



**Session #401 - Professional Services
Consulting - Leslie Shiner**

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Tracking Labor Costs and Setting Billing Rates

Leslie C Shiner
Owner/Principal
The ShinerGroup

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Leslie Shiner

- The ShinerGroup – Owner and Principal
- Financial & management consultant for over 20 years
 - MBA in Accounting and Finance from U.C. Berkeley
- Intuit QuickBooks Certified ProAdvisor
- Certified QuickBooks Enterprise Solution 7.0
- Sage Software Certified Consultant
- CEDIA Certified Trainer, Top 10 Instructor (2005 and 2006)
- Author:
 - *Best Fit Construction Management Software*
 - *Implementing New Business Management Software*
 - *Health Checkup for Your Construction Business*


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Session Objectives


- Understand and measure the true costs of labor
- Determine all costs that should be included in a fully burdened labor rate and used to set billing rates
- Discover ways to track and account for billable and non-billable time
- Learn how to use tools such as zero dollar checks, shadow payroll and actual payroll to create accurate costs
- Analyze different allocation rates to not only cover overhead costs, but improve your profitability

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Fully Burdened Payroll

- Gross pay to employees plus burden of paying employees
- What constitutes “burden” and why bother?
- As a service industry, majority of costs are labor
 - Billing rates need to cover gross wage, labor burden and overhead
- Use software to more accurately cost time to jobs
- Higher COGS, lower overhead

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Payroll Issues

- Be sure you turn on preferences to job cost all burdens
- Workers' Compensation by work codes
 - Preferences
 - Setting different tasks and different rates
- Labor has the most risk of variance
 - Enter time cards to job cost time for better management
 - Allows for T&M billing and time tracking

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Two Different Kinds of Payroll Calculations

1. Employee deduction
 - Does not affect cost of your payroll
2. Employer cost:
 - Increases cost of labor
 - Does this belong “above the line” or “below the line?”

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Types of Labor Burdens

- Standard
- Other typical
- “Indirect Direct” or variable overhead
- Allocated overhead

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Are You Allocating All Costs?

- Some employers only consider standard burden
 - Employer Social Security and Medicare
 - State employer costs such as Unemployment
 - FUTA
- What about other typical burdens
 - Liability insurance
 - Health insurance
 - Some employers only track employee portion
 - But, employer portion is a cost that should be included as a burden
 - 401K and other pension plans

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What About Other Costs?

- “Indirect Direct” or Variable Overhead
 - Communication equipment, cell phones
 - Vehicle costs
 - Office supplies/small tools
 - Education, training and certifications
 - Unbillable time, down time
- All costs that belong to employees
 - Ask yourself: If I hired another person, what costs will go up?

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Payroll Tip – Job Cost Additional Burdens


- Allocate other “indirect-direct” costs
- Set up new Payroll Item
 - Payroll Item Type: Company Contribution
 - Name: Labor Burden Allocation
 - Liability account: “Less Applied Overhead” (Expense range)
 - Expense account: “Applied Overhead” (COGS range)
 - Either dollars per hour or dollar % of gross pay

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Labor Burden Allocation

Item Name	Type	Amount	Annual ...	Tax Tracking	Payable To	Account ID
5188-Plumbing Costs	Company Contrib...	9.1%		None	State Comp...	
5213-Concrete	Company Contrib...	10.0%		None	State Comp...	
5475-Painting Costs	Company Contrib...	4.2%		None	State Comp...	
5553-Roofing Costs	Company Contrib...	24.2%		None	State Comp...	
5646-Carpentry Costs	Company Contrib...	10.2%		None	State Comp...	
9891 Office	Company Contrib...	0.9%		None	State Comp...	
9899-Supervision C...	Company Contrib...	10.12%		None	State Comp...	9807-0978
Labor Burden Alloc...	Company Contrib...	100.0%		None		
Advance Earned In...	Federal Tax			Advance EIC ...		12-3456789
Federal Unemploy...	Federal Tax	0.8%	7,000.00	FUTA	Internal Re...	12-3456789
Federal Withholding	Federal Tax			Federal	First Nation...	12-3456789
Medicare Company	Federal Tax	1.45%		Comp. Medicare	First Nation...	12-3456789
Medicare Employee	Federal Tax	1.45%		Medicare	First Nation...	12-3456789
Social Security Com...	Federal Tax	6.2%	90,000.00	Comp. SS Tax	First Nation...	12-3456789
Social Security Empl...	Federal Tax	6.2%	-90,000.00	SS Tax	First Nation...	12-3456789
CA - Withholding	State Withholdin...			SWH	Employemen...	123-12345
CA - Disability Empl...	State Disability Tax	0.8%	-79,418.00	SDI	Employemen...	123-12345

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Add new payroll item

Select setup method

Select the setup method you would like to use to create a new item.

