

QuickBooks Items: The Secret to QuickBooks Job-Costing

by DIANE GILSON, CERTIFIED ADVANCED QUICKBOOKS PROADVISOR

This post about QuickBooks items is based on our more extensive training video of the same title in our [Construction Accounting & Management Program \(CAMP\)](#).

Why are QuickBooks Items Especially Important for Construction Companies?



QuickBooks Items let you track, and report on, the financial detail underlying what's REALLY going on within the financial side of ANY of your jobs!

If you can track and measure what's happening you can far more easily control the profitability of each and every one of your projects.

When you establish, and use, a well-designed Item List in the proper way you can

- **Track actual detailed costs and income** for each job.
- Create **estimated cost and estimated income targets** for individual jobs.
- **Track "Open Purchase Orders by Job"** (often referred to as "Cost to Complete").
- Compare **Estimated vs. Actual Costs** for different job stages and **Estimated vs. Actual Income** for either Fixed Price or "Open Book" jobs.
- Use these "Variance Reports" to:
 - Track, and control costs while a job is in progress (before costs spin out of control).
 - Ensure that you are invoicing, and getting paid, for all contracted aspects of the job (including Change Orders).
 - Review "after-the-fact" results with your team. By doing this, you can continuously improve estimating, operations, and profitability.

Certain transactions in QuickBooks REQUIRE the use of Items. For example:

- **Invoices** and Sales Receipts. (This is how you enter income earned for jobs.)
- **Estimates** (This is where you enter estimated costs and/or estimated income for jobs)
- **Purchase Orders** (A feature that lets you enter exactly what you intend to purchase from contractors and vendors. Purchase Orders add speed, accuracy, and cost controls to your accounting system.)



Other transactions **ALLOW you to use Items rather than accounts.** For instance, you can use Items instead of accounts when you enter:

- Bills or Bill Credits
- Credit Card Charges or Credits
- Checks

DIANE'S CRITICAL INSIGHT: *Many QuickBooks users don't realize the right ways to use Items.*

*Here's the big secret, **if you DON'T use Items** to enter your job-related costs, **you'll miss out** on nearly the entire value of the job-costing process!*

Exactly What Are QuickBooks Items?

- **Items are special "building blocks"** integrated into QuickBooks desktop software. They are designed to let you track and monitor **the critical detail about what is going on in your jobs.**

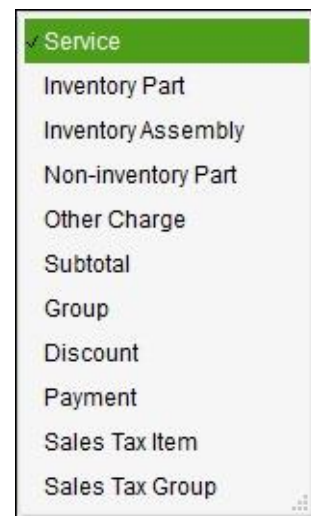
QuickBooks Items deliver a "high def" picture vs. the "standard res" output that you receive when you use only accounts.

- There are **11 different types of Items** in QuickBooks.

Each Item Type has certain qualities and performs certain tasks.

It's **imperative to understand exactly what each type of Item "does"** and whether it's appropriate to use in your specific circumstance.

Even though spec home builders refer to homes in process (or completed) as "inventory", doesn't mean they should use Inventory Items!



Here's a Preview of What You Can Do With Items in Your QuickBooks Company File...

Here are just some of the ways you can use, and benefit from, an intelligently-designed Items List:

- You can create and **customize Items to reflect YOUR specific construction process.**
- Each Item also links into **your Chart of Accounts.** This means that **with no double-data entry (!)** you can see detail about individual job stages such as site preparation, foundation, framing, windows, etc.
- You will also be able to see **standard accounting reports** with job costs summarized in major categories. Those categories include Income, Employee costs, Contracted costs, Materials Costs, and Equipment Costs.
- Reports will display:
 - Gross profit dollars and percentages by job.
 - Gross profit dollars and percentages for your company in total.

How to Establish QuickBooks Items for Your Construction Business

DIANE'S CRITICAL INSIGHT: *If you decide to create your Item List on your own, try building it in a spreadsheet first. Once you get your structure laid out in a spreadsheet, then start creating individual Items inside QuickBooks.*

Why? This can be a time-consuming and somewhat tedious process. You'll likely change your mind several times as you figure out what you want to track. It will be far easier to do your "brainstorming" and modifications in a spreadsheet.

1. Establish the Item TYPES you will use.

- **Learn about the various Item Types,** and understand how they link into accounts when you use them in transactions.
- **Visualize** how results will appear on reports.
- **Finalize** which type(s) of Items you want to use.

DIANE'S CRITICAL INSIGHT: *We normally use Service Items converted into "double-sided Items" for job phases for construction companies. (The term "double-sided Item" is explained in step 5 of this article.)*

2. Determine the “primary” job phases you want to track.

For example, we’ve defined **45 PRIMARY (big picture) CONSTRUCTION PHASES** in our [AccountingPRO™ QuickBooks Construction Template](#). (And that doesn’t even count the phases we included for spec home specifics or land development projects!)

To fire up your thought process, here are the first seven primary phases that we built into our [AccountingPRO™](#) Item List.

- Project Management
- Client Management
- Fees & Insurance
- Design & Engineering
- Exterior Site Prep
- Demo & Interior Prep
- Temporary Facilities
- *And the list continues through all of the major phases...*



3. After you’ve decided on the primary job phases, decide the order in which you would like to see them displayed in reports, and number them accordingly.

Tip: After checking in with various construction owners, we decided to set the [AccountingPRO™](#) Item List to display the job phases. The resulting reports produced are then in “construction order”. You may wish to do the same thing.

