one of those tools that you need to get it done right.

There are many options available - from Computer-Aided Design (CAD) and Building Information Monitoring (BIM) to 3D printing and drones - technology can feel overwhelming. In fact, as technology advances, older generations are more and more distanced from embracing it. Technophobia is a term used to describe an irrational fear of technology which leads to people avoiding it altogether.

But adopting technology for your job costing does not have to be complicated or difficult. Start small and learn from others. Talk to peers or experts who are familiar with different technologies to determine which would be the best fit for you.

COLLECTING RECEIPTS FROM WORKERS
When you have workers in the field, it is challenging to have them collect and turn in receipts for materials or other expenses. From damaged or illegible receipts to

lost and forgotten receipts, many administrators are unable to accurately record how much is truly spent on a job.

This is another issue that can be remedied with the use of technology. Notes, photos, attachments, or messages shared through a digital platform removes the need for collecting and sharing paperwork that, on a jobsite, might otherwise get lost.

Being able to apply specific amounts to specific jobs, makes job order costing more accurate and less painful. A system that provides your workers with the option to snap a photo of a receipt and attach it to a specific job will make their jobs easier, too.

THE TIME IT TAKES
Manually entering job costing information takes a lot of time. This can become overwhelming and when we're overloaded at work, the effects can range from forgetfulness to cognitive fatigue, according to Harvard Business Review.

It's frustrating to be stuck with stacks of paperwork you need to enter manually which sometimes leads to procrastinating on the task. And even when you decide to undertake the task of manual entry, the boredom and frustration can lead to errors.

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STEPS TO IMPROVE YOUR JOB COSTING

Job costing doesn't need to be inaccurate or difficult. There are steps you can take to improve the process and ensure you're profitable.

TRACK FINANCIALS
Start with getting your profit and loss statements up-to-date and accurate. You have to get everything to a point where you can look at your P&L and know for certain that the numbers are correct.

GET ACCOUNTING SOFTWARE

While you may be using spreadsheets to record data, it's not as reliable or easy as accounting software. With an accounting software, you can look back on the purchases made and get started with job costing. Many software options will also integrate with others, making many of your processes easier, faster, and more accurate.

GET EVERYONE ON BOARD

Your employees and supervisors should understand the importance of accurate job costing and how it affects the company. When you have multiple jobsites and/or crews, it makes collecting data even more challenging but make sure to educate them on what data they need to submit, how to submit it, and when to do it. Ensure they have the right tools and processes to do it correctly and on time.

DEVELOP PROCESSES FOR SUBS AND VENDORS

When projects involve hiring subcontractors, you need a process in place that allows them to communicate effectively and share important data. Similarly, vendors involved in a project should have a consistent process that helps simplify the way you track purchases and keep records.
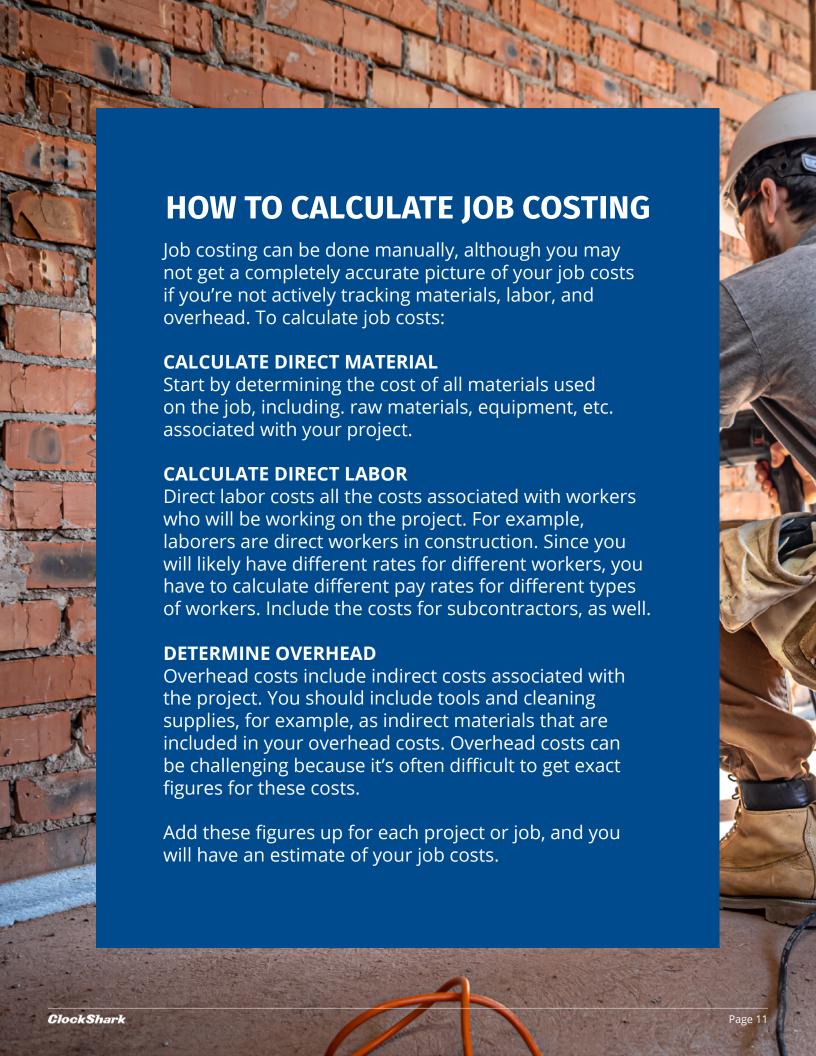
INVEST IN TECHNOLOGY

