

Making the Best use of Your Time in a Down Economy

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“When we get time, we really need to look at how we are capturing job cost.”

“When we get time, we should really clean up our financial statements.”

“When we get time, I would like to move toward a paperless system.”

“We really need to get our A/R cleaned up. If I just had time.”

And finally, “I often wonder if we could do things more efficiently or if we have enough safeguards in our systems. I really need to look at that when I have time.”

Have you ever said any of these things?

Time is precious and when you are in the thick of bidding jobs, selling jobs, doing take offs and monitoring jobs, all of your time is occupied...and then some. The cycle is continuous and overlapping from one job to another.

That was the case until recently. Unfortunately, as business owners you may find yourself and your staff with too much time on their hands. For most construction companies and many others, work is not flowing like it used to. This is no surprise to anyone.

So, until the economy turns the corner, now is the time to look at some of the in house projects that have been on the back burner. By using this time well now, when things do turn, your Company can hit the ground running with better controls and efficiency, better reporting and job costing. You will have taken advantage of an opportunity to better position yourself for the future.

In the following section, we will look at each of these areas: job cost, financial statements, paperless initiatives, receivable management and internal control and efficiencies and provide some ideas as to how to tackle or improve each.

Job Cost Data Capture

Most construction accounting systems today have job costing modules, and for the most part, the work relatively well. Often the problem is not with the system but the user. How often do you get a job,

enter the cost budget into your system, record cost against it, only to find at the end that your budget to actual cost are significantly off? To make it more confusing, you feel that the budget is more accurate. This happens often and typically has to do with one of a few factors.

First of all, it could be that your invoice entry personnel are not recording invoices to jobs. The invoices may be not going to any job or to incorrect jobs. This could be keying error, ignorance of the need to enter a code or bad data from the project manager (“PM”) or other personnel reviewing the invoice.

Another factor could be your overhead methodology. Is the accounting system set up to apply the same overhead costs and rates as are being used by the estimators for bidding and take off? Is there one general overhead rate or is there a labor overhead and a material overhead? To use budget to actual analysis as a useful tool, you first need to be sure they are comparable (the old “apples to apples” adage).

Finally, you need to look at whether the overhead rates are current and accurate. These rates are usually based upon analysis of historical actual data. The problem is that these rates may have been based upon data that is entirely too old to be relevant. Now is the time to update your overhead analysis to ensure that both your estimator and accounting system are working off of current, logical rates.

Financial Statements

Now that you have taken the time to update your overhead rates and apply them consistently, the next step is to look at your financial statements to see that over or under application of overhead is something you can see easily on page one of the financials.

Also, the financial statements should have a cost of goods sold amount that is nearly equivalent to the total cost on your job cost report for a given period. The reconciliations help ensure data integrity and give the financial statement reader better information. If job cost margins and financial statement margins do not agree within your system, there are a few places to look for the reasons for discrepancies.

As mentioned previously, make sure the overhead rates being applied to jobs are flowing through to the financial statements. Next, make sure that all invoices are getting properly coded to jobs and to job cost accounts. Some accounting systems allow

you to set up controls that will require you to use a job code if you are posting to a certain expense account code.

Finally, look at your chart of accounts and your financial statement layout. Are all job cost accounts showing up above the gross margin line? Are there any administrative accounts that are above the gross margin line which should not be? If these matters are rectified, you are on your way to getting a cost of goods sold amount that is nearly equivalent to the costs on the job cost report.

Going Paperless

Over the past few years, there has been much talk regarding paperless initiatives. Software vendors have added modules and updates to allow for more paperless workflow and data processing. The time is now. These are not quick and easy changes. They require time spent carefully analyzing and documenting how your systems will change as you move to a more paperless environment. You may have the time now. There are many areas of document flow that can move to a paperless flow. Start small and tackle one at a time. Two areas that are likely to give you the most return for the effort spent are in the area of accounts payable and job file. The benefits of going paperless in these areas follow.

Construction companies do not consist of individuals working in one place. Typically, you have a main office or offices and work locations. You have office workers, job crews and supervisors and PM's. The PM's may be moving between jobs and to and from the office.

Often, purchase orders are generated in the field. The corresponding invoice is received in the office but may need approval from someone at a remote location. If you could scan in all the invoices and route them to the appropriate people electronically, it would not only save time, but it would remove the "invoice lost on the desk" or "you never gave it to me" syndromes. Most software can now track when an invoice was routed and, in accounts payable, you can view the approval status. Supervisors and PM's could get these approvals completed without having to come in the office, thus keeping them in the field which will further help to keep the job on budget.

Another area where going paperless has great return is the job file. The mess that is the job file can be a frightening file of paper! How about creating electronic job files tied to your job cost module? You can scan in the job contract, bid take off, change orders, workers comp certificates, bond documents, photos of the site and any other relevant information. By setting up electronic files cabinets in your

job module, you can drop and drag the scanned files to the appropriate file folder; enabling access from the office or remotely.

A/R Clean Up

When times are good and there are plenty of receivables to continually cycle and turn to cash, the "state" of the receivables may go unnoticed. However, as you are having to work receivables even harder, you may be finding debit and credit memos and other postings that have not been properly applied. You may also find smaller, old receivables that have been ignored. The time is now to clean these things up.

Efficiencies and Safeguards

Again, when you are busy, you do not always have time to think about how or why you and your staff are performing certain processes. You may not have been diligent about testing the daily backups that are supposedly being done. Assemble people from all different levels of your organization and seek input and ideas as to how your company could be doing things more easily and efficiently. Assure them that you are not looking to find fault, place blame, or reduce headcount. Ask them if there are things that they do that seem pointless, redundant or inefficient. Test and evaluate your backup procedures. Review and update emergency disaster plans and accounting and other procedural manuals.

The economy has been down a long time. It will rebound. It is just a matter of when. People are anxious in this slow period. Use this time as an opportunity to accomplish some of the initiatives discussed above. It will provide employee and owners with some meaningful work for today and will better position your company for tomorrow.