Contractor Bookkeeping: The Complete Guide (2026)

How to set up bookkeeping for a contracting business. Chart of accounts, job costing integration, tax prep, and when to hire a bookkeeper vs. do it yourself.

Why Contractor Bookkeeping Is Different

A restaurant tracks total food costs, total labor, and total revenue. If the business is profitable overall, the books are doing their job. Contractor bookkeeping cannot work that way. You need to know whether each individual project made money, because a contractor can complete 15 profitable jobs and 3 money-losers in a month and think things are fine -- when those 3 losers might wipe out 40% of the month's profit.

Beyond per-job tracking, contracting introduces financial complexities that most small businesses never deal with.

Change Orders and Scope Creep

Every project has a base contract and, inevitably, additions. Billed change orders add revenue and cost. Unbilled extras -- the "while you are here, could you also..." requests -- add cost without adding revenue. Your bookkeeping system must track both types. If you average $400 in unbilled extras across 100 jobs per year, that is $40,000 in free work your books never show. That number alone can be the difference between a profitable year and breaking even.

Material vs. Labor Split

Contractors must track the ratio of materials to labor on every job because it directly affects estimating accuracy, tax treatment, and profit analysis. A painting job might be 20% materials and 80% labor. A roofing job might be 55% materials and 45% labor. If you lump them together as "job costs," you lose the ability to see where overruns happen. Maybe your material estimates are accurate but you consistently underestimate labor by 15%. Without the split, you will never find the pattern.

Chart of Accounts for Contractors

Your chart of accounts is the backbone of your bookkeeping system. It is the list of categories where every dollar gets filed. Most accounting software comes with a generic chart of accounts designed for retail or service businesses. That does not work for contracting. You need accounts that separate job costs from overhead, break materials from labor, and track the specific revenue and expense categories that matter in construction.

Here is a contractor-specific chart of accounts with standard numbering conventions.

Revenue Accounts (4000 Series)

Cost of Goods Sold (5000 Series)

Overhead Expenses (6000 Series)

A typical residential contractor runs a 22-35% overhead rate. If your overhead rate is above 35%, you are either underpricing (low revenue) or overspending on non-job costs. If it is below 20%, double-check that you are not miscategorizing overhead items as job costs, which would inflate your COGS and deflate your gross margin.

Cash vs. Accrual Accounting

This is one of the first decisions you need to make, and most contractors get no guidance on it. Here is the straightforward answer.

Which Should You Use?

If you complete most jobs in under 30 days and bill at completion, cash basis is fine. Your income recognition and your actual cash position are close enough that the simplicity is worth it.

If you regularly run projects spanning 60+ days with progress billing, accrual gives you a more accurate picture. Under cash basis, a month where you collect three large progress payments looks incredibly profitable -- even if the corresponding costs were incurred two months ago. Accrual matches revenue and costs to the period when the work happened, not when the money moved.

Completed Contract vs. Percentage of Completion

For contractors doing long-duration projects (3+ months), there is a second method choice: when do you recognize revenue on a multi-month job?

- Completed contract method: Recognize all revenue and costs when the job is finished. Simpler, but can create huge income swings between periods. Allowed for contracts expected to be completed within 2 years (for companies under $25M).
- Percentage of completion (PCM): Recognize revenue proportional to costs incurred. If you have spent 40% of estimated total costs, you recognize 40% of total revenue. Required for large contractors and long-term contracts. Provides smoother, more accurate financial reporting.

Most residential contractors use completed contract because their jobs are short enough that the distinction does not matter much. If you are doing commercial work with 6-12 month timelines, talk to a construction CPA about PCM.

Track Profit Per Job Without the Bookkeeping Headache

BuildFolio is not accounting software. It is a profit intelligence platform that shows you the number your books alone cannot: actual net margin on every job, with overhead allocated. When your QuickBooks says the business made money but you cannot figure out where it went, BuildFolio shows you which jobs and which job types are eating your profit.

The Contractor Bookkeeping Workflow

The difference between contractors who have clean books and contractors who hand their CPA a disaster in March is not talent or intelligence. It is routine. Here is the cadence that works.

Weekly (30-45 minutes)

Monthly (2-3 hours)

Quarterly (half day)

Annual (work with your CPA)

Bookkeeping Software for Contractors

The right software depends on your volume, your technical comfort, and how much of the bookkeeping you want to do yourself versus delegating. Here is an honest comparison.

