

## Have a hunch that job isn't worth your time and money? Here's how you can prove it



Job costing is more than just materials and services. You also pay employees to put labor into your jobs, and when it's time to take that labor into consideration things can get tricky. We'll show you how to incorporate time tracking into your job costing — and give you options for tying it in with your payroll and customer invoices too.

To put time tracking into action combined with payroll and job costing, we'll:

- Discuss when you should track time and how to enable the feature.
- Set up time tracking for employees and review the effect it will have on both hourly and salaried employees.
- Demonstrate two ways you can record the time an employee spends on a job.
- Bill customers for time by quickly adding tracked time to an invoice.

The ins and outs of tracking time are confusing enough to turn off many QuickBooks users who don't think it's worth the hassle. However, these features have a great deal of flexibility — and tracking employee time can make your job costing more accurate by taking labor expenses into account. Whether you're only interested in tracking time or you want to take tracking one step further by paying employees based on tracked time and billing customers for tracked time, we'll guide you through the process so you don't miss out on this comprehensive feature.

### Know when you should track time

Time tracking is available only in QuickBooks Pro and higher. You don't need to use time tracking; it isn't essential to either payroll or job costing. That is, you can pay employees

without using time tracking, and you can allocate employee hours to jobs without using time tracking. In fact, you take both actions from the Create Paychecks window.

For example, let's suppose one of your employee's time during a week is allocated to two jobs. To enter information for more than one job, you simply select the earnings item and specify the hours. For salaried employees, QuickBooks automatically prorates wages between jobs. For hourly employees, QuickBooks calculates the number of hours worked times the rate and assigns that value to the job.

**Expert tip:** When you assign hours to a job without time tracking, QuickBooks applies the payroll dollars to the job, but they appear categorized under *No Item* on the Job Profitability Detail report.

So, when should you use time tracking? You should use time tracking under the following conditions:

- When you want to enter time for employees more often than once each pay period.
- When you want to track time in detailed categories.
- When you want to bill customers for employee time.
- When you want employees to enter their own time.

### Make sure the time tracking feature is enabled

Before you can begin tracking your employees' time, you must check one of your QuickBooks preferences.

#### To turn on time tracking:

1. Launch QuickBooks and open your company file. Or open a sample company file to follow along with our example.
2. Choose Edit | Preferences to open the Preferences window.



Our mission is to focus on the Accounting and Tax needs of Small Businesses Owners, so they can leverage their time to focus on what they do best and enjoy the most. Our ultimate goal is to help Clients reduce stress and make more money.



3. Click Time Tracking on the left side of the window and then select the Company Preferences tab.
4. Select the Yes option button in the Do You Track Time? panel.
5. Click OK to apply the preference.

## Create paychecks from time you track

Once you enable time tracking in QuickBooks, you can choose to use time recorded by employees to create paychecks. Be aware that you aren't required to use time recorded to pay employees. You can allow employees to enter time but pay them based on an agreed-upon pay schedule instead. But you should use time tracking if you want employees to enter their own time and you want the time applied to a specific customer or job. To pay employees based on tracked time, you need to edit their employee information.

### To allow time tracking for an employee:

1. Choose Employees | Employee Center from the menu bar to open the Employee Center.
2. Select the Employees tab in the left panel and double-click on the employee whom you want to pay based on tracked time. The Edit Employee window displays.
3. Choose Payroll And Compensation Info from the Change Tabs dropdown list.
4. Select the Use Time Data To Create Paychecks check box, as shown in **Figure 1**.
5. Click OK to save the changes.

## Salaried vs. hourly employees

Selecting this check box has different effects in payroll for hourly and salaried employees. When you select this check box for an hourly employee, you're telling QuickBooks to pay the employee for the hours recorded. That is, if the employee records only 35 hours in a particular week, you'll pay that employee for 35 hours times the hourly rate the employee earns.

---

**Important note:** You aren't limited to entering only tracked hours. You can also enter additional worked hours that you didn't track for a specific job. Simply add another line item and enter those additional hours without assigning a job.

---

When you select the use Time Data To Create Paychecks check box for a salaried employee, QuickBooks uses the time information recorded by the employee to prorate hours worked to jobs. However, the employee's paycheck amount *is not* affected by the hours worked. If the salaried employee records only 35 hours in a particular week, you'll pay that employee for 40 hours (based on annual salary divided by the number of pay periods). QuickBooks will record the actual hours worked to specified jobs, but prorate the entire salary on the paycheck to jobs.

## Record worked time

You can enter time in QuickBooks in one of three ways: using the Weekly Timesheet window, using the Single Activity Entry window, or using the QuickBooks Timer (and importing the entries). For more information about the QuickBooks Timer, see the accompanying article "Package a program for

outside contractors to track their time — even without QuickBooks."

