

Profitable Project Costing Tips

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Pam Newman

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Profit is the key to success. Therefore, ensure that every project you undertake is profitable.

A useful project costing process can be the determining factor in your business' longevity. It's not enough to just track your company's general information; you also need to manage the details. Here are five tips for maintaining an effective process:

1. **Separate direct and indirect costs** so that you can assess both your gross and net profits. Direct costs include direct materials and labor that relate to the product or service you provide. Indirect costs encapsulate all of your operating expenses, such as administrative labor, rent, marketing, office supplies, utilities and rent.
2. **Track your customers and projects** so you can easily review income and expenses tied to each project. Your accounting system should have this capability. If you're using a system like QuickBooks, set up your customers and attach jobs to them as needed. Tie income and expenses to each job appropriately. This lets you monitor profitability as the job progresses.
3. **Record employee time to projects** and spread out payroll expenses to each project. While you may not be able to easily associate all payroll costs, associate as many as possible to get you close to accurate project costing. If your accounting system uses timesheets to populate payroll data, on the payroll date, you should see the costs spread out for gross payroll by hours associated to the projects.
4. **Associate all subcontractor labor and material payments to each project** when entering the bills from your vendors. Do this regardless of how you bill your clients. The goal is to get a full costing of the project.
5. **Compare your estimated costs and revenues compared to the actual numbers** in your accounting system. This will allow you to assess your project management strengths and weaknesses to help you manage projects profitability.

Knowledge is power and having a good project costing system will help you manage projects wisely. Use reports within your accounting system to ensure that you're operating with profitable projects. While it takes more time to track this information, the value you'll receive can make the difference between profit and loss.

Pam Newman is Entrepreneur.com's "Financial Management" columnist, a Certified Management Accountant, author of Out of the Red and Boost Your Bottom Line, and Certified QuickBooks ProAdvisor for Financial and Point-of-Sale software. For more information, visit www.rppc.net.

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