knowify

Job costing 201

Level up your process for more profit

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01

What is job costing? Why should I care?

Job costing is the process of **tracking and assigning costs to specific jobs**.

It allows subcontractors to **measure** *the* **profitability** of a project, find areas of improvement, and **make informed business decisions**.

Job costing starts with identifying your project costs and tracking them accurately

Direct costs

Costs directly related to completing a project:

- Materials
- Labor
- Subcontractors
- Equipment
- Misc

Indirect costs

Costs that aren’t related to a specific project but necessary for your business to function properly:

- Office rent
- Insurance
- Admin staff pay
- Marketing / Sales expenses

Why is accurate cost tracking important?

Improved profitability and decision making

- Gets you a clear picture of each project's profitability.
- Allows you to make data-driven decisions related to pricing, resource allocation, and future job selection.

Improved efficiency throughout the business

- Helps you identify the project phases, departments, employees, and processes that can clearly improve. This includes productivity and cost control.

Healthier project performance now and in the future

- Tracking costs in real-time allows you to be proactive and avoid cost overruns before they happen.
- Historical data helps you prepare competitive bids, set realistic prices, and avoid unprofitable jobs.

What about overhead?

Unlike direct costs, overhead and other indirect costs are difficult to track:

- Not easily attributable to a specific project.
- Hard to allocate them fairly.
- Seasonal fluctuations in business influence the impact overhead can have on profitability.

What's the solution?

- To get an accurate picture of project profitability, exclude overhead from job costing calculations.
- Track overhead costs separately and use them to understand the margin you need per job. This allows you to markup a job to cover both profit and overhead.

02

Developing a job costing system

Creating your own job costing system

Manual

Relies on paper records, spreadsheets, and manual calculations to track actual costs against budgeted costs.

PROS – Low cost and simple to set up.
CONS – Tedious, error prone, and limited access.

Software

Dedicated job costing and construction accounting software automates data collection and cost tracking, while integrating with other tools to make that data useful across the business.

PROS – More accurate and efficient, accessible from anywhere, data is backed up to prevent loss.
CONS – Requires setup time and either an upfront investment or recurring subscription fee.

Key considerations

Regardless of the tools you use for job costing, you'll want your system to meet these criteria:

Accuracy

Job costing is only valuable if the data you're collecting is accurate.

Speed

You can't be proactive if you're not able to track and compare costs vs. budgets in real-time.

Ease of use

Your team isn't going to use a tool or system if it's unnecessarily complicated or time consuming.

Collaborative

Job costing is a shared responsibility that delivers value across your company.

03

Implementing a job costing system

Job costing can be as simple or as complex as your project dictates

Three step process that gives you plenty of opportunity for customization on a per project basis:

1. Setup your project with a defined scope, project plan, and project budget.
2. Track costs **as a part of project execution.**
3. Analyze actual costs vs. budgeted costs to identify areas of improvement.

Setting up your project (1)

Start by creating a unique job identifier for each project.

Key considerations for creating unique job identifiers (JID):

Project information

Incorporate relevant project details into the JID, such as project name, client name, location, and project type. This enhances the JID's informational value and facilitates easy identification.

Uniqueness

Ensure that each JID is unique and cannot be duplicated. This prevents confusion and ensures that costs are accurately assigned to the correct project.

Consistency

Develop a standardized format for JIDs and apply it consistently across all projects. This promotes uniformity and simplifies data management.

Setting up your project (2)

Benefits of unique job identifiers:

- **Accurate cost tracking**

  Unique JIDs facilitate accurate tracking of direct materials, direct labor, and overhead costs associated with each project.
- **Simplified reporting**

  Unique JIDs streamline the generation of project cost reports, providing valuable insights into project profitability and financial performance.

Example ways to create JIDs

Sequential numbering

Assign a sequential number to each project, such as JID-001, JID-002, and so on. This method is simple and effective for smaller organizations.

Alphanumeric codes

Combine alphabetic characters with sequential numbers to create more descriptive JIDs. For instance, JID-CAR-001 could represent Carpentry Project 001.

Project-specific codes

Utilize a combination of project name initials, client initials, and a sequential number. For example, JID-XYZ-LMN-005 could represent Project XYZ for Client LMN, Project 005.

Project management software integration

Utilize project management software that generates and manages unique JIDs for each project. This streamlines the JID creation process and ensures integration with other project data.

Define the project scope and your specific deliverables

Work closely with the GC and/or project owner to get clear alignment on requirements and expectations:

- **Review key project documents.** If these aren't readily available it's a bad sign. Get ahead of this.
- **Use RFIs.** Don't be afraid to submit an RFI to clear up questions and get answers in writing from stakeholders.
- **Perform site visits.** Getting eyes on the situation is one of the most effective ways to prevent confusion.
- **Build your own library of project documentation.** Take photos, make notes, and save documents. Organize this by project. Project management software can help.
- **Collaborate.** When in doubt, directly communicate with the GC, project manager, project owner, etc. Working together can head off disputes before they happen. The work you do now will pay off during execution.

