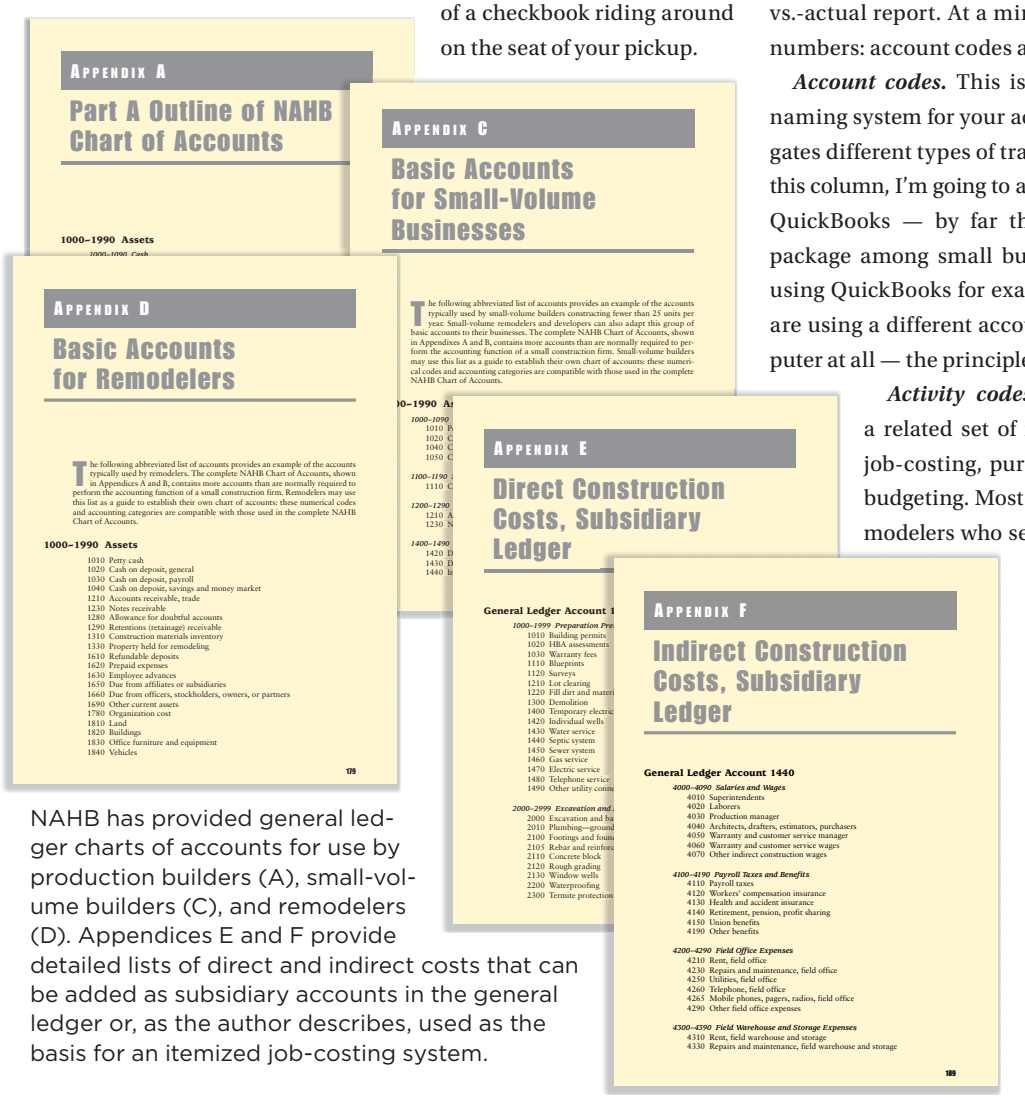
Introducing the NAHB Chart of Accounts

by Joe Stoddard

Imagine a job site where all the materials you needed, from the concrete to the finish nails, were jumbled in one huge pile along with your tools, and you had to dig through the mess to get any work done. It would be almost impossible to find anything, and the day would be over before you could actually start working.