Software	Price	Best For	Contractor Strengths	Weaknesses
QuickBooks Online	$30-80/mo	Most small contractors	Industry standard; CPA-friend	Per-job profit reporting is cl
FreshBooks	$17-55/mo	Solo contractors focused on	Clean invoice templates; tim	Limited job costing; no invent
Xero	$15-78/mo	Contractors with a bookkeep	Strong bank reconciliation; u	Less common in US (bigger in U
Wave	Free	Startups and side hustlers	Completely free accounting;	No job costing; no per-project
BuildFolio	$39/mo	Per-job profit tracking + esti	Per-job profit dashboard; AI-p	Not full accounting software -

Tax Prep Essentials for Contractors

Tax season should not be stressful if you have been doing weekly bookkeeping. But there are contractor-specific tax items that general guides skip. Here are the ones that matter most.

1099-NEC for Subcontractors

If you pay any subcontractor $600 or more in a calendar year, you must issue them a 1099-NEC by January 31 of the following year. Get their W-9 (name, address, tax ID) before the first payment -- not in January when you are scrambling. File copies with the IRS by the same deadline. QuickBooks and most accounting software can generate and e-file 1099s for you.

Quarterly Estimated Taxes

As a self-employed contractor or pass-through entity owner, you owe estimated taxes quarterly. The IRS does not wait until April to collect -- they expect payments throughout the year. Due dates for 2026: April 15, June 15, September 15, and January 15, 2027.

The safe harbor rule: pay at least 100% of last year's total tax liability spread across four quarterly payments (110% if your income was over $150,000). This avoids underpayment penalties even if you owe more at filing time.

Vehicle Deductions

You have two methods. Pick one per vehicle and stick with it for the life of the vehicle (with some exceptions for switching from standard to actual).

Section 179 and Bonus Depreciation

Section 179 lets you deduct the full purchase price of qualifying equipment in the year you buy it instead of depreciating it over 5-7 years. The 2026 limit is $1,250,000. This covers trucks over 6,000 lbs GVWR (full deduction), tools, equipment, trailers, and even some software.

Bonus depreciation for 2026 is 20% (it has been phasing down from 100% in 2022). You can combine Section 179 and bonus depreciation on the same asset. Talk to your CPA before making large equipment purchases to time them for maximum tax benefit.

Home Office Deduction

If you run your contracting business from a dedicated space in your home, you can deduct it. The simplified method gives you $5 per square foot, up to 300 square feet ($1,500 max). The regular method calculates the percentage of your home used exclusively for business and deducts that percentage of mortgage interest, property taxes, insurance, utilities, and depreciation. The regular method is more work but usually yields a larger deduction.

Commonly Missed Deductions

- Cell phone -- Business-use percentage of your phone bill. If you use your phone 70% for business, deduct 70% of the monthly cost.
- Safety equipment and work clothing -- Steel-toe boots, hard hats, safety glasses, high-vis vests, and clothing not suitable for everyday wear.
- Small tools under $2,500 -- The de minimis safe harbor rule lets you expense tools and equipment under $2,500 per item instead of depreciating them. Drill, saw, level, measuring tools -- all expensed in the year purchased.
- Continuing education -- License renewal fees, CEU courses, trade certifications, and industry conferences including travel.
- Business insurance premiums -- General liability, workers comp, commercial auto, inland marine (tool/equipment coverage), and professional liability.
- QBI deduction -- The Qualified Business Income deduction allows a 20% deduction on pass-through income for qualifying businesses. Most contractors qualify. On $100,000 in net business income, that is a $20,000 deduction you might be missing.

When to Hire a Bookkeeper

There is no shame in doing your own books. But there is a point where doing your own bookkeeping costs more than hiring someone, because your time is worth more on the job site or closing sales. Here are the signals that you have outgrown DIY bookkeeping.

What to Look For

Not all bookkeepers understand construction. A bookkeeper who has only worked with retail or professional services will not know about job costing, retainage, progress billing, or WIP reporting. When interviewing, ask these questions:

- How many construction or contracting clients do you currently work with?
- Can you set up job costing in QuickBooks and generate per-job profit reports?
- Are you familiar with progress billing and retainage receivable?
- Do you handle 1099 preparation and filing for subcontractors?
- What is your process for monthly bank reconciliation and AR aging review?

Cost Expectations

For most contractors between $500K and $2M in revenue, a part-time virtual bookkeeper at $800-$1,200/month is the sweet spot. They handle weekly categorization, monthly reconciliation, AR tracking, and 1099 prep. You retain a separate CPA for tax planning and filing.

Frequently Asked Questions

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