Tools for defining the project scope

Contract documents

Contract agreement

Scope of work

Drawings and specifications

Project management documents

Project schedule

Project budget

Communication and meeting notes

Meeting minutes or agendas

Emails and correspondence

Site visits and inspections

Site visits documentation (videos are great for this)

RFI (Request for Information) logs

Industry standards and references

Building codes and regulations

Industry best practices

Develop a project plan

Use the work done to define the scope and deliverables for your part of the project to create a project plan.

Break down the project scope

- Divide the project into smaller, manageable tasks and subtasks.
- These should be grouped by phases.
- This helps you identify dependencies and sequence tasks logically.

Estimate time and resources

- Allocate the required time and resources (labor, equipment, materials) for each task within each phase.
- Use historical data if you have it or industry benchmarks if you don’t.

Use your project plan to create a detailed budget (1)

For each phase and task, determine your direct costs. Include markup to cover your desired margin and overhead costs.

Direct materials

- Estimate the quantity and cost of all materials required for each task.
- Get as detailed as you can by including any procurement costs, delivery fees, and potential waste.

Direct labor

- Calculate the labor hours needed for each task based on skill level and estimated productivity rates.
- Factor in the full labor burden by including wages, benefits, overtime, and any other burden costs (company equipment, training, etc.).

Use your project plan to create a detailed budget (2)

Subcontractor costs

- For tasks you can’t perform yourself, hire subcontractors.
- For other situations, run an analysis to determine whether or not a subcontractor can perform the task cheaper, better, faster than you can.

Equipment costs

- Use a standardized hourly rate that includes markup for each piece of equipment to set a budget cost.
- Similar to labor and material costs, track equipment costs by project phase.

Contingency

- Include a buffer in your budget to account for unforeseen events or unavoidable cost overruns.

Create your project schedule

Identify dependencies

- Use the project plan to determine dependencies between tasks.
- Certain tasks cannot start before others are completed.

Estimate task durations

- Based on resources and labor estimates, assign realistic durations to each task.
- Consider factors like weather, holidays, and potential delays.
- It’s a good idea to bake in extra time for unforeseen situations.

Use scheduling tools

- Use project management software or manually build gantt charts in Excel to visualize the project schedule, monitor dependencies, and track progress.
- Consider software that covers job costing and project management to streamline processes.

Tracking materials

The most foolproof way to track materials costs is through purchase orders.

Create a PO for each material purchase

Generate a unique PO for each material purchase, clearly outlining the required quantity, description, unit price, and delivery date.

Include cost breakdown

Specify the landed cost in the PO, including material cost, freight, taxes, and other relevant expenses.

Assign project codes

Utilize your PID on each PO to ensure accurate allocation of material costs to the appropriate project.

Maintain order accuracy

Verify the accuracy of PO details, including pricing and delivery specifications, before finalizing the order.

TIP – Job costing software will allow you to generate POs based on your project plan to save you time and ensure accuracy. As orders are fulfilled, your cost data should update and show where you stand relative to your project budget.

Tracking labor

Labor often accounts for 40-50% of a project's cost. Tracking it diligently is a powerful way to keep projects profitable.

Use standardized timesheets

Include details like, employee information, project codes, start/end times, break times, and tasks worked on.

Use digital timesheets and time tracking tools

These simplify data collection and include features like GPS geofencing to keep your team honest about where and when they're clocking in.

Review payroll data regularly

Look for trends like variances between actual and budgeted costs, unproductive teams, and the impact of overtime/bonuses on financials.

Track labor burden

Hourly rates only show part of the picture. You need to calculate and track the full labor burden for each employee. If you don't do this, you'll have inaccurate labor data, which can make unprofitable projects look profitable.

Train your team

Educate your team on the importance of accurate labor data and be transparent about the negative impact of bad labor data. Nip potential issues in the bud as quickly as you can.

Tracking equipment costs

Detailed tracking and analysis is the key to managing equipment costs.

Use a recordkeeping system

Whether software based or a manual spreadsheet, recording ownership costs, leasing costs, and operating costs is an important first step to understand the impact of equipment on project financials.

Monitor usage

Manual logs that track employee usage by hours are a great low-investment way to understand usage per piece. There are also telematics systems that monitor usage in real-time for more sophisticated operations with large fleets.

Calculate the total cost of ownership

Based on the data you've collected and standard benchmarks, you can calculate the TCO for each piece of equipment. With this information, you can create hourly rates that include markup that ensure your equipment usage contributes to project profitability, not detracts from it.

Tracking subcontractor costs

While not needed on every project, subcontractors can help you tackle bigger projects, growing your business, as long as you track costs diligently.