If you're like many small contractors, the way you organize your finances probably isn't much better: All the money goes into one pile and all the expenses get paid out of a checkbook riding around on the seat of your pickup.



NAHB has provided general ledger charts of accounts for use by production builders (A), small-volume builders (C), and remodelers (D). Appendices E and F provide detailed lists of direct and indirect costs that can be added as subsidiary accounts in the general ledger or, as the author describes, used as the basis for an itemized job-costing system.

Two Sets of Numbers

For the past few months we've been talking about working "by the numbers," but in order to do that you're going to need a better way of organizing and categorizing your business expenses and job-cost data. You'll need a system that funnels your financial transactions into the right "buckets" and allows you to create reports comparing what you *think* is going to happen — an estimate or budget — with what actually *does* happen — a budget-vs.-actual report. At a minimum you'll need two sets of numbers: account codes and activity codes.

Account codes. This is a consistent numbering and naming system for your accounting software that segregates different types of transactions. For the purposes of this column, I'm going to assume that you're using Intuit's QuickBooks — by far the most common accounting package among small builders and remodelers. I'll be using QuickBooks for examples and illustrations. If you are using a different accounting program — or no computer at all — the principles will still apply.

Activity codes (or job-cost codes). This is a related set of numbers used for estimating, job-costing, purchase orders, scheduling, and budgeting. Most small-volume builders and remodelers who set up activity codes for the first time use Excel (or some other spreadsheet), and that's what I'll use for this column. Excel is both easy to use and infinitely customizable, making it ideal for tracking the many kinds of labor and material costs you encounter. QuickBooks has "estimating" and "job cost" features, but they require setting up "items" in more detail than most of you will want to do. So I'll be sticking with Excel to illustrate estimating and job-cost examples.

Don't Reinvent the Wheel

The good news is that both numbering systems already exist within NAHB's chart of accounts, a comprehensive set of prenumbered accounts organized by the common functions of a home-building or remodeling business. You can download all of the documents I'm discussing at nahb.org or at the Business Technology forum at jlconline.com.

What's included. There are six documents in the series. Appendices A through D deal with the general-ledger chart of accounts. These are the codes you'll use to set up your financial accounting software. Appendix A, intended for use by larger production builders, gives the entire outline of all possible general ledger accounts — including many that you won't need. Appendix B gives a written description of each account and what it's used for. Appendix C, "Basic Accounts for Small-Volume Businesses," is a good choice for small-volume custom home builders, while Appendix D, "Basic Accounts for Remodelers," is designed for businesses that specialize in remodeling.

In addition, there are two documents that were intended to provide further detail to the general ledger accounts, but that we'll be using to create activity codes for estimating and job-costing: Appendix E, "Direct Construction Costs," and Appendix F, "Indirect Construction Costs." I'll look at these in greater detail below.

How the Accounts Are Organized

The NAHB chart of accounts uses a four-digit numbering system in which each "thousand" is a functional category. Here are the highlights by section.

1000s: Assets. This is all the stuff your business owns, including land, buildings, equipment, vehicles, and inventory, plus cash, short- and long-term investments, and accounts receivable. The current value of any completed or ongoing spec homes or spec remodels is also an asset of the business.

2000s: Liabilities and Owners' Equity. This is what your business owes to others or to you (owners' equity). Accounts payable, loans, and other current or long-term liabilities against the assets you're listing in the 1000 accounts would also go here. For example, your pickup might be worth $20,000, but because you have an $18,000 loan associated with it here, your net "equity" (another word for "ownership") is only $2,000. Deposits from customers are recorded here as well, because your business owes those individuals the work that equals the deposits they've made.

3000s: Sales, Revenues, and Cost of Sales. This is where you record income from various sources, along with your direct construction costs ("sticks and bricks") — an important category that I'll come back to later.

4000s: Indirect Construction Costs. "Construction indirects" are all the things that are required to get the job done but that aren't included in the labor or materials actually installed in the project. Job trailers, dumpsters, and Porta-Johns are common examples, but supervisory wages, general laborers, design fees, small tools that aren't considered long-term assets, insurance, and job-site maintenance costs are also construction indirects. Warranty liability is booked here as well.

