

Bookkeeping

ABC School of
Construction
Management
April 29, 2021



Meet Joan Baldwin



- Owner, Baldwin Services – Bookkeeping & Accounting Consultant
- 40+ years in Construction Accounting & Management
- Chair, Board of Directors, ABC WW 2002-2003
- Member, ABC National Chapter Development Committee 2014-2016
- Lifetime ABC WW Member
- King County Master Gardener

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

Washington State (2020) – Seattle Times, March 28, 2021

630,819 small businesses

- 99.5% of all Washington companies per SBA
- 97% are firms with 19 or fewer employees or single person firms
- Most common small businesses: construction, real estate and retail

Small Business Facts

- **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

Small Business Facts

- **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 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 Accounting

- 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.

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.
- For example: You buy \$300.00 in materials for a job.
The bookkeeping transaction would look like this:

Material	Cash
\$300.00	\$300.00

What is a 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.

Sample Chart of Accounts

1010	Cash - Checking Account	
1100	Accounts Receivable	ASSETS
1300	Inventory	
1400	Fixed Assets	
1450	Accumulated Depreciation	
2010	Accounts Payable	
2100	Payroll Liabilities	
2210	Current Portion Long Term Loan	LIABILITIES
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	
3010	Construction Revenue 2	INCOME
4010	Direct Construction Costs - Labor	
4020	Direct Construction Costs - Material	DIRECT COSTS
4030	Direct Construction Costs - Subcontractor	(VARIABLE)
4040	Direct Construction Costs - Other	
5010	Officer Salaries	
5020	Office Salaries	
5035	Payroll Taxes	
5040	Rent	G & A EXPENSES
5045	Utilities	(FIXED)
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	

Chart of Accounts

- 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

BALANCE SHEET			PROFIT & LOSS	
ASSETS	LIABILITIES	EQUITY	INCOME	EXPENSE
Checking Account	Loans	Owner's Invested Funds	Sales of Goods & Services	Advertising
Accounts Receivable	Accounts Payable	Retained Earnings		Office Expenses
Inventory	Taxes Payable			Payroll
Fixed Assets				Rent

Direct vs. Indirect Costs

- Direct/Variable Costs
 - Caused by sales
 - Increase or decrease as sales volume increases or decrease
- Indirect/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

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

5 General Causes of Low Profits

- High interest expense
- Low gross profit ratio (margin)
- Low sales volume
- Poor expense control
- High carrying costs



Key Operating Indicators



- Labor and equipment productivity
- Subcontractor performance
- Vendor and customer quality
- Financial and job cost reporting performance
- Jobs completed ahead of schedule or with minimal punchlist items
- The cost of processing certain types of transactions
- The cost of performing contracts on certain sized jobs
- Productivity of project managers and crews
- Key here is to develop measures that directly relate to the achievement of your company's goals.

Managing Business Operations

- Financial policies
 - Check signing authority
 - Company credit card policy
 - Contract signing authority
 - Change order approvals
 - Office mail policy
 - Equipment and material purchasing authority
 - Lien release policy
 - Field personnel signature authority

Pay Suppliers & Subcontractors

- Pay suppliers that offer discounts.
 - Schedule for paying trade payables is related to payment terms.
 - Consider the extra cash flow achieved by paying the other trade payables at 45 - 60 day terms.

Pay Suppliers & Subcontractors

- Subcontractor payment terms are usually specified in the subcontract agreement.
 - Payment terms with subcontractors represent a point of negotiation and are affected by your company's perceived financial strength, integrity and reputation in the industry in addition to the amount of business it does with each subcontractor.
 - Build a strong foundation of trust with your subcontractors by consistently paying according to the agreed-upon terms.
- Require lien releases
 - Conditional lien release
 - Final (unconditional) lien release
- Negotiate draw schedules

Check References

- Does this company operate lawfully?
- Does this company pay its bills?
- Does this company have good credit?
- Does this company operate safely?
- Does this company have quality workmanship and service?
- Does this company perform their work on time?
- Does this company have good work ethics?

Check References

- Request a list with the following information and follow up with each:
 - Bank name, address, telephone number, contact person
 - Bonding agent name, address, telephone number
 - Insurance agent name, address, telephone number
 - Supplier names, addresses, telephone numbers, contact people
 - List of recent jobs, addresses, telephone numbers and contact people.