Get organized upfront

Like yourself, every subcontractor should have a clear scope of work as well as agreed upon payment milestones. Require detailed cost breakdowns covering labor, materials, equipment, etc.

Tracking

The level of detail you use is up to you, but progress reports covering completed work, outstanding work, and cost data are a good starting point.

Use change orders

Require changes orders and keep detailed records for any change in scope. These changes will clearly impact project costs and timelines, as well as your relationship with the GC/project owner.

Payment

Review all invoices in detail and make sure they align with the scope of work and/or approved change orders. As the project closes out, reconcile costs against your agreement to guarantee fair payment.

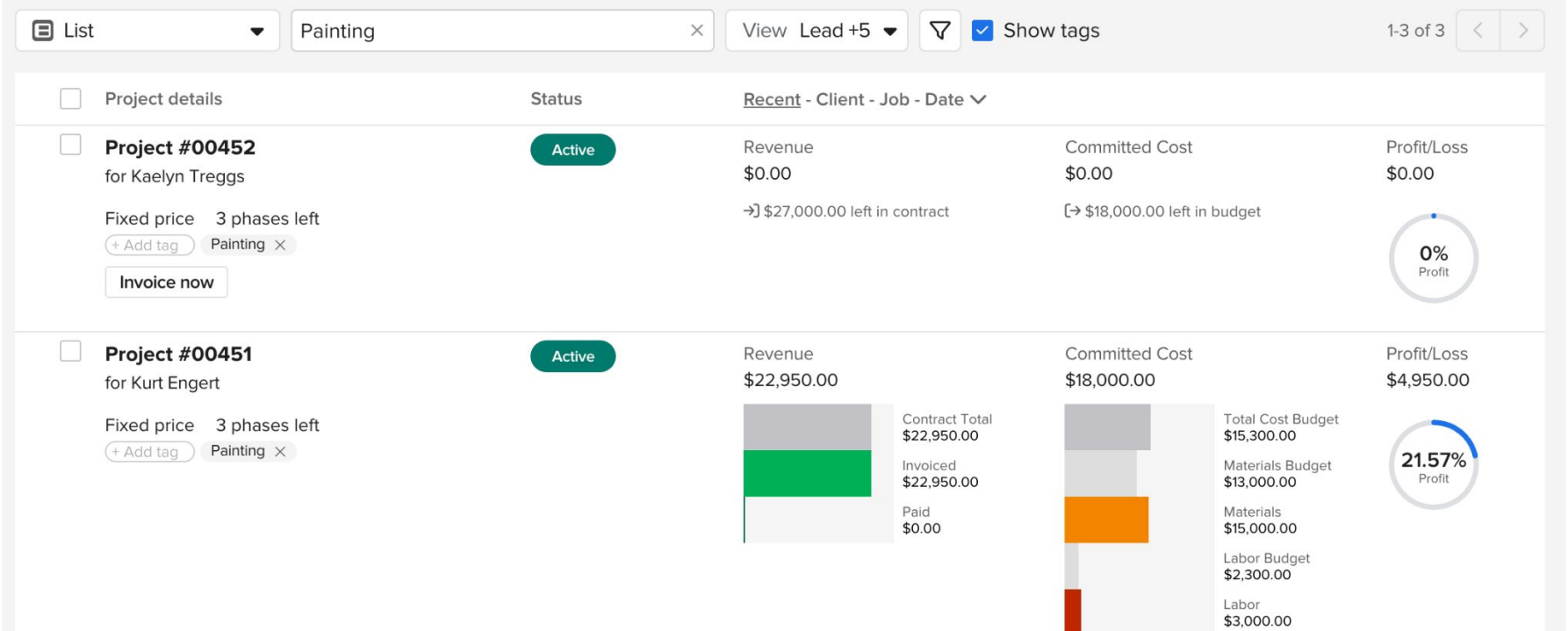
04

Learning from job costing

Better understand cash flow and set business goals

- A phase-based budget and informed project timeline allow you to better predict your cash flow position at any point in time.
- Start defining KPI (key performance indicators) for your business, such as profit % per job, budget accuracy %, bid turnaround time, etc.

