

BY MELANIE HODGDON

When the Customer Is the Owner

It happens all the time. Work is slow, so the construction company owner decides to put the crew to work on his own home, or on his mom's house. How this is handled on the accounting side can produce a variety of effects on the company financials.

SETTING THE SCENE

For the sake of simplicity, let's assume that all the work performed occurs within the company's tax year. Let's further assume that the project was set up as a job and costs were recorded in exactly the same manner as if it were a "real job." In this case "real job" refers to the fact that the cost to produce will be offset by income that exceeds the costs by a margin adequate to cover overhead and allow for profit.

IDENTIFYING THE COSTS

It should be possible to run a report showing all the costs for the job. This will only be true if the costs (including time that was incorporated into payroll) are consistently recorded for the job.

EFFECTS ON THE FINANCIALS

While it may feel like there's nothing wrong with hav-

ing the crew perform personal work, the result will be to reduce the achieved margin. In the example below, let's assume that there are four "real jobs" that each cost exactly \$35,000. Let's further assume that they have been sold at a reasonable markup and that the average margin on the four jobs is 30.35%. Things are looking pretty good, right? OK, now let's add a fifth job with the same cost. Because there is no income to offset the costs, the overall margin of the five jobs drops by more than half, to just under 13%.

Many business owners then think, "Well, all I have to do is charge myself (or my mom) exactly what the work cost. That's still a bargain and because my production costs are covered, my overall margin shouldn't be affected." But there's a problem with this reasoning, as shown below. The margin still is significantly reduced because the "sale price" of Job 5 doesn't include markup. The overall margin still drops by nearly 5%, to just under 26%.

WHAT TO DO ABOUT IT*

Option 1: Invoice for the costs and accept the reduction in profit. This means that the owner will appear to owe the company the invoiced amount. If desired,

Accounting for the Boss's Home Remodel

	Job 1	Job 2	Job 3	Job 4	Total jobs 1-4	Job 5	Total Jobs 1-5
Income	\$50,000	\$48,750	\$52,500	\$49,750	\$201,000	\$0	\$201,000
Costs	\$35,000	\$35,000	\$35,000	\$35,000	\$140,000	\$35,000	\$175,000
Gross Profit	\$15,000	\$13,750	\$17,500	\$14,750	\$61,000	-\$35,000	\$26,000
Gross Margin	30.00%	28.21%	33.33%	29.65%	30.35%		12.94%

	Job 1	Job 2	Job 3	Job 4	Total jobs 1-4	Job 5	Total Jobs 1-5
Income	\$50,000	\$48,750	\$52,500	\$49,750	\$201,000	\$35,000	\$236,000
Costs	\$35,000	\$35,000	\$35,000	\$35,000	\$140,000	\$35,000	\$175,000
Gross Profit	\$15,000	\$13,750	\$17,500	\$14,750	\$61,000	\$0	\$61,000
Gross Margin	30.00%	28.21%	33.33%	29.65%	30.35%		25.85%

Accounts Receivable can then be credited and offset to draws or distribution (depending on the nature of the business: partnership, corporation, and the like).

The final result will be:

- Costs and income that remain on the financials
- Job profitability of \$0 (on the financials and job cost reports)
- The owner will owe nothing
- The costs will eventually be classified as income on the owner's personal tax return*

Option 2: Remove the costs from the financials by entering an adjustment to reclassify the dollar value of the work as a draw or distribution (depending on the nature of the business: partnership, corporation, and the like). This will probably eventually show up as income on the owner's personal tax return.

The final result will be:

- Exclusion of the job from the financials since the costs were adjusted to equity and the work was never invoiced
- Job profitability showing a loss (job cost reports only)
- The owner will owe nothing
- The costs will eventually be classified as income on the owner's personal tax return*

*Seek the advice of a qualified tax accountant before implementing any of these suggestions.

