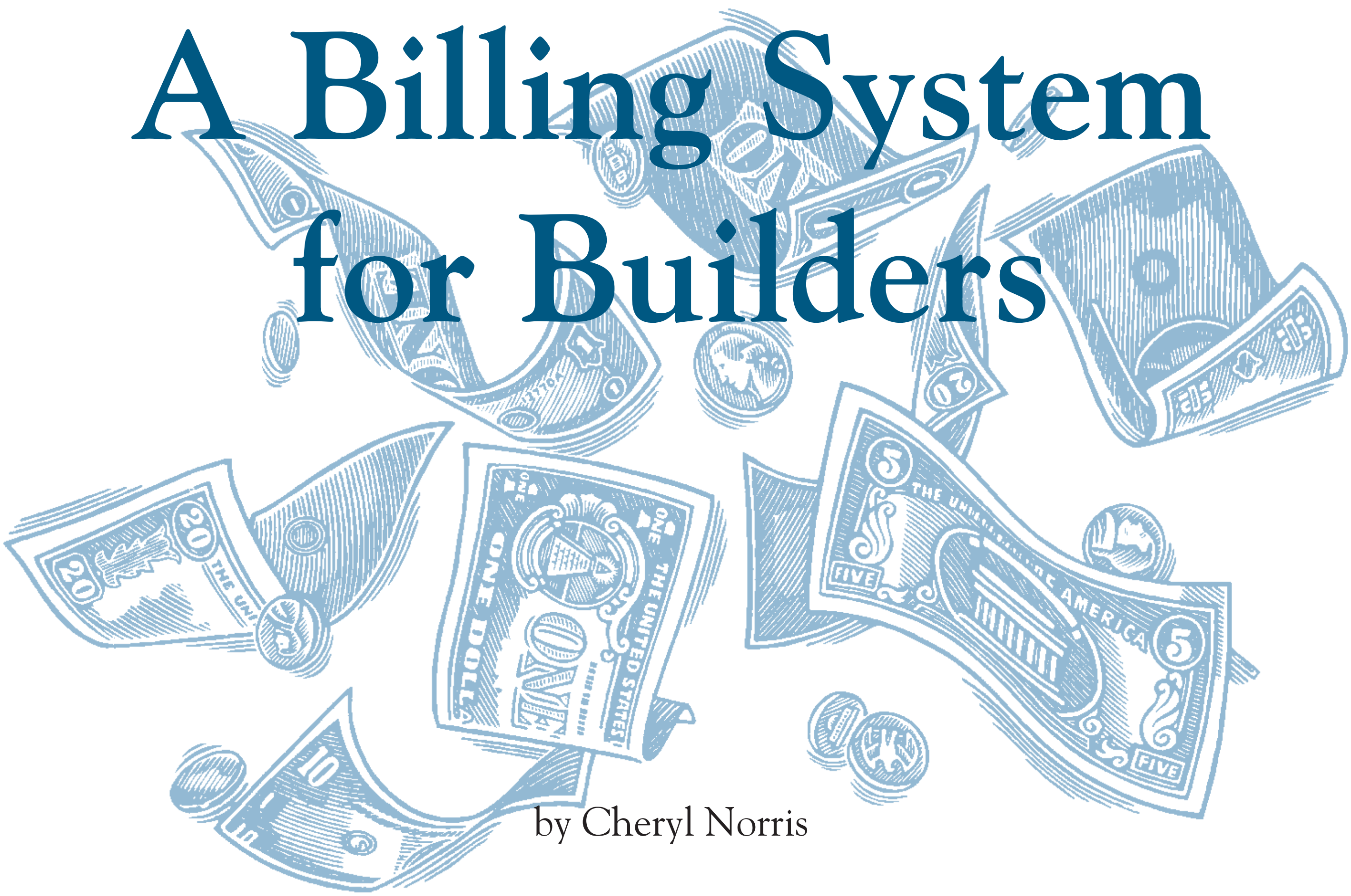
A Billing System for Builders



by Cheryl Norris

It's been said that you have to spend money to make money. But you can't spend money until you've collected it, and timely collection requires good communication between bookkeeping and production. If you do both in your company, you have less of a problem than companies in which one person runs the jobs while another bills for them. But in both cases, the left hand has to know what the right hand is doing.

To collect money from clients, many builders use a draw schedule based on progress payments, such as "down payment," "start of work," and "start of roof." With only one job on the boards, you're not likely to forget to collect each draw at the appropriate time. But if you've got several jobs going at once, it can get a little crazy keeping track of who owes how much and when payment is due. What you need is a system that tells you at a glance which jobs should be billed, and that conveniently tracks amounts paid and amounts owing.

Job Income Journal

First, create a place to store all of your billing information. I recommend a three-ring binder, which I call the "billing binder." Choose a binder color — like green — that represents money to you, and fill it with five dividers (called "ring binder indexes"), labeled *Signed*, *Started*, *Punchlist*, *Completed*, and *Past Due*. Insert the dividers into the binder in the order listed to represent the chronological stages of the job.

