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QuickBooks for the Start-up Contractor

Agenda

- ▶ QuickBooks Overview
- ▶ Setting up QuickBooks
 - ▶ General Ledger
 - ▶ Payroll
 - ▶ Customers/ Jobs
- ▶ Using QuickBooks to Track Job Costs
- ▶ Break-Out Session
- ▶ Reporting
 - ▶ QuickBooks Reports
 - ▶ Percent Complete versus Accrual Accounting
 - ▶ Work in Process Schedule
- ▶ Applying Burden in QuickBooks
- ▶ Questions

QuickBooks Advantages/Disadvantages

▶ Advantages

▶ Cost

- ▶ QuickBooks Premier Contractor Edition, 2010
 - Cost - \$249.00
- ▶ Training/Consulting costs

▶ Flexibility

▶ Ease of use/Simple to learn

▶ Easy to share data with others

- ▶ Accountants' copy

▶ Easy integration with Microsoft Office

QuickBooks Advantages/Disadvantages

▶ Disadvantages

- ▶ Accrual basis financial statements
 - ▶ No built-in conversion to percent complete
- ▶ Lack of security
- ▶ Lack of flexibility in other construction specific areas
 - ▶ Retainage
 - ▶ Prevailing wage
 - ▶ Change order/Contract management
 - ▶ Union Reporting
 - ▶ AIA Billing (6702/ 6703)
 - ▶ Certified Payroll
- ▶ Lack of integration with estimating/project management software packages

QuickBooks Set-up

- ▶ Like any other software package – GIGO
 - ▶ Garbage in, Garbage out
- ▶ Effective up front set-up and accurate, complete data input
 - ▶ Useful, accurate financial reports
- ▶ Incomplete set-up and inconsistent data input
 - ▶ Useless financial reports and a lack of ability to analyze results

Set-up - Chart of Accounts

- ▶ An effective chart of accounts differentiates between the following:
 - ▶ Assets, liabilities and equity
 - ▶ Current vs. long term assets and liabilities
 - ▶ Revenues, Cost of Sales, and Selling, General, and Administrative (SG&A) expenses
 - ▶ Direct costs vs. indirect costs
 - ▶ Other (non-operating) income and expense
 - ▶ Interest, gain/loss on sale of equipment, taxes

Set-up – Chart of Accounts

- ▶ 1000 – Current Assets
- ▶ 1500 – Long-term Assets
- ▶ 2000 – Current Liabilities
- ▶ 2500 – Long-term Liabilities
- ▶ 3000 – Equity
- ▶ 4000 – Revenues
- ▶ 5000 – Direct Costs
- ▶ 6000 – Indirect Costs
- ▶ 7000 – SG&A Expenses
- ▶ 8000 – Other income expense
- ▶ 9000 - Taxes

Set-up – Chart of Accounts

- ▶ More accounts does not necessarily equal better reporting

- ▶ Account numbers
 - ▶ Company → Preferences → Accounting

- ▶ Effective set-up allows generation of reports to show:
 - ▶ Working Capital
 - ▶ Equity
 - ▶ Debt/ Equity
 - ▶ Gross Profit
 - ▶ Overhead
 - ▶ Net Income

Set-up - Payroll

- ▶ Payroll Options in QuickBooks
 - ▶ In-House/Outsourced payroll (i.e. QuickBooks, Paychex, ADP)
 - ▶ Enter time using QuickBooks timesheets
 - ▶ Enter time via General Journal Entry
 - ▶ Easier if fewer jobs
 - ▶ Must enter taxes/ insurances/ burden via journal entry as well
 - ▶ Employee Set-up
 - ▶ Personal
 - ▶ Pay rates and deductions
 - ▶ Tax Status
 - ▶ Sick/ Vacation
 - ▶ Insurance info
 - ▶ Custom Fields (i.e. 'Date of last review')

