Servicing construction clients: Top tricks to help you own this niche

20 Essential tips and tricks

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Construction Industry Specialist
Agenda

Terminology, Tips & Tricks
Types of Contractors
Accounting Methods for Contractors
Resources for Learning More
Tip #1 – Job costing

Single most important ‘basic’ term for the construction niche

If you’re a home builder, job costs are whatever it costs you to build a home

Including…
Labor
Materials
Subcontractors
Equipment rental
Other job related cost
Tip #3 LMSEO
Also know as direct costs or field costs

- Labor
- Materials
- Subcontractors
- Equipment rental
- Other job related cost
<table>
<thead>
<tr>
<th></th>
<th>ACTUAL</th>
<th>BUDGET</th>
<th>OVER BUDGET</th>
<th>% OF BUDGET</th>
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<tr>
<td><strong>Income</strong></td>
<td></td>
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<tr>
<td>4110 Construction Income</td>
<td>67,280.00</td>
<td>75,000.00</td>
<td>-7,720.00</td>
<td>89.71%</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>67,280.00</td>
<td>75,000.00</td>
<td>-7,720.00</td>
<td>89.71%</td>
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<tr>
<td><strong>Cost of Goods Sold</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5000 Job Related Materials &amp; Supplies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5101 Plans &amp; Permits</td>
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<tr>
<td>5101.1 Plans</td>
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<td>0.00</td>
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<td>32,465.00</td>
<td>-9,362.18</td>
<td>71.16%</td>
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<tr>
<td><strong>Total Cost of Goods Sold</strong></td>
<td>23,102.82</td>
<td>32,465.00</td>
<td>-9,362.18</td>
<td>71.16%</td>
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<tr>
<td><strong>GROSS PROFIT</strong></td>
<td>44,177.18</td>
<td>42,535.00</td>
<td>1,642.18</td>
<td>103.86%</td>
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<tr>
<td><strong>Expenses</strong></td>
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<tr>
<td>Total Expenses</td>
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<td>0.00</td>
<td>0.00</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>NET OPERATING INCOME</strong></td>
<td>44,177.18</td>
<td>42,535.00</td>
<td>1,642.18</td>
<td>103.86%</td>
</tr>
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</tr>
</tbody>
</table>
Tip #5 Job phases/tasks

Although QuickBooks Online uses the name Product/Service, you should think of them as job phases, like:

- Plans & Permits
- Site Work
- Excavation
- Concrete
- Masonry
- Plumbing
- Insulation
- Painting
- etc.
## Courtney’s Construction

### PRODUCT/SERVICE LIST

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<thead>
<tr>
<th>PRODUCT/SERVICE</th>
<th>TYPE</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
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<td>Plans &amp; Permits</td>
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<td>02 Site Work</td>
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<tr>
<td>03 Excavation &amp; Grading</td>
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<td>04 Concrete</td>
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<td>05 Masonry</td>
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<td>06 Framing</td>
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<td>Framing</td>
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<tr>
<td>07 Roof Flashing</td>
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<td>Roof Flashing</td>
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<tr>
<td>08 Exterior Trim &amp; Decks</td>
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<tr>
<td>09 Siding</td>
<td>Service</td>
<td>Siding</td>
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<tr>
<td>10 Doors &amp; Trim</td>
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<td>11 Windows &amp; Trim</td>
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<td>12 Plumbing</td>
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<td>13 Heating &amp; Cooling</td>
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<td>15 Insulation</td>
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<td>17 Ceiling Coverings</td>
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<td>20 Specialties</td>
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<td>21 Floor Covering</td>
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<td>22 Painting</td>
<td>Service</td>
<td>Painting</td>
</tr>
<tr>
<td>23 Clean Up &amp; Restoration</td>
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<td>24 Landscape &amp; Paving</td>
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<tr>
<td>27 Supervision</td>
<td>Service</td>
<td>Supervision</td>
</tr>
</tbody>
</table>
Job phases/tasks

QuickBooks Online tips:

• Using QuickBooks Products/Service, you can break any job into measurable, trackable units.

• An important thing to understand about items is that they link to the Chart of Accounts.

• When you set up a job cost item, link it to both a job-related cost account, like Job Related Costs, and an income account, like Construction Income.
Tip #6 Customers

In the construction industry a customer is the entity that pays the contractor.
Tip #6 Jobs or projects

• If you are doing a remodel for Mark and Beth Woodruff, they would be your customer and the project would be Kitchen Remodel.

• It is important to understand that a customer can have more than one project. For example, Mark and Beth Woodruff might come back in a couple of years and ask the contractor to build a cottage for them.

• QBO TIP: Use the Project in QBO instead of sub customer.
Tip #7 Job key

The job key helps a contractors keep track of projects in an organized fashion.

