

# SedonaOffice

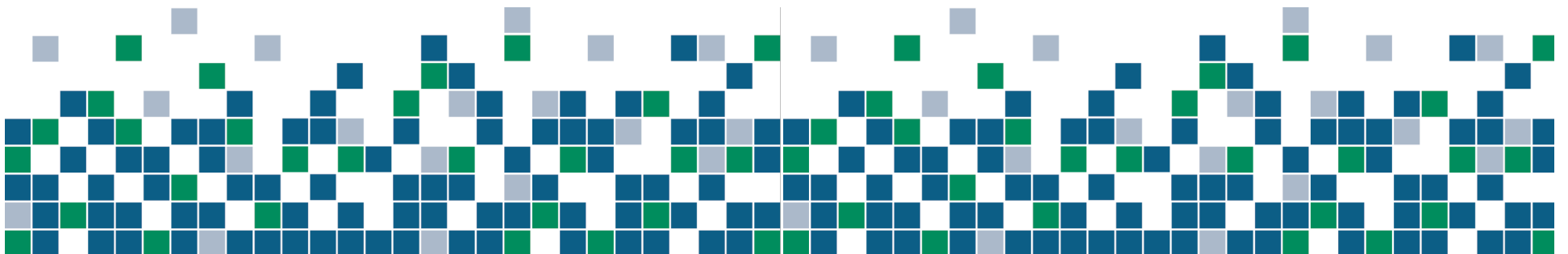
**13<sup>TH</sup> ANNUAL USERS CONFERENCE**

January 12-14, 2015 | Coronado Bay, CA

## Job Costing and Accounting Methodology

Michael Marks, Perennial Software

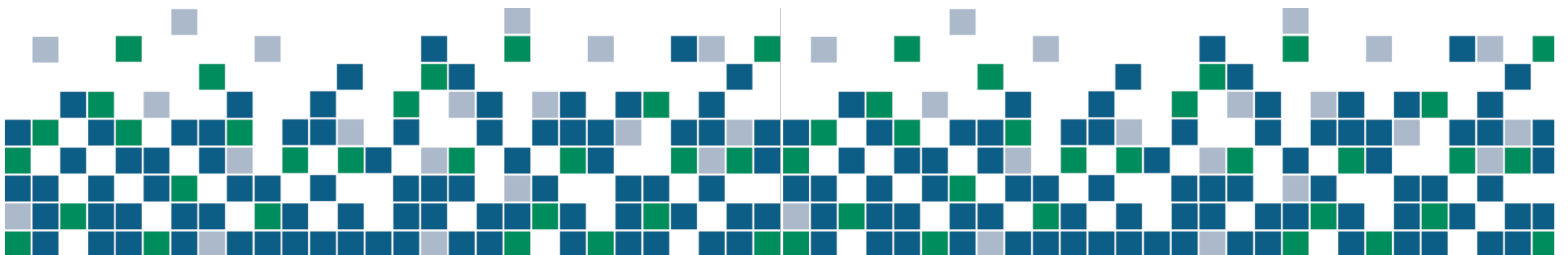
Jim Lee, Astute Financial



# Job Costing Benefits

- Review profit/loss on individual jobs
- Analyze product offering results (intrusion, fire, CCTV, etc.)
- Evaluate management and staff (sales and operations)

Question: Is job costing necessary for high volume residential operations?



# Job Costs

- Parts
- Labor
- Commissions
- Other
  - ✧ Subcontractors
  - ✧ Equipment rental
  - ✧ Permits
  - ✧ Etc.