Set-up – Payroll

- ▶ **Payroll Items**
 - ▶ Use to define pay rates, reimbursables, etc.
 - ▶ Different rate for prevailing wage work
- ▶ **Time tracking**
 - ▶ Edit → Preferences → Time & Expenses → Company
 - ▶ Do you track time? Yes
- ▶ **Employees → Enter time → Use weekly timesheet**
 - ▶ For outsourced payroll – do not print checks
 - ▶ True-up of payroll liabilities
- ▶ **Time tracking maintains historical information within QuickBooks**
 - ▶ General journal entry – historical information is off-line

Set-up – Customers/ Jobs

- ▶ Every project should be assigned **BOTH** a customer and a job number/ name
 - ▶ Customer info.
 - ▶ Type of customer (will allow for analysis of revenues by type of work)
 - ▶ Payment info. – credit limit, preferred payment (credit cards), terms, etc.
 - ▶ Job information
 - ▶ Job Status, start date, end date, description, type of job
 - ▶ Keep job names simple and useful
 - Do not name jobs ‘Suffolk 1’, ‘Suffolk 2’, etc. – *Too simple*
 - Do not name job ‘Feeley & Driscoll, 200 Portland Street, 2nd floor conference room, remove carpet and reinstall’
 - Appropriate job name – ‘Feeley & Driscoll conference room’

Job Costs

- ▶ All 'Direct Costs' should be applied to a job as they are input
 - ▶ Referring to the sample chart of accounts, these are the 5000 accounts
 - ▶ Includes primarily; Direct labor and related expenses (payroll taxes, unemployment, company paid insurances, workers' comp., union benefits), Materials, and Subcontractor Expense.
- ▶ No other costs *should* be applied to jobs
 - ▶ If SG&A or indirect costs are applied to jobs, chart of accounts should be edited so that those amounts are included in 'Direct Costs'

Job Costs

- ▶ Indirect costs are applied to individual jobs through a ‘burden rate’
 - ▶ As burden is applied to jobs, the net affect on a Company’s income statement (profit and loss statement) is **zero**.
 - ▶ The application of burden only affects the profitability **by job**
- ▶ The goal is to project a burden rate by budgeting the total indirect costs and identifying a ‘driver’
 - ▶ Driver is typically labor dollars – i.e. the more labor that is incurred in a year, the higher indirect costs will be
 - Other drivers could be machine hours (where depreciation is a substantial indirect cost), labor hours, etc.
 - The burden rate equals projected indirect costs divided by the driver

Job Costs

- ▶ **Example of a burden rate:**
 - ▶ Projected indirect costs – 2010 = \$100,000
 - ▶ Projected labor – 10,000 hours @ \$50/hr. - \$500,000
 - ▶ Burden rate may be calculated as:
 - ▶ \$10/ hr ($\$100,000 / 10,000$) = \$10
 - ▶ Or 20% of total labor dollars ($\$100,000 / \$500,000$) = 20%
 - ▶ What this means:
 - ▶ For every hour worked, it costs an additional \$10 in indirect costs
 - ▶ For every dollar spend, it costs an additional 20% in indirect costs

Breakout session

1. What outside reporting/ software packages is your organization utilizing?
2. How are you using QuickBooks to assist in the generation of off-line reports or the utilization of outside software packages?
3. Have you been able to integrate QuickBooks with any outside reporting or software packages?

Reporting

- ▶ Uses for reports from QuickBooks
 - ▶ Provide internal financial statements to financial institution, surety, potentially customers, etc.
 - ▶ Poor quality financial statements reduce credibility
 - ▶ Feedback from banks and sureties is consistent – **For contractors the preference is percentage of completion basis financial statements**
 - ▶ Budgeting and financial analysis
 - ▶ Balance sheet – Where are we at a point in time?
 - ▶ Income Statement (Profit and Loss) – How have we done over a period of time?
 - Profit and Loss with budget – Results over a period of time vs. expectations
 - ▶ Profit and Loss, by job – **Provides information for generating an off-line work in process schedule**