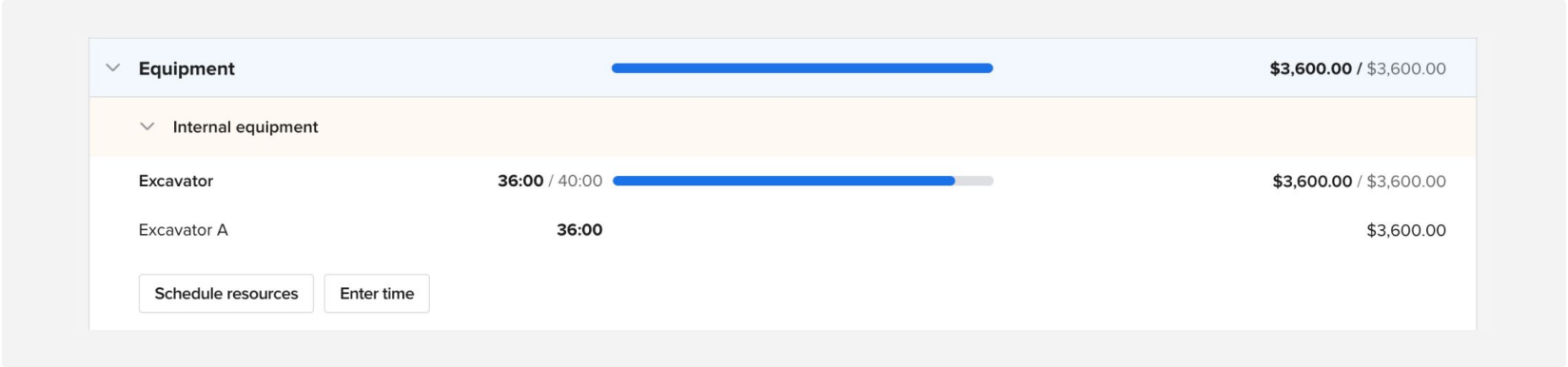
Example – Optimize project pricing

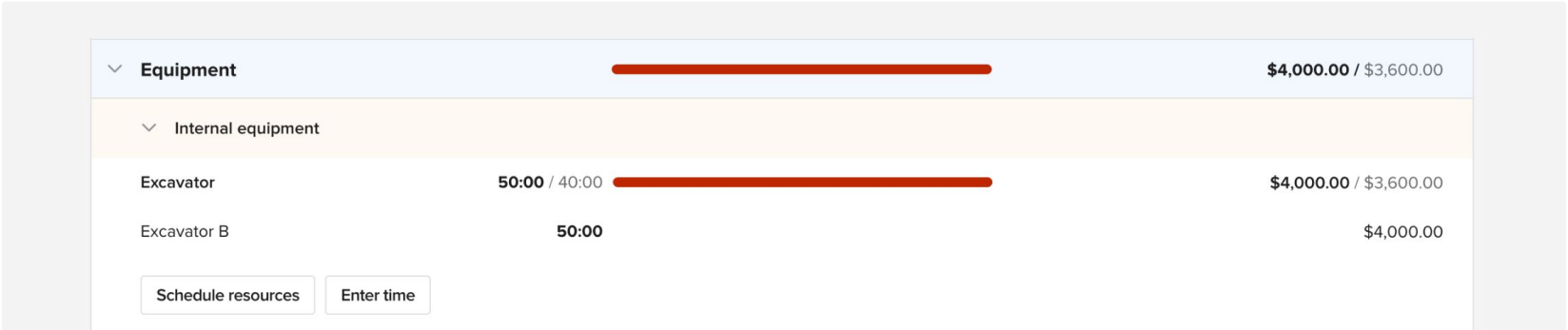


Take a data-driven approach to decisions affecting your business

- Identify suppliers, crews, equipment, or subs that are consistently hurting your margins.
- Categorize projects and phases to identify the most profitable areas of work for your business.
- Consider opportunity cost - which jobs are not worth taking where margin is too low.

Example – Improve resource allocation





LEARNING FROM JOB COSTING

Grow the business you envision

Get more efficient and reinvest into hiring and taking on additional projects

OR

Optimize what you have today and operate a less stressful, more profitable business

