

## How to do a Job Cost Projection: Cutting through the Fog

### Part 1

**Executive summary.** An accurate job cost projection is vital to Company survival. And it's not too complicated if you know the budget, the timing of your costs, and can do a little bit of estimating. It's NOT about blindly relying on quantities completed!

**What's a projection?** It also carries different names like forecast and cost at completion, among others. All it is, is your professional estimate of revenue and cost at the end of the job. Period. It's simple, but not always easy. It's only two variables:

1. How much money will I ultimately collect from my client? (**Revenue**)
2. How much money will I ultimately spend on this job? (**Expense**)

The difference is profit:

$$\text{Revenue} - \text{Expense} = \text{Profit}$$

**How do I calculate the revenue?** Let's keep it simple:

1. Go get your proposal which had, say, 50 bid items all summing to \$1,000,000.
2. Put it in spreadsheet form.
3. Label the \$1,000,000 total as "Subtotal, Revenue".
4. Add some lines at the bottom for change orders.
5. Sum the change order work and label the summation as "Subtotal, Change Orders".
6. Create a last line called "Total, Revenue" which is the total of items 3 and 5 above.
7. Create another column called "Projected Revenue" using the same totaling provided in items 3 and 5 above.
8. Manually fill out each row in number 7 above to obtain a total projected revenue amount.

The challenge here is to predict how much money on each line item you will collect – this is the *projected revenue*. Are you going to collect all of the money on all of the line items? And on the change orders, you are likely writing down that you have five issues totaling \$100,000 of revenue, but are you really going to collect all of this money? This is where it's foggy. You need to make a professional estimate of the monies you will collect on each line item to have a total projected revenue at the bottom of your spreadsheet.



**How do I calculate the expense, or cost?** This is much more complicated. What's not complicated is my answer to someone who tells me "I just put in the percent complete of the project" or "I just put in the percent complete on each of my proposal items". This is gross negligence. A good projection is nothing but hard work, that's all. You've got to do it line-by-line.

Performing the cost projection requires your knowledge of the following:

- Is my original budget in my cost report correct?
  - Once the original budget goes in, never change it. It's very important that you did this on day one of the job, and you haven't touched it since.
- Do I have my change order budgets in my cost report?
  - There's another accounting term called "matching principle". As you're building the project, you are incurring real time costs. These costs, or expenses, are hitting the job cost report regularly. If you're projecting zero budget against these costs, all of these costs are being shown as a 100% loss. That's not accurate! You need to *match* these change order expenses against change order budget.
  - **Tip: if you cannot determine the budget for the change orders, it's not the end of the world. At the end of the cost projection, really, we're only wanting one number: the projected cost at the completion of my job.**
- When does my full labor cost hit the cost report?
  - If you're going to make a projection of cost of labor at the completion of the job, you need to know what labor is actually in the cost report you're looking at. There's an example below.
- When do my equipment expenses hit the cost report?
  - Same comment as labor above – these equipment costs, are they through today or last quarter, or when?
- When does my accounts payable hit the cost report?
  - Again, same issue as labor and equipment. That pallet of cement I bought last week for \$1,000, am I seeing it in this cost report I'm looking at today or do I need to *project* for this cost to hit the cost report later?