To keep billing simple, use a form I call the *Job Income Journal* (see Figure 1). The form gives you a snapshot of the entire job's financial picture — including change orders — on one piece of paper. It will help you keep your billing straight, and you can give a copy of the form to your clients at any time to update them on the current status of their project.

Spend less time chasing your money and more time earning it by using a single form to track progress payments and change orders

Client information. The top portion of the Job Income Journal holds client information, including the job number and the client's name, address, and home and work phone numbers. Besides identifying the form, all of this information will be handy when it's time to send the bill.

Draw schedule. The rest of the form is taken up by two sets of rows and columns. The upper set holds information about the draw schedule. On the left are the descriptions and amounts of progress payments as defined in the original contract. The rows and columns to the right are used to track billing dates, payments made, and unpaid balances. The bottom row — labeled "Draw Subtotals" — shows a financial summary of scheduled payments.

Change orders. Jobs often have change orders that modify the original contract amount. The lower set of

Billing History at a Glance

The "Projected Bill Date" is taken from the job schedule and is the date you expect to bill for each draw. You can use the numbers in this column to look ahead to see when your money is coming in.

Fill in the "Actual Bill Date" at the time you prepare the statement. Comparing projected versus actual bill dates can help you pinpoint job delays.

The first two columns hold the description and amounts of each scheduled draw as established in the original contract.

When payments come in, record the "Date Received." By comparing the actual billing date to the date payment was received, you can spot slow-paying clients and take measures to expedite collection.

The total of column two should equal the original contract price.

Record the "Amount Received" and fill in the "Remaining Balance" for each draw. Full payment will leave a balance of zero. Add the balance due from partial payments to the next scheduled draw.

To check your math, make sure that the following formula works for your subtotals: Draw Amount – Amount Received = Remaining Balance.

The last line of the form summarizes combined totals for both draw and change order amounts. When the job is completed and all payments have been received, the "Remaining Balance" total will be zero. At any time, your math check for "Job Totals" is: (Draw Amounts + Change Order Amounts) – Amounts Received = Remaining Balance.

Check your math for change order subtotals: Change Order Amount – Amount Received = Remaining Balance.

Job Income Journal

Client Name: Sam & Sarah Smith Job Number: 9321
Street: 555 Main Street
City, State, Zip: Anywhere, VA 55555
Work Phone 1: (703) 555-1492 Home Phone : (703) 555-1954
Work Phone 2: (703) 555-1776

Draw Schedule

Draw Description	Draw Amnt.		Proj. Bill Date	Act. Bill Date	Date Rec'd	Amount Rec'd	Remain. Balance
Down Payment	5,500		12/8	12/8	12/8	5,500	0
Start of Work	9,190		12/10	12/11	12/13	9,000	190
Start of Roof Framing	17,700		12/17				17,100
Substantial Compl.	4,000		1/3				4,000
Screening & Guttering	300		3/15				300
Draw Sub-Totals	36,690					14,500	22,190

Change Orders

C.O. Description		C.O. Amnt.	Proj. Bill Date	Act. Bill Date	Date Rec'd	Amount Rec'd	Remain. Balance
Upgrade Light Fixt.		350	12/17				350
C.O. Sub-Totals		350				0	350
Job Totals	36,690	350				14,500	22,540

FORM DESIGNED BY C. NORRIS

Figure 1. *The Job Income Journal provides a complete billing history on a single sheet of paper. The top half of the form holds information about scheduled payments, while the bottom half tracks change orders.*

rows and columns on the Job Income Journal is designed to prevent these extra dollars from slipping through the cracks. Be sure to get an agreement in writing for all extra work, then record the description, amounts, and dates on the form. The summary in the bottom row lets you see the status of change order payments at a glance.

Job summary. At the very bottom of the Job Income Journal is a single row of numbers representing the combined amounts for draws and change orders.

Making Progress

Cash flow is the lifeblood of any business. Collecting money should be part of your weekly routine schedule (see "Let's Get Organized," 1/94). If handling receivables is just one of the things you do, the Job Income Journal will speed the billing process. In a larger company, it helps the production and bookkeeping departments run through all jobs in relatively short order.

If you don't use an electronic spreadsheet, you can create the form on paper. Because you will need to revise the subtotals each time you receive a payment or add another change order, I suggest you fill out the form in pencil.

Ready, set, collect. Regardless of whether billing is a one- or two-person task, the process is the same. Starting at the front of the billing binder, review one Job Income Journal at a time to see if the next scheduled draw is due. If so, prepare an invoice or statement for the draw amount and record the date in the column labeled "Actual Bill Date." Store a copy of the statement in the job file.

Also check the lower portion of the form for any change orders that haven't been billed. Include these amounts in the statement and fill in the "Actual Bill Date" column. Keep copies of the change orders in the job file.

If the job has progressed to a different stage, move the Job Income Journal to the appropriate section in the binder (Figure 2). Review each form in this manner until you reach the back of the binder.

When a job is going smoothly, the Job Income Journal will be stored behind the "Started" index most of the time. But if the journal lingers in the "Punchlist" section, it's a signal that something is holding up the work — and your money with it.

