Bookkeeping

ABC School of Construction Management
May 14, 2020
Small Business Facts

• Market Size
  – 30.2 million businesses (2018)
  • 99.9% of all U.S. businesses
  • 98% private
  • 1% over $10 million in sales
  • 3% over $5 million in sales

• Failure Rates
  – 66% fail within 10 years of operation
  – 90% fail because of Bad Management

• Biggest challenges
  – Economic uncertainty
  – Cost of health insurance benefits
  – Decline in customer spending
  – Regulatory burdens
• **Common Mistakes**
  – Lack sufficient capital
  – Failure to plan properly
  – Failure to monitor financial position
  – Failure to know costs
  – Failure to price properly
  – Failure to plan cash flow in advance
  – Failure to manage growth
  – Failure to structure debt properly
  – Failure to monitor and control fixed costs
  – Failure to establish a good banking relationship
  – Failure to anticipate financial needs
  – Failure to distinguish between profits and cash
Financial Record Keeping

- Accurate and up-to-date
- **Bookkeeping**: Recording and maintaining financial records pertaining to the day-to-day operations
  - Tracking income
  - Daily recording of transactions
  - Maintenance of general ledger
  - Maintenance of cash records

- **Accounting**: The method by which financial information is gathered, processed and summarized into financial statements and reports.
Types of Records

• Payroll (including benefits)
• Taxes
• Sales
• Inventory
• Purchases
• Cash flow
Cash vs Accrual Accounting

• Cash-based accounting recognizes income when money is received.
• Accrual-based accounting recognizes income when goods are shipped or services are rendered.
• Under the cash method, an expense is recognized when it is paid.
• Under the accrual method, an expense is recognized when the business is obligated to pay it.
Cash vs Accrual Accounting

• For example, if in a given period you collect little or no receivables and you pay lots of bills, under the cash accounting method you have expense without income – you’ve lost money. On the other hand, if you collect a lot of money and don’t pay your bills, you have big income. That’s a major distortion of what actually occurred.

• Accrual-based accounting doesn’t care whether you’ve collected or paid your bills. Income (received or not) is matched to an expense (paid or not), resulting in a proper match of revenue with the expense generated to produce the revenue.
Chart of Accounts

• Chart of Accounts – a complete listing of all the accounts in the company. This is the framework that supports the entire accounting system.

• The accounting equation:
  
  Assets = Liabilities + Stockholder Equity
### Sample Chart of Accounts

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1010</td>
<td>Cash - Checking Account</td>
<td>Assets</td>
</tr>
<tr>
<td>1020</td>
<td>Cash - Savings Account</td>
<td>Assets</td>
</tr>
<tr>
<td>1100</td>
<td>Accounts Receivable</td>
<td>Assets</td>
</tr>
<tr>
<td>1300</td>
<td>Inventory</td>
<td>Assets</td>
</tr>
<tr>
<td>1400</td>
<td>Fixed Assets</td>
<td>Assets</td>
</tr>
<tr>
<td>1450</td>
<td>Accumulated Depreciation</td>
<td>Assets</td>
</tr>
<tr>
<td>2010</td>
<td>Accounts Payable</td>
<td>Liabilities</td>
</tr>
<tr>
<td>2100</td>
<td>Payroll Liabilities</td>
<td>Liabilities</td>
</tr>
<tr>
<td>2200</td>
<td>Short Term Loan</td>
<td>Liabilities</td>
</tr>
<tr>
<td>2210</td>
<td>Current Portion Long Term Loan</td>
<td>Liabilities</td>
</tr>
<tr>
<td>2300</td>
<td>Sales Tax Payable</td>
<td>Liabilities</td>
</tr>
<tr>
<td>2310</td>
<td>Federal Income Tax</td>
<td>Liabilities</td>
</tr>
<tr>
<td>2500</td>
<td>Long Term Loan</td>
<td>Liabilities</td>
</tr>
<tr>
<td>2900</td>
<td>Retained Earnings</td>
<td>Owner's Equity</td>
</tr>
<tr>
<td>2901</td>
<td>Paid in Equity</td>
<td>Owner's Equity</td>
</tr>
<tr>
<td>3000</td>
<td>Construction Revenue 1</td>
<td>Income</td>
</tr>
<tr>
<td>3010</td>
<td>Construction Revenue 2</td>
<td>Income</td>
</tr>
<tr>
<td>3020</td>
<td>Construction Revenue 3</td>
<td>Income</td>
</tr>
<tr>
<td>4010</td>
<td>Direct Construction Costs - Labor</td>
<td>Direct Costs (Variable)</td>
</tr>
<tr>
<td>4020</td>
<td>Direct Construction Costs - Material</td>
<td>Direct Costs (Variable)</td>
</tr>
<tr>
<td>4030</td>
<td>Direct Construction Costs - Subcontractor</td>
<td>Direct Costs (Variable)</td>
</tr>
<tr>
<td>4040</td>
<td>Direct Construction Costs - Other</td>
<td>Direct Costs (Variable)</td>
</tr>
<tr>
<td>5010</td>
<td>Officer Salaries</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5020</td>
<td>Office Salaries</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5030</td>
<td>Sales Salaries</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5035</td>
<td>Payroll Taxes</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5040</td>
<td>Rent</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5045</td>
<td>Utilities</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5050</td>
<td>Insurance</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5060</td>
<td>Telephone</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5070</td>
<td>Office Supplies</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5080</td>
<td>Legal/Accounting Expense</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5090</td>
<td>Taxes &amp; Licenses</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>5095</td>
<td>Depreciation Expense</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>6000</td>
<td>Other Income</td>
<td>General &amp; Administrative Expenses (Fixed)</td>
</tr>
<tr>
<td>7000</td>
<td>Gain/Loss on Sale of Asset</td>
<td>Income</td>
</tr>
</tbody>
</table>
• In this example asset accounts start with 1
• Liability & Owner’s Equity accounts start with 2
• Revenue/Sales accounts start with 3
• Cost of Goods accounts start with 4
• General & Administrative accounts (overhead) start with 5 or 6
Double –Entry Accounting

