



# How Job Costing Helps Businesses Improve Their Performance



Regular benchmarking keeps your company healthy

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In the construction industry, too many businesses suffer financially for one simple reason: They are not optimizing their job costing analyses. At its heart, job costing is all about maximizing the value you get from your resources. To know where to focus on improvement, you have to know where and under what circumstances you can expect high performance and which projects are underperforming.

The poking and prodding of an annual physical may not be everyone's idea of a good time, but its importance is without question. Without regular benchmarking you can't maximize your health and longevity — and that's to say nothing of the impact regular checkups can have on insurance and health care expenses. Businesses are extensions of their owners, and the same principle of care applies: To set realistic goals and make tangible improvements, you need accurate data that informs your actions.

When it comes to their financial health, many construction companies are forgoing diagnostics or not performing them thoroughly. As a result, these businesses lack the analysis necessary to accomplish transformational change.

In the same way blood pressure readings reveal the need for behavioral modifications or prescriptions, the close analysis of business data can help you see which types of projects contribute to growth and which may not serve your interests or could even hurt your financials.

## **The No. 1 Barrier to Job Costing**

In industries with an old-school mentality, some business owners are reluctant to embrace technology. I see clients who tend to follow their guts rather than engage in formal analysis. The animating idea among these owners seems to be the old saying, "If it ain't broke, don't fix it." But that's a faulty premise because it doesn't recognize the potential for even efficient businesses to improve.

You wouldn't want your doctor to perform critical services based on a hunch or their past experiences alone. When there are high stakes, it's important to back up any assumptions with empirical evidence. It's time that mentality becomes business as usual in finance departments throughout the construction industry.

To that end, there may be no better investment of time and energy than accurate job costing and job-by-job performance analyses. With a thorough and reliable job costing methodology, businesses can make informed decisions and identify critical trends.

Is it wiser to pursue big, labor-intensive contracts or focus on specialized renovations? Backed by hard data collating to your past and present work-in-progress schedule, it's no longer a philosophical question. Instead, trust that your numbers can lead you to the right call.

## **Top 3 Job Costing Mistakes & Oversights**

Not all job costing methods are created equal. For these insights to be valuable, data must be collected accurately and then analyzed with diligence and creativity.

Effective job costing takes a complex, sprawling project and assesses it piece by piece to get an idea of where money is being spent at every step and how valuable each investment is. To improve your job costing methods, avoid the following common mistakes.

### **First Mistake: Lax Standards**

The most common issue is lazy or inaccurate costing. Just because a job is 10% of a firm's total activity does not mean it can simply be reported as 10% of a firm's indirect and direct costs. Job costing is most effective when it is highly detailed. And that goes for every cost. It's common to apply uniform overhead fees on every project, but that may result in an inaccurate picture, given that certain projects require more back-office attention than others. Remember, job costing is more valuable when it reflects a high level of detail, so prioritize accuracy as much as possible.

Shortcuts are often taken when finance departments are underfunded, understaffed or unsupported by outside specialists who can help them implement best practices. The issue is common, but its ramifications can be huge. It can obscure a business's strengths and weaknesses, and cause it to pursue projects and strategies that may be financially inefficient or even counterproductive.

To illustrate, let's return to the example above. A business completes a job accounting for 10% of its total income. Taking a closer look at the costs associated with that project might reveal that the project actually accounted for 20% of total annual labor expenses. As a result, only allocating 10% of the annual workers' compensation, payroll tax and other labor-related expenses could skew data severely. That insight is critical for the business owners to assess the project's true value. It can make the difference between a business that can anticipate profits and one that sees a large contract and essentially pays for the privilege of working under the mistaken assumption that "bigger is better."

In today's highly competitive labor market, job costing plays an important role in helping businesses scrutinize prospects and determine whether labor-intensive projects help or hurt key metrics like cash flow and profitability.

### **Second Mistake: Forgoing Useful Technology**

The next most common issue is that businesses don't make accurate costing easy. While there is no one-size-fits-all software solution, a number of technologies can improve the accuracy of your data — for example, by streamlining accounting functions or time reporting. These solutions can not only help cut down the overhead on projects by automating some aspects of administration, but they can also improve the reliability of your numbers. Time reporting via mobile apps can help

every employee in your organization clock in and out to jobsites from a phone. That can free up managers and ensure you have a complete picture of where and how employees at every level are contributing.

Similar technologies track equipment costs and materials and can even be allocated to projects by square inch or pound. That provides a granular level of detail essential for understanding which projects are profitable and can also be helpful at tax time when depreciation is under discussion.

### **Third Mistake: Limiting Analytics**

The third common costing issue is a lack of creative scrutiny. Organizations can have all the data in the world, but if they're not analyzing it sufficiently, then potentially useful insights will be missed. Scrutinize your work-in-progress schedules and associated costs from several angles. Look at costs in relation to contract size, geography and client type to identify trends. If your city-based labor force is commuting to suburban projects and often showing up late or working inefficiently, you need to know. That can help you find workable solutions, like diversifying the geography of your labor pool or pursuing jobs that are a better fit for your existing resources and capabilities.

## **Use Job Costing to Play to Your Strengths**

Think of it this way: a few hundred years ago, we might have taken a medical concern to a shaman who would use their intuition or a soothsaying device to diagnose what ails us. Today, we are fortunate to see doctors backed by the most advanced diagnostics the world has ever seen. If your business is overly reliant on primal intuition, it may be time to step out of the past and put the advantages of our modern world to work for your business.

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