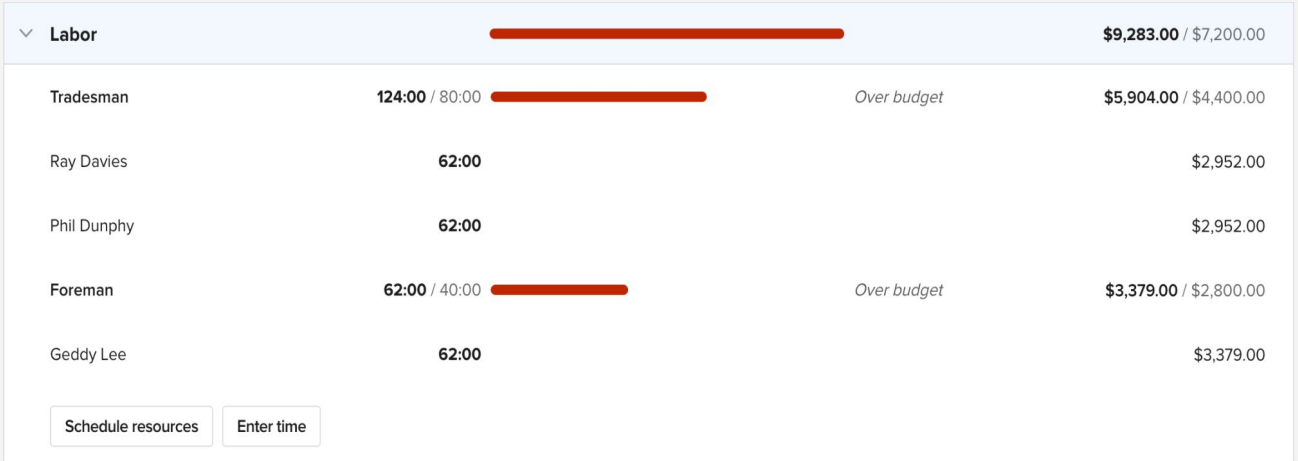
05

Improving the team and customer experience

Job costing identifies high performers on your team

- Identify which employees and teams perform best in specific situations.
- Reward and recognize high-performers to retain top-talent.
- Identify the best employee or team workflows, and pass those on to the rest of team.

Example – Evaluate team performance



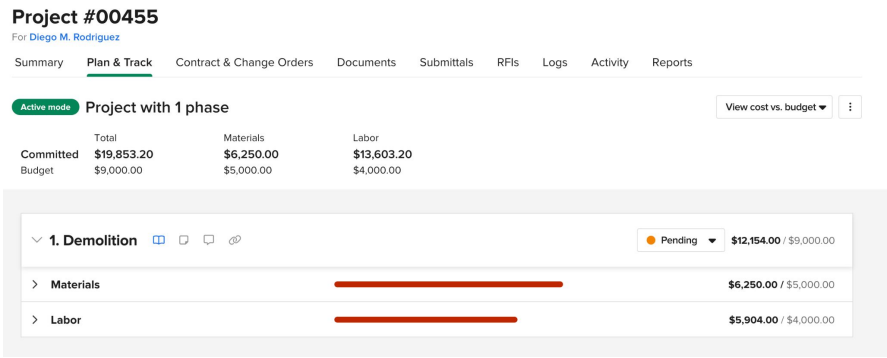
Professionals look for professional organizations

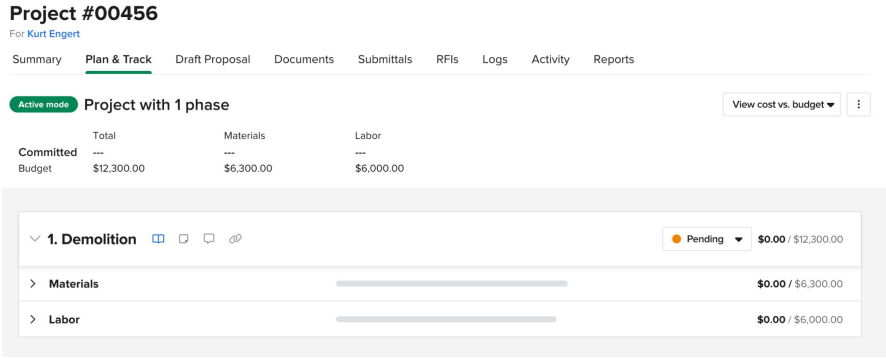
- Top performers seek out organizations that offer professionalism and process that works.
- Job costing opens up additional capital for your business to invest in hiring.

Provide consistency & manage customer expectations

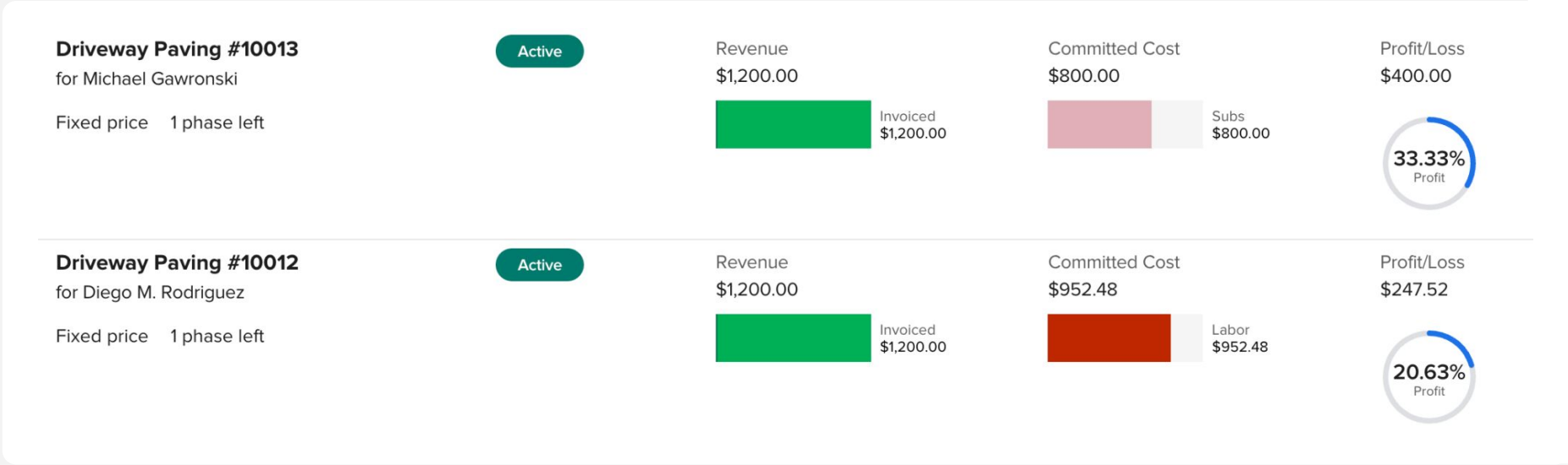
- Job costing leads to more accurate priced projects over time, so you avoid change orders and client approvals mid-project.
- Get to bid faster, so clients aren't waiting long to hear back from you.
- Job costing helps build consistent process, timeline, and budget. Win repeat contracts through consistently delivering as promised.