• For every action there is an equal reaction.

• When dollars are recorded in one account, they must be accounted for in another account in such a way that the activity is well documented and the accounting equation stays in balance.

• Debit increases an account
• Credit decreases an account
Double Entry Accounting

- In the first example, a sale is recorded for $1500.00 where the customer paid $750.00 cash and owes the balance of $750.00 (account receivable).
- The entry is credit to Revenue ($1500.00) and Debit to Cash ($750) plus debit to Accounts Receivable ($750.00). The equation is in balance.

- In the second example, cash payment of $750.00 is received.
- Cash is debited $750.00 and Accounts Receivable is credited $750.00. The equation is in balance.
Variable vs. Fixed Costs

- **Variable Costs**
  - Caused by sales
  - Increase or decrease as sales volume increases or decrease

- **Fixed Costs**
  - Remain the same over a reasonable range of sales
  - Expenses that have to be paid independent of sales
  - May change, but not as a result of sales volume
Gross Profit Margin

• Gross Profit Margin: (Revenue – Cost of Goods)/Revenue
  
  ABC Company did $1,000,000 in revenue and had $400,000 in expenses. $1,000,000 - $400,000 = $600,000/$1,000,000 = 60%

• Cost of Goods = Direct expenses, not interest payments, taxes or operation expenses

• Gross Profit Margin should be large enough to cover Operating expenses (Fixed expenses) & leave profit

• Typically we see 10% GPM – Lower GPM can be a concern

• GPM varies considerably by industry

• Engineering & Construction average about 12.5%
Net Profit

• Net Profit is your bottom line
• Net Profit = Total Revenue – Total Expenses
  Last year sales of $100,000 & business expenses of $80,000 Net Profit would be $20,000 [$100,000 - $80,000 = $20,000

• There’s no exact amount for a “healthy” net profit, but you want net profit instead of net loss.
Net Profit Margin

- Net Profit Margin includes direct & indirect expenses

  ABC Co. does $1,000,000 Revenue with total expenses of $950,000.

  Net Profit Margin = $1,000,000 - $950,000/$1,000,000 = 5%

- Monitoring NPM helps project future profits & set goals
- Compare Gross Profit Margin to Net Profit Margin
  
  Do you need to adjust your overhead expenses?
Budget Planning

Components of the operating budget

- Construction revenue
- Direct construction costs
- Indirect costs (variable expenses)
- General and administrative expenses (fixed expenses)
- Owner’s required return on investment (ROI)
Establish a historical data base from the following sources

- Departmental expense statements
- Operating statement and balance sheet
- Accounting records
- Vendor data files
- Customer data files
- Product data files
- Cost accounting records
- Long-range plans
Establish a historical data base from the following sources

- Prior year’s budgets
- Wage and salary plans
- Market trends
- Raw material prices
- Payroll, sales and other tax rates
- Insurance rates
- Capital investment projections from prior year
- Inflation rates and unemployment rates
Budget Tips

- Think of a budget as a useful tool – a written financial plan that helps you set goals and measure progress
- Budgeting is an important part of the strategic-planning process
- Start by coming up with a sales revenue target.
- Based on past experience, estimate your cost of goods sold
- Subtract COGS from sales revenue to get estimated gross margin
Budget Tips II

• Forecast variable expenses (vary according to sales levels) and fixed expenses (stay the same regardless of sales levels)
• Subtract these expenses from gross margin to get estimated net profit before tax
• Break annual budget into quarters and months
• Monitor progress monthly to detect problems and make corrections
• Review results and re-forecast 90 days out
Budget Tips III