Costing			
Estimated Costs		Actual Costs	
<b>Income</b>			
Install Charge	\$2,499.46	Install Charge	\$2,499.46
Change Orders	\$0.00		
<b>Costs</b>			
Parts	\$628.76	Parts	\$628.76
Labor	\$1,262.00	Labor	\$1,400.00
Overhead	\$0.00	Overhead	\$0.00
Other	\$360.00	Other	\$450.00
Sub Total	\$2,250.76	Sub Total	\$2,478.76
Sub Profit/Loss	\$248.70 10%	Sub Profit/Loss	\$20.70 1%
Commissions	\$519.95	Commissions	\$519.95
Total	\$2,770.71	Total	\$2,998.71
Profit/Loss	(\$271.25) -11%	Profit/Loss	(\$499.25) -20%
Recurring	\$45.00	Recurring	\$45.00
Payback Period	6.03 Months	Payback Period	11.09 Months

# Standard Part Costing

## Inventory Receipt

	<u>DR</u>
(CR)	
Inventory	\$110
Accounts payable	( 100)
PPV	( 10)

## Part Issuance

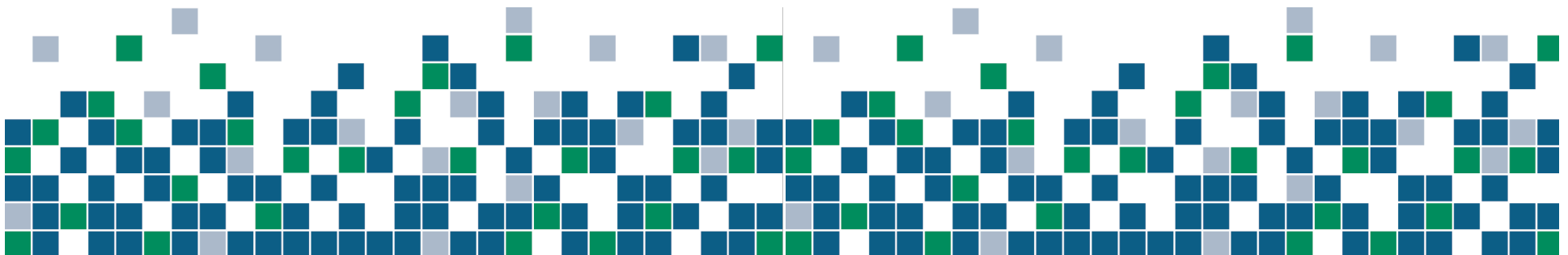
	<u>DR</u>
(CR)	
Cost of Parts	\$110
Inventory	( 110)

COS - Physical Count Variance	12,488
COS - Freight on Parts	2,974
COS - Direct Expensed Items	5,594
COS - Hardware, Wire & Supplies	18,224
COS - Taxes on Parts Purchased	4,840
COS - Other Part Costs	3,325
COS - Supplier Discounts	(890)
COS - Parts Price Variance	(47,881)
<b>Part Cost Variance</b>	<b>(1,326)</b>

# Standard Labor Costing

- Unburdened Rate
  - ✧ Hourly wage only
- Fully-burdened Rate
  - ✧ Wages
  - ✧ Payroll taxes
  - ✧ Benefits
  - ✧ Vehicle expenses
  - ✧ Communication expenses
  - ✧ Etc.

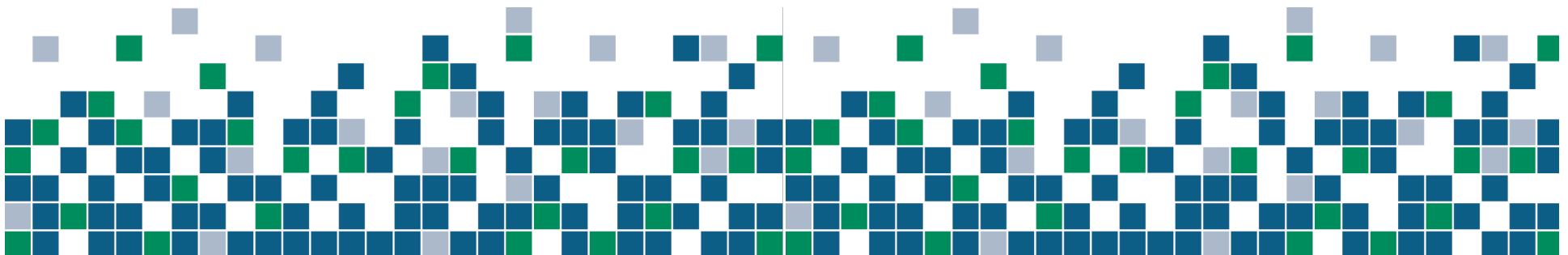
Communications - Mobile Phones	2,237
Education & Training	1,992
Employee - Insurance (Health)	9,103
Employee - Payroll Taxes	5,056
Employee - Wages	90,498
Employee - Workers Comp	4,954
Tools & Supplies	1,316
Uniforms	1,039
Vehicle - Fuel	6,190
Vehicle - GPS	945
Vehicle - Insurance	1,889
Vehicle - Repairs & Maint	1,427
Vehicle - Taxes & Licenses	556
Labor Cost Entries	(123,571)
<b>Labor Cost Variance</b>	<b>3,632</b>