- D is short for design
- R for remodel
- S for spec
- C for commercial.

This type of job identifier helps you quickly get a visual of projects sorted by time and stage.
Tip #8 Billing schedule

A billing schedule is created to help you invoice a job when a certain milestone is reached.
Billing schedule

Milestone List Example

• Milestone #1: 10% due at signing of contract
• Milestone #2: 10% due at the start of demo
• Milestone #3: 10% due when cabinets and countertops are ordered
• Milestone #3: 20% due at start of rough plumbing
• Milestone #4: 20% due at the start of rough electrical
• Milestone #5: 10% due when cabinets are delivered
• Milestone #6: 20% due at the start of flooring installation
Tip #9 Worker’s Compensation Insurance

A contractor is required to carry this to cover work-related injuries for all employees, both in the field and in the office. They are also required to provide it for subcontractors that do not have their own worker’s compensation insurance.

Three basic things to know about worker’s comp:

• Each state requires you to have worker’s comp coverage for all employees.

• You have to pay worker’s comp for regular pay, as well as sick, vacation, and holiday pay, and on any bonuses and commissions paid.

• You are required to pay worker’s comp for any subcontractor that does not have their own coverage.
Tip #10 General Liability Insurance

General liability insurance provides liability insurance for broad types of business risks.
#11 – Types of contractors
Remodel contractor

Bathroom
Kitchen
Whole House
or
Kitchen & Bath
The term “spec” is short for speculative investment. A spec home builder is a contractor that is taking on the risk and rewards for the project. In other words, the builder buys a lot and builds a home with no particular buyer in mind. At some point the home will go up for sale and it is speculated that the home will sell at a profit.

Spec home builders need an accounting system that is able to hold lot purchases and jobs costs to date, called Work in Process, in an asset account. In this video, we’ll show you how to account properly for spec home costs.
Commercial contractor

Larger jobs, smaller margins and generally require more accounting oversight.

- Apartment Buildings
- Commercial Buildings
- Excavators
  - Bonding Reports
  - Reviewed Financials annually
  - Equipment costing
  - Some inventory

Not a good place to start.
Specialty contractor

A specialty contractor specializes in a certain field in the construction industry.

Examples:
- Roofing
- Electrical
- Plumbing
- Painting
- Framing
Tip #12 Subcontractors

Requirements:

- Required to collect a W-9
- Collect worker’s comp certificates
- And general liability certificates
- Be a legal subcontractor
  - Own their own tools
  - Give a bid/proposal
  - Have a license and business set up
  - Set their own hours
  - Work for other contractors
QuickBooks automatically tracks 1099-related payments if subcontractors are designated as eligible for a 1099, so don’t forget to check that box!

At the end of the year, QuickBooks will generate a report listing those vendors meeting the $600 threshold and prints your 1099-MISC forms.
Tip #14 Material suppliers

A material supplier distributes goods and services to an organization, also known as a vendor in QuickBooks.
Tip 15% of completion method

- This method only affects how your income is computed and reported.

- When you use this method, all G&A and job costs are deducted using the accrual method of accounting.

- You will report some income in each year of a long-term contract.

### Advantage 1
Most accurate way to measure income.

### Advantage 2
This method evens out the reporting of income over the life of the contract.

### Advantage 3
Losses may be recognized based on the percentage of the contract completed.

### Advantage 4
Preferred by most banks and bonding companies.
Tip # 16 Over/under billings

- Used to calculate the % complete on each project that is in process at the end of each month.

- Some jobs might be over billed and some are under billed.

- Spreadsheet
Tip # 17 Work in process

- Term WIP – current asset account

- You will use this account to track all of the costs to build the spec home, as well as land improvements, such as concrete work, irrigation system, landscaping, plans & permits, and all construction costs.

- Spec Home Builders can’t expense the costs related to a spec home until the home is sold so you will need to know how to move costs from a Job Related Costs account to a Spec Home WIP account once a month.
Tip #18 Completed contract method

Advantages

• The completed contract method normally achieves the maximum deferral of taxes.

Disadvantages

• The books do not show clear information of operations.
• Income can be bunched into a year when a lot of jobs are completed.
• Losses on contracts are not deductible until the contracts are completed.

It is important to note that the completed contract method may only be used by small contractors and spec home builders.
Tip #19 Cash method of accounting

**Advantages**
- Cash Flow

**Disadvantages**
- Not accurate
- Will make P & L swing from month to month
- If you collect money up front you are required to pay taxes on that money
Tip # 20 Resources for learning more

Construction Trade Shows/NARI/NAHB

- Construction Trade Shows
- National Association of the Remodeling Industry (NARI)
- National Association of Home Builders (NAHB)
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