Chapter 1: Job Cost Preferences and Setup

Preferences

Before some features in QuickBooks can be used, they must be set up in Preferences.

Edit->Preferences->Jobs & Estimates->Company Preferences

In this screen you will need to set "Do You Create Estimates?" to Yes and "Do You Do Progress Invoicing?" to Yes. There are other preferences that will affect job costing and payroll but we will address those in Chapter V.

Setting Up For Job Costing

Display the Customer Center. Select New Customer. If you want to alphabetize by last name, type the last name, comma, first name.

The First Name and Last Name fields may seem like duplicates, but fill them in. QuickBooks will use these fields on forms and some reports.

Never enter an Opening Balance. Fill in address, phone, etc. These are optional, but can be useful later.

Additional Info tab – Consider customer types, this would allow you to print reports and mailing labels for only certain customer types. Terms set here will become the default each time an invoice is created.

The "Sales Tax Information" section is important if you charge sales tax. Be sure and set your taxable customers as taxable and if you have customers in different sales tax jurisdictions, tell QuickBooks here which sales tax item to use for that customer.

With customers entered, you can create multiple jobs for each customer, if necessary.

It is important to mark completed jobs as inactive to prevent them from showing on job reports.

Chapter 2: Reimbursable Expenses

The very simplest form of job costing in QuickBooks is Reimbursable Expenses. First, set the Preference.
Edit->Preferences->Time & Expenses

Looking in the Miscellaneous section will show a checkbox that will track reimbursable expenses as income. So, the two choices are:
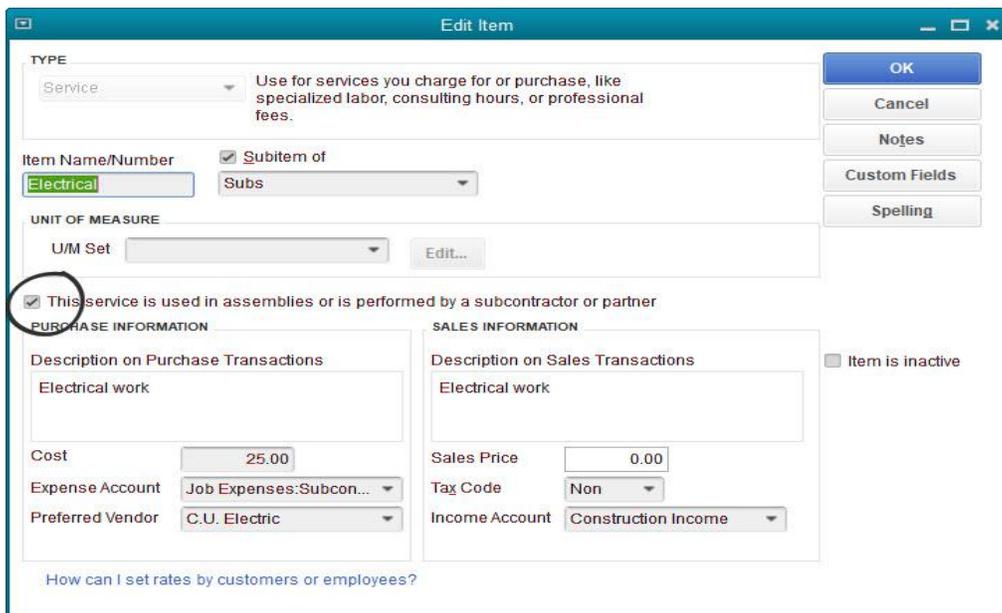
1. Leave the box unchecked and the customer invoice will credit the expense that has already been recorded in QuickBooks in the expense account where it was originally coded.
2. Check the box and QuickBooks will record the markup amount in an income type of account.

When option #2 is chosen, a checkbox is added to the New and Edit windows of expense type accounts that allow users to select what income account reimbursed expenses from this expense should be recorded.

Create a check payable to Daigle Lighting for $100.00, add a customer/job name to the stub portion of that check, and the expense will be available to add to the next invoice created for that customer/job.

Items Aid in Processing Reimbursable Expenses
Using items allows more control over how the reimbursed expenses are recorded to the accounting system.

Chapter 3: Estimates, Change orders, and Invoicing

Estimates in QuickBooks create a job budget and a means to compare actual costs to estimated costs. They also allow multiple invoices to be created against one job estimate.

The key to accurately comparing costs with job reports is a good Item List. Create Service type items that reflect the various phases of the jobs your company does. Following is a graphic of a completed estimate.

The various line items on the invoice will allow comparison to actual costs and revenues as the job progresses.

The Estimate form, just like many of the forms in QuickBooks, can be customized so that the markup column will be on the screen, but not show on the printed form.

