

Over/under billing: how to do it, and how to do it easier

Here's a tool that identifies the difference between amount billed and actual monthly costs.

by Kent Miller

■ Usually, construction projects do not start at the beginning of the month or end on the last day of the month. When construction is under way on one or more projects that cross into the next month, it is important to be able to allocate earnings on the monthly income statement accurately.

Larger projects can run for months or years before reaching completion and acceptance. Billing cycles and conditions may also vary from billing the whole project before the work is started, to no billing at all until the job is done and accepted.

Regardless of the billing techniques, the monthly income statement should indicate some earnings.

We use a program called "over/under," a simple Lotus spreadsheet that assists us in determining what amount to chart as income each month.

We begin by entering the contract amount, estimated direct costs and estimated gross profit anticipated. As the work progresses, we identify all of the costs incurred during the month through job costing. At the end of the month, those costs are plugged into "costs to date."

Using the estimated gross profit anticipated, we apply the same gross profit to the costs we incurred that month to derive our amount earned. The amount earned is compared to the amount billed and the dif-

ference is typically over-billed or under-billed.

A simple example—Let's use an example using simple values. A construction project has a value of \$500,000 with direct costs of \$400,000. That leaves \$100,000, or approximately 20% as a gross profit. During the first month of construction, the job incurred total costs of \$80,000. With a 20% gross profit, income for the first month would equal approximately \$100,000. If no billings were made for that month, we'd be \$100,000 under-billed. We would then add \$100,000 to our monthly income statement for that month.

If we had billed the same project \$150,000 for that month, we still would have only earned \$100,000, so we would be \$50,000 over-billed for that month. In that case, we'd reduce our monthly income statement by \$50,000.

When you have several projects on this worksheet, the total entered in "Over/Under Billed" is the result of the whole, and that amount is added to or subtracted from your monthly statement.

Exceptions—There are some instances when this approach will need some adjustment to accurately reflect your earnings. An example would be if you use the multiple overhead recovery system (for estimating, labor, equipment, materials), and subcontractors are marked up at varying percentages, providing an overall mark-up on

the entire project.

Assume the first \$80,000 in costs was a subcontractor you only marked up 10%: your actual earnings that month would be less than the overall mark-up. So this gives you an average mark-up over the course of the construction, and not a specific mark-up on the actual costs incurred.

Now let's assume that you're two months into the construction project when you realize it's going to take another \$50,000 in additional costs. In this instance, we would enter \$50,000 to the column "Additions to Cost," which revises our cost in the "Total Revised Cost" to \$450,000. It adjusts our "Gross Revised Percentage" to 10%. The shock comes when you have to pay back the gross profit you should not have taken in the first place.

I use this program to measure anticipated gross profits. I'm quick to identify "Additions to Cost" so I don't take profits too early and then have to pay them back. Adding costs to the "Estimated Cost to Complete" column lowers the "Percentage Gross Revised" and reduces the amount of gross profit earned each month. This is also a good column to use to provide for plant replacements and other warranty-related items that might linger before they actually become a cost to the job.

When the job is done and all the costs are in, adjustments may be necessary in the "Additions to Cost" column to have "Over/Under Billed" equal \$0 and then earn the gross profit you didn't want to take until completion. At this point, the final gross profit obtained is in the "Percentage Gross Revised" column.

Simply stated, our program assists us in identifying monthly income based on the costs we've incurred.

—Kent Miller is vice president of The Groundskeeper, an employee-owned company in Tucson, Ariz.

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Four U.S. EPA officials, two state regulators, and two legislative staff members round out the committee.

The LCPAC has met three times, most recently in Alexandria, Va., on Feb. 25-26. Meetings last 1-1/2 days.

Points aren't conceded easily. Disagreements between members sometimes, but not often, cause sharp exchanges.

Even so, most members of the committee agreed, at least broadly, on these points at the February meeting:

Posting: signs consistent with what most states do now, 4x5 inches and in contrasting colors. Posting at common points of entry; more than one notice may be needed in some situations.

Notification and Registries: open registries with limits on the number of addresses one wants to be notified about, and annual

fees to pay for the notification program. In the case of hardship the fees can be dropped. The addresses one wants to be notified about must be supplied by the person joining the registry.

EPA says it's determined to write guidelines covering posting, pre-application notification and registries. Even the development of guidelines was debated.

"EPA's issuance of guidelines signals there is a problem, at least a consensus by this group that there is a perceived problem," said Chevron's Chase.

Public Citizen's Patti Goldman, took the opposite view. She said the EPA shouldn't be drafting guidelines but rather lawn care regulations.

February's meeting of the LCPAC meeting may have been its last. It's charter expires this spring.

—Ron Hall