

Profitable Labor Pricing *for* Trades Contractors

*The ABCs of Setting
Profitable Labor Rates*

**Companion
Worksheets**

Tom Grandy



Thank you for downloading the companion worksheets for the book *Profitable Labor Pricing for Trades Contractors*.

Use these worksheets to calculate your accurate labor rate.

If you want more information on the Planning for Profit software platform to calculate your labor rate by department, visit www.PlanningForProfit.com

Profitable Labor Pricing for Trades Contractors

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Worksheet #3

Projected Retail **MATERIAL** Dollars For The Year

(Pick Option One or Two - Not Both)

Option #1:

Total material COST to the company	\$	50,000	(H)
Plus normal markup (above cost x markup %).		50,000	(I)
Estimated retail MATERIAL sales dollars To The Customer For The Year	=	\$ 100,000	
		=====	(J)

Option #2:

It may be easier to break materials down by areas and then add them together, if markups are significantly different on equipment and spare parts. To do this us the following:

	Material Cost	+	Markup (Cost x % markup)	= Retail Cost To Customer
Equipment.....	_____		_____	_____
Spare Parts	_____		_____	_____
Totals =				
	=====		=====	=====
	(H)		(I)	(J)

Worksheet #4

Company Matching Tax Rate

Decimals are sometimes difficult to understand. Seven percent is shown as a percent as 7% but as a decimal as .07. The decimal is moved over two spaces. The FICA and FUTA tax rates are shown below, in decimal form. All you have to do is fill in your State Unemployment Rate and then total the three numbers. If your unemployment rates is 1 1/2% it would be .015 in decimal form. If it were 3.5% it would be .035.

	<u>Decimal Form</u>	
FICA0765	
FUTA Tax0080	
State Unemployment Rate.....	.0300	
Total matching Tax Rate =	.1145	(K)
	=====	

NOTE: If you are a sole proprietorship you will normally not have FUTA tax or State Unemployment but your FICA will jump to 15.3%

Worksheet #5

Fixed Overhead Cost - (continued on next page)

Annual Dollars

Administrative Salaries/Benefits:

Owner/s Salary.....	
Secretary/Clerical	
Dispatcher	\$ 28,500
.....	

Worksheet #2,
Item (G) →

Cost of Non-Billable time	53,829
Matching Taxes on all above items (11.45% x above)	9,426

Health Insurance

.....

.....

Advertising:

General Advertising	15,000
Yellow Pages	
.....	

Insurance/Taxes/Contributions:

Workman's Compensation	5,300
Liability Insurance	
Life Insurance	
Health Insurance's	9,000

Inventory Tax

Property Tax

Contributions

.....

.....

.....

Retirement Costs:

Owner Retirement

Employee Plans

.....

.....

Building/Utilities:

Utilities

Rent/Loan Payment

Building Repairs

.....

Dues/Subscriptions:

Trade Association Dues

Subscriptions

.....

Add the owners salary, secretary/clerical help and the cost of non-billable time together and multiply the total by your matching tax rate on Worksheet #4, item (K).

**Fixed Overhead Continued On Next Page
Worksheet #6**

Worksheet #6

Fixed Overhead Cost - (continued from last page)

Annual Dollars

Office Expenses:

Telephone.....	
Office Supplies	
Postage	
Misc. Expense	
Bad Debt	\$ 2,500
Total Estimated Cost of Customers Using Credit Cards for year	5,000

Professional Fees:

Accounting	
Legal	
Consulting	

Travel/Entertainment:

Conferences	
Meals For Clients/Staff	
Travel - General	

Loans/Leases:

Loan #1	9,600
Loan #2	7,800
Loan #3	
Loan #4	

Lease #1	
Lease #2	
Lease #3	
Lease #4	

Worksheet #1,
Item (A) →

Equipment Replacement Cost:	
Equipment Replacement Cost (average annual cost)	20,000

Computers:

Leases	
Maintenance	
Training	
Repairs	
General Overhead from rest of company (20% of \$230,000)	46,000

Total Fixed Overhead Cost (All items
on Worksheets #5 and #6 → **\$ 211,955**

(L)

Worksheet #7

Variable Overhead Cost

Annual Dollars

Payroll Taxes:			
	Payroll taxes on CHARGEABLE Field Labor	\$ 7,533	
Small Tools and Equipment:			
	Small tools used on job	2,000	
	Supplies used on job (company cost - not passed on to customer)		
	_____		
	_____		
Auto/Truck Expenses:			
	Gasoline	14,000	
	Maintenance		
	_____		
	_____		
	_____		
Rentals:			
	Rental of Equipment (not passed on to customer)		
	Uniform Rental	2,400	
Misc.:			
	_____		
	_____		
	Total Variable Overhead Cost	\$ 25,933	(M)