# Calculation of Labor Cost Rate

Department Expenses	\$127,203
Hours charged to jobs/tickets	<u>2,400</u>
Burdened Hourly Rate	\$ 53.00

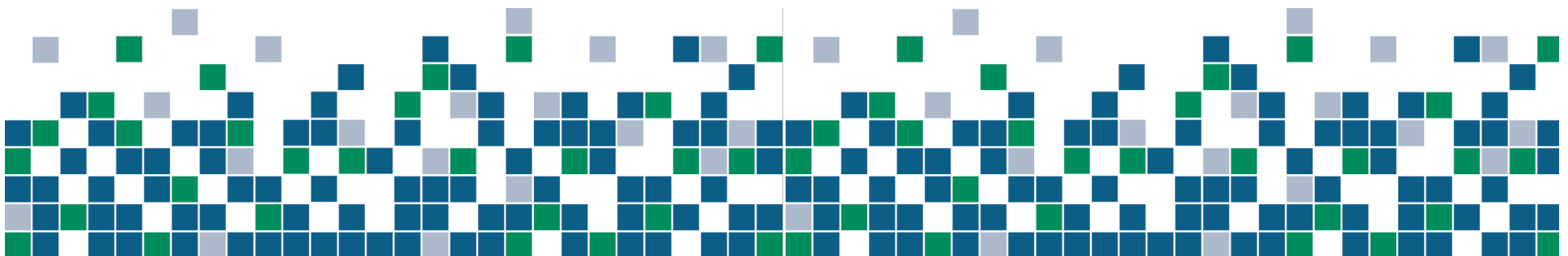
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# SedonaOffice Setup Options

- Immediate recognition of revenue and costs
  - ✧ Requires month-end over/under billing adjustment
- Deferred recognition of revenue and costs
  - ✧ Requires month-end job accrual entry for large jobs
- Immediate recognition of revenues; deferred recognition of costs
  - ✧ Requires recognition of costs when job invoice is created

Matching of revenue and costs is the primary objective!



# Over (Under) Billing Adjustment

When SedonaOffice is set up to recognize revenue and costs immediately, revenue must be adjusted at month-end.

Job	Customer#	Site Name	Est Income	Est Material
Job Type	Date Sold	RMR Sold	Act Income	Act Material
<b>Denver</b>				
5107-1	4760720	TA Odo	26,882.60	8,153.19
Install-Burg	12/18/13	0.00	13,441.33	0.00
5133-1	4749720	Diryeen	0.00	0.00
Takeover Competit	12/23/13	35.00	0.00	0.00
	3340076	Kharles	46,086.10	9,285.96
	1/13		15.31	0.00

Job Estimate	
Price	10,000
Costs	<u>(8,000)</u>
Net	<u>2,000</u>
Margin	20%

Revenue Adjustment	
75% of job price	7,500
Billed to date	<u>(5,000)</u>
Adjustment	<u>2,500</u>

Month-End Status	
Estimated costs	8,000
Costs incurred	6,000
Percent complete	75%

Month-End Results	
Revenue	7,500
Costs	<u>(6,000)</u>
Net	<u>1,500</u>
Margin	20%