Example – Improve forecasting and budgeting





Example – Control direct and indirect costs



06

Job costing:
Tips, tricks, and pitfalls

Tips

Here are a few ways to make job costing easier and more accurate:

- Budget, markup, track.
- Keep your projects and finances tagged and organized.
- Get a second set of eyes on your costing data.
- Use WIP reporting to understand your billing position.

Tricks

Job costing techniques that every contractor should follow:

- Let your entire team collect cost data.
- Save project budgets and plans to edit and re-use.
- Capture labor burden and timesheet data at the same time, to use for payroll.
- Use cost codes where applicable to stay consistent and save time.

Pitfalls

These are common job costing mistakes that anyone can make:

- Tracking hourly labor rate instead of fully loaded labor burden.
- Not accounting for change orders when looking at job costing data.
- Waiting too long to capture costs and record them against the job.

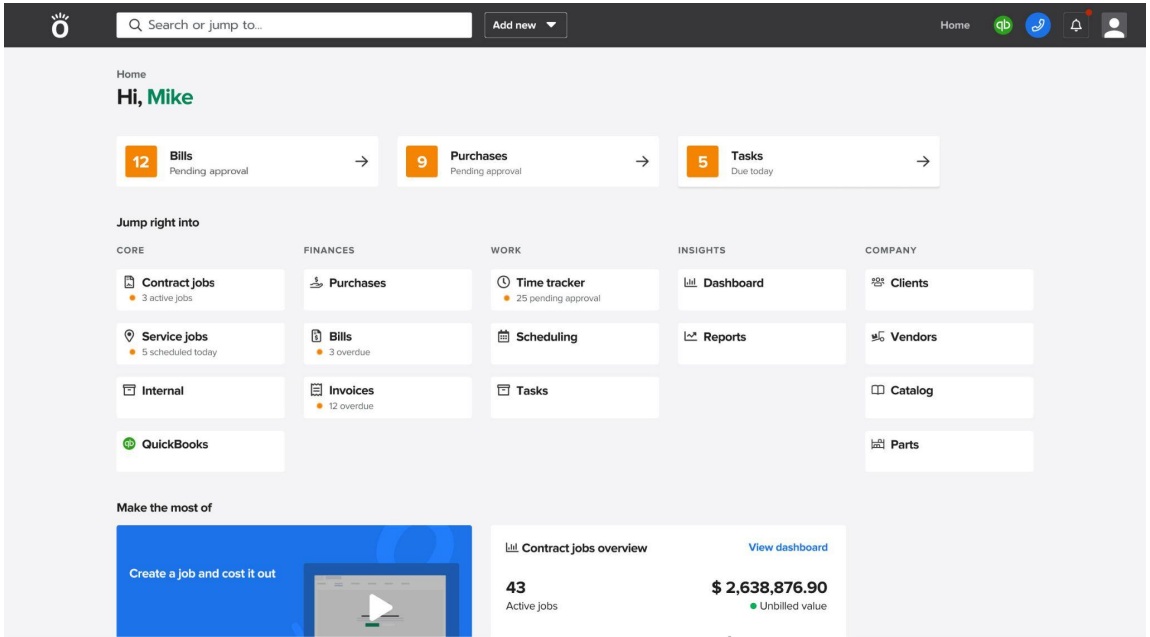
07

Simplified job costing through Knowify

SIMPLIFIED JOB COSTING THROUGH KNOWIFY

Project and team management software for trade contractors

Knowify helps contractors build their business with confidence



Knowify solves for managing

Projects

Everything in Knowify revolves around a contractor's projects

- Create a project budget
- Create and send proposals
- Get detailed project plans
- Track project progress, costs, and details
- Invoice their clients
- Integrate with QuickBooks Payments

Teams

Knowify reduces friction between the field and office

- Manage team schedules
- Communicate with notes, photos, and documents
- Clock-in & clock-out to track time on-site
- Manage inventory, equipment, and subs
- Integrate with QuickBooks Time

Finances

Knowify gives visibility into where and why you're earning money

- Track granular job costs, by project phase and type
- Capture expenses from the field
- Manage purchases, bills, invoices, expenses, and change orders
- Integrate directly with QuickBooks Online

A few trades that use Knowify

- Electrical
- Plumbing
- Roofing
- HVAC
- Painting
- Demolition
- Concrete
- Flooring
- ...and many more

Knowify is the main reason we've grown so much in the last few years. As the owner of the company – it easily saves me 20-40 hours a week vs what I was doing on paper before. Having templates has saved me and our estimators countless hours.

