



# CONSTRUCTION BOOKKEEPING

## 101



# **CONSTRUCTION**

# **BOOKKEEPING**

# **101**

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# Dedication

*Construction Bookkeeping 101* is dedicated to  
**Roz Lang** and **Barbara Taylor**.

**Roz Lang**, a past NAWIC Region 12 Director and long-time Member of the NAWIC Los Angeles #42 Chapter, spent many years promoting the NAWIC Education Foundation and its mission. Upon her passing, through her endowment to the Foundation, the NEF Board of Trustees was able to bring about the development of this certification course.

The life of **Barbara Taylor**, a past NAWIC Region 12 Director and long-time member of the San Fernando Valley #153 Chapter, is honored by the chapter's generous contribution to the funding of the development of this certification course.

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# **book keep ing** n. the work of keeping a systematic record of business transactions (Webster's New World Dictionary)

One of the critical components to a successful business is an accurate system that records the financial information for the business. This “bookkeeping system” allows the owner to determine how and if there are profits in the business and provides information that may allow the owner to increase the profits by controlling the expenses. The “bookkeeping system” will also serve as a financial picture of the business that can be used by the company to obtain credit when necessary.

Each business enterprise, whether a sole proprietor or a multi-national corporation, will develop and maintain different levels of complexity within their bookkeeping system depending on their informational needs. From the simple to the complex, all bookkeeping systems have certain key components that are necessary to obtain an accurate picture of the business' finances. The purpose of this course is two-fold. One, it will allow anyone to set up and operate a simple bookkeeping system for a construction company; and two, it will allow anyone to work in both simple and complex bookkeeping systems as either a bookkeeper or under a bookkeeper in one part of the system. Whether you are an accounts payable clerk or a full charge bookkeeper, you will understand how to perform your job better by learning more about the whole system of bookkeeping.

For many years now, those of us in construction have heard continually about the shortage of workforce in the construction trades. There was not going to be enough trained trades workers to accomodate the construction business in years to come. We never heard about the potential shortage of trained clerical construction employees. What is needed in our industry are people who can walk into a constuction company office, sit down and pick up where the last employee left off.

Experience in the “hiring” seat and finding a lack of qualified or even nearly qualified candidates has forced the issue of basic construction bookkeeping training.

It is the Foundation's hope that students undertaking this certification course will persevere through the certification testing.

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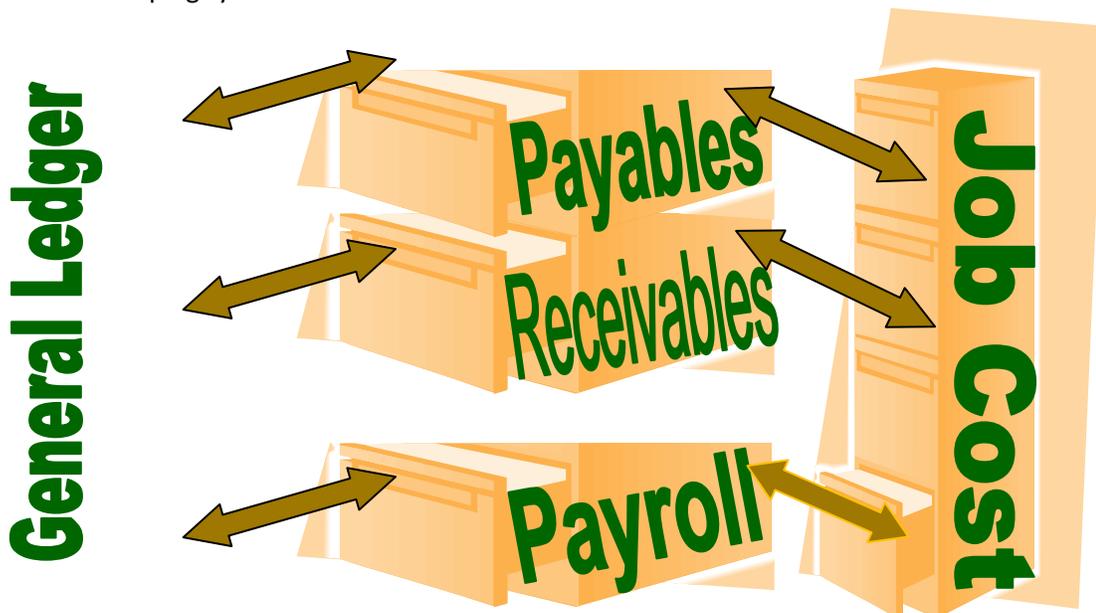
## Chapter I-General Ledger



There are many components in the process of recording the monetary transactions of a business and we will discuss each of the components separately in this book. However, all of the components of the process are collectively reflected in both the General Ledger and the Job Cost component of the bookkeeping system. The accounting system we are using in this book is called an “accrual” basis of accounting. Some small companies use a cash basis accounting system for their record keeping. A cash basis accounting system records only the bank transactions. So, we’ll begin our discussion with the General Ledger. In the discussions of the other components of the system, we’ll also refer back to the General Ledger and show how that component is reflected and how the General Ledger is affected by the components.

