

Labor Burden & Profits – Part VI:

Where Does Our Time Go?

Assigning Direct, Indirect, Administrative, and Owners' Time to Jobs – Conclusion



Assigning Sales time and costs, Owner's time spent on job-production activities, and time for employees who are asked to perform a variety of direct, indirect, or admin activities (depending upon your needs) present special job-costing and measurement challenges. Here are some ideas and insights to help you logically assign these unique "time" circumstances to job costs – so that you can see job cost reports that truly reflect time spent on jobs!

From Parts I through V of this Series:

In our last 5 articles, we've covered topics including:

- Frequently used terms and "big-picture labor burden calculations" and how labor burden add-on costs can make a tremendous difference in an employee's actual cost per production hour. (Our example employee, Pat, actually cost us 82% more than his/her gross hourly wage.)
- A process to determine what to charge per hour for employees on both a stand-alone, and "weighted-cost" basis for individual projects.
- Whether, and when, overtime is a financially sound management decision.
- How to use burdened job costs and variance reports to improve estimates, bring job costs under control, and help you improve your company's overall performance and productivity.
- Grouping employee compensation and burden costs, and some of the methods for assigning fully burdened direct and indirect labor costs to jobs.

Sales & Owner Employment Costs

General **sales compensation and burden costs** are typically considered to be company overhead costs so, in addition to establishing the expense accounts for Sales employees as described in the previous article, I normally recommend establishing a special "Sales" job for payroll (so that related payroll taxes can be clearly identified and placed into the correct account grouping). **Exception:** Most of my clients like to assign sales commissions for specific jobs to the related job. This seems reasonable as it's a cost clearly linked to the job.

Like sales compensation, **Owner's compensation and burden costs** are usually classified as company overhead. But several job-costing issues often arise when I work with owners:



1. Owners who put in production time on specific jobs should be able to see the value of their time assigned to those jobs. But, if their payroll and payroll taxes are assigned to expense accounts as company overhead, then the value of their time ends up not showing up on job cost reports, right?
2. If we took the approach that we were going to assign their time & related costs out to jobs as direct production cost, this could potentially solve the problem, but owners often don't pay themselves "standard" paychecks (many take draws, distributions, or dividends which reduce equity rather than increase cost), and if they do take compensation, it is often not scheduled or predictable.

This means that we need to get a bit more creative if we want to be able to see owner's time recorded to jobs and still follow standardized ways of recording their payroll, payroll taxes, and/or draws or distributions.

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A “Workaround” for the Owner’s Job Time & Cost

Here’s an approach that avoids the issues of varying methods of paying owners (or erratic owner payroll), and yet assigns reasonable owner costs out to job cost reports:

- Determine what would be a “reasonable” fully-burdened cost for the owner’s time IF the owner was being charged out to jobs at a going market rate. I.e., Given the owner’s experience and expertise, compute the fully-burdened rate that a comparable employee would cost. For example, let’s say that comes to \$110/hour.
- Track the time that the owner spends on individual jobs.
- If the owner does receive regular, recurring payroll checks:
 - ▶ Post all owner’s payroll and payroll taxes through the standard company overhead accounts.
 - ▶ Establish a new account within the owner’s compensation grouping called “(Less) \$ Assigned to Job Costs”. This will be a cost-offset account.
 - ▶ Create an entry that charges (debits) the owner’s hourly costs out to individual jobs.
 - ▶ Post the credit side of the entry into the “(Less) \$ Assigned to Job Costs” account.
 - ▶ This leaves the actual owner’s payroll and payroll taxes paid out clearly visible in their own accounts, and also shows how much of the owner’s cost has been assigned to jobs.
 - ▶ Impact to the bottom line before work-in-process adjustments = \$0, but you will have more accurate job cost reports.
- If the owner doesn’t receive regular, recurring payroll (e.g., receives distributions or dividends vs. payroll):
 - ▶ Create an entry that charges (debits) the owner’s hourly costs out to individual jobs.
 - ▶ Post the credit side of the entry into the same account as the job costs for individual jobs, but assign the credit side of the entry to the “Owner” job.
 - ▶ Again, the impact to the bottom line = \$0, but you will have more accurate job cost reports.

Assigning Costs for “Mixed-Use” Employees

Q. I have a production manager (or estimator) who also does field work, ...how do I assign their costs?

OR

Q. I have office staff who end up getting pulled out into the field making deliveries or working directly with clients, ...how do I assign their costs?



Well, with QuickBooks, we’re able to establish Payroll Items that will link into the correct types of accounts, so when you enter the time for these employees you can choose Payroll Items that reflect the “mix” of how their time and payroll costs should be assigned when converted into a paycheck. The Payroll Item that you choose for the work they perform dictates how their time and costs are ultimately assigned into accounts and job costs.

The result? Part of their time and payroll cost ends up being assigned to direct job costs (and regular jobs) and the rest of their time and payroll cost gets assigned to “Admin” or “Indirect” compensation accounts and to the “Admin” or “Indirect” job assignment (so that payroll taxes can be moved into the correct expense accounts).

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A Reminder...

If you want to see accurate job cost reports, it's important to include fully-burdened costs in your payroll cost assignments.

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She is the developer of the [eCPA \(employee Cost & Pricing Analyzer\) Labor Burden Calculator](#), an Excel-based program that automatically performs comprehensive labor burden and pricing calculations for up to 200 employees and 25 departments. Contact Gilson via [email](#) or call 734-544-7620 (9-5 Eastern).