Technology is evolving rapidly and in the construction and field service industries, new technology is making jobs easier. From mobile time tracking to remote working for office personnel, technology saves companies time and money.

Determine where you are losing time and money without technology and research solutions to help free up some of that time. Once you begin small and become familiar with the process, you'll be more comfortable adopting another technology to further increase productivity and profits.

Any time you invest in something, do your due diligence to ensure you're using a product with high standards and high customer satisfaction. This is particularly true for new technology which can be intimidating. Be sure whichever solutions you choose, the customer support is available and reliable to help you through any glitches.

HOW TO CALCULATE JOB COSTING

Job costing can be done manually, although you may not get a completely accurate picture of your job costs if you're not actively tracking materials, labor, and overhead. To calculate job costs:

CALCULATE DIRECT MATERIAL
Start by determining the cost of all materials used on the job, including. raw materials, equipment, etc. associated with your project.

CALCULATE DIRECT LABOR
Direct labor costs all the costs associated with workers who will be working on the project. For example, laborers are direct workers in construction. Since you will likely have different rates for different workers, you have to calculate different pay rates for different types of workers. Include the costs for subcontractors, as well.

DETERMINE OVERHEAD
Overhead costs include indirect costs associated with the project. You should include tools and cleaning supplies, for example, as indirect materials that are included in your overhead costs. Overhead costs can be challenging because it's often difficult to get exact figures for these costs.

Add these figures up for each project or job, and you will have an estimate of your job costs.

BENEFITS OF JOB COSTING SOFTWARE

Job cost tracking is an essential part of any construction or trade business but, as with any accounting process, accuracy is crucial. When you're doing your job costing manually, there are a lot of risks but there are multiple benefits to using software to get your job costing done right.

1. **ACCURATE JOB COSTS**
   When using a job costing software, you can record your costs throughout the lifespan on the project, even when expenses and income fluctuate. You won't have to guess what something might cost because you'll have it all calculated automatically.

2. **ELIMINATES HUMAN ERROR**
   Human error happens, no matter how accurate you try to be. With job costing software, the risk of human error is mitigated so you can be sure your job costs are accurate.

3. **BETTER SCHEDULING**
   When using job costing software, you can keep track of the hours worked by your crews and subs, making it easier to schedule different tasks or jobs for each employee.
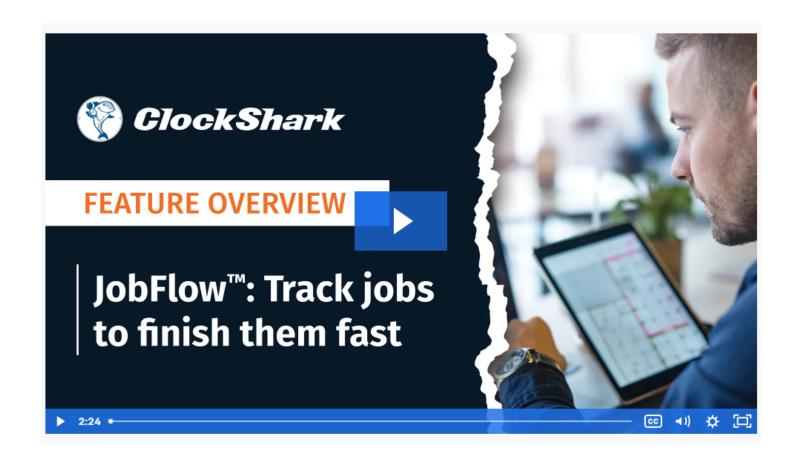
4. **REPORTS**
   With job costing software, you're able to run reports that provide you with a clear picture of each cost on a project. These can also serve to provide transparency to your customers and stakeholders which helps strengthen your relationships with them, and improve trust.

5. **BETTER ESTIMATES**
   When bidding on a job, accurate job costing is essential. Job costing software allows you to review previous jobs so you can provide more accurate - and profitable - estimates in the future.

CONCLUSION

Job Costing is a crucial part of running a successful and profitable business. It is sometimes mistakenly believed that this process is for large or mid-sized companies but even small businesses benefit from accurate job costing. If you don't know how much you're spending on your projects, you can't accurately estimate future jobs or even be sure you're making as much as you should be.

Investing time and money into developing a solid job costing process will make your company more profitable and more competitive in the future.