BERNE & CO
ACCOUNTANCY SERVICES

ACCOUNTANTS FOR BUILDING CONTRACTORS

FREE GUIDE

7 COSTLY MISTAKES BUILDING CONTRACTORS MAKE

The financial traps that quietly eat contractors' profits, and exactly how to avoid each one.

Berne & Co Accountancy Services
By Patrick Berne · ACMA, CGMA

INTRODUCTION

YOU'RE BUSIER THAN EVER. SO WHERE'S THE MONEY?

You're flat out. The diary is full, the vans are on the road, and turnover is up on last year. And yet, somehow, there's never much money in the bank, and you couldn't say hand on heart which of your jobs actually made a profit.

If that sounds familiar, you're in good company. It's one of the most common frustrations we hear from building contractors, and it has almost nothing to do with how hard you work.

Here's the uncomfortable truth: in construction, it's frighteningly easy to be busy, profitable on paper, and skint all at the same time. The money slips away through jobs that were never really priced right, cash that's tied up in retentions and slow payers, tax bills that land out of nowhere, and compliance like CIS and reverse-charge VAT that trips up almost everyone.

And it's not your fault. Unless you've been trained in it, there's no reason you'd know how to cost a job properly, forecast your cash, or plan your tax. That's not your trade. It's ours.

This short guide walks through the **seven biggest financial mistakes we see building contractors make**, and what to do about each one. None of it is complicated. Most of it is quick to fix once you know it's there. Read it with a pen in hand and tick off the ones that hit home.

And if, by the end, you'd like a proper chat about your own numbers, there's a link at the back to book a free, no-obligation call. No jargon, no pressure.

All the best,

PATRICK BERNE

Founder, Berne & Co Accountancy Services

MISTAKE #1

You don't actually know which jobs make you money

Ask most contractors how a job went and you'll get a feeling, not a figure. "That one went alright." "That one was a nightmare." But turnover tells you nothing about profit, and without proper job costing, a couple of loss-making jobs can hide inside a busy, healthy-looking year and drag the whole thing down.

Construction is unusually good at hiding the true cost of a job, because your costs and your income land at completely different times. Materials go on account, subcontractors invoice on their own schedule with CIS on top, and you bill in stages with retentions held back for months. By the time it all washes through, you've moved on to the next jobs and the profit, or the loss, has vanished into one big bank balance.

Job costing simply means assigning every cost to the job it belongs to, then comparing it against what you billed. Done properly it turns "we made money this year, I think" into "job 214 made 18%, job 219 lost 4%, and here's exactly why." For each job you want to capture:

- Labour at its true cost (wages plus employer's NI, pension and holiday pay), not just the hourly rate
- Materials, coded to the job rather than one big pot
- Subcontractors, plant hire and site costs
- A fair share of your overheads

> "Some jobs look great when we price them, but there's nothing left at the end." That's not a pricing problem. It's a visibility problem.

✓ Action point

Pick your last three completed jobs and add up everything they truly cost, then compare to what you invoiced. The result usually surprises people, and it's the fastest way to see where your margin really goes.

! Watch out for

Forgetting overhead recovery. Your office, vans, insurance and your own time cost money before you lay a brick. If you only compare direct costs to the price, every job looks fine while the business quietly loses.

MISTAKE #2

You're confusing turnover with profit

Turnover is vanity, profit is sanity. It's an old saying because it's true. Turnover measures how much work you did. Profit measures how much of it you actually got to keep. You can double your turnover and halve your profit at the same time, and plenty of firms do without realising, because bigger *feels* like better.

The number you should judge yourself on isn't how much you turned over. It's your **margin**: the percentage of every pound that actually sticks. A smaller, tighter firm on 15% margin takes home more than a bigger, busier one on 8%, with far less stress and risk.

The biggest culprit is pricing by feel. Winning more work by being the cheapest is the fastest way to grow turnover and shrink profit. And there's a maths trap that quietly costs contractors thousands, because **markup and margin are not the same thing**:

- A job costs you £10,000. You add 20% markup, so you charge £12,000.
- But your profit as a share of the price is only 16.7%, not 20%.
- To actually make 20% margin you divide by 0.8, so you'd price it at £12,500.

Get that wrong on every job and you're a few points light on all of it. Add unbilled variations, rising material costs you haven't passed on, and the odd difficult client, and the margin bleeds away.