• Give responsibility for budgeting resources to the managers who will be using them
• Remember that a plan doesn’t need to be spot-on to be of value. The process of creating one forces management to think about the company’s direction.
• Put “some teeth in the budget” – managers should commit to their numbers.
• Find a balance between using the budget as a planning tool and as a performance-measurement tool.
**BUDGET PLANNER**

<table>
<thead>
<tr>
<th>Sequence of Preparation</th>
<th>Responsibility</th>
<th>Date</th>
<th>Required</th>
<th>Received</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Establish overall goals and objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Establish divisional, project, departmental goals and objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Develop “grass roots” estimates of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Sales to new and existing customers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Human resource requirements by department</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Additional new and replacement equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Financial capabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Prepare the required budgets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Sales and profit budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Production budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- materials budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- direct labor budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- subcontractor budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Marketing expense budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- sales personnel budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- sales administration budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- advertising and promotion budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Administration budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. Capital investment budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g. Cash budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h. Balance sheet budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- accounts receivable budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- inventory budgets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- fixed asset budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Assemble the sub-budgets and prepare the master budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Review the master budget and negotiate changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Redo sub-budgets with changes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Reproduce and distribute budgets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Develop monthly performance reports</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Conduct monthly reviews or performance vs. budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Keep track of necessary changes for future budgets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Jan-20</td>
<td>Feb-20</td>
<td>Mar-20</td>
<td>Apr-20</td>
</tr>
<tr>
<td>----------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Cat 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cat 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cat 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cat 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cat 5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cat 6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cat 7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>price</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Curr</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year Ending</td>
<td>mm/yy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Profit and Loss Projection (12 Months)

Enter your Company Name here

<table>
<thead>
<tr>
<th>Fiscal Year Begins</th>
<th>Jan-20</th>
</tr>
</thead>
</table>

## Revenue (Sales)

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue (Sales)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

## Cost of Sales

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Cost of Sales</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

## Gross Profit

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

## Expenses

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies (office and operating)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Catering and travel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting and legal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes (real estate, etc.)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses (specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses (specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenses (specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous (unspecified)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Net Profit

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FOUR WAYS TO IMPROVE PROFITABILITY

• Decrease fixed costs
• Decrease variable cost percentage
• Increase volume
• Increase price
Monitor Financial Results

• Identify problems or deviations from the plan.
• Summary management report that identifies various operating activities of the company.
  – Cash
  – Accounts Receivable
  – Accounts Payable
  – Line of credit
  – Backlog revenue
  – Backlog Gross Profit
What Matters?

- Accounts Receivable
- Accounts Payable (not Payroll)
- Cash flow – money in vs money out
  - Inflow = Sales & Payments
  - Outflow = Money spent on goods & service
- Cost of Goods Sold – direct costs
  - Labor, Material, Equipment, Subcontractors, Other
- Operating Expenses (Overhead) – fixed and variable expenses
  - Rent, utilities, internet – fixed costs
  - Marketing, office supplies – variable costs
- Gross Profit Margin – Money left from revenue after COGS
- Net Profit Margin – Includes operating expenses, interest, depreciation, taxes
- Cash Burn Rate – How fast you spend capital, especially start-up capital before generating positive cash flow
5 General Causes of Low Profits

• High interest expense
• Low gross profit ratio (margin)
• Low sales volume
• Poor expense control
• High carrying costs
The Importance of Good Records

- Monitor the success or failure of your business.
- Provide the information you need to make decisions.
- Obtain bank financing.
- Budgeting.
- Preparing your income tax return.
- Complying with federal and state payroll tax rules.
- Submitting sales taxes.
- Distributing profits.
Top 10 Bookkeeping Mistakes by Small Businesses -- SCORE

- Not saving receipts of less than $75
- Doing it yourself
- Forgetting to track reimbursable expenses
- Not properly classifying employees
- Lack of communication
- Not reconciling the books with the bank statement each month
- No backup
- Petty cash nonchalance
- Miscategorization or overcategorization
Control Overhead Expense

• Overhead (General & Administrative):
  – Non-job specific costs such as office rent, computer, printer & fax equipment, paper & other office supplies, telephone costs and office personnel salaries.
  – Control any expense – review all invoices & payables. Monitor expenses consistently and periodically to control expenses.
  – What gets watched & measured, gets results
Main Overhead Impactors