Recording payments. As each payment comes in, fill in the last three columns in the draw schedule section — and the change order section, if appropriate. Full payment will leave a "Remaining Balance" of zero; for partial payments, record the balance still due. When you prepare the next statement, add any remaining balances from previous billings to the totals due for scheduled draws and outstanding change orders.

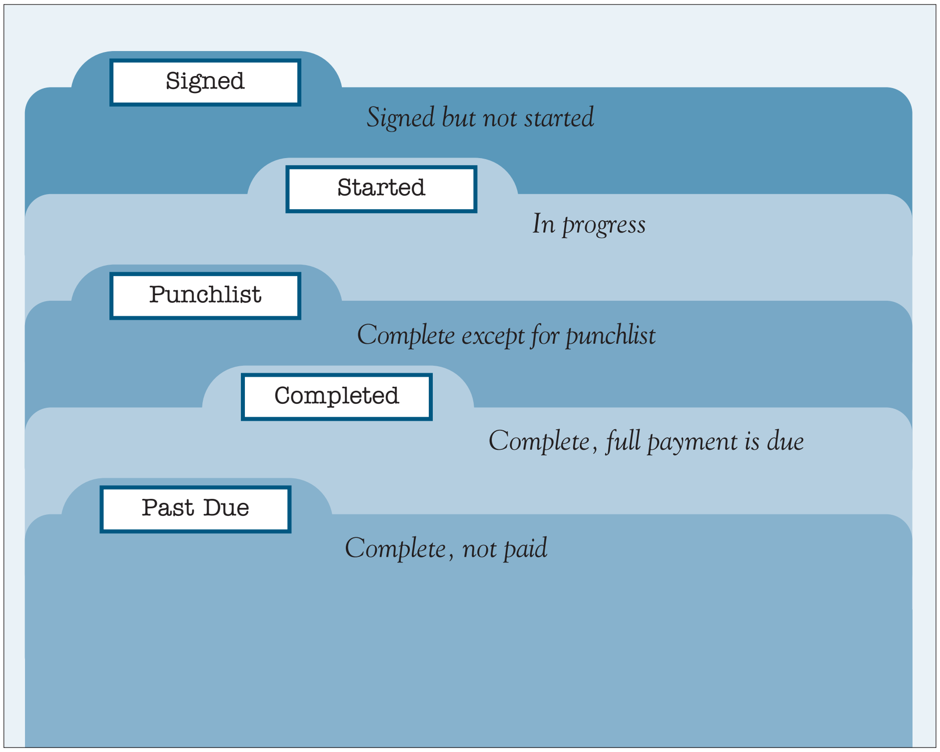


Figure 2. *Each of the five dividers in the three-ring "billing binder" represents a stage of construction. As a job progresses, the Job Income Journal moves from one divider to the next.*

A Billing System For Subcontractors

The Job Income Journal works great for a general contractor who works on larger jobs and bills from a draw schedule based on progress. But what about plumbers, roofers, electricians, and other specialty subs who turn over a high number of smaller jobs that get billed upon completion? They need a different system.

The billing system I recommend for subtrades uses multipart proposal or work-order forms. A three-part form is ideal — one part for the client, one for the job file, and one working copy. The working copy will help you remember to schedule the work, complete the work, bill for the work, and collect the money.

To set up the system, first create four "compartments." These could be four stacking trays, four manila folders, or four wall files, depending on your needs and personal preference.

Next, identify each compartment with one of the following labels: *To Schedule*, *To Complete*, *To Bill*, and *To Collect*. Arrange and keep them in that order. If you use stacking trays, for example, the one on top would be "To Schedule," the next one down would be "To Complete," and so on.

To determine which of these four compartments should hold the working copy of each proposal or work order, use the following criteria:

- ***To Schedule:*** You've gotten the go-ahead to do the work, but you haven't scheduled the job yet.
- ***To Complete:*** The work's been scheduled, but the job either hasn't been started or is still in process.
- ***To Bill:*** The job's finished, but hasn't been billed.
- ***To Collect:*** The job's been billed, but payment hasn't been received.

As a job progresses through each one of these four stages, move the working copy from compartment to compartment. Once a week, take the contents of the "To Bill" compartment and prepare an invoice or statement.

Then check the "To Collect" compartment. Use the dates of the statements and invoices stored here to determine which jobs have not been paid according to the agreed upon terms. Prepare a reminder notice for those that are overdue.

Finally, put the new invoices and statements, as well as the reminder notices, into the "To Collect" compartment. Add the most recent paperwork to the bottom or back of the compartment. That way, the oldest invoices will be on top or in front, where they command your attention. You can also insert a divider, like a manila folder, to isolate past-due invoices and statements.

Repeat this whole process every week. Once you've collected your money, you can discard the working copy of the proposal. Or, if you prefer, you can mark it with payment information (date paid, check number, etc.) and store it inside the job file. Some people attach working copies to their respective deposit receipts, storing them as part of their financial records.

Now go out and spend some money. After all, you not only earned it, you collected it. ■

Cheryl Norris operates Order Out of Chaos, a Washington, D.C., consulting business specializing in office organization.