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 recognized 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 it the business is obligated to pay it.

Cash vs Accrual Accounting

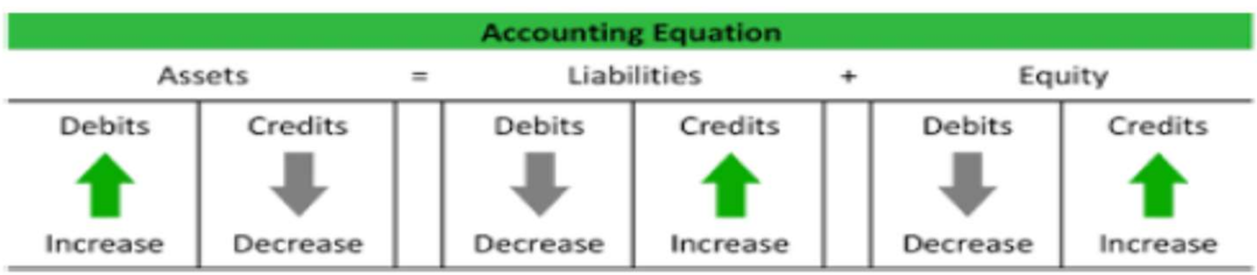
- For example, if in a given period you collect little or no receivables and you pay lots of bills, under the cash accounting method you have expense without income – you've lost money. On the other hand, if you collect a lot of money and don't pay your bills, you have big income. That's a major distortion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



Myaccountingcourse.com

SAMPLE CHART OF ACCOUNTS

1010	Cash - Checking Account	ASSETS
1020	Cash - Savings Account	
1100	Accounts Receivable	
1300	Inventory	
1400	Fixed Assets	
1450	Accumulated Depreciation	
2010	Accounts Payable	LIABILITIES
2100	Payroll Liabilities	
2200	Short Term Loan	
2210	Current Portion Long Term Loan	
2300	Sales Tax Payable	
2310	Federal Income Tax	
2500	Long Term Loan	
2900	Retained Earnings	OWNER'S EQUITY
2901	Paid in Equity	
3000	Construction Revenue 1	INCOME
3010	Construction Revenue 2	
3020	Construction Revenue 3	
4010	Direct Construction Costs - Labor	DIRECT COSTS (VARIABLE)
4020	Direct Construction Costs - Material	
4030	Direct Construction Costs - Subcontractor	
4040	Direct Construction Costs - Other	
5010	Officer Salaries	G & A EXPENSES (FIXED)
5020	Office Salaries	
5030	Sales Salaries	
5035	Payroll Taxes	
5040	Rent	
5045	Utilities	
5050	Insurance	
5060	Telephone	
5070	Office Supplies	
5080	Legal/Accounting Expense	
5090	Taxes & Licenses	
5095	Depreciation Expense	
6000	Other Income	
7000	Gain/Loss on Sale of Asset	

- 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

JB1

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.

Book Keeping Examples

Account	Debit	Credit
Cash A/c	$750	
Trade receivables A/c	$750	
To Revenue A/c		$1,500

Account	Debit	Credit
Cash A/c	$750	
To Trade receivables A/c		$750

Wallstreetmojo.com

Slide 12

JB1 Joan Baldwin, 5/4/2020

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

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

Fiscal Year Begins Jan-19

12-month Sales Forecast | **Sales History**

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Annual Totals	Current Month Ending mm/yy	2017	2018	2019
Cat 1 units sold													0				
Sale price																	
Cat 1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cat 2 units													0				
Sale price																	
Cat 2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cat 3 units													0				
Sale price																	
Cat 3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cat 4 units													0				
Sale price																	
Cat 4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cat 5 units													0				
Sale price																	
Cat 5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cat 6 units													0				
Sale price																	
Cat 6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cat 7 units													0				
Sale price																	
Cat 7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Monthly	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Profit and Loss Projection (12 Months)

Enter your Company Name here

Fiscal Year Begins Jan-20

	IND. %	Jan-20	% B/A	Feb-20	%	Mar-20	%	Apr-20	%	May-20	%	Jun-20	%	Jul-20	%	Aug-20	%	Sep-20	%	Oct-20	%	Nov-20	%	Dec-20	%	YEARLY	%
Revenue (Sales)																											
Category 1			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 2			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 3			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 4			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 5			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 6			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 7			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Total Revenue (Sales)		0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Cost of Sales																											
Category 1			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 2			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 3			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 4			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 5			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 6			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Category 7			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Total Cost of Sales		0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-
Gross Profit		0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-
Expenses																											
Salary expenses			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Payroll expenses			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Outside services			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Supplies (office and operating)			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Repairs and maintenance			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Advertising			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Car, delivery and travel			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Accounting and legal			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Rent			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Telephone			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Utilities			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Insurance			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Taxes (real estate, etc.)			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Interest			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Depreciation			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Other expenses (specify)			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Other expenses (specify)			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Other expenses (specify)			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Misc. (unspecified)			-		-		-		-		-		-		-		-		-		-		-		-	0	-
Total Expenses		0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-
Net Profit		0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-	0	-