Reporting

- ▶ **Sales by customer**
 - ▶ Review 'A' customers – are we providing enough service
- ▶ **Accounts Receivable Aging**
 - ▶ Identifies collection issues
- ▶ **Purchases by vendor**
 - ▶ Control over PM's or purchasing agent with buying power
- ▶ **Custom reports**
 - ▶ Sales by type work
- ▶ **Off-line reporting**
 - ▶ Work in Process Schedule

Reporting

► Work in process Schedule:

Construction Company Sample WIP Schedule														
					Revenue		Costs in Excess of		Billings in Excess of		CURRENT		CURRENT	
					Earned to	Billing to	Billings and	Costs and	CURRENT	CURRENT	CURRENT	CURRENT	CURRENT	CURRENT
					Dec. 31	Dec. 31	Estimated	Estimated	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR
Job	Total Contract Price	Total Est Costs	Cost to Dec. 31 2009	% Comp.	GP%	2009	2008	Earnings	Earnings	REVENUE	COSTS	G.P.	GP %	
1	100,000	75,000	50,000	66.67%	25.00%	66,670	-	66,670	0	66,670	50,000	16,670	25.00%	
2	100,000	75,000	50,000	66.67%	25.00%	66,670	66,670	0	0	66,670	50,000	16,670	25.00%	
3	100,000	75,000	50,000	66.67%	25.00%	66,670	75,000	0	8,330	66,670	50,000	16,670	25.00%	
	300,000	225,000	150,000	66.67%	25.00%	200,010	141,670	66,670	8,330	200,010	150,000	50,010	25.00%	



Reporting

- ▶ Where do the numbers come from on the WIP?
 - ▶ Contract amount – Comes from the contract plus change orders (these are sometimes expanded into 3 columns)
 - ▶ Contract files, excel, project management software
 - ▶ May input into QuickBooks
 - ▶ Estimated costs – Estimating software
 - ▶ In many cases – Excel
 - ▶ Have yet to encounter a client that estimates successfully in QuickBooks
 - Most generate estimate offline and ‘double enter’ data in QuickBooks
 - Why?

Reporting

- ▶ Where do the numbers come from on the WIP?
 - ▶ Cost to date – QuickBooks
 - ▶ This figure is pulled from the Profit and Loss by job
 - ▶ This cannot exceed the estimate
 - ▶ Percent complete, gross profit percentage, revenues – All formulas
 - ▶ Billings to date – QuickBooks
 - ▶ This figure is also pulled from the Profit and Loss by job
 - ▶ Costs in excess of billings and estimated earnings (underbillings), Billings in excess of costs and estimated earnings (overbillings), current year revenues, costs and gross profit – All formulas
 - ▶ The over/underbilling adjustment should be booked once per month to convert from accrual to percentage of completion

Applying burden in QuickBooks

- ▶ In generating the work in process (WIP) schedule, costs should *include* burden
 - ▶ Assuming that the estimate to complete *also* includes a fully burdened estimate
 - ▶ Must compare apples with apples
 - ▶ Burden is applied to jobs through payroll as a payroll item
 - ▶ Burden may be applied as a journal entry – only works for 10 or fewer projects at a given time

Applying burden in QuickBooks

- ▶ Add a payroll item (Company Contribution)
- ▶ Click to 'Track Expenses by Job'
- ▶ Liability Account – Indirect Burden (contra account)
- ▶ Expense Account – Burden Applied (direct cost)
- ▶ Tax tracking type – none
- ▶ Do not apply any taxes
- ▶ Calculate the item base on hours or percent
- ▶ Input percent or dollar amount per hour
- ▶ Add the item to each applicable employee
 - ▶ For those processing payroll in house – burden amount will appear on pay stub

Applying burden in QuickBooks

- ▶ At the end of the year – burden will either be overapplied (burden rate was too high – too much indirect cost applied to projects) or underapplied (burden rate too low)
- ▶ Goal is to get as close as possible to actual rate in order to apply indirect costs to ongoing projects

Questions?