Setup (uses standard settings; recommended for most users)

Custom Setup (allows editing of all settings; recommended for expert users)

Add new payroll item

Payroll item type

Select the type of payroll item you want to create.

- Wage (Hourly Wages, Annual Salary, Commission, Bonus)
- Addition (Employee Loan, Mileage)
- Deduction (Union Dues, 401k)
- Company Contribution (Employer's Share of Social Security, Medicare, FICA)
- Federal Tax (FUTA, Social Security)
- State Tax (State Withholding)
- Other Tax (Local Tax, Misc.)

Edit payroll item (Company Contribution: Labor Burden Allocation)

Name used in paychecks and payroll reports

Enter name for company contribution:

For example, if you are creating a company-paid expense, such as health insurance, you may want to call it 'Health Insurance'.

Track Expenses By Job

To track expenses by customer and job, by class, and by service item, select the checkbox. For more information, click Help.

Payroll item is inactive

To hide this item on the Payroll Item list, select the checkbox.

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A Payroll Item for Allocation Only

Edit payroll item (Company Contribution: Labor Burden Allocation)

Agency for company-paid liability

Enter name of agency to which liability is paid: []

Enter the number that identifies you to agency: []

Liability account (company-paid): 6666 • Less Allocated Overhead

This liability account tracks company contributions to be paid. You can change this account at any time.

Expense account: 5600 • Allocated Overhead

Company-paid contributions are an expense to your company. You can change this account at any time.

Expense Account

COGS Account

Back Next Finish Cancel

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Make Sure It Is Not Taxable

Edit payroll item (Company Contribution: Labor Burden Allocation)

Taxes

Based on the tax tracking type you've chosen, QuickBooks automatically selects the taxes that are almost always affected by this payroll item. In most cases, you don't need to change the selections you see here.

Payroll Item [checked]

Federal Unemployment [unchecked]

Federal Withholding [unchecked]

Medicare Company [unchecked]

Medicare Employee [unchecked]

Social Security Company [unchecked]

Social Security Employee [unchecked]


CA - Withholding [unchecked]

Click Default to revert to QuickBooks automatic settings.

Default


Back Next Finish Help Cancel

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Can Calculate by Quantity or Hours

- Quantity – more expensive employees carry more burden
- Hours – be careful with salaried employees

Edit payroll item (Company Contribution: Labor Burden Allocation)



Calculate based on quantity

Calculate this item based on quantity
 Select this item if you want this payroll item to be calculated based on a quantity that you enter manually on paychecks.


Calculate this item based on hours
 Select this item if you want this payroll item to be calculated based on the Regular Pay and Overtime Pay hours worked.

Include Sick and Vacation hours

Neither
 Select this item if you want this payroll item to be based on a percent of Net or Gross, or a flat amount per paycheck.


Back
Next
Finish
Help
Cancel

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Allocate Your Overhead


- Increase COGS and decrease expenses
- No change to Net Profit
- Jobs now reflect true labor costs

Profit & Loss

◇ Dec 1 - 15, 01 ◇


Income	
4110 • Construction Income	2,000.00
Total Income	2,000.00
Cost of Goods Sold	
5200 • Job Labor Costs	
5210 • Job Labor (Gross Wages)	1,000.00
5220 • Worker's Compensation Costs	0.00
5230 • Direct Payroll Taxes	126.75
5600 • Allocated Overhead	500.00
Total 5200 • Job Labor Costs	1,626.75
Total COGS	1,626.75
Gross Profit	373.25
Expense	
6666 • Less Allocated Overhead	-500.00
Total Expense	-500.00
Net Ordinary Income	873.25

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What 'Liability' Account Do You Use?


- Standard burdens typically use liability accounts such as payroll taxes payable or prepaid insurance
 - Advantage: more accurate Income Statement and Balance Sheet
 - Disadvantage: must be reconciled
 - Do the clients know how to do this?
- Optional method – use offset expense account
 - Advantage: no need to reconcile
 - Disadvantage: overhead fluctuates based on payments
 - If rate is wrong, you may not discover error
 - Can be used for health insurance, liability insurance, etc.

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Setting a Billable Rate

- Determine gross wages
- Add burdens
 - Some are percentage
 - Some are flat per month
 - Some are flat per year
- Determine burdened hourly rate for hours worked
- Determine burdened hourly rate for billable hours worked
 - It's not necessarily the same!


