JOB COSTING

Why job costing and profitability matter

Most owners know whether the company made money last year. Far fewer know which jobs made it.

One bottom line hides a lot

A profit and loss statement shows the total. It can hide the fact that a few jobs earn most of the profit while others barely break even or lose money. Here are two jobs with the same revenue.

JOB	REVENUE	DIRECT COSTS	GROSS PROFIT	MARGIN
Job A	$100,000	$72,000	$28,000	28.0%
Job B	$100,000	$91,000	$9,000	9.0%
Both jobs	**$200,000**	**$163,000**	**$37,000**	**18.5%**

Illustration only, not client data. Margin is gross profit divided by revenue: $37,000 / $200,000 = 18.5%.

On the P&L, both jobs disappear into one 18.5% margin. Job B earned about a third of what Job A did ($9,000 against $28,000) for the same amount of work sold. Without job costing, you would bid the next Job B the same way.

What job costing is

Job costing means recording revenue and every direct cost against the job that caused it, then comparing the actual result to your estimate. A "job" can be a construction project, a client engagement, a service line, or a location.

Costs that belong on the job

- ✓ Labor hours, at full cost
- ✓ Materials and supplies
- ✓ Subcontractors
- ✓ Equipment, permits, and fees

What "full cost" of labor means

Wages are only part of it. Payroll taxes, workers' compensation, and benefits belong in the labor rate too. Leaving them out makes every job look more profitable than it is.

What it lets you do

- ✓ **Bid with real numbers.** Price new work from what past jobs cost, not from gut feel or a competitor's price.
- ✓ **Catch overruns early.** See a job going over while it is still open and you can still do something about it.
- ✓ **Know what earns its keep.** Compare margin by customer, service, crew, or location.
- ✓ **Bill what you are owed.** Change orders and extras show up as cost with no matching revenue.
- ✓ **Answer your banker.** Lenders and bonding companies often ask for job-level numbers, such as a work-in-progress schedule.

Five signs you need it

- ✓ You are busy, but cash is tight.
- ✓ Bids are set by gut or by matching competitors.
- ✓ You cannot say which job lost money last quarter.
- ✓ Labor hours are not recorded by job.
- ✓ Estimates are never compared to actual results.

How to start

1. Set up every job in your accounting system.
2. Code every bill, expense, and timesheet to a job when it is entered.
3. Use a full labor rate, not wages alone.
4. Review estimate against actual every month, while jobs are still open.
5. Feed what you learn into the next bid.

How we help

We set up job costing in your books and build job profitability into the reporting dashboard every client gets, so you see margin by job each month. For one client, understanding their margins and projecting cash flow became the basis of a strategic plan to open a new location.

Want us to look at your numbers?

Our discovery review is free, and the written findings are yours to keep. Start at **regaliahillsconsulting.com** or email **john@regaliahillsconsulting.com**.

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