5000s: Financing Expenses. This category is used mostly by new-home builders for interest on loans or lines of credit for various initiation and closing costs. Remodelers might book interest paid on credit cards here, or "floor plan" fees if they're dealers of cabinets, hot tubs, or other products and have to pay interest on inventory kept in a showroom.

6000s: Sales and Marketing Expenses. This includes sales commissions and advertising expenses, as well as any expenses attributed to maintaining a sales office, a model home, or — for a home improvement company — storefront operations.

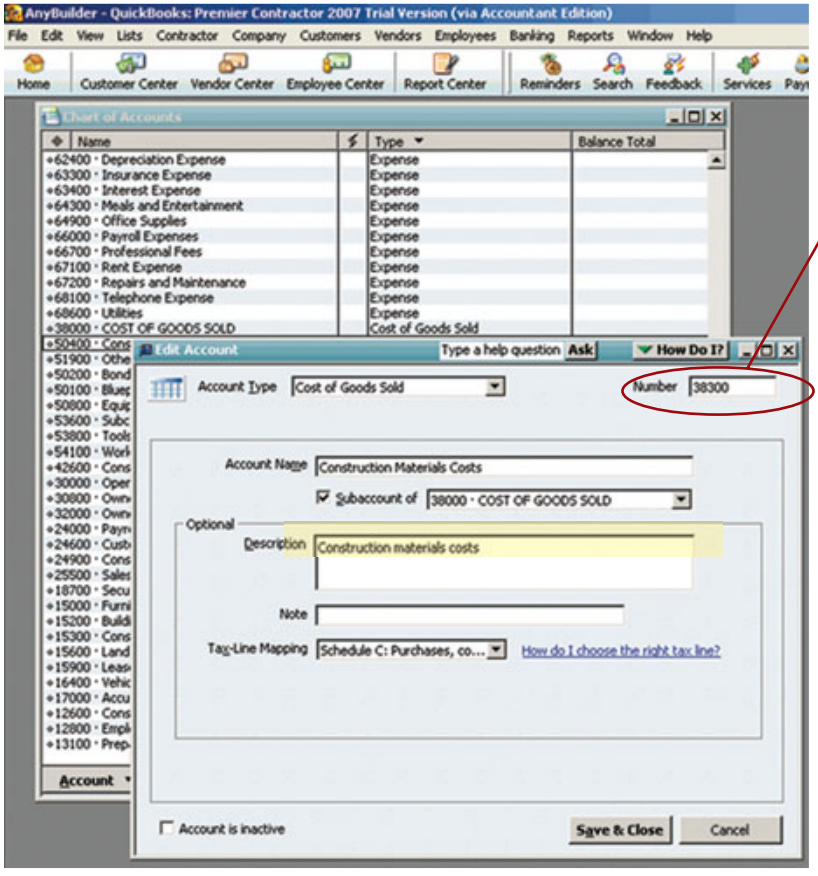
7000s: Operating and Management Expense, Rental Operations. The 7000 accounts are really a separate record-keeping system designed to manage income and expenses from residential or commercial rental property — something many builders and remodelers dabble in.

8000s: General and Administrative Expenses: "G&A" is what most of us would think of as "overhead." Your office rent and utilities, administrative salaries, computer equipment, software, and other technology expenses go here, as do travel and entertainment, insurance, and professional fees. G&A is also where you book your own salary.

9000s: Other Income and Expenses. Here's where you'd book revenue and expenses from things like selling or renting your equipment, or public speaking and consulting — activities that aren't directly related to building but that take advantage of your professional expertise. Note that the account number doesn't address the *type* of account represented. Some sections contain only expense accounts, but others contain a mix of income (or asset) and expense (or liability) accounts. Your accounting software will keep track for you, but in Excel you could set up a column to indicate the type of account you've assigned to each number.