✓ Action point

Set a target margin and price up from your real costs to hit it, rather than guessing at a number the customer might accept. Pass on cost increases instead of absorbing them.

! Watch out for

"Can you just also..." work. Every variation you do and don't bill is pure lost profit. Agree and charge them as they happen.

MISTAKE #3

You run out of cash even when you're flat out

Here's an uncomfortable truth about construction: most firms that go under aren't losing money. They're profitable on paper, but they run out of cash at the wrong moment, can't pay the wages or the VAT bill, and it unravels from there. Profit is an opinion. Cash is a fact.

Few industries are as hard on cash as building. You pay for labour every week and materials on 30-day terms, but you get paid on applications and 30 to 60-day terms, sometimes longer. Add retentions held back for months, materials you buy upfront, and the odd client who pays late, and it's easy to be busy, profitable and skint all at once.

"We've £300k owed to us but we're struggling to pay suppliers." That's not a profit problem. It's a timing problem, and timing is exactly what a **rolling cash-flow forecast** fixes. It's a simple week-by-week projection of the money coming in and going out over the next quarter, with your bank balance at the end of each week. The magic is that a dip in week seven shows up while it's still week two, when you've still got options: chase a debtor, time a purchase, or arrange a facility from a position of strength rather than panic.

> A retention you forget to chase isn't a cash-flow problem. It's a gift to your customer. And on thin-margin work, it can be the whole profit on the job.

✓ Action point

Start a simple 13-week cash-flow forecast. List money in by the week you'll *actually* be paid (not the invoice date), and money out including the lumpy VAT, CIS and tax payments. Update it weekly.

! Watch out for

Retentions you've forgotten to bill. Keep a list of what's held, on which job, and when it's due for release, then chase it.

MISTAKE #4

You're getting CIS and reverse-charge VAT wrong

These two rules catch out more contractors than anything else, and they're the ones that generate penalties and disputes. The good news is that once they're set up properly, they just run in the background.

The Construction Industry Scheme (CIS) means that when you pay a subcontractor, you deduct money and send it to HMRC as an advance on their tax. How much you deduct depends on the subbie's status: 30% if they're unverified, 20% if they're registered and verified, or 0% with gross payment status. You deduct only from the labour, not from materials. You must verify subcontractors before you first pay them, file a monthly CIS return by the 19th (even a nil one), give each subbie a deduction statement, and pay HMRC. Miss a monthly return and the penalties start at £100 straight away and climb.

The domestic reverse charge for VAT flips the usual rule. For most construction work between VAT-registered businesses, the subcontractor no longer charges VAT. Instead, the customer accounts for it. So if you're a subbie billing a main contractor, you don't add VAT, you state on the invoice that the reverse charge applies, and you don't receive that 20% into your account. The big exception is the "end user", the final customer who isn't making an onward supply of construction, where normal VAT applies again.

✓ Action point

Make sure your accounting software is set up for both CIS and the reverse charge, verify every new subcontractor before you pay them, and get end-user status confirmed in writing.

! Watch out for

The cash-flow hit when you first become VAT registered as a subbie: that 20% you used to hold simply won't land any more. Plan for it.

MISTAKE #5

You only hear from your accountant once a year

For a lot of contractors, the only real look at the numbers comes months after the year has ended, when the accountant finally hands over a set of accounts and a tax bill. By then the information is history. It's useful for HMRC and useless for running the business. You can't fix a job that finished eight months ago, or find cash for a bill that's already overdue.

"My accountant just does my year-end and tells me what tax to pay." If that's the whole relationship, you're paying for a filing service, not for advice that makes you money. And as you grow, that gap gets expensive. Nobody's warning you about VAT thresholds, spotting the loss-making jobs, planning your tax, or telling you whether you can afford that next hire.

The right accountant for a growing building firm is proactive, not reactive. They understand your sector inside out, so you're not explaining retentions and applications to the people meant to be advising you. They give you timely numbers you can actually run the business on. And they help you plan, rather than just recording the past.

Here's the thing most people don't realise: **switching is far easier than staying put feels**. Your new accountant does almost all of it. You let your current one know, the new firm handles the professional clearance and gets your records, you sign a simple authority, and they re-register as your agent with HMRC. Your side is usually a couple of signatures, and you can move at any time of year.