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

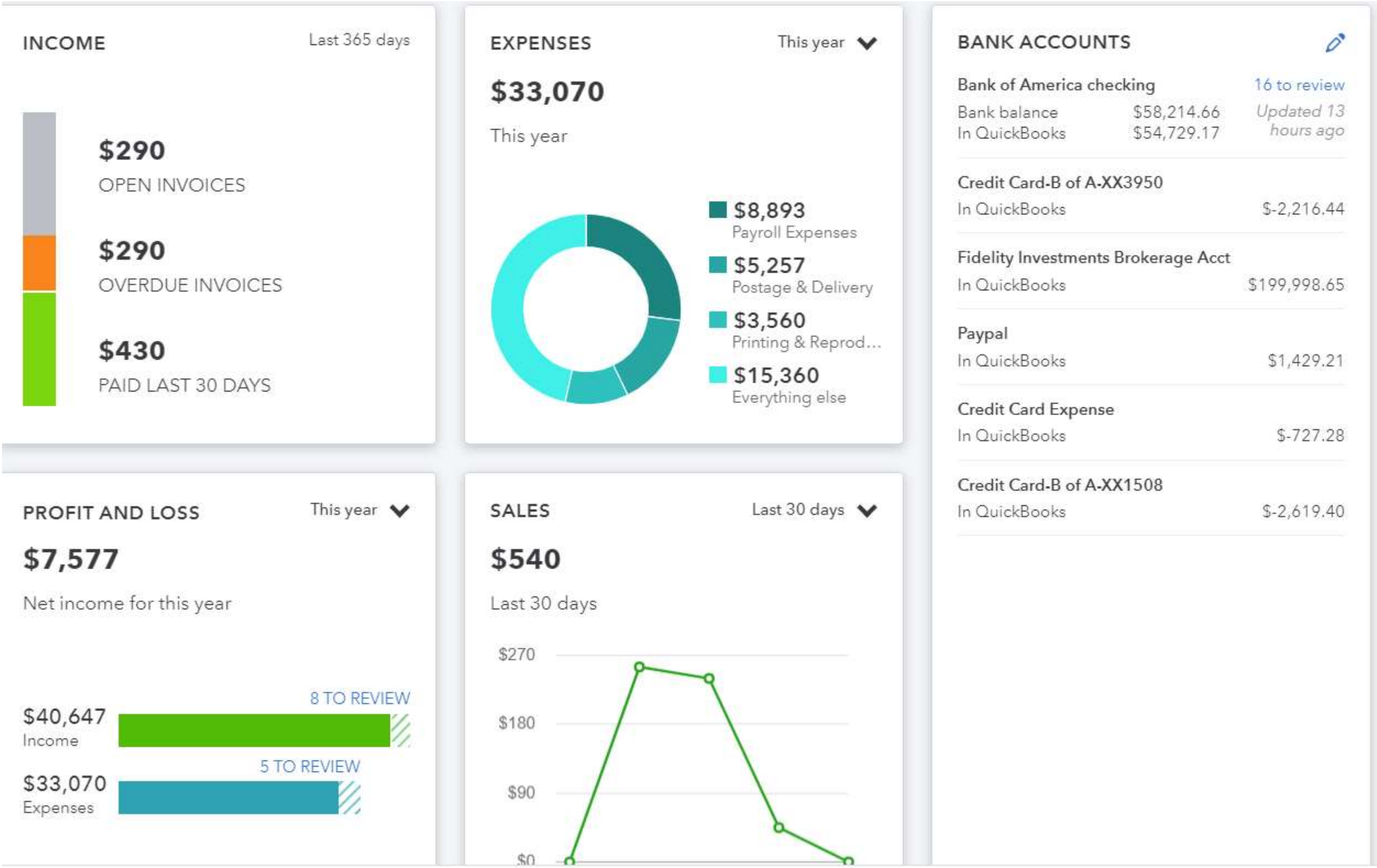
Collect & Analyze Data

- 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



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
- <u>Communicate</u> 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!

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