# Job Accrual

Job Accrual				
Job Information		Actual Costs		
Estimated Costs		WIP Costs		
Job_Code	Site_Name	Hrs Remaining	% Billed	% Cr
32017	Tom Selleck	26.00	100%	78%
5095-1	Gloria Estafan	11.25	46%	44%
5107-1	Tank Systems Inc	21.75	50%	71%
5209-1	Waylon Jennings	31.50	50%	15%
5210-1	Goober Pyle	32.75	50%	17%
5148-1	Karsten Electrical	51.00	52%	14%
5156-1	Buggies LLC	24.75	50%	66%
5254-1	Carv Grant	7.00	50%	

When SedonaOffice is set up to defer recognition of revenue and costs, revenue and costs on large jobs must be accrued at month-end.

Using the Job Accrual tool, the accrual journal entry is automatically created based on “Hours to Complete” and “% Completion”.

78%	74%	30.00	71%
44%	25%	10.00	27%
71%	49%	21.75	49%
15%	24%	41.50	19%
17%	43%	60.00	29%
14%	66%	151.00	40%

Journal Entry						12/31/2014
GLNo	Description	Debit	Credit	Memo	Branch_Code	Category_Code
122190	Job Accrual	14,161.02		Job Accrual	Denver	J-Alarm
410800	Accrued Revenue		39,857.87	Job Accrual	Denver	J-Alarm
510031	Accrued Costs	25,696.85		Job Accrual	Denver	J-Alarm
122190	Job Accrual	5,242.19		Job Accrual	Denver	J-Fire
410800	Accrued Revenue		18,361.00	Job Accrual	Denver	J-Fire
510031	Accrued Costs	13,118.81		Job Accrual	Denver	J-Fire
122190	Job Accrual	2,396.29		Job Accrual	Mountain	J-Alarm
410800	Accrued Revenue		5,690.69	Job Accrual	Mountain	J-Alarm
510031	Accrued Costs	3,294.39		Job Accrual	Mountain	J-Alarm

# Recognize Costs with Invoice

**Job Invoice**

Rflents  
10988 Rflents  
Avon, CO 81620

Rflents  
Site 11590 Rflents  
Address: Denver, CO 80202

Bill RMR  
RMR Reason: Install New System  
Activation Date: 1/11/2015  
Next Cycle Date: 01-Feb-14

Aging Date: 1/11/2015  
Invoice Date: 1/11/2015  
Invoice #: 480337

↓

Items \$199.00 | Parts \$0.00 | WIP MLOC

Material WIP		Labor WIP		O/H WIP	
Current Balance	371.40	Current Balance	0.00	Current Balance	
Original Balance	371.40	Original Balance	0.00	Original Balance	
% to Allocate	100	% to Allocate	100	% to Allocate	100
Allocation	371.40	Allocation	0.00	Allocation	0.00

It can be difficult or impossible to properly match revenue and costs when costs are recognized at the time a job invoice is created.

# Income Statement Presentation

### Installation Revenue

Alarm	315,286
Access Control	21,259
Fire System	91,557
CCTV System	15,554
Other	12,254
Accrued Job Revenue	10,589
	<hr/>
	466,499



### Direct Costs

COS - Jobs (Parts)	263,990
COS - Jobs (Labor)	122,600
COS - Jobs (Commissions)	32,170
COS - Jobs (Install Subs)	45,342
COS - Jobs (Permits)	1,772
COS - Jobs (Equip Rent)	2,874
COS - Jobs (Misc)	27,873
COS - Accrued Job Costs	7,891
	<hr/>
	504,512



**Contribution Margin**

**(38,013)**

★ **Month-end accrual  
for large jobs.**

# Important Points

- Estimated costs and hours must be entered on jobs to achieve a proper matching of revenue and costs
- Estimating “percentage of completion” based on “adjusted hours” usually produces the most conservative and accurate estimates
- Using a standard labor cost rate to allocate technician expenses to jobs and service tickets does not change Gross Profit on the income statement.

