

Tracking Your Own Labor

by Judith Miller

The owners of small construction companies often fill several different roles within the company: salesperson, estimator, production carpenter, errand and delivery person, bookkeeper, and administrative assistant. Add the time necessary to write a business plan, develop policies, and perform other owner functions, and it's easy to see why many construction owners work 60 to 70-hour weeks.

Obviously, owner time is the oil that makes the company run. When job cost-

ing, however, construction owners too often fail to count their time against specific jobs. This skews profit and overhead calculations, both of which will appear to be higher than they really are.

More important, at least as far as the IRS is concerned, owner labor also affects tax reporting, depending on whether the company is a corporation or sole proprietorship. Corporations operate as separate entities, so the owner receives a wage or salary like any other employee. The base wage along with labor burden — payroll taxes, insurance, and other typical benefits — are deductible at year's end. In other words, in a corporation, owner labor is handled more or less like employee labor.

A sole proprietorship is different. Sole proprietors pay income tax not on a salary, but on the difference between income and expense. This means that a sole proprietor must separate owner labor and labor burden from other costs because, at the end of the year, owner labor and burden cannot be used to reduce taxable income.

Fortunately, one solution solves the problem both for job costing and tax reporting in a sole proprietorship.

Tracking Direct Owner Labor

For accurate job-cost reports, you need to keep track of how you, as owner, spend your time. The easiest way to do this is to use a time card, just like a regular employee. The time card should be just like the one your employees use, showing hours worked for each job and the type of work performed.

In addition, however, the time card should also include categories for work that you, as owner, typically perform in running the company, such as making sales presentations, preparing estimates, doing the books, and running errands.

When it comes to preparing job-cost

reports, any time you spend working on site can be allocated to a specific job as a direct cost, just like the labor of your employees. The question is: What amount do you assign to each hour of direct labor? And how do you allocate your indirect labor, the time you spent off site performing owner's duties?

The Value of Owner Labor

The first step is to develop an "equivalent" hourly wage rate — the amount that you would pay someone else to perform the work you do. As a base wage, you might choose a dollar figure you could get if you worked for another company. On top of that, add the labor burden; the total is your "equivalent" hourly wage. Use a form like that in Figure 1 to make the calculation.

For example, you might be able to get a job working for someone else at a base wage of \$22 per hour. With payroll taxes and benefits, however, the real cost of your labor might be closer to \$35 per hour. For each hour spent working on site, multiply by \$35 and include the total in your labor figures. By including the value of your own labor, you'll get a more accurate picture of your true profit on every job.

Booking the Owner

Tax accounting for owner labor in a sole proprietorship is a little trickier. When you prepare your taxes at the end of the year, you will have to separate owner labor and labor burden from all of your other payroll expenses. In other words, you need to keep track of owner hours for job-costing purposes, but you have to do it in such a way that you can back the numbers out when you do your taxes.

The answer is to set up three additional accounts in your bookkeeping system. One is an equity account, which

Labor Burden Worksheet

Hourly wage	\$ _____
Federal PR Taxes:	
FICA @ 6.2%	\$ _____
Medi @ 1.45%	\$ _____
FUTA @ .008%*	\$ _____
State PR Taxes:	
SUI/ETT @ 5.4%*	\$ _____
Local PR Taxes:	
Your rate @ ____%	\$ _____
Workers' Compensation	
@ ____%	\$ _____
General Liability	
@ ____%	\$ _____
Other benefits:	
Vacation/Holiday	
@ ____%	\$ _____
Medical/Life insurance	
@ ____%	\$ _____
Retirement/401(k)	
@ ____%	\$ _____
Other @ ____%	\$ _____
Total Cost Owner Labor:	\$ _____

*To simplify the calculations, you can ignore the gross wage ceiling and apply these percentages to all wages.

Figure 1. Use this checklist to determine labor burden — the cost of taxes, insurance and benefits — for your own time. Then add the total to your base hourly wage.

Owner Payroll Entries

Account	Debit	Credit
Equity		
Owner Labor		\$1,750
Cost of Goods		
Owner Job Labor	\$700	
Overhead		
Owner Overhead Labor	\$1,050	

Figure 2. To keep track of owner labor for job-costing, set up three separate accounts. The total in the Owner Labor account should equal the sum of the two expense accounts, Owner Job Labor and Owner Overhead Labor. (The double-entry accounting format shown here balances credits on the right with debits on the left.)

Reversed Owner Payroll Entries

Account	Debit	Credit
Equity		
Owner Labor	\$1,750	
Cost of Goods		
Owner Job Labor		\$700
Overhead		
Owner Overhead Labor		\$1,050

Figure 3. Before preparing year-end income taxes, make a reversing entry in each account. In this double-entry example, debit and credit entries are opposite those in Figure 2, so the three account totals equal zero.

you can call "Owner Labor." The other two are expense accounts: call one "Owner Job Labor" and make it a sub-account in Cost of Goods; call the other "Owner Overhead Labor" and make it a sub-account of Overhead.

Every time you do payroll, enter the total burdened equivalent wage for your labor in the Owner Labor account (Figure 2). For example, if you worked 50 hours during a one-week pay period, enter \$1,750 (50 hrs. @ \$35/hr.). (In a double-entry system, this amount would be a credit to equity and belongs on the right side of the line.) Enter direct labor in the Owner Job Labor account. For example, if you worked 20 of those 50 hours on the Miller job framing the roof, enter \$700 (20 hrs. @ \$35/hr.) (This is a debit account so put the amount on the left side of the line.) Finally, enter the balance of \$1,050 in the Owner Overhead Labor account (another debit).

The two expense accounts will appear on your Profit and Loss Statement; the equity account will appear on your Balance Sheet. The Owner Job Labor account will help you keep track of the dollar value of the time you spend work-

ing on site at specific jobs. As a result, your job-cost reports will be more accurate, which in time will lead to more accurate labor estimates. You'll also learn a lot by comparing total owner's draws to the number of hours you work. If you find you're being overpaid, great; but if you're putting in a lot of hours but don't have enough cash to take as much in draws as you'd like, your business could be in trouble.

End-of-Year Reversal

These three accounts, however, are only useful for internal cost accounting; when you prepare your taxes, you need to zero them out. The easiest way to do this is to make three entries that reverse the totals in each of the three accounts. In other words, if you use a cash accounting system, enter three negative totals so that all three accounts are reduced to zero. If you use a double-entry system, put the totals on the opposite side of the line from the original entries (Figure 3).



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