✓ Action point

If you only hear from your accountant once a year, ask yourself what proactive advice you've had in the last twelve months. If the honest answer is "none", it's costing you.

! Watch out for

Inertia. Every year with an accountant who only looks backwards is a year of tax you might have planned for and problems no one warned you about.

MISTAKE #6

You keep getting hit with tax bills you didn't see coming

Few things sink the stomach like a tax bill you weren't ready for. You've had a good year, the work's been steady, and then the demand lands and the money simply isn't there, because it got spent keeping the show on the road.

The bill was never a surprise to HMRC. The only surprise is to you, because the money that was always earmarked for tax felt like yours to spend. When you were employed, tax came out before you ever saw it. Running your own firm it's the opposite: cash lands looking like yours, and the tax on it isn't due until much later, often in lumps.

The fix is simple and it works. **Keep tax money separate from spending money.** Open a savings account, call it "Tax", and every time you're paid, sweep a sensible percentage of your profit straight into it. Little and often is painless. One big transfer the night before a deadline is not. A rough rule of thumb keeps you safe. A proper tax forecast through the year makes it exact, so you set aside the right amount and never too little.

- Open a separate "Tax" savings pot and automate a transfer on every payment in
- Review your likely bill through the year, not after it
- Remember that CIS already withholds some of your tax if you're a subbie, so factor that in

✓ Action point

Set up a separate tax savings account this week and start moving a percentage across every time money comes in. Ask your accountant for the right figure to use.

! Watch out for

Payments on account. The first time Self Assessment asks for payments towards next year's bill on top of this year's, it can feel like being taxed twice at once. Know it's coming.

MISTAKE #7

You're trying to do it all yourself

When you start out, you do everything: quote the work, run the site, chase the money, and wrestle the paperwork at the kitchen table on a Sunday night. That's normal at the beginning. The problem is when the business grows and the way you run the numbers doesn't grow with it.

A carrier bag of receipts and a spreadsheet that's always a few months out of date can't tell you how you're doing. You find out long after the fact, lost receipts mean lost tax relief, and you get no useful picture job by job. Meanwhile the real cost is your time and your peace of mind.

Getting the basics right changes everything. **Modern cloud accounting**, such as Xero, turns your bookkeeping from a chore into a live picture of the business. You snap a photo of a receipt on site and bin the paper. Your bank feeds in automatically and gets coded, including to individual jobs. You invoice from the van the day the work's done. And you and your accountant look at the same up-to-date numbers, so the advice is based on what's happening now, not a snapshot from months ago.

It's also worth getting advice on whether your **business structure** still fits. Sole trader is simple and cheap, but as profits grow a limited company is often more tax-efficient and gives you limited liability, which matters as jobs get bigger. It's a decision worth modelling rather than guessing.

✓ Action point

If you're still on paper or spreadsheets, move to cloud accounting and get it set up around how your firm actually works. It's less admin than the shoebox once it's running.

! Watch out for

Growth outpacing your systems. The bigger you get, the more a small mistake costs. Build the foundations before you need them.

QUICK RECAP

THE 7 MISTAKES, AND WHAT TO DO

If you take nothing else from this guide, take these. Tick off the ones you need to act on.

1. **Know which jobs make money.** Cost every job properly and compare it to what you billed.

2. **Price for margin, not turnover.** Build your price up from real costs, and don't confuse markup with margin.

3. **Control your cash.** Run a rolling 13-week forecast and chase your retentions.

4. **Get CIS and reverse-charge VAT right.** Set up your software, verify subbies, confirm end-user status.

5. **Get proactive advice.** An accountant who only appears at year-end is costing you money.

6. **Never be surprised by tax.** Keep a separate tax pot and forecast the bill through the year.

7. **Build proper systems.** Move to cloud accounting and check your structure still fits.

Do these seven things and the whole business changes. You price with confidence, you see your profit and your cash clearly, you stop lying awake over tax, and you grow because you can see it's safe to.

LET'S TAKE A LOOK AT YOUR NUMBERS

You've just read the seven mistakes. The obvious next question is: which of them are costing *you*, and what would it be worth to fix them?

Book a free, no-obligation discovery call. It's a friendly 20-minute chat about where your firm is now and the quickest wins to get you in control. No jargon, no pressure, and no hard sell.

BOOK YOUR FREE CALL →

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