

## Best-in-Class Bookkeeping for Construction Business Owners

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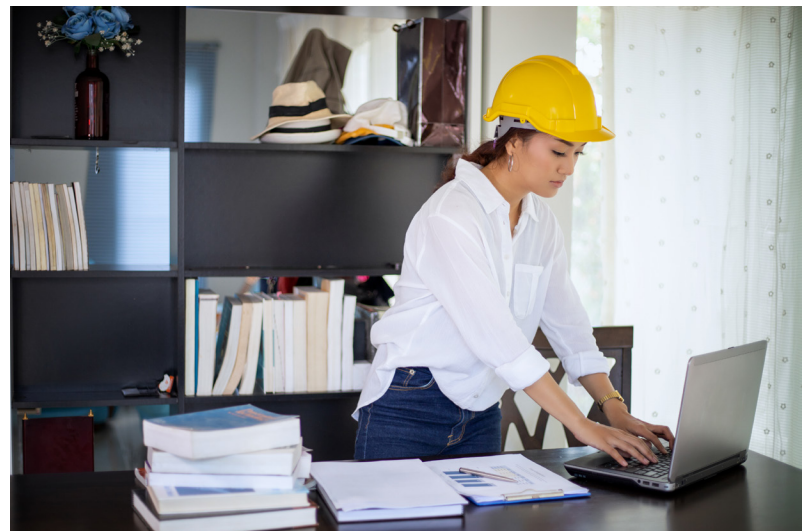
A construction business whose structures collapse is doomed to failure. This is why blueprints are drawn and foundations must be solid. A construction business that fails to keep its books is equally at risk of failure. If a construction business fails to track income and expenses, materials can't be ordered, paid for, and their delivery ensured. Without paying workers on time to staff a job site, nothing can be built. If nothing can be built, a construction business can't survive.

That's why it's essential for a construction business to take time to do its books – proactively.

### The What and Why of Tracking Construction Expenses

To do a construction job well and profitably requires accurate costs for bidding and budgeting. According to the Associated General Contractors of America, 84% of projects in 2021 carried higher-than-anticipated costs. That trend continued in 2022. Balancing deadlines, available funds, client demands, and lender concerns cannot be done without controlling costs. What isn't measured cannot be controlled.

This makes bookkeeping one of a construction business's most important tools.



### BOOKKEEPING AND ACCOUNTING

Bookkeeping is the practice of documenting business transactions and the techniques used to record them. Whether building garages or skyscrapers, the key components of bookkeeping are always the same:

**Recording of transactions:** It's essential to know your income (payment for work completed and work in progress) and your expenses (costs of materials and labor and payment for them). Without this, decisions about the timing of work on a specific project or planning for the future of the business cannot be made reliably.

**Categorization:** Business income and expenses should be classified by where money is coming from or going to. This

enables a comprehensive view of the business and helps identify any problems before they happen. For example:

- » (Income) sales revenue, \$240,000 (money came from a customer per contract)
- » (Expense) crane rental, \$15,000 (money went to the machinery rental expense account)

**Monthly Review:** This is the process of matching the transactions entered into the records with the matching bank or credit card statements and should be done at the end of every month. (This is also known as Reconciliation.)

Because bookkeeping keeps financial records up to date, you can create accurate financial reports – such as profit-and-loss statements, cash-flow statements, balance sheets, and transaction reports – that measure your firm’s performance. Bookkeeping data enables the accounting function. Accounting is the analysis of a company’s books and using that data to evaluate the condition of the business.

Accounting also includes filing tax returns, which are based on business income less its reasonable and ordinary expenses. (Note that this IRS definition doesn’t specify which deductions are acceptable and which ones aren’t.) In addition to filing federal taxes annually, other related taxes to be aware of are quarterly estimated taxes and payment of payroll taxes on behalf of business employees. When expenses are recorded with precision, it’s easier to pay the proper amount. And, without receipts to verify costs, those costs cannot be deducted.