## Enter work hours in real time

It's best to use the Time/Enter Single Activity window in QuickBooks when you want to enter time records as they happen.

### To record time with the Time/Enter Single Activity window:

1. Choose Employees | Enter Time | Time/Enter Single Activity from the menu bar to open the Time/Enter Single Activity window. (Alternatively, you can click the Enter Time button in the Employee Center and choose Time/Enter Single Activity.)
2. Select the employee from the Name dropdown list and enter the date the time was worked in the Date text box.
3. Choose the relevant information from the Customer:Job dropdown list and the Service Item dropdown list. These choices determine where the employee time is allocated in terms of job costing.

The screenshot shows the 'Edit Employee' window for 'Rand, Jenn'. The 'Change tabs' dropdown is set to 'Payroll and Compensation Info'. Under the 'Payroll Info' section, the 'Earnings' table has one entry: 'Officer's Labor' with a 'Hourly/Annual Rate' of 30.00. The 'Payroll Schedule' is 'Monthly' and 'Pay Frequency' is 'Monthly'. The 'Class' is 'Owners La...'. The checkbox 'Use time data to create paychecks' is checked. Below this, there are buttons for 'Tags...', 'Sick/Vacation...', and 'Direct Deposit'. At the bottom, there is a checkbox 'Employee is covered by a qualified pension plan' which is unchecked.

**1:** This setting has different consequences depending on whether the employee is hourly or salaried.

4. Select the employee's Payroll Item from the Payroll Item dropdown list, as shown in **Figure 2**. This should correspond to a payroll item assigned to the employee. Otherwise, you may have to edit the employee's information.
5. If you plan to bill this time to a customer, select the Billable check box.
6. Enter the time in the Duration text box, or you can click the Start button to begin the timer and click the Stop button when your tracked time ends.
7. Click the Save & Close button when you're ready to record the time.

2. Enter the Customer:Job and Service Item information in the corresponding columns.
3. Record hours worked in the correct workday column, as shown in **Figure 3**. (Ensure that the correct week displays in the Week Of text box.)
4. Select the Billable check mark if you plan to bill the customer for the time.
5. Click the Save & Close button when you're ready to save the weekly timesheet.

Notice that you can enter time for more than one day of the week if the work applies to the same job and service item.

appropriate, for payroll purposes, but you aren't making the hours available to your customers for billing. When you do make time billable, however, you can create an invoice to bill your customer for the time spent on a job.

**To bill your customers for time worked:**

1. Choose Customers | Create Invoices from the menu bar (or press [Ctrl]I) to open the Create Invoices window.
2. Select the customer and/or job from the Customer:Job dropdown list.

**Record hours all at once**

You can also record several days of tracked time all at once using the Weekly Timesheet window.

**Tip:** If you've recorded time through the Time/Enter Single Activity window that falls within the span of your weekly timesheet, it displays automatically. This feature saves you data entry time and makes it easy to correlate between these two time tracking methods.

**To enter many days' worth of tracked time:**

1. Choose Employees | Enter Time | Use Weekly Timesheet from the menu bar, or you can click the Enter Time button in the Employee Center and choose Use Weekly Timesheet.

**Pay employees based on time entries**

Time entries you record will automatically appear when you create the employee's paycheck — if you've selected the Use Time Data To Create Paychecks check box on the Payroll Info tab for the employee. For hourly employees, QuickBooks will calculate pay based on the number of hours entered and apply the hours to the selected customer or job. For salaried employees, QuickBooks will prorate the pay period salary amount between the customers/jobs and apply the hours to the selected customer or job.