- Salaries
- Depreciation
- Rent
- Vehicles
- Insurance
Collect & Analyze Data

• Job costs
  – Labor
  – Materials
  – Equipment
  – Subcontractors

• Overhead

• Estimate budgets

• Draws, payables, receivables
Collect & Analyze Data

• Keep accurate data on your company’s operations to monitor success or failure.
• Historical data are vital for accurate estimates & productivity ratios.
• By gathering current data & comparing it to proposed budget you are able to determine:
  – If unplanned expenses are influencing your profitability
  – If planned expenses exceed estimates and why
  – If contingencies are influencing your profitability
Office Management Operations
Daily

• Cash position at bank
• Appointment confirmation and/or cancellation
• Telephone messages & follow-up calls
• E-mail correspondence
• Mail distribution
• Schedule updates
• Paperwork routing & filing
• Estimates & bids for new jobs
• Manpower scheduling
• Receivable review
• Daily recording of transactions: Sales, Cash Receipts, Accounts Payable
• Daily key variable summary
QuickBooks Dashboard

**INCOME**
- **$290** OPEN INVOICES
- **$290** OVERDUE INVOICES
- **$430** PAID LAST 30 DAYS

**EXPENSES**
- **$33,070**
  - **$8,893** Payroll Expenses
  - **$5,257** Postage & Delivery
  - **$3,560** Printing & Reproduc...
  - **$15,360** Everything else

**PROFIT AND LOSS**
- **$7,577**
  - Net income for this year

**SALES**
- **$540**
  - Last 30 days

**BANK ACCOUNTS**
- Bank of America checking
  - Bank balance: **$68,214.66**
  - In QuickBooks: **$54,729.17**
  - Updated 13 hours ago

- Credit Card-B of A-XX3950
  - In QuickBooks: **$2,216.44**

- Fidelity Investments Brokerage Acct
  - In QuickBooks: **$199,998.65**

- Paypal
  - In QuickBooks: **$1,429.21**

- Credit Card Expense
  - In QuickBooks: **$727.29**

- Credit Card-B of A-XX1508
  - In QuickBooks: **$2,619.40**
QuickBooks Dashboard

- Income
- Expense – summary of top 4
- Net income
- Bank Account(s)
- Sales Graph

You can change the period reflected on the dashboard.
Monthly, Year to date, etc.
Manage Office Operations
Weekly

• Safety meetings
• Invoicing – billings to customers
• Payroll
• Office supplies
• Payables
• Staff meetings
• Goal setting
Aging Accounts Receivable

- Check your Accounts Receivable aging at least weekly
- Useful for cash flow problems
- Can often identify the root of the cash flow problem
- Be certain your terms are clearly communicated.
  - Check your contract and follow payment schedules if so noted
- Have clear, concise invoicing
- **Communicate** with your customers!
Invoicing
What information to include

• The amount due – clearly displayed
• The payment due date
• The date of the invoice
• A description of the goods or services purchased
• The customer’s information
• The remittance address
• Your contact information
Manage Office Operations Monthly

- Profit & Loss Statement and Balance Sheet
- Budget vs actual job cost report & review
- Budget analysis & variance report
- Bank statement reconciliation
- Sales Journal
- Cash Journal
- Purchase Journal
- Schedule updates
- Financial reports for Bank
- Accounting summaries
- Progress draws & Work in Process Reports
Manage Office Operations
Quarterly

• Federal, state and local taxes
  – Payroll taxes
  – Sales & excise taxes

• Quarterly budget review & update
Managing Financial Paperwork

- Keep copies of your business tax returns in a special file forever. Retain all tax-related documents for at least seven years.
- Maintain a file of capital equipment expenses (computers, manufacturing equipment, office equipment, vehicles, production equipment, etc.) in one place.
- On a regular basis, back up your financial records.
- Keep your invoice file up to date.
- Establish a central location for storing regular financial reports regarding your business.
- When it’s time to purge financial records, use a shredder.
How do your office management skills measure up?

- Do you have a regular schedule for backing up your computers?
- Do you have a set time to handle administrative tasks that doesn’t conflict with your business-related activities?
- Do you have a set process for tracking your payables and receivables?
- Do you organize your filing system so that other employees can easily find records if you’re not available?
- Do you regularly inventory your supplies to make sure you won’t run out in a crunch?
Top 10 Account Collection Mistakes – SCORE.ORG

• Making payment application errors.
• Not sending invoices promptly.
• Not having a standard policy.
• Not having thorough follow up.
• Not updating your database regularly.
• Failing to address problems early on.
• Accepting the runaround.
• Failing to apply payments promptly.
• Failing to lock in a payment date.
• Not increasing the level of collection attempts.
Resources

• www.score.org
• www.sbecouncil.org
• www.venplan.com
• www.sbaonline.sba.gov
• www.BizStats.com
Resources

• Construction Financial Management Association
  – cfma.org

• Dun & Bradstreet
  – dnb.com

• The Risk Management Association
  – rmahq.org
Thank You!

Joan Baldwin  
Baldwin Services  
jmbtec@comcast.net