Nathan Kohatsu
UK Electric

CASTLE ELECTRIC

Knowify allows you to manage the full project lifecycle

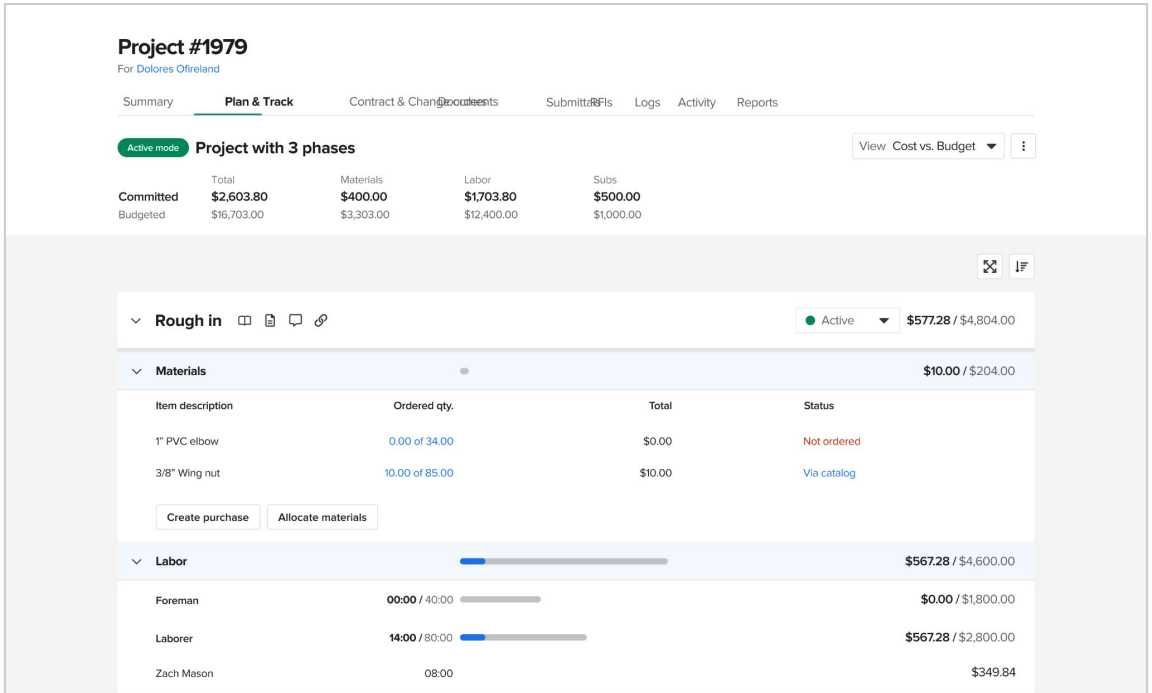
- Create detailed project budgets
- Create and send professional branded proposals for AIA, Fixed price, Cost plus, or unit-based contracts
- Schedule your team, track their time, and communicate between the field and office
- Track job costs from the field or office
- Sync directly with QuickBooks, so you never enter data twice
- Invoice and collect payment through Knowify
- Get powerful insights about your business

Knowify allows everyone in your organization to work on a project at once - whether they're a contractor in the field or an admin in the office.