FINAL THOUGHTS

There's nothing wrong with using the company's resources for personal use. After all, taking a draw is the only way a sole proprietor can pay himself, and even corporate officers take distributions in addition to paychecks. The key is to recognize that having the company perform work for the owner isn't essentially any different from taking money out of the company, and this fact should be reflected in the way it's recorded in your financials.

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/CONNECTED CONTRACTOR/

An App That Changed the Way I Work

BY ROBERT POST

The financial crisis of 2008 kneecapped our company and was a game-changer. I'm a remodeler in the Philadelphia area, and our volume decreased by 70%. I was forced to take a hatchet to overhead and had to let go of employees and give up office and shop space. Fast-forward six years: My business has stabilized and sales are fairly predictable, but I now do things very differently. I don't have a full office staff anymore and must wear several hats. But with the help of a few clever apps that are inexpensive, available on smartphones, and cloud-based, I can handle common tasks such as scheduling, tracking employee hours, estimating, and invoicing. What these apps lack in integration, they make up for in affordability and ease of configuration for a small business with just a few employees.

In this article, I'll look at Genbook (genbook.com), an online scheduling app that allows prospects to set up an initial consultation from their phone or computer, 24/7.

Over the years, we've tried three scheduling apps and have found Genbook to be the best. It offers easy website and social media integration and is straightforward for homeowners to use. Regularly, my prospects comment that they like the scheduler—and that helps set the tone for a great customer experience. Genbook collects the data you need and automatically sends confirmation and reminder emails to your prospects. We set up a customized reminder email that lets prospects know about all our services and encourages them to make a comprehensive list of their home's needs for our meeting. It also syncs with most calendars and works as a standalone app on your device of choice.

I set aside one day a week for sales. With Genbook, I predetermine six time slots for sales calls on that day. You can configure these time slots for any day or time you like so you are "driving the boat" on your availability. When clients log onto Genbook via our website or Facebook page, they see available dates and simply choose the time slot they want. You can configure Genbook to send you notifications of new appointments by email or text. I still appreciate opening Genbook the night before my sales day and seeing all the appointments and client data ready to go.

While its core offering is appointment scheduling, Genbook offers other features as well, such as customer reviews and analytics. While we don't use these features, you may find them of value.

As with most productivity apps, Genbook offers a 30-day free trial. After that, its plans range from \$20 per month for one staff member up to \$70 a month for six or more users. This is a good value when compared with other online appointment apps.

Robert Post owns Post Remodeling & Handyman Services, in Oreland, Pa.

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/LEGAL /

Incorporated? It's Not Enough

BY CHRISTOPHER G. HILL

In the construction world, many businesses are family owned and almost indistinguishable—from a practical standpoint—from the owners. So it's particularly important for contractors to incorporate. In addition to possible tax benefits, incorporation protects personal assets (such as your house) from judgment and collection actions.

Incorporation works—as at least a partial shield—because the company and the owners are separate entities from a legal perspective, and a contract with one entity can't be enforced against another. This same logic applies in the context of corporate versus individual actions (that is, the actions of one person cannot be legally attributed to another person). By extension, an individual's assets can't be collected to satisfy a purely corporate debt or judgment.

But simply registering with your state's corporation commission or secretary of state and getting "Inc." or "LLC" added to your company name isn't enough. Not only do you need to form the company, you need to act as if the company is a separate entity from its owners, in order to keep that protection intact.

Simple things like separate bank accounts—one used to pay only corporate debts and one to pay personal debts—go a long way toward showing the separate natures of you and your company. Don't take money out of the business account for personal expenses or to pay "salaries"—use a separate payroll account or processing system. Keep up your registrations, annual reports, and the like to show maintenance of the company.

Observe the corporate formalities, even where it seems a bit silly. You'll be glad you did.

Christopher G. Hill is the owner of The Law Office of Christopher G. Hill, PC, in Richmond, Va. This article is for informational purposes only and should not be construed as legal advice.

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