As shown in the screenshot showing the item setup for the Electrical item, you must select the checkbox "This service is used in assemblies or is performed by a subcontractor or partner". This creates a side for costs and another for revenue. Any expense transaction like a check or a bill using this item will record to Job Expenses. An income transaction, like an invoice, will record to the account Construction Income.

Change Orders
Inevitably, changes occur on the job. This necessitates a Change Order.

When you modify an existing estimate and save it, QuickBooks displays the following message:
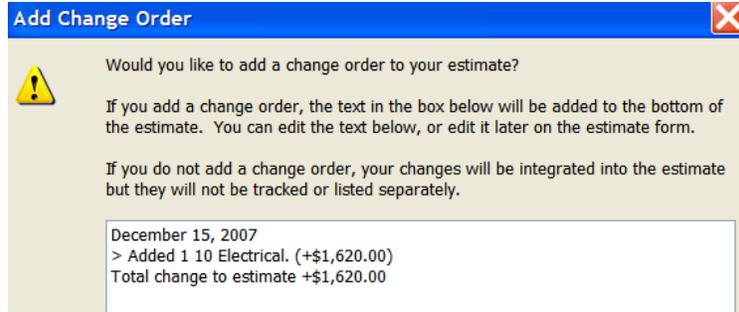
If you accept the change order option, QuickBooks will insert a message on the estimate detailing the change.

Progress Invoicing
A job can be invoiced in 'pieces' along the way. QuickBooks calls this progress invoicing and only works if an estimate has been created.

You have three choices. You can create the invoice from 100% of the estimate, a flat percentage of the entire estimate, or selected lines of the invoice.
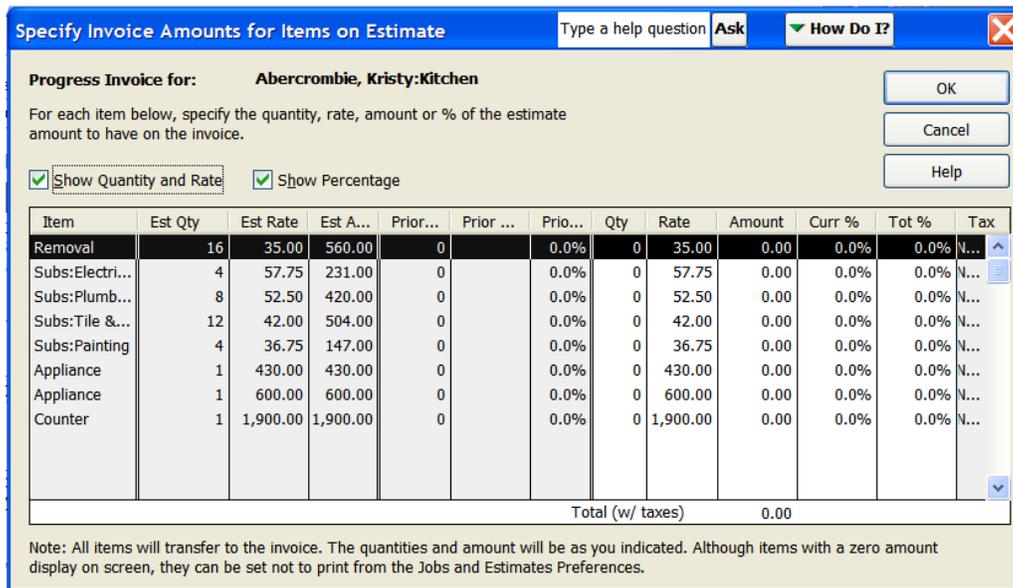

Retention
Retention requires two items setup just for this. One to deduct from the customer job invoice, one to charge the customer that final amount at the appropriate time.

Tracking Job Expenses
To create customer/job specific purchase orders, be sure the column for customer name is available and filled in.