Where does the term General Ledger come from? Many years ago, before Bill Gates (BBG), all of the accounting information for a company was kept on “ledger sheets” (see example above). These sheets were kept in books and the information was written by hand and calculated by calculators. Can you imagine the amount of time it took just to record the financial information? Today we have computers, accounting software packages, and even Excel to make all of this much easier. However, the name, General Ledger, has stuck. However, the various components of the bookkeeping system are called “journals”.

The following diagram illustrates the relationship between all of the components in a construction bookkeeping system.



## Chapter II – Job Cost



Along with the General Ledger, the other large depository for financial information in a construction company's bookkeeping system is called Job Cost. All of the financial transactions that a construction company has that are posted to the General Ledger Accounts in the section called "Direct Costs" and "Construction Income" are posted to the individual jobs that the company is currently working on. While the General Ledger produces financial statements that show the overall profitability of a company, the Job Cost component will show the profits (or losses) on individual projects. In Job Cost, you can easily see not only which construction projects were profitable but what areas in a project were profitable and which were not profitable. The Job Cost record for a construction project will also compare the amount spent on the job with the amount budgeted for the job. For instance, you will be able to compare your estimate for the amount of lumber needed for the project with the amount that was actually spent on lumber. This information is critical to improving a construction company's bidding process on future jobs. Illustration No 1 is a sample of a Job Cost Detail Report and Illustration No 2 is an Excel spreadsheet that shows the manual postings and then below that illustration you can see how those costs are posted to the General Ledger.

While the General Ledger is more like a summary of the transactions, the Job Cost component is the details of all these transactions. If you look back at the discussion on the General Ledger, you see the different accounts that are used to accumulate information. The Job Cost component is broken down into individual projects that the company is constructing. Typically the names of these accounts correspond to the title of the job. For example, the name might be the job's address "123 Main Street" or the name might be the name of the structure, "The Town Center," while some companies designate numbers for each job. Each of these project accounts are broken down further to show types of expenses for a project. A typical breakdown will show the following areas:

- Material (no installation)
- Labor (W-2 employees)
- Subcontractor (includes installation)
- Equipment (both rented and owned)
- Other

## Chapter III- Accounts Payable



The component of the construction bookkeeping system that is called Accounts Payable is where the company tracks the money that is being spent for both the projects it is currently working on and the administrative costs or overhead for the operation of the business. While all of the information entered in Accounts Payable is also compiled in the General Ledger, only the portion spent on actual jobs is compiled in Job Cost. Every company has its own procedures for how the Accounts Payable component is handled and while the sequence may differ between companies, certain procedures will remain the same. Only when and where the procedure takes place may be different.

Where does the Accounts Payable information come from?

### **PURCHASE ORDERS**

It all starts with Purchase Orders. A Purchase Order is a legal contract that the company enters into with vendors, both suppliers and subcontractors, for goods and/or services that they will supply to the company. In some cases, the General Contractor will have a contract form that is used with subcontractors who provide both material and labor for a project. When this type of contract is used, the company may not issue a Purchase Order for the services. Purchase Orders are not typically posted to the General Ledger or to the Accounts Payable Ledger. They can be posted to the Job Cost for a particular job, but they typically only show up on the Job Cost Detail report for the job and are designated as committed costs. There are many different forms that can be used as Purchase Orders and some companies design their own. Most computerized bookkeeping systems will produce a Purchase Order that the company can use to enter into this legal contract. Illustration No 1, on the next page, is an example of a Purchase Order.

What is the difference between a “subcontractor” and a “supplier”? The main difference is a subcontractor supplies labor and sometimes materials. A supplier only supplies materials with no installation labor.

## Chapter IV – Accounts Receivable



We've talked about how a company pays its bills; now we need to talk about where the company gets its money to pay those bills. That's called Accounts Receivable. The Accounts Receivable section of the bookkeeping system keeps track of:

- Who owes money to the company.
- How much they owe.
- How long (days) they have owed the money.
- Who has paid money to the company.
- How much has been paid to the company.

Since Accounts Receivable is about money that you receive or will receive, this is an asset to the company and has a positive (debit) value on the Balance Sheet of the company. Typically Accounts Receivables will be in the 100 numbers on the Chart of Accounts.