Activity Codes for Estimating and Job-Costing

So far we've been talking about a numbering system for your accounting software, but you also need a similar scheme



3800–3899 Costs of Construction—Remodeling
- 3810 Direct labor
- 3820 Labor burden
- 3830 Building material
- 3840 Trade contractors
- 3850 Rental equipment
- 3860 Other direct construction costs
- 3870 Professional design fees

4000–4990 Indirect Construction Cost
- 4010 Superintendents
- 4020 Laborers
- 4030 Production manager
- 4040 Architects, drafters, estimators, purchasers
- 4110 Payroll taxes
- 4120 Workers' compensation insurance
- 4130 Health and accident insurance
- 4265 Mobile phones, pagers, radios, field
- 4410 Lease payments, construction vehicles
- 4420 Mileage reimbursement

Off-the-shelf accounting, estimating, and scheduling systems can typically be modified to use the NAHB chart of accounts. In this example, code 3830, "building material," (from Appendix D, "Basic Accounts for Remodelers") is being substituted for the default QuickBooks account 50400, "Construction Materials Costs." Because QuickBooks uses five-digit accounts, a zero has been added. Note also that a master account, 38000, "Cost of Goods Sold," has already been created.

for estimating and job-costing.

As mentioned above, Appendix E provides a detailed breakdown of direct job costs, using its own four-digit numbering system that more or less follows the chronology of a typical project. The major categories, which are broken out in detail, are:

1000: Preparation Preliminaries
2000: Excavation and Foundation
3000: Rough Structure
4000: Full Enclosure (Dry-in)
5000: Finishing Trades
6000: Completion and Inspection

This ledger was originally developed to capture direct-cost details in the "work in progress" account 1430 in the assets section of the general ledger. But I'm suggesting that you put it to another use: Take advantage of the well-defined numbering system as a ready-made way to set up your estimating and job-costing, and even your scheduling. If your estimates and job-cost reports always start with 1000 series items for "Preparation Preliminaries" and progress to the 6000s for "Completion and Inspection," you'll be ahead of the game.

Indirect costs. Sometimes you'll want to include indirect costs like supervision or dumpsters on a project estimate — but there's a numbering conflict you'll need to iron out. Appendix F is numbered as a 4000 series (so the codes will work in the general ledger), but Appendix E already has a 4000 category, "Full Enclosure." So I simply renumber Appendix F as 9000 and tag it on to the list of activity codes. So 4000–4090, "Salaries and Wages," becomes 9000–9090, and so forth:

9000–9090: Salaries and Wages
9100–9190: Payroll Taxes and Benefits
9200–9290: Field Office Expense
9300–9390: Field Warehouse and Storage Expense
9400–9490: Construction Vehicles, Travel, Entertainment
9500–9590: Construction Equipment
9600–9690: Maintenance of Unsold Units and Units Under Construction
9700–9790: Warranty and Customer Service
9800–9890: Depreciation Expense
9900–9990: Other

What happened to 7000 and 8000? Note that the 7000 and 8000 series are

not used. This is because NAHB has reserved those numbers for future use (unspecified at this time). It's a good idea for your financial systems to match industry protocols, so I suggest skipping 7000 and 8000 and using 9000 for indirect expenses in the list of activity codes.

Adapting NAHB Accounts To Your Accounting Software

While practically every accounting and estimating software out there has its own particular way of organizing and coding financial data, most of them can be adapted to take advantage of NAHB's account structure. Note that NAHB's four-digit structure does not take full advantage of the computer, so in most cases you will also be converting from four to at least five digits, and possibly more.

The illustration above shows an out-of-the-box QuickBooks for Contractors chart of accounts. As you can see, almost nothing matches NAHB recommendations. No problem: QuickBooks allows you to renumber and rename accounts to suit your own purposes.

While it may seem like a lot of work to set up your software to follow the NAHB account codes, the payoff will be substantial. For one thing, your reporting will be in a format that can be more easily compared to NAHB industry benchmarks and recommendations. And perhaps more important, you'll be better able to communicate with accountants, business consultants, and other contractors who are familiar with those best-practice benchmarks.

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