

Decoding Construction Job Costing

Introductions

- Scott Brandt, Partner – Trust and Audit
 - CPA and CCIFP (Certified Construction Industry Financial Professional)
 - 20+ years public accounting experience
 - Focus in construction industry
- Chris Vineyard, Senior Manager – Trust and Audit
 - CPA and CCIFP (Certified Construction Industry Financial Professional)
 - 9+ years public accounting experience
 - Focus in construction industry



ARMANINO

Construction



- Awarded Top 50 Construction accounting firm by Construction Executive in 2023.
- Has served the Construction industry for over 30 years and currently work with over 375 Construction industry clients across our service lines.
- With internal Industry Edge Certification programs, we ensure the team we bring to your project is knowledgeable about the aspects your business.

Overview

- Importance of job costing properly
- Costs included and excluded from job costs
- Allocating job costs
- Use of accounting software
- Concluding thoughts
- Questions



Why do you care about job costing?

Benefits can include:

Accurate picture of profitability

Smoother earnings/revenue recognition

Better manage cash flows (billings)

Reduce risk of future losses

Contract compliance

Capture all contract costs to ensure they are included in contract price

Increased PM involvement and accountability

Acceptance of future jobs



Classification of costs

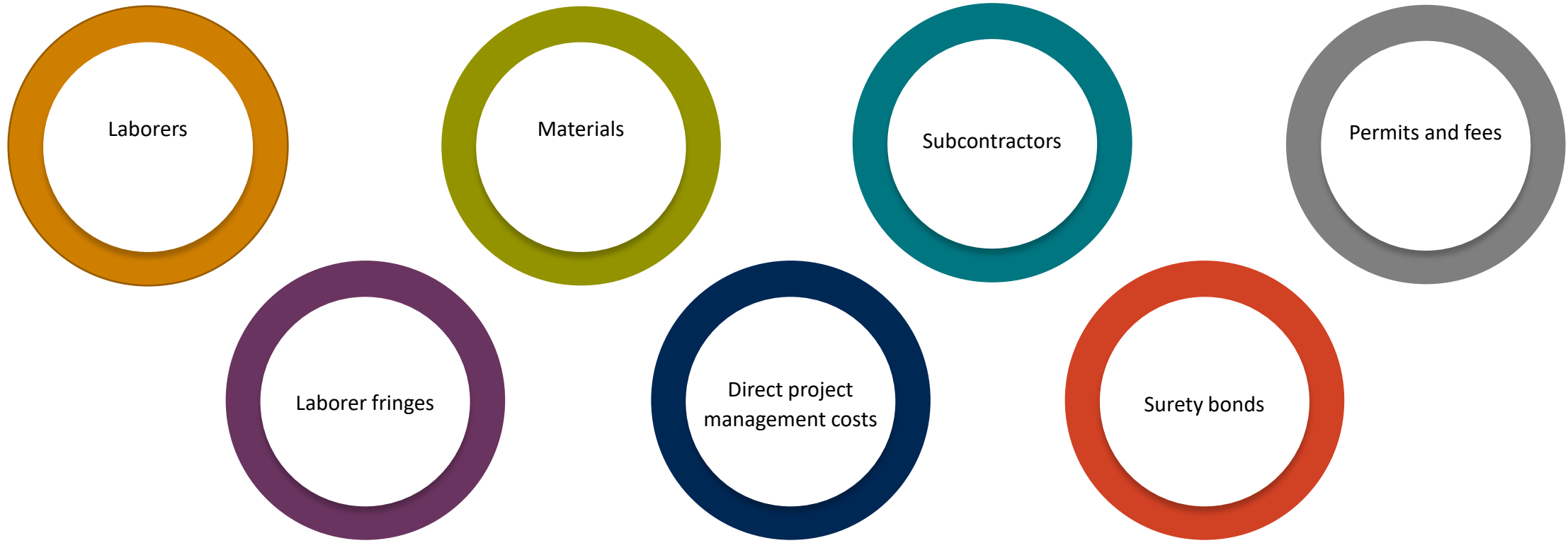
Financial statement classification

Direct and indirect job costs

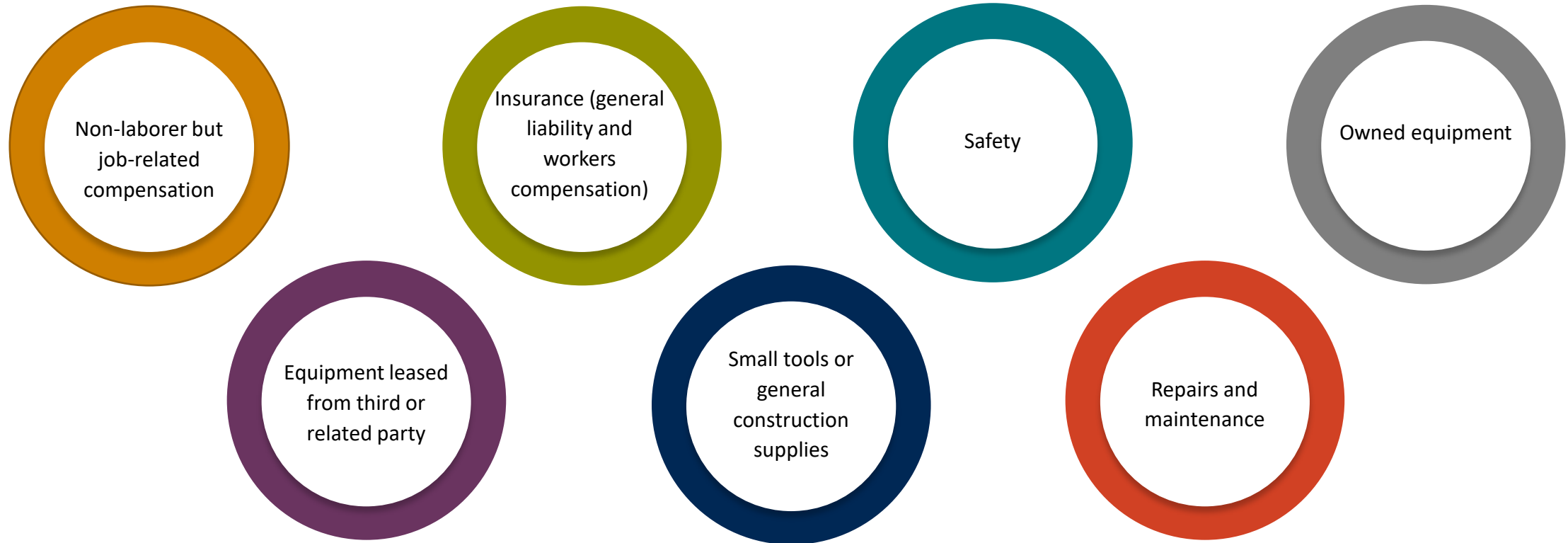
Selling, general and administrative costs

	2022		2021	
	Amount	% of Net Sales	Amount	% of Net Sales
Contact and rental revenue	\$ 87,163,147	100.0 %	\$ 64,706,910	100.0 %
Cost of contract and rental revenue				
Labor	26,741,713	30.7	19,247,206	29.7
Subcontractor	7,831,174	9.0	7,066,862	10.9
Materials	22,266,892	25.5	16,028,377	24.8
Equipment	3,568,002	4.1	2,464,185	3.8
Overhead and other costs	1,916,912	2.2	798,012	1.2
Losses accrued on uncompleted contracts	-	-	69,343	0.1
Total cost of contract and rental revenue	62,324,693	71.5	45,673,985	70.5
Gross profit	24,838,454	28.5	19,032,925	29.5
General and administrative	17,735,538	20.3	13,082,334	20.2
Income from operations	7,102,916	8.2	5,950,591	9.3

Direct Job Costs



Indirect Job Costs



Selling, General and Administrative Costs



Office salaries

Accounting, human resources, marketing, IT, etc.



