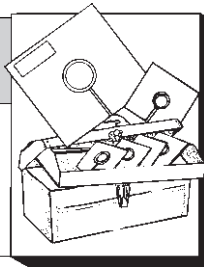


Computerized Payroll vs. the Bank

by Morris D. Carey, Jr.



At one of my recent seminars at student asked if using in-house computerized accounting is better than using the payroll service that most banks provide.

You don't need in-house payroll done on computer to survive in today's business world, but the capability to do so will most certainly make your business more flexible.

The Payroll Service Side

The bright side of using a bank provided payroll service is cost effectiveness. And, for a slight extra charge, you can have job cost reports formatted to your specifications. A three-day turn-around time can be expected, and end-of-year tax reports make year-end closing a breeze.

However, banks do payroll and job costing for contractors and other businesses because of the cash the service generates for the bank's coffers. The bank makes out by acquiring your business accounts. When you do your payroll through the bank you must have the money available in your account at that bank to cover the payroll and taxes at the time the payroll is done.

This brings up another area of disadvantage to using the bank for payroll – cash flow. Theoretically, cash flow should not be used to make a payroll. But, as most of us know, this is sometimes necessary. Using cash flow to make a payroll can't be done when the bank prepares your payroll as the money for payroll and taxes must be on deposit when payroll is made.

Finally, the usual three-day turn-around time from submission of time sheets to completion of pay checks is pretty quick, but my brother and I are able to do it on our computer in our business (for 27 employees) in a few hours – and we get job cost reports on the spot as well. Additionally, we don't have to make a trip to the bank each week to pick up the checks.

Choosing In-House Software

As contractors, our need for accounting software isn't very different from folks in any other type of business. However the slight difference can prove to be very important prior to making the final decision to purchase an accounting software package.

Although several features distinguish better accounting programs from average ones (subcontractor control, purchase orders, etc.), the two most significant considerations for a contractor are the *payroll module* and the *job-cost module*.

Since most small builders and remodelers have direct-hire personnel, computerized payroll can prove to be extremely valuable. It isn't difficult to determine what a subcontractor will charge for given service once we have used them a few times, and keeping up with lumber and millwork prices isn't too difficult either. But, in a growing company that uses in-house

direct-hire labor, estimating can start to get complex.

So, what does estimating have to do with computerized payroll you ask? Simple. Our most difficult task in estimating is determining the right amount of labor for a given task. Once we've made the estimate we must perform the work, and then job cost all expenses, match the bid amount to the actual cost, and determine whether a profit or loss has resulted.

Most job-cost modules made strictly for use with estimating systems do not do payroll. But many payroll systems can be purchased that actually perform job cost while the payroll is being entered in to the computer – killing two birds with one stone, and providing data about one of the most difficult parts of the estimate that there is to determine – labor costs.

Don't be confused by the fact that payroll and job cost are purchased as separate modules. They work as one in most systems. When general merchandise purchases (material, subcontractor payments) are being made, the job-cost module works along to accept data entered directly from the keyboard, invoice by invoice or with an accounts-payable module where (like payroll and job cost) the job-cost module and accounts-payable module work as one. In better systems the accounts-receivable module and the job-cost module also work as one.

So, in a good accounting system, payroll, cash disbursements, and cash receipts can all be entered just once, and then be job costed by job and category of work on a single-entry basis. This is something to look for if time at the keyboard needs to be kept at an absolute minimum.

Single-entry systems like the type I have just described also reduce the chance for error that we experience when having to make the same entry twice into two different modules. Be on the watch for accounting programs that require multiple entries of the same information. The results can be a real drag.

Can you enter payroll directly into a job-cost module without a payroll module? Yes, if you're not concerned about having the computer manager your payroll detail, but do want payroll totals job costed. In this case, enter the gross payroll as a labor cost, break it down by job and category of work, and you're a step ahead of many.

Several estimating software companies offer job cost modules that interface with their estimating programs, but I don't know of any of these that do payroll.

Get It Straight Before you Buy

Payroll modules vary in basic function, so be wary. For instance, if you have multi-state payroll make sure to ask if this function is available. If you have special state taxes, make sure that the system is capable of calculating them for you automatically, and confirm all claims about W-2, 1099,

and special state tax form functions before you purchase. Also, union payrolls are several times more complex to make than others, so if you are signatory you'll need to ask about that as well.

Make the dealer either show you all these functions before you purchase, or get an unconditional money-back guarantee in writing before you write the check. For those of you whose businesses are growing by leaps and bounds, it might also be wise for you to insist on software that has multi-user and network capabilities. That is where two persons at two different terminals can look at the same file at the same time and one of the operators can make an update to the file.

Under the software licensing law, if you open a sealed diskette package for a computer program, whether you like it or not, you bought it. So don't be shy about protecting number one before writing the check.

Readers Write

Philip Posen, vice president of California Hills Builders, Los Angeles, Calif., writes:

For years I have experimented with visual scheduling boards, bar graphs, flowcharts, and other various forms. None of these alternatives offered a clear or legible technique of communicating a construction schedule to the supporting players.

Thanks to the software package Calendar Creator Plus (Power Up Software Corporation, P.O. Box 7600, San Mateo, CA 94403-7600), my years of experimentation are over. The program allows me to input and print in a variety of schedule-oriented forms, all of the necessary scheduling direction any production manager could dream of. For the first time in my career I have been able to create and share a construction schedule that is definitive enough to lead a crew, and elementary enough for my clients to understand.

Continue to spread the good word.

Thanks Philip, I will! Calendar Creator Plus was the subject of State-of-the-Art Contractor, 1/90.

Terry M. Roeder of Royale Builders, Inc., Reed Springs, Mo. Writes:

As a small construction company on the grow, we are interested in receiving more information on software for bidding takeoffs, accounting, estimating, and other construction-related programs.

All information will be appreciated. We are anxious to update and organize our company.

Try the Construction Computer Applications Directory (CCAD). It lists software for estimating, inventory, job cost, management and administration, purchase orders, scheduling, project planning, and more. You can contact the folks at CCAD at CIP Communications, 6585 Commerce Blvd., Ste. 292, Rhonert Park, CA 94928; 707/792-CCAD. ■

Morris D. Carey is a partner with Carey Bros. Construction, a successful remodeling firm in Pittsburg, Calif. In addition, he has reviewed hundreds of construction-related computer products and conducts computer seminars for The Journal. If you have questions about computing in construction, address it to State-of-the Art Contractor, c/o JLC, RR#2, Box 146, Richmond, VT 05477.