### ***Where does it start?***

It all starts with the company sending a "bill", "invoice" or "Statement" to one of their customers for the work the company has completed to date. Many construction companies create their own invoice that is sent to their customers or they use the AIA form for requesting payment. We'll start by discussing a simple invoice created by the company and then later discuss the AIA billing form.

Components of the invoice:

- Company's name, address, phone and fax numbers
- Name of a contact that the client can use if they have questions
- Date of the invoice
- Invoice Number
- Any purchase order information and/or project number that the client assigned to the project
- Brief description of the work or portion of the work that is being billed. This may include a reference to a sequential numbered "draw." Projects that have long timeframes for completion often have provisions in the contract for periodic draws that can be submitted for payment.
- Amount of money being requested for payment to the company.

## Chapter V - Payroll



Today companies have many solutions available that manage their payroll obligations besides having an in-house payroll department. Many companies outsource their payroll to companies that specialize in this area. These companies will not only calculate the payroll and generate the payroll checks; they will also file all of the necessary payroll tax forms with local, state, and federal offices. The decision to outsource payroll is usually based on the cost of both time and money necessary for the company to complete the task in house. Completing payroll tasks can be very time consuming and the use of a computerized bookkeeping system will greatly reduce the amount of time and money spent on these functions. Therefore, when evaluating the costs involved, it is sometimes more cost efficient to use a computerized system than outsourcing. Even if the payroll functions for a company are outsourced, it is still necessary for a bookkeeper to know how the tasks should be performed in order to ensure that the company who is handling the procedures is completing them correctly.

Let's start with some necessary records that are required by the IRS for each employee in a company.

- W-4 – Employee's Withholding Allowance Certificate
- I-9 – Employment Eligibility Verification, with copies of appropriate identification documents

### **W-4- Employee's Withholding Allowance Certificate**

Each year the IRS requires that each employee fill out a W-4 form (Illustration No 1) and the company is required by the IRS to maintain this record on file for 4 years. The W-4 form comes with instructions on how to fill out the necessary information; but, the bookkeeper should be familiar with these so that she can offer help and guidance to the employees. These forms are necessary for a bookkeeper to properly calculate how much money is to be withheld from the employee for payroll taxes.

### **I-9 – Employment Eligibility Certificate**

This form (Illustration No 2) is filled out when all new employees, regardless of citizenship status, are hired. The form and instructions on filling out the form are available on the Department of Homeland Security's website [www.dhs.gov/ximgtn](http://www.dhs.gov/ximgtn) . Because of the serious problem with undocumented workers that some states are experiencing, it is very important that this form be filled out correctly and kept on file for every employee. You should read the instructions that are on the website and follow them very carefully. It is important that the correct boxes be filled out correctly.

## Chapter VI-Organizing the Bookkeeping System

*“A cluttered work area is a sign of a genius...*

*Unless it's the Bookkeeper!”*

A cluttered bookkeeping area will always worry the owner of any company. Keeping your work organized will tell the owner that you are on top of the most important part of his company...the money! Here are some tips to keeping the bookkeeping system organized.

- Everything has a place and everything is in its place.
  - Set up files and a place to keep them so that they are handy to you and you can easily file things away as you finish with them.
  - If you can not enter accounts payable invoices everyday, set up a file that will hold “Invoices to be entered-AP”. This way you can easily find them when it is time to enter them.
  - Set up a file for “Open Purchase Orders”. An open purchase order is one that the invoice has not been received and is waiting to be matched with the invoice. This file can be either alphabetical, numerical, or by company name.
  - Set up files for invoices that are waiting for checks to be paid. (Alphabetical or by company).
  - Set up files for Accounts Payable vendors to hold all paid invoices. These are usually kept for the current year and then stored at year end.
  - Set up a file for Workers Comp certificates that can be easily used to check the status of their expiration dates before entering their invoices.
  - Set up files for W-9 forms on subcontractors.
  - Set up employee files to keep all Federal, State & Local forms, evaluations, and personal information.
  - Set up customer files for customers information
  - Set up file for Accounts Receivable Invoices that are waiting for payment (“Open Invoices”).
  - Set up a file to store your worksheets on General Ledger Journal entries.

A great time saver is to only handle a piece of paper once. However, that isn't always possible in the Bookkeeping area. But, if you can keep your filing up to date as you go, you will find it less time

consuming and not nearly as boring as doing it all at once. Keeping everything stored in easy to access files makes your work day more organized and less hectic. It also keeps the company owner in a better frame of mind. Remember that you are handling the company's money and money is how the company stays in operation.