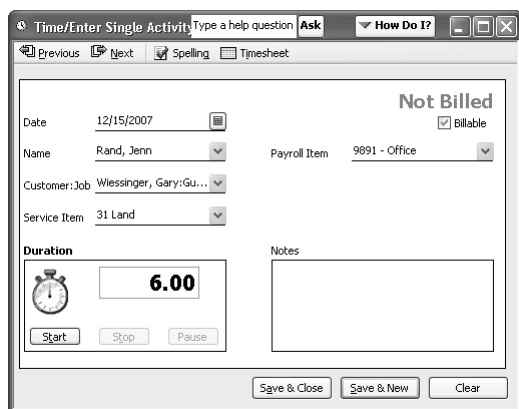
**Bill your customers for time**

When an entry isn't billable, you're recording hours worked for a job and, if

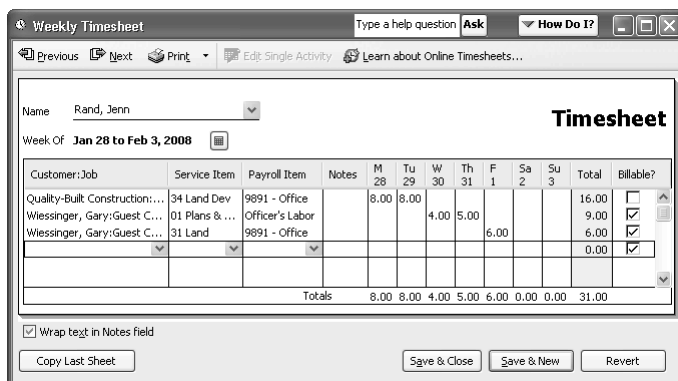
**Put your service items to good use**

Service items are an important part of job costing so you can determine: a) what kind of work was completed on the job; and b) where your labor resources were spent. You can use the service item in three ways:

1. If you make time billable and add it to an invoice, the service item appears on the invoice, determining the income account affected;
2. The service item appears on all the job profitability reports, which use items, not accounts; and,
3. If you enter time for a vendor and pay the vendor based on these entries, the service item appears on the Items tab of the bill or check, determining the expense account affected.



**2:** If you plan to bill a customer for your employee's time on a job, you need to select the Billable check box.



**3:** Use the weekly timesheet when you want to record tracked time for more than one activity.

If there is recorded billable time available for the Customer:Job selection, QuickBooks gives you the option to include time in the invoice or ignore it.

3. Select the Select The Outstanding Billable Time And Costs To Add To This Invoice option button and click OK.
4. Click on the Time tab in the Choosing Billable Time And Costs window.
5. Include any billable time that applies to the job in the invoice by clicking in the column to the left of the entry so that a check mark displays, as shown in **Figure 4**.
6. Click OK when you're ready to include the tracked time as line items in your invoice.

Now you can finish adding any other relevant items to the invoice. QuickBooks now considers the times you've added to the invoice as billed.

### What if I just want to track the time spent on jobs?

If you aren't interested in paying your employees based on tracked time or billing that time to your customers, you can still use job costing just by allocating time spent to certain jobs. Think of this as the "time tracking (for jobs) only" method. Follow the same steps we've provided in this article with two exceptions:

- On the employee's record, don't select the Use Time Data to Create Paychecks check box.
- When you track time, don't record any of the time as billable. QuickBooks will still apply the hours to the jobs (and they will still appear in job reports such as the Time By Name report), but you'll be able to pay employees using an agreed-upon pay schedule, and you won't find any entries on the Time tab of the Choose Billable Time And Costs window when you're billing customers.

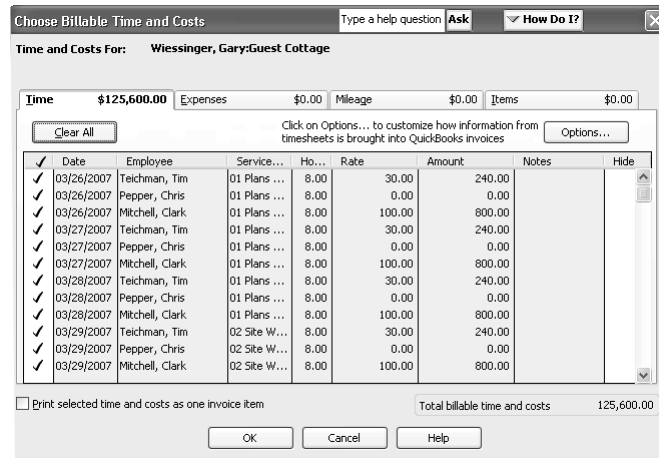
### Find out how much time you've put into a job

Once you get the hang of tracking your employees' time and assigning time to jobs, you can use a few reports to analyze

the labor you put into a job. Check out these reports and how they put job costing into action:

- **Time By Name.** This report gives you a breakdown of each employee's time spent on different jobs. This information helps you determine commission based on how much work an employee put into a job — or know who to turn to if a problem arises.
- **Time By Job.** This report is a great way to quickly see how much time your workforce has put into a job. Is this time more or less than you expected? Use this to calculate the job's profit per labor hour.

These are only a couple of examples. The Jobs, Time & Mileage section of the Reports menu includes several reports based on allocated jobs.



**4:** You can choose to add any tracked hours you've marked as billable directly to an invoice.



## Dennis L. Thompson, CPA

19410 Hwy 99 Ste A PMB 144 ♦ Lynnwood, WA 98036

Website: [www.dlthompsoncpa.com](http://www.dlthompsoncpa.com) ♦ Email: [dthompson\\_cpa@yahoo.com](mailto:dthompson_cpa@yahoo.com)