4. Are there additional detailed stages that you'd like to track WITHIN the major job phases?

Here's an example of various stages that we included under just one of our primary phases called "EXTERIOR TRIM":

- Exterior trim (general)
- Deck trim
- Exterior wall finishes
- Siding
- Stucco
- Brick veneer
- Stone work
- Cornices/rake trim/fascia/soffit
- Exterior stairs
- Columns/railings/posts
- Shutters/window box
- Gutters & downspouts
- Mailbox, house number, etc.
- Other exterior trim

NOTE: Some estimators and company managers want to track a lot of detail, while others prefer less.



"Great plan. Could we get some more details?"

Using QuickBooks Items, you can pick out what's "just right" for you!

For example, in [AccountingPRO™](#), we include many detailed job stages. At the same time, it still allows you to inactivate Items you don't currently need. That way you can see exactly the amount of information that you'd like to track.

5. Decide when you might possibly use the following accounts within each construction stage.

For each of the detailed job stages you've identified, decide what type of account should display the results.

Why is this important? Because you will be creating separate Items and linking them to the "Cost of Goods Sold" accounts you have established.

- Direct labor costs for employees (if you have employees working on jobs)
- Contracted (subcontractor) costs
- Materials costs
- Other job costs (i.e., costs not covered by any of the above such as rental of equipment)

Tip: If you want to see and learn even more about this topic, see our [construction accounting class #1600 – The Item List: Secret to QuickBooks Job Costing](#). This class provides 72 minutes of in-depth, on-screen video and handout information about Items.

You may also find class [#1430 – Building Your Chart of Accounts](#) (102 minutes) to be of value. Both of these "Level 1" classes are part of our extensive online QuickBooks video training series: [Construction Accounting & Management Program \(CAMP\)](#).

6. Set up your Item List (and Sub-Item List) in QuickBooks.

After you've finalized your entire list in a spreadsheet model, you can begin setting up your Item list using your primary phases as "Header Items" (e.g., the primary phase of Exterior Trim would be a Header Item). The more detailed stages that you have identified would become QuickBooks "sub-Items". For our example below "Exterior Stairs" is a sub-Item of "Exterior Trim".

As you create each Item, you will click on the box that says "This service is used in assemblies or is performed by a subcontractor or partner." See the red arrow below.

Note: *I've always found this "QuickBooks description" to be confusing. Save yourself the bother of trying to figure this out. Just ignore the description and click on the box! You will see the Item transform from a "single-sided Item" into a "double-sided Item".*

Here's an example of an Item that uses the checkmark to create a double-sided Item that is a sub-Item of Exterior Stairs. Below that, you will see a screenshot of all of the "sub-Items" for "Exterior Stairs".

What this accomplishes:

When you use the Item for purchases, it will post the results to the correct cost account. If you use it in an Invoice or Sales Receipt, it will post the results to the correct Income account.

The screenshot shows the 'Edit Item' window with the following details:

- TYPE:** Service (Use for services you charge for or purchase, like specialized labor, consulting hours, or professional fees.)
- Item Name/Number:** 429b.Ex stair
- Subitem of:** am.BLDGPROCES:42.EXTE...
- UNIT OF MEASURE:** Enable...
- Checkmark:** This service is used in assemblies or is performed by a subcontractor or partner
- PURCHASE INFORMATION:**
 - Description on Purchase Transactions: Exterior stairs-contracted
 - Cost: 0.00
 - Expense Account: S.53P · Contracted servi...
 - Preferred Vendor: [Empty]
- SALES INFORMATION:**
 - Description on Sales Transactions: Exterior stairs-contracted
 - Sales Price: 0.00
 - Markup: 100.0%
 - Margin: 100.0%
 - Tax Code: Non
 - Income Account: S.42P · Construction ser...
- Item is inactive:**

Here's a screenshot that shows what a "set" of Items for Exterior Stairs would look like in the Item List after they have been established:

NAME	DESCRIPTION	TYPE	COGS ACCOUNT	ACCOUNT
•429a.Ex stair	Exterior stairs-D/L-payroll	Service	5200 · D-Regular compensation	S.42P · Construction services
•429b.Ex stair	Exterior stairs-contracted	Service	S.53P · Contracted services & trades	S.42P · Construction services
•429c.Ex stair	Exterior stairs-materials	Service	S.54P · Materials & building supplies	S.42P · Construction services
•429d.Ex stair	Exterior stairs-other costs	Service	S.56P · Other job-specific cnstm costs	S.42P · Construction services

The Bottom Line

QuickBooks Items are one of the most powerful tools included within your QuickBooks desktop software. There are a variety of job-cost and management reporting features included in the software as well.

Items are one of the most under-utilized, and most incorrectly used, elements within QuickBooks!

In this article, I've done my best to provide a useful overview. I'm sure you'll agree, however, that there are some fairly complex aspects involved in setting up a really useful Item List.

If you'd like to learn more about the "ins and outs" of Items and other behind-the-scenes construction and job-costing secrets, I'd like to invite you to watch the videos that accompany [AccountingPRO™](#).

Even though you may not have an interest in this prebuilt construction template, the videos will help you to see how QuickBooks can work. It can help you track your job costs and create those incredibly valuable Estimate vs. Actual Cost and Income reports.

Be sure to watch these specific videos on [this page](#):

- **Items**
- **Chart of Accounts**
- **Reports ("standard" and management and job-cost reports).**

AND if you'd like to truly understand, apply, and enjoy the benefits of job-costing, tracking, and monitoring for your company, you really should also take a look at what's included in the [Construction Accounting and Management Program \(CAMP\)](#). You've nothing to lose by looking, and potentially everything to gain!

Here's to your ongoing journey to success – during which we know that YOU can create **"Better Numbers for a Better Business"**!