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Let's Run Some Numbers

Burdened Hourly Rate*


Total Estimated Hours Paid	2,000
Total Estimated Billable Hours	1,100
HOURLY COSTS:	
Gross	25.00
FICA	6.20% 1.55
Medicare	1.45% 0.36
SUI	3.50% 0.88
ETT	0.10% 0.03
FUTA	0.80% 0.20
Worker's Comp	5.00% 1.25
Liability Insurance	5.00% 1.25
Holiday - # of days:	10 4.00% 1.00
Vacation - # of days:	15 6.00% 1.50
Total Hourly	33.01
CONVERT TO YEARLY	
Hours paid per year	2,000
	YEARLY 66,025.00
	Per Month Per Year
Health Insurance (er portion)	550 6,600.00
Dental/Vision	125 1,500.00
401K Match - Maximum	2,500.00
Cell Phones	50 600.00
Office Supplies/Small Tools	100 1,200.00
Vehicle Costs	400 4,800.00
Overhead per FTE	1,500 18,000.00
Others ?	
Total Yearly Cost	101,225.00
Total burdened hourly rate	2,000 50.61
Total hourly billable cost	1,100 92.02

(*enter amounts in yellow only)

Gross: \$25.00
Burdened: \$92.02


See Handout

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Mathematical Issues

- Look at historical information to determine number of **paid** hours per year
- Look at historical information to determine number of **billable** hours per year
- May move percentages to yearly number if maximums will be met
 - For example, FUTA should not be percentage but total cost per year

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Within QuickBooks – Track Billable Time

- Enter the time card
 - Track time by item
 - Track time by employee, by subcontractor, for yourself
- Create a check
 - Use timecard as basis for check using items
 - Zero out the check using expenses

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Zero Dollar Check


The screenshot shows the 'Write Checks' window in QuickBooks. The bank account is '1110 · Company Checking Ac...'. The ending balance is 219,761.85. The check number is 10772, dated 07/28/2008. The payee is 'Don Working'. The amount is \$0.00. The memo is '(07/14/2008 - 07/21/2008)'. There are two callouts: 'Negative Expense with no job' pointing to the 'Expenses' field, and 'Items by job from timecard' pointing to the 'Items' field.

Expenses	Amount	Items
-	-\$850.00	\$850.00

Account	Amount	Memo	Customer:Job	Billa...	Class
5210 · Job La...	-850.00	(07/14/2008 - 07/21/20...			


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Net Effect - Allocation


- Pay employees or subcontractors as actual expense
 - Recognize expense (below the line)
 - Do not code to jobs
- Create timecard to show billable time
- Write zero dollar check
 - If items used in the item tab point to the same account as the expense tab, there is no GL affect
 - If items used in the item tab point to an expense account above the line and the account in the expense tab is below the line, it will allocate billable time from below the line to above the line

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Summary

- Analyze **all** your expenses to determine your billing rate
- Find ways to allocate costs to customers or jobs
- Use QuickBooks to job cost labor
- Use QuickBooks to burden your labor

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<h2>Questions and Thank You</h2>		
<p>Leslie C. Shiner, MBA <i>Owner/ Principal</i> The ShinerGroup</p>		
<p><i>Intuit QuickBooks Certified ProAdvisor Sage Software Certified Consultant</i></p>		
<p>L_Shiner@ShinerGroup.com (415) 383-6255 www.ShinerGroup.com</p>		
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Burdened Hourly Rate*

Total Estimated Hours Paid	2,000
Total Estimated Billable Hours	1,100

HOURLY COSTS:

Gross	25.00	
-------	-------	--

FICA	6.20%	1.55
Medicare	1.45%	0.36
SUI	3.50%	0.88
ETT	0.10%	0.03
FUTA	0.80%	0.20

Worker's Comp	5.00%	1.25
Liabilty Insurance	5.00%	1.25
Holiday - # of days:	10	4.00% 1.00
Vacation - # of days:	15	6.00% 1.50

Total Hourly	33.01	
--------------	-------	--

CONVERT TO YEARLY

Hours paid per year	2,000	YEARLY 66,025.00
---------------------	-------	----------------------------

	Per Month	Per Year
Health Insurance (er portion)	550	6,600.00
Dental/Vision	125	1,500.00
401K Match - Maximum		2,500.00
Cell Phones	50	600.00
Office Supplies/Small Tools	100	1,200.00
Vehicle Costs	400	4,800.00
Overhead per FTE	1,500	18,000.00
Others ?		

Total Yearly Cost	101,225.00	
-------------------	------------	--

Total burdened hourly rate	2,000	50.61
Total hourly billable cost	1,100	92.02

(*enter amounts in yellow only)