Job expenses can be recorded to specific jobs by using either checks or bills. When using purchase orders, bills should be used since they can be entered against the purchase order, keeping track what purchase orders remain open with unbilled quantities. Tracking job expenses is simply a matter of adding the job name to the check or bill form. See the following graphic.
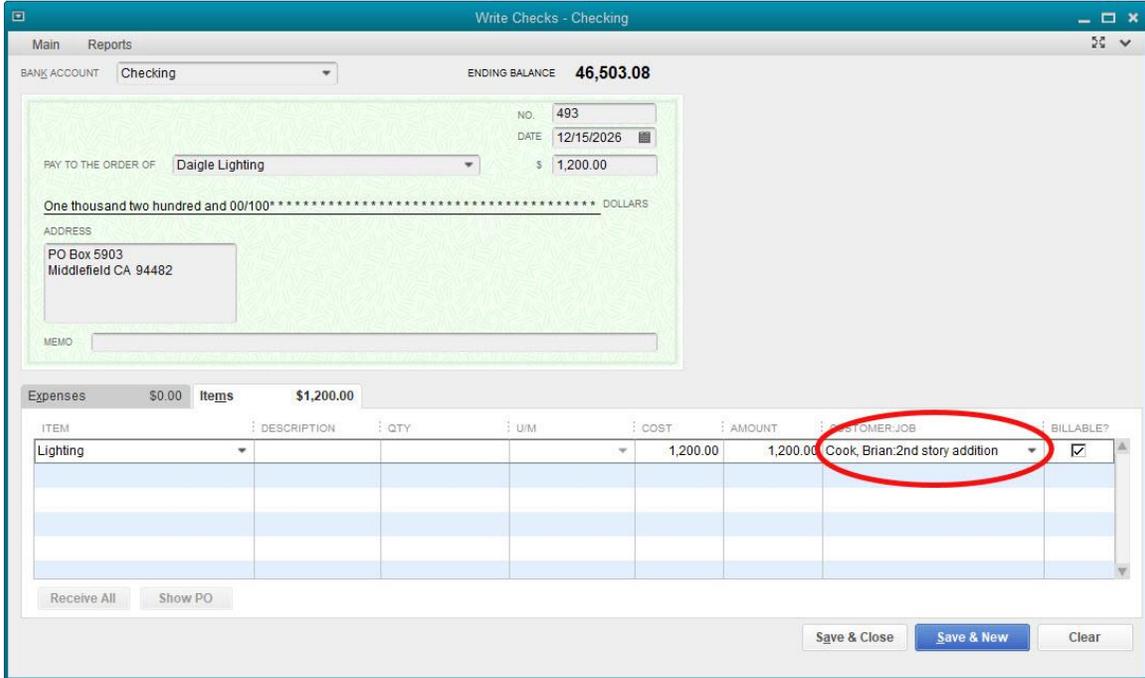
Since the Customer/Job is specified, this check creates a job expense that will show on job cost reports.

Billing Time to Jobs
Billing labor to jobs is a matter of using the weekly time sheet and checking the right settings.
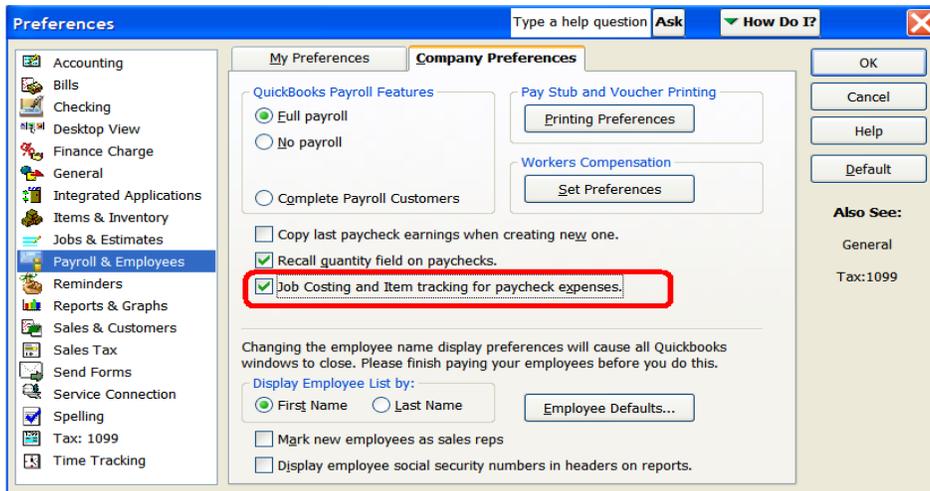
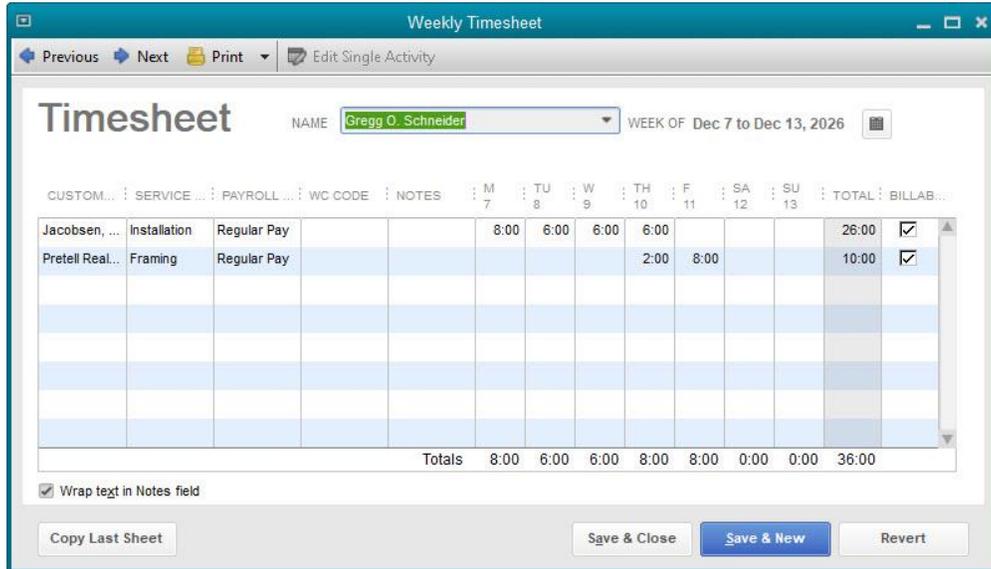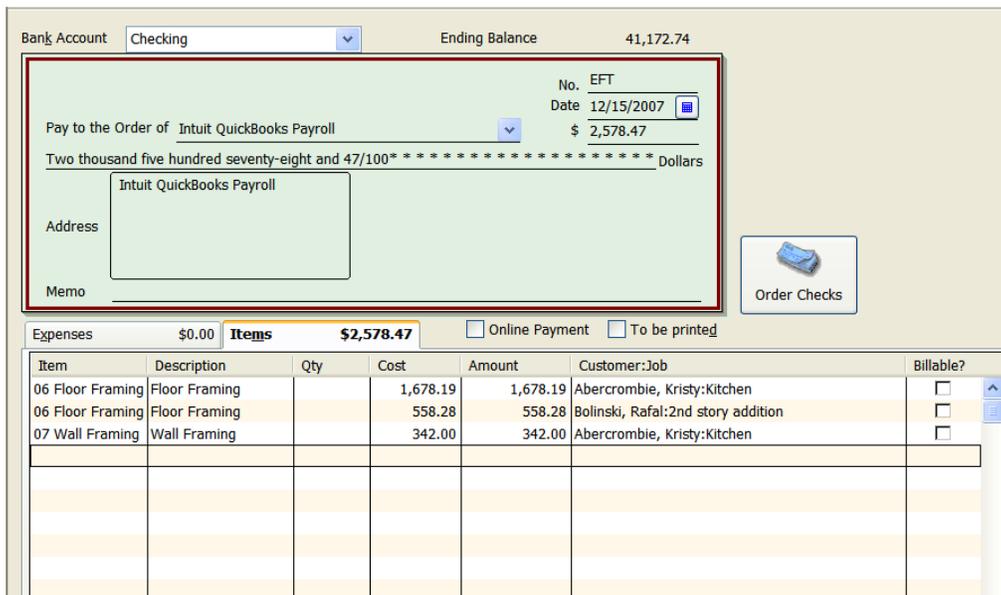When entering time for company employees, use the Weekly Timesheet.