Chargeable payroll tax calculation:
 = Average hourly rate x Chargeable labor hours x Matching tax rate
 = Worksheet #2, item (F) x Worksheet #2, item (E) x Worksheet #4, item K
 = \$ 19.17 / hour x 3,432 hours x .1145 percent

Total Overhead Cost

Fixed Overhead (Worksheet #6, item L	+	\$ 211,955	
Variable Overhead (Worksheet #7, item M	+	25,933	
		= \$ 237,888	
Total Overhead (fixed and variable)		= \$ 237,888	(N)

Worksheet #8

Absorption of Fixed and Variable Overhead

Materials:

Estimated retail material sales dollar to the Customer for the year (from Worksheet #3, item (J))	\$ 100,000
<u>Less</u> total material cost to the company (from Worksheet #3, item (H)).....	- 50,000
<u>Less</u> desired profit (desired company net profit X Retail Material Sales).....	- 15,000
Remaining material gross profit that can absorb some overhead	= 35,000 =====

Subcontractors:

Total subcontracted work (Retail Price to Customer)	\$ _____
<u>Less</u> company cost to subcontract	- _____
<u>Less</u> desired profit (desired company net profit X Subcontracted Sales	- _____
Remaining subcontractor gross profit that can absorb overhead	= _____ =====

Overhead dollars left that DIRECT LABOR hours must absorb:

Total Fixed and Variable Overhead (from Worksheet #7, item (N)	\$ 237,888
<u>Less</u> overhead absorbed by subcontractors	- _____
<u>Less</u> overhead absorbed by materials	- 35,000
Remaining overhead direct labor must absorb.....	= 202,888 ===== (O)

Worksheet #9

Calculation Of Labor Overhead Rate and Breakeven Rate

Basic Average Hourly Rate (recopy from Worksheet #2, Item (F)):

$$= \$ 19.17 / \text{hour (P)}$$

Calculation of Labor Overhead Rate:

= Remaining Overhead to be absorbed by Labor / Net Chargeable Hours

= Worksheet #8, item (O) / Worksheet #2, item (E)

= \$ 202,888 / 3,432 hours

= \$ 59.12 / hour (Q)

Breakeven Hourly Rate:

= (P) + (Q)

= \$ \$78.29 / hour (R)

Worksheet #10

Calculation Of Required Hourly Rate

Determine Reciprocal for Company:

Desired Net Profit in percent form..... 15 %

Net Profit above expressed as decimal15

Reciprocal = (1.00 - Decimal net profit)

= 1.00 -.15

= .85 (S)

Determine What Hourly Rate To Charge

Hourly Rate = Breakeven Rate / Reciprocal for Company

= (Worksheet #9, item (R) / Worksheet #10,item (S)

= \$78.29 / .85

= \$ 92.11 / hour

WORKSHEET #3

Projected Retail Material Dollars For The Year

Note: Pick Option One or Two - Not Both

Option #1:

Total Material COST to the company..... _____ (H)

Plus normal markup (Item H x Markup %)..... _____ (I)

Estimated retail MATERIAL sales dollars
to the customer for the year..... _____ (J)

Option #2

If markups are significantly different on equipment and spare parts, it may be easier to break materials down by areas and then add them together.

	Material Cost	+	Markup Cost x % Markup	=	Selling Price to Customer
Equipment	_____	+	_____	=	_____
Spare Parts	_____	+	_____	=	_____
Total	_____ (H)	+	_____ (I)	=	_____ (J)

Worksheet #4

Company Matching Tax Rate

Sometimes, decimals can be confusing to understand. Seven percent is shown as a percent as 7% but as a decimal as .07. The decimal is moved over two spaces. The FICA and FUTA tax rates are shown below in decimal form. All you have to do is fill in your State unemployment Rate and then add the three numbers. If your unemployment rate is 1.5%, it would be .015 in decimal form. If it were 3.5%, it would be .035 in decimal form.

Enter your State Unemployment percentage in the space provided. Then add the three items together to come up with your total matching tax rate.

	Decimal Form
FICA	+ 0.0765
FUTA Tax	+ 0.0080
State Unemployment Rate	+ _____
	=====
Total Matching Tax Rate	_____ (K)

Note: If you are a sole proprietorship, you will normally have FUTA tax or State unemployment but your FICA will jump to 15.3%.

