

Record your revenues and expenses on a job-specific basis to better develop profitability.

Annual, and even monthly financial statements, are not the only means of looking at a business's performance and financial condition. Neither record, however, is fine-grained enough to show the degree of detail you need in order to know your sources of revenue and expenses or for the evolution of your profit. This type of information can determine what jobs made money, the cost of labour, the cost of material and the cost of assigning capital assets to a job. Regardless of whether your business provides goods or services, recording the revenue and costs associated with each individual project will provide information helpful for estimating future projects. Although not all projects will be identical, typically the bookkeeping requirements will be similar.

Accounting software and programs developed specifically for spreadsheets are now available that allow owner-managers to review revenue and expense data sooner and faster and thereby exercise closer control over projects.

Revenue Recognition

When a job is quoted, bookkeeping should be instructed to record the quote in the project file. When the project is billed, whether on a percentage of- completion or completed-contract basis, the final sales figure should be entered. Comparison between final billing and the original quote is therefore available for management and staff to determine whether there should be improvements in the quotation process or whether there is room for discount on the next project.

Labour

Labour is undoubtedly one of the most difficult costs to track and record, especially when employees are involved in a number of different projects simultaneously. Employees must be encouraged to provide details of hours worked for each project on a time sheet. By assigning a code number to each project, the total hours worked on each project can be tracked for every pay period. Management will have to create guidelines to deal with unproductive time, such as travel time between projects, to ensure employee costs are fairly allocated. When the time sheets are submitted, payroll should allocate the cost, based on the hours worked on each project. Labour cost should include imputed CPP, EI, vacation pay and benefits accrued to the employee.

Material and Outside Services

Material cost can be a frustrating area to deal with if purchasers do not indicate the project to which the materials and/or services have been assigned. To ensure correct allocation of costs, employees on-site and at central purchasing must indicate on the invoice the project to which the material is assigned. Once bookkeeping has received the invoices for recording in accounts payable, the cost can be allocated to the various projects.

Equipment

An hourly cost of equipment should be calculated. This standard hourly cost should include:

- ✓ Cost of the equipment, divided by estimated useful life in hours (e.g., if the equipment cost \$30,000 and has a useful life of 1,500 hours, then an hourly cost of \$20 might be considered);
- ✓ Estimated hourly maintenance;
- ✓ Licences and permits;
- ✓ Fuel; and
- ✓ Transportation to and from the job site.

A day-to-day recording of project costs will enable management to see immediately any risk of cost overruns. The owner-manager can then take action to prevent the overruns or ensure the purchaser is

aware of any that may have to be reimbursed under terms of the contract, if required.

Costing Equipment

Managing equipment costs by choosing the most appropriate equipment for the job is a combination of research before the purchase and reviewing the cost of operation and maintenance. Costs associated with similar equipment already used in your business can act as a purchasing guide. But, before you can review these costs, they have to be recorded. Costs that should be allocated to the equipment include:

- ✓ Purchase price or lease;
- ✓ Interest (if equipment is financed);
- ✓ Maintenance;
- ✓ Fuel;
- ✓ Insurance;
- ✓ Kilometres driven;
- ✓ Sale or trade-in value.

The Whole Is the Sum of the Parts

Information that is not used is of no value. Thus, the value of maintaining detailed records lies in their use in the ultimate review of the elements that make up the total project. Knowing the sources of revenue and costs allows the calculation of gross margins and makes possible the prediction of future material, labour and equipment costs. Reference to the particulars of recent projects enables management to do a better job pricing the next project. For instance, if projects are coming in below management's goal of a 40% gross margin at year-end, study of the detailed records of the past year should make it easier to pinpoint areas for improvement. The records may show where labour is inefficient, material or subcontracts are too pricey, the wrong equipment was used or, if all those areas are in line, the selling price was too low.

Buy the Right Software

There are many software packages available to assist management in the detailed recording of project costs. Owner-managers should team up with their chartered professional accountant and determine project information that would be most beneficial, and then consider purchasing the accounting software or project management software best suited to their business.

The greatest benefit from examining the past is that it will assist in making positive changes that will improve the future of your business.

On The Horizon

In an effort to improve the existing standards for financial reporting by not-for-profit organizations to better meet financial statement user needs, the Accounting Standards Board and the Public Sector Accounting Board jointly issued a Statement of Principles (SOP). This SOP contains 15 proposed principles which, if accepted, would form the basis upon which new standards would eventually be developed. The boards have been seeking input from the public and welcome comments up to

December 15, 2013. You can access the SOP at <http://www.frascanada.ca/standards-for-not-for-profit-organizations/documents-for-comment/item73780.pdf>

If you are interested in learning more, please contact Anjali Dilawri, CPA, CA at Logan Katz.