This records the expense of payroll by the job and by job phase.

Job costing when using a payroll service is more work. The calculations must be done by hand.

Additional Tips and Tricks for Contractors

Tip -

In QuickBooks, accounts that are used for job expenses should be cost of goods sold type. This allows them to show in the Cost of Jobs or (in QuickBooks) Cost of Goods Sold section of the Profit and Loss Statement. Overhead expenses should be an Expense type of account in QuickBooks. It is important to know how much of the company's revenue goes to actual job costs, overhead (cannot be attributed to any particular job), and profit.

Some expenses, like small tool expense or vehicle expenses or communications (cell phones) end up in overhead when they are actually job costs. If you use QuickBooks to do payroll, a Company Contribution type payroll item can be created to record a certain amount of these kinds of costs for each hour employees work. The rate may be as little as .50 per hour but will allow the amounts to be moved from overhead to direct job costs. Two general ledger accounts will need to be used. For the liability account use an expense type account called "Less Allocated Job Costs" and for the expense account use a Cost of Goods Sold account called "Allocated Job Costs".

Administrative Jobs

When using the timesheet feature in QuickBooks to record payroll, all hours must be assigned to a job. This usually requires setting up at least one 'administrative' type job being used to record time not directly attributable to a particular job. The costs associated with these administrative type jobs should be closed out by a journal entry or a zero check to administrative expenses.

Getting the Information to The Bookkeeper

Often it is a good idea to set up an item and even a job named Unknown. These can be used when office personnel run into occasions where they need to record a check or a bill without all the information.

Avoid Gross Margin Fade

Gross Margin Fade is when the gross profit margin on job reports is one number, like 30% and another number, say 25%, on the Profit and Loss statement. What happened? Company wide, the real margin in this example is 25%. Look for job costs not recorded to a particular job. In QuickBooks Pro, this is a challenge. Look at transactions in Cost of Goods Sold on a Profit and Loss report. Add a column for Source Name and you may be able to find those that have a vendor name in the Name column. If no job name was entered, the vendor name will also appear in the Source Name column.

This is easier in QuickBooks Premier or Enterprise Solutions. Run an Expenses Not Assigned to Jobs report and filter for cost of goods sold type accounts. This should give you everything you need.