

Cost Codes: What, Why & How

Executive Summary: Many construction companies run their operations with too little specificity; costs ought to be reviewed on an activity-by-activity basis. Learn what, why and how to set up a good cost code structure.



The bid and execution. Let's use an example, say, *Concrete Curb & Gutter*. Suppose this was a proposal item for our client, and she wanted a unit price in dollars per lineal foot.

When I estimate the cost for my company to complete this 1,000 lineal feet of curb and gutter, I may include the following activities in my estimate:

<u>Proposal Item: Concrete Curb & Gutter</u>		<u>1,000 LF</u>
Activity 01	Prep Curb Grade	2,500 SF
Activity 02	Form Curb and Gutter	1,000 LF
Activity 03	Pour Curb and Gutter	250 CY
Activity 04	Strip Curb and Gutter	1,000 LF

Now, what many companies do is just track the cost at a proposal item level. At the end of the construction of this 1,000 lineal feet they spent \$24,000 and their budget was \$25,000. This is a win – they made \$1,000!

Or was it?

Maybe they lost money on the preparation of curb grade (Activity 01)? And maybe they made all it back on the formwork item (Activity 02). What this company doesn't know is that they are a concrete company, not an earthwork company. They can form and pour concrete, but they're not good working in dirt.

What are cost codes? Cost codes are discrete numbers assigned to activities required to complete a construction item. In our example, we may set up one cost code per activity:

Activity 01 Prep Curb Grade	2,500 SF	Cost Code 200-010
Activity 02 Form Curb and Gutter	1,000 LF	Cost Code 330-010
Activity 03 Pour Curb and Gutter	250 CY	Cost Code 340-110
Activity 04 Strip Curb and Gutter	1,000 LF	Cost Code 330-020

Each day when we perform curb and gutter construction, our foreman will code time into each of these discrete codes. As he records he and his crew's time into each cost code, and he records the quantity completed today, a unit cost is developed.

Why use cost codes? When we record each day's manhour burn along with the completed quantity of work, we will eventually finish the item and have a record of actual costs. And when we finish the job, we can look back and realize that we lost \$2,000 on preparing the curb grade, and made \$3,000 on curb and gutter formwork. This resulted in

a profit of \$1,000 on curb and gutter. The granularity of the cost capture in these activities teaches us more about our company, our field staff and means and methods, and the accuracy of our estimating.

It doesn't end there.

When we use these same cost codes on curb and gutter across all jobs, we start to build *cost history*. These historical costs can be used to estimate better or even help guide your company into different types of work. This company may realize they need to get rid of their yellow iron and just form and pour concrete for a living.



How do I get started on cost codes? You sit down and write them out. You get onto your computer or grab a pencil and that yellow pad, and write major headers of work you do:

- Mobilization
- Pipe
- Concrete
- Masonry

These are major categories. Then you start thinking about more *minor categories*:

- Mobilization
 - Lowboy in Gear*
 - Offload Conex*
- Pipe
 - Ductile Iron*
 - RCP*
- Concrete
 - Sidewalks*
 - Curb and Gutter*
- Masonry
 - Brick*
 - CMU*

You go as deep as you want – notice above how detailed we got on those four activities. Then you assign **numbers** to them:

- 100-000** Mobilization
 - 100-100** *Lowboy in Gear*
 - 100-200** *Offload Conex*
- 200-000** Pipe
 - 200-100** *Ductile Iron*
 - 200-200** *RCP*



- 300-000** Concrete
 - 300-100** Sidewalks
 - 300-200** Curb and Gutter
- 400-000** Masonry
 - 400-100** Brick
 - 400-200** CMU

Don't look now, but you've got a code book going here. These will become your Master Cost Codes and you will start developing history over time.

In our example above, every time we *Form Curb and Gutter* in our company we will code it to a cost code numbered 330-010. Always.



My Story. I had a Master Cost Code list - I stole it from my previous employer. Now I help contractors across the country develop their estimating and job cost code structures. There is no set book of cost codes. Each contractor covers different scope and wants to gather different costs. Some want an extreme level of detail, some want detail to a major heading level.

The hidden value is in a claim situation. If you've been gathering costs along the way and you have a loss, you will have developed cost over time on the particular job. Your organization in cost accounting will make claim defense, or offense, quicker and more lethal.