

YOUR BUSINESS



ACCOUNTING FOR LOST REVENUES

In the contractor world, costly change orders are the rule, not the exception. Often, there is an inability for contractors to keep the bid as the target, rather than just a starting point. The bid must document and demonstrate vital information and remain the benchmark for the project. However, beyond the bid, undocumented and unchecked change orders and work performed move the project away from the targeted price. This leads to an inability to recoup costs, leaving the company with a shrinking profit margin. Here are a few tips to head these battles off at the pass!

Identification of risk factors before a bid is created helps alleviate the need for change orders. Assessment checklists evaluate information such as limited site access, environmental hazards, and/or unreasonable project schedules and help in the preparation of budgets for time and materials. Using a cost engineer to identify risk before a bid is executed may require money up front, but, in the long run, saves the company the pain of losing revenue on unforeseen situations and nonbillable costs. Research on this level teaches a company to "self-edit" bids and build in special cost codes for future estimates. Using computerized software such as QuickBooks, the company can then memorize a template for estimates for an easier "checklist" approach.

"Since you are already out here, is it possible for you to also...?" This is a common question from a customer who eventually will not pay for the costs beyond the bid. A company plan with multi-



level training must be in place to steer clear of these black holes. Consider implementing the following processes:

- Develop a policy for a customer driven change order. There must be an isolation of extra hours booked to change orders with cause and value for all changes.
- Create a confirmation process for all hours in excess of contract.
 - Change order forms to identify potential direct and indirect costs that include ALL estimated costs as well as reason or "cause" for change.
 - Requests for Information form to satisfy extra work notice requirements.
- Implement training for bid teams and foremen on the following:
 - Time cards to segregate extra work costs.
 - Equipment records that segregate extra work costs.
 - Cause and effect relationship for work delays.

Finally, for financial managers of this project, all estimates and change orders must be entered into a program such as QuickBooks and all associated costs per job are posted to the project on a daily basis. It is important to understand that unless you are performing payroll on your own system and assigning each hour of regular, overtime, and burden rate to

each project, you are losing valuable information on the job costs. Financial scrutiny of costs is imperative and daily review must include:

- Hours per job using cost codes associated with the estimate.
- Immediately assign burden rates, including:
 - Equipment on site
 - Idle Equipment
 - Vacation pay
 - Health & welfare benefits
 - Shift differentials
 - Social security taxes
 - Unemployment compensation and taxes
 - Workers compensation insurance costs
 - Other labor related work costs
- Creating and analyzing project cost reports as well as sharing the success and problems of the estimate vs. actual information with team members.

Whether you use QuickBooks or a similar accounting software, preparation, implementation and dedication to these factors increases your profit margin and puts you on track for future success in contracted work!

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