Worksheet #5

Fixed Overhead Costs

Amount
Dollars

Administrative Salaries / Benefits:

Owners Salary _____
 Secretary/Clerical _____
 Dispatcher _____

Worksheet #2,
Item (G)

→ Cost of Non-billable time _____
 → Matching Taxes on all above items (_____ % x above) _____
 Health Insurance _____

Advertising:

General Advertising _____
 Yellow Pages _____

Insurance / Taxes / Contributions:

Workmans Compensation _____
 Liability Insurance _____
 Life Insurance _____
 Other Insurances _____
 Inventory Tax _____
 Property Tax _____
 Contributions _____

Retirement Costs:

Owner Retirement _____
 Employee Plans _____

Building / Utilities:

Utilities _____
 Rent / Loan Payment _____
 Building Repairs _____

Dues / Subscriptions:

Trade Association Dues _____
 Subscriptions _____

Add the owners salary, secretary / clerical help and the cost of non-billable time together and multiply the total by your matching tax rate on

Worksheet #6

Fixed Overhead Costs (continued from Worksheet 5)

	Amount Dollars
Office Expense	
Telephone	_____
Office Supplies	_____
Postage	_____
Misc. Expense	_____
Bad Debt	_____
Total Estimated Cost of customers using Credit Cards	_____
_____	_____
_____	_____

Professional Fees	
Accounting	_____
Legal	_____
Consulting	_____
_____	_____
_____	_____

Travel / Entertainment	
Conferences	_____
Meals For Clients / Staff	_____
Travel - General	_____
_____	_____
_____	_____

Loans / Leases	
Loan #1	_____
Loan #2	_____
Loan #3	_____
Loan #4	_____
_____	_____
_____	_____
Lease #1	_____
Lease #2	_____
Lease #3	_____
Lease #4	_____

Worksheet 1,		Equipment Replacement costs:	
Item A	→	Equip. Replacement Cost	_____
		<i>(average annual cost)</i>	_____

Computers:	
Leases	_____
Maintenance	_____
Training	_____
Repairs	_____
_____	_____

Total Fixed Overhead cost _____

Worksheet #7

Variable Overhead Expenses

	Amount Dollars
Payroll Taxes:	
→ Payroll taxes on Chargeable Field Labor	_____
Small Tools and Equipment:	
Small tools used on jobs	_____
Supplies used on jobs (company costs not passed on to Customer)	_____
_____	_____
_____	_____
Auto / Truck Expenses:	
Fuel	_____
Maintenance	_____
_____	_____
_____	_____
Rentals:	
Rental of Equipment (not passed on to customers)	_____
Uniform Rental	_____
_____	_____
_____	_____
Misc.:	
_____	_____
_____	_____
_____	_____
_____	_____
Total Variable Overhead Cost	(M)

Chargeable payroll tax calculation:
 = Average hourly rate x Chargeable labor hours x Matching tax rate
 = **Worksheet 2, Item F** x **Worksheet 2, Item E** x **Worksheet 4, Item K**

= _____ / Hr x _____ Hrs x _____ %

Total Overhead Cost

Fixed Overhead (Worksheet 6, Item L)	_____
Variable Overhead (Worksheet 7, Item M)	_____
Total Overhead (fixed and variable)	(N)

Worksheet #8

Absorption of Fixed and Variable Overhead

	Amount Dollars
Materials:	
Estimated retail material sales dollar to the customer for the year (from Worksheet 3, Item J)	\$ _____
<u>Less</u> total material cost to the company (from Worksheet 3, Item H)	- _____
<u>Less</u> desired profit (desired company net profit x Retail Material Sales)	- _____
Remaining material gross profit that can absorb some overhead	= _____
Subcontractors:	
Total Estimates Subcontractor work (Retail price to the customer)	\$ _____
<u>Less</u> company cost of subcontractors	- _____
<u>Less</u> desired profit (desired company net profit x Retail Material Sales)	- _____
Remaining subcontractor gross profit that can absorb some overhead	= _____
Overhead dollars left that <i>DIRECT LABOR</i> hours must absorb:	
Total Fixed and Variable Overhead	\$ _____
<u>Less</u> overhead absorbed by subcontractors	- _____
<u>Less</u> overhead absorbed by materials	- _____
Remaining overhead direct labor must absorb can absorb some overhead	= _____ (0)

WORKSHEET #9

Calculation Of Labor overhead Rate & Breakeven Rate

Basic Average Hourly Rate (recopy from Worksheet #2, Item F):

$$= \text{_____} (P)$$

Calculation of Labor Overhead Rate:

= Remaining Overhead to be absorbed by Labor/Net Chargeable Hours

$$= \text{Worksheet \#8, Item O} / \text{Worksheet \#2, Item E}$$

$$= \$ \text{_____} / \text{_____} \text{ hours}$$

$$= \$ \text{_____} / \text{hour (Q)}$$

Breakeven Hourly Rate:

$$= (P) + (Q)$$

$$= \$ \text{_____} / \text{hour}$$

WORKSHEET #10

Calculation Of Required Hourly Rate

Determine Reciprocal for Company:

Desired Net Profit in percent form _____ %

Net Profit above in decimal form _____

Reciprocal = (1.00 - Decimal net profit)

= 1.00 - . _____

= . _____ (S)

Determine What Hourly Rate To Charge

Hourly Rate = Breakeven Rate / Reciprocal for Company

= (Worksheet #9, Item R / Worksheet #10, Item S)

= (\$ _____ /hr / . _____)

= \$ _____ / hour