Beyond providing the data for tax accounting, efficient bookkeeping also makes for sound business decisions year-round. Real-time data are the basis for choices by a construction business about needed materials, project alterations, workforce size, lease/buy decisions about equipment, and more. Well-maintained records provide a chance to enhance profitability and can lead to fewer potential problems with the IRS. They’ll also make interactions with an accountant smoother. Seizing opportunities or predicting problems is almost impossible if business records are stored in a box, a drawer, or a folder.

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## Getting Started on Effectively Tracking Expenses

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No matter how simple or complex a construction business is, a solid first step toward keeping accurate records is establishing a dedicated bank account(s) and credit card(s). This ensures that expenses are easy to identify and don’t get confused with personal expenses. It establishes a “paper trail” for times when needed (for instance, an IRS audit) and can insulate against creditors if the business stumbles. It also provides credibility, especially for a new business.

Some small construction business owners may think a notebook or a computer spreadsheet is sufficient for tracking expenses. It doesn’t take long for the process to become more complicated any time additional materials are needed, more subcontractors or employees are engaged, and multiple projects are worked on. Bookkeeping in a spreadsheet grows old quickly when time is at a premium and data and formulas don’t seem to be where they belong. While hiring someone to do the books part-time (or even full-time) may free owners and key employees to spend more time managing the actual construction work and sourcing new business, it may not be the sole solution.

With many invoices, projects, subcontractors, and other expenses to track, a construction business should consider a comprehensive financial management platform – that embraces bookkeeping, invoicing, and financial document management – to streamline its expense recording and reporting. Many platforms are available that make everyday bookkeeping easy to use, accurate, and flexible. Bookkeeping no longer has to be handled only at the office. Programs are accessible from a computer or a mobile device and come with default bookkeeping categories installed, avoiding the need to build things from scratch or on the fly. Because programs scan receipts and invoices and make them immediately available, a lot of entry work gets done automatically. That makes it easy to review business activity with a bank account and financial records to confirm that expenses and incoming funds have been recorded appropriately. Some programs, like one from The Neat Company, enable electronic payment directly through its invoicing function, which then makes it easy to collect on invoices by checking their aging. It can even provide

insights into top expenses and budget variations that can help maximize cash flow or enable business growth.


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## Constructing A Plan For Bookkeeping

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In a business where the principals need to spend time in the field or prospecting, bookkeeping can seem like more of a chore than a marker of the mileposts of success. Best practices can make bookkeeping less of a burden. Even with financial management software, it's necessary to adhere to a few simple rules:

- » **Schedule time for bookkeeping. In a field like construction, precision is essential, and that's just as true with bookkeeping. Calendar software makes it simple to handle bookkeeping on a regular basis – Tuesdays at 3:00, maybe – and prevents that big accounting hangover at tax time.**
- » **Be thorough. Don't ignore recordkeeping. Running down a material shipment for a job long-finished takes way longer than it does to be sure the shipping receipt and payment are recorded.**
- » **Plan for taxes. Know what the business deductions are. In construction, these will include business-related travel and vehicle expenses, power and utility bills, construction equipment and tools, materials used in construction. And don't forget more traditional business deductions, such as office supplies and equipment, website design and hosting, phone, advertising, and internet expenses, subcontractor costs and employee salary and related expenses. Set aside funds for paying estimated taxes and annual taxes.**

A construction business ultimately requires a process of planned steps and engineering that leads to the thing you want. The same is true of construction business bookkeeping. Choosing the method to record expenses is the same as a blueprint; bringing together receipts, invoices, and related documents is a logistical task in the same way as coordinating skilled workers, equipment, and raw materials. Digitize documents into a centralized system. Choose one that seamlessly matches them to the proper accounting category, banking details, and credit card information. This is the best way to obtain a complete picture of any construction business and provide a foundation for its success. 



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### About the Article

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