SIMPLIFIED JOB COSTING THROUGH KNOWIFY

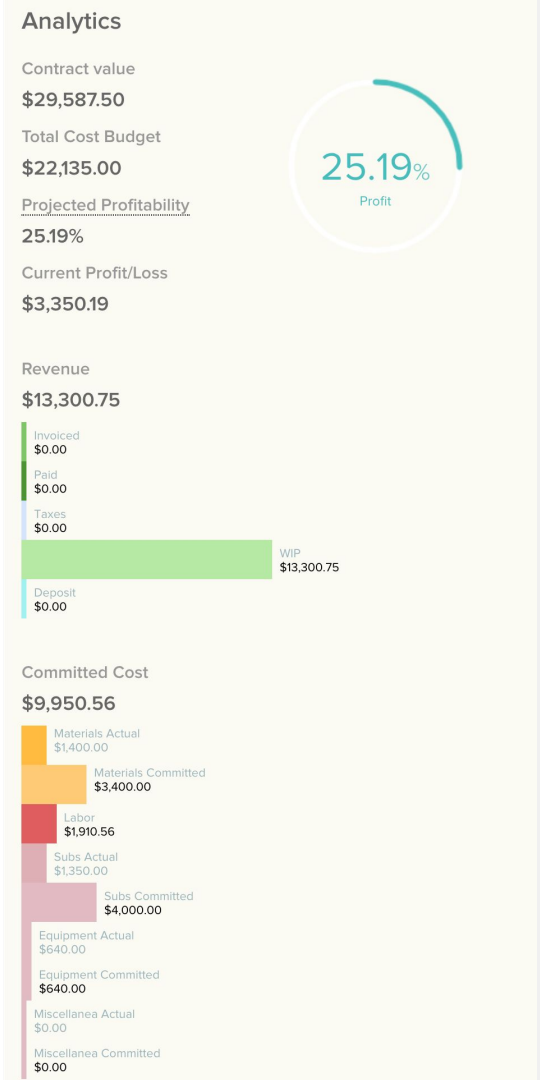
See any project plan and budget in detail

Quickly see how the actual costs of materials, labor, equipment, and others stack up against what you budgeted for, and how it affects your profit.



Project summaries at a glance

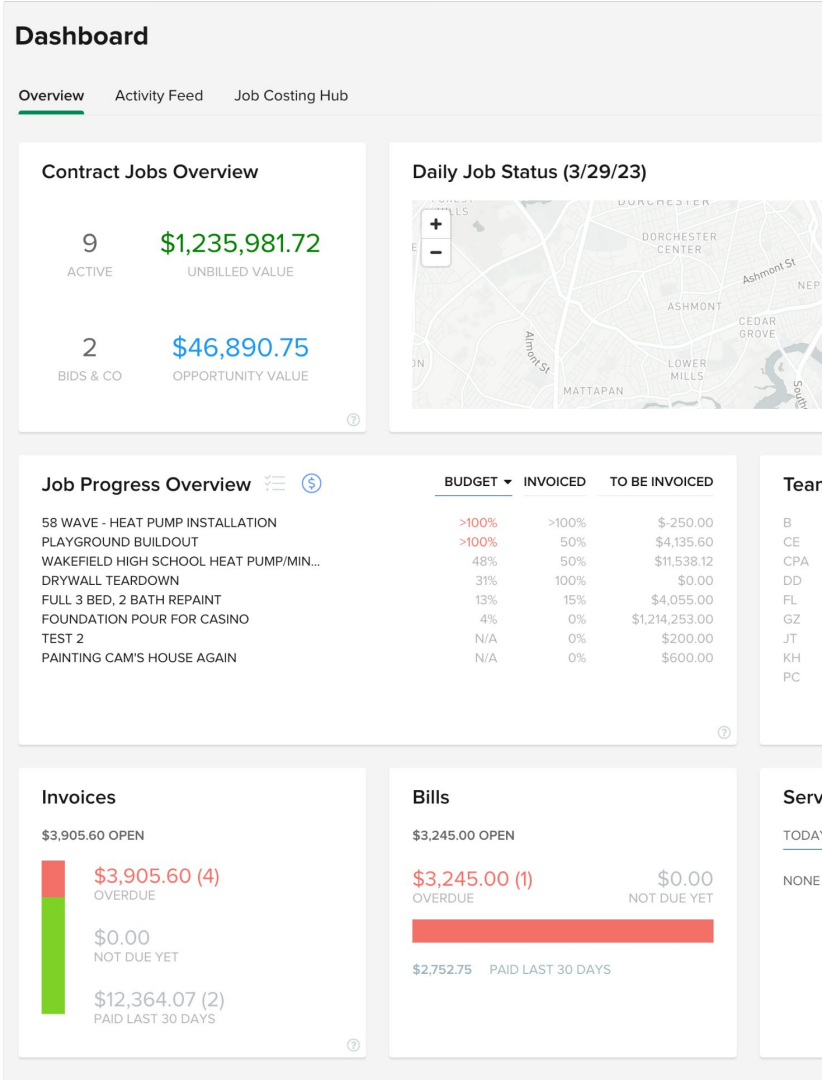
See exactly what costs are committed, current recognized revenue, and an informed projection of where you'll end the job from a profitability standpoint.



SIMPLIFIED JOB COSTING WITH KNOWIFY

Unmatched visibility into how your business is performing

Get answers to specific projects in seconds instead of hours. Quickly check on all active projects, or check the dashboard to see how it's all coming together.



CASTLE ELECTRIC

Michael Haff

“I didn’t have a great way to give my team project information in the field, so I had to be onsite with them, and then go back to the office to handle all the admin work. I remember thinking to myself – there has to be a better way to do this.”

08

Q&A

Build your business with confidence

knowify.com