

HOW TO: EFFECTIVE BOOKKEEPING PROCEDURES FOR YOUR CONSTRUCTION COMPANY

DO YOU OWN OR RUN A CONSTRUCTION COMPANY?

In an industry where cost control is imperative if you wish to maintain profit margins, construction companies often find themselves in a situation where bookkeeping gets put in the “too hard basket”. The problem with this approach, however, is that growth and financial stability will always waver as a result.

As a business owner in the construction industry, **it's important to get your bookkeeping right to ensure the long term success of your business.**

Not only does accurate and efficient bookkeeping **keep you compliant with tax office** regulations (helping you to avoid nasty fines), it also **enables you to properly carry out procedures that are unique to your industry** – such as change tracking and subcontractor schedules.

If you own or manage a construction company, then the guidelines below are a good indication of what you need to be doing to ensure you get the most out of your business's books.

DAILY OR WEEKLY BOOKKEEPING

The more regularly you maintain your business's books, the better. Complex contractor schedules and continual changes to job costing add to the complexity of the day to day operations of any construction business.

0-10 Employees/ Subcontractors: In a smaller company, there may not be enough bookkeeping work to justify daily attention. Most bookkeeping reports can be run on a weekly basis to ensure any discrepancies are identified and attended to.

10+ Employees/ Subcontractors: Higher staff numbers usually mean you will need to run daily reports to ensure that any problems are identified as soon as possible, before they begin costing your company money.

EFFECTIVE MANAGEMENT REPORTING

Construction businesses often have a large number of project sites functioning at any one time. As such, it's extremely important for your business to be able to avoid unnecessary costs, develop a strong business strategy for increasing profitability, and ensure cash flow forecasting is correct. These measures will help ensure the longevity of your business.

A cash flow forecast is an estimate of the money you expect to flow in and out of your business. Irrespective of the size of your business, cash flow forecasting on a weekly basis helps you plan ahead for occasions where cash may become tight before easing at a later point in time (for instance, cash may be tight mid-month, but there will be enough again at the end of the month). This ensures you're able to pay your employees and suppliers in a timely manner.

In order to meet your target profit ratios, it's also important to keep your construction company's costs to a minimum. A budget and variance analysis allows you to do this.

Budgeting involves planning your costs for a particular period of time, and allocating sufficient funds to cover these. A variance analysis is then used to compare your budget with the monies you actually spent over the duration of each period.

0-10 Employees: We recommend you use a monthly budget and variance analysis to adequately manage your business's finances. We also recommend weekly cash flow forecasting.

10+ Employees: With the higher turnover of a bigger business, the potential for costs to rapidly spiral out of control increases. Along with weekly cash flow forecasting, we recommend a weekly budget and variance analysis, as this will enable you to identify discrepancies and address the causes ASAP.

CONTRACTORS OR PAYROLL?

Every construction business has faced the question of whether it's more economical to employ staff, or use contractors.

Too many staff can create unsustainable overheads and expenses that diminish or wipe out your profits. On the other hand, engaging contractors can be frustrating when it comes to meeting project deadlines. Employees are more reliable and easier to schedule, but contractors reduce administration time, as you only need to pay invoices, not process superannuation and PAYG, etc.

Both solutions have their advantages, and their disadvantages. However, if you do hire employees, you'll need bookkeeping software that includes payroll processing, and is equipped to properly handle superannuation and PAYG payments. Your bookkeeper will help you choose the appropriate software, and provide training and assistance with using payroll features.

MOBILE SOLUTIONS

Because the majority of your work hours are no doubt spent onsite, it's important that you implement a mobile bookkeeping system. This will allow you to record any change orders or other important information on the spot, making this and other aspects of your business's bookkeeping as quick and easy as possible.

Once you've selected and implemented the most appropriate bookkeeping system for your construction business, it's imperative that staff and contractors have a complete understanding of how the mobile solution operates. Not only can this incorporate inventory control and track changes, but can also be used as a time recording system to ensure staff are paid timely and accurately.

IMPLEMENTING EFFICIENCIES

Some bookkeeping tasks can be completely automated, saving you time and money, and ensuring that your data and reporting is timely and accurate.

0+ Employees: Automated tasks that can be used in construction companies of all sizes include setting up secure bank feeds so manual data entry is not needed, the delivery of inventory reports that identify when stock levels are low and items need reordering, and job costing codes to simplify invoicing.

EXPERT ASSISTANCE

If you would rather leave bookkeeping and financial management to the experts so that you can concentrate on your business, EzyAccounts can help. Our local bookkeepers are all highly-trained and qualified, and have the necessary experience to help you get the most out of your business's books, and implement bookkeeping solutions that are unique to the construction industry.

To learn more, call us today on 1300 313 397.