Insurance

General liability and workers' compensation relating to office staff or non-job related salaries



Lease expense



Utilities



401k contributions

Allocation of costs

Cost allocation bases

Direct Labor Costs

- Most common method in practice
- Allocated based on direct labor costs
- Calculated by cost pool divided by total estimated labor cost
- Can result in over/under allocation

Direct Material Costs

- Generally only used by material heavy entities
- Allocated based on material costs
- Calculated by cost pool divided by total estimated material cost
- Can result in over/under allocation

Time based

- Allocated costs from established cost pool based on time incurred on job (hours, days, weeks)
- Can result in over/under allocation

Pools of indirect cost to be allocated

1. Insurance (GL & WC)
2. Indirect labor (project manager) and labor burden
3. Owned Equipment & Vehicles
4. Tools and other shop costs
5. Other overhead that partially benefit contracts

Allocation calculations

1. Prepare annual budget
 - a) Calculate cost pool(s) based on budget
 - b) Determine which base to use estimated base (direct labor cost for example)
2. Divide cost pool by applicable base to come up with the burden rate
3. Setup burden rate in accounting software or perform manually
4. At year-end perform analysis for over/under allocation by comparing allocation sub account to actual expense
5. Review burden rate annually, especially in volatile and inflationary environments

Example: Workers' comp. and gen. liability

Allocation of insurance costs	
Premiums per policy	\$100,000
Expected direct labor costs (base wage)	\$5,000,000
Burden rate	2% or \$.02/labor \$
Insurance allocated to contract A with \$250,000 labor	\$5,000
Insurance allocated to contract B with \$500,000 labor	\$10,000
Insurance allocated to contract C with \$200,000 labor	\$4,000

- Other considerations:
 - Estimated payroll is less than actual payroll due to higher volume
 - Accrual should be recorded for insurance audit
 - Review for over/under allocation
 - Burden rate should be reviewed annually

Example: Equipment/Vehicle pool

Allocation of equipment costs	
Rate calculation:	Per day rate:
Depreciation (cost of \$100k equipment)	\$40
Fuel	\$20
Maintenance & repairs	\$18
Insurance	\$5
Total daily rate	\$83

- Other considerations:
 - Depreciation calculated with 10 year expected life and estimated 250 working days per year
 - Consider other costs to keep equipment operating efficiently

Example: Equipment continued

Allocation of equipment costs	
Contract A	Used for 35 days
Allocated equipment cost (35 x \$83)	\$2,905
Contract B	Used for 92 days
Allocated equipment cost (92 x \$83)	\$7,636
Contract C	Used for 57 days
Allocated equipment cost (57 x \$83)	\$4,731
Total allocated cost	\$15,272
Estimated cost (\$83 x 250 working days)	\$20,750 = 74% utilized

Example: Equipment continued

Estimated vs. actual lookback	
Estimated cost (\$83 x 250 working days)	\$20,750
Actual costs:	
Depreciation (cost of \$100k equipment)	\$10,000
Fuel	\$6,000
Maintenance & repairs	\$4,000
Interest	\$3,000
Insurance	\$1,250
Total actual costs:	\$24,250
Equipment variance (actual cost vs allocated cost)	\$(8,978)

Should reconsider if the rate used was appropriate and if material, reallocate the variance to completed and uncompleted contracts.

What is included in labor cost?

1. Gross wages
2. Payroll tax
3. 401k
4. Pension costs
5. Union benefits
6. Insurance (health, dental, vision)
7. General liability and workers' compensation insurance

Internal control considerations

Review of timecards
by project
supervisor

Review and
approval of burden
rates

Lookback analysis
of overhead
allocation

Job cost reports
reviewed by project
managers at least
monthly

Implement
cybersecurity
training (ex. call
vendors with bank
or other changes)

Debrief meeting
upon job completion

Accounting software

Use of accounting software



Concluding thoughts

Concluding thoughts

1. No hard and fast rules...very principles-based concepts here that involve some level of professional judgment
2. What works for one company might not for another
3. System capability comes into play with what can be automated vs what are manual adjustments/allocations
4. Should be performing lookback on estimates used
5. Underestimating these costs during bidding could result in job losses; overestimating may prevent you from winning in a competitive bid situation



THANK YOU
Questions?