Resources

- Washington State Secretary of State
- Washington State Department of Licensing
- Department of Labor & Industries
- Washington State Department of Revenue
- Dunn & Bradstreet
- The “Good Ol’ Contractor” network

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

Control Overhead Expense

Main Overhead Impactors

- Salaries
- Depreciation
- Rent
- Vehicles
- Insurance



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

DATE

CASH

BEGINNING BALANCE
CASH DEPOSITED
CASH DISBURSED
ADJ
VOID CK
ENDING BALANCE



ACCOUNTS RECEIVABLE

BEGINNING BALANCE
NEW BILLINGS
PAYMENTS RECEIVED
ADJ
ENDING BALANCE



ACCOUNTS PAYABLE

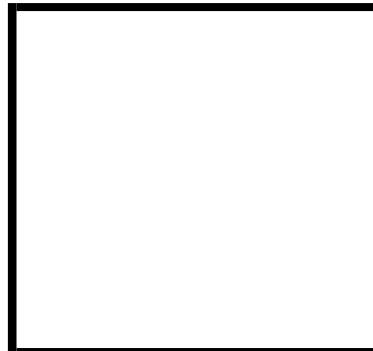
BEGINNING BALANCE
NEW PAYABLES POSTED
PAYABLES DISBURSED
ADJ
ENDING BALANCE



COLLATERAL NOTE

BEGINNING BALANCE
DEPOSITS
TOTAL PENDING SWEEP
CASH APPLIED TO NOTE
ADVANCES
NOTE BALANCE PER BANK

SUBTOTAL
LESS PENDING SWEEP
NOTE BALANCE



Manage Office Operations Weekly

- Safety meetings
- Invoicing – billings to customers
- Payroll
- Office supplies
- Payables
- Staff meetings
- Goal setting

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?



How to Improve Your Cash Flow

- **Cash flow – were there ever two words more important to contractors?**
- **Good cash flow starts with a great business model**
- **Review your lines of credit with your lender**
- **Establish your business relationship with your customers before you conduct business**
- **Get personal – a telephone call is quicker and more effective than 10 collection letters**
- **Track overdue accounts: the key is to develop an effective means of knowing when accounts come due and keep track of who pays their bill and who doesn't.**

How to Improve Your Cash Flow

- Set up a receipts/disbursements cash budget
- Require deposits (30 to 50%)
- Collect cash when jobs are complete
- Consider billing via e-mail or fax
- Deposit all receipts daily
- Always take discounts

How to improve your cash flow

- Cash management is the management of resources – tangible and intangible, internal and external – to enhance cash (or spending power)

Accelerate receipts

Decelerate payments

Minimize current assets

Maximize current liabilities

Accelerate Receipts

- Are your contracts negotiated so that you are contractually able to bill earlier and for higher amounts?
- Have you provided the owner with a front-loaded billing schedule that provides for stronger billings in the early stages of the project?
- Are the contract payment terms reasonable and do they provide for payment by wire transfer or other accelerated payment methods?
- Retainage – when will it be paid?
- Check your billing processes
 - Proper forms on time

Decelerate Payments

- Manage accounts payable with vendors and subcontractors
- Negotiate terms – depends on 4 factors
 - The trust you have developed with the vendor
 - Your skills as a negotiator
 - The amount of business your company conducts with each vendor
 - The vendor's size

Minimize Current Assets

- Assets use cash.
- Objective should be to minimize the amount of current assets required to conduct business effectively.
- When current assets are reduced, cash is increased.

Maximize Current Liabilities

- Current liabilities are a source of cash.
 - You are using someone's else's cash
- Care should be taken to respect the company's credit rating
- Creditors and lenders may impose contractual limitations on the ratio of current assets to current liabilities

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

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.

Credit Policies

- Set your credit policy in relation to your cash flow needs. Your policy should be set to ensure that you're able to generate from your billings the level of cash that you need to operate your business.
- Expect to achieve your ideal credit policy through trial and error. You'll inevitably make some errors about who is a good credit risk and who is not.
- Remember that your credit policy will change over time as your business needs change, the economic conditions in your industry change and the economic condition in the country change. You should re-evaluate your policy periodically to determine if it is meeting your needs.

Credit Policies

- Realize that the credit terms you offer may differ from one customer to the next. Your best customers might deserve more generous terms than your other customers. Conversely, your worst customers might deserve less generous terms.
- Realize that the credit terms you offer to a particular customer might change over time. If a customer begins to be late on payments, you may have to reduce or eliminate the credit terms you offer that customer until a good payment record is re-established.
- Make sure that you coordinate your credit policy changes with your sales people.



Cash Budget

- JB Construction examples
- Warning – Don't confuse profits and cash



	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Net Sales	20000	18000	25000	20000	30000	35000	35000	35000	25000	30000	35000	35000	343000
Cost of Goods Sold	15000	13500	18750	15000	22500	26250	26250	26250	18750	22500	26250	26250	257250
Gross Profit	5000	4500	6250	5000	7500	8750	8750	8750	6250	7500	8750	8750	85750
General & Admin Expense	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	72000
Net Profit (Before Tax)	-1000	-1500	250	-1000	1500	2750	2750	2750	250	1500	2750	2750	13750

ASSUMPTIONS

Cost of Goods Sold = 75%

SALES	20000	18000	25000	20000	30000	35000	35000	35000	25000	30000	35000	35000	343000
COST OF GOODS SOLD	15000	13500	18750	15000	22500	26250	26250	26250	18750	22500	26250	26250	257250

CASH BUDGET

Beginning Cash Balance	18000	12000	11000	9500	9750	8750	10250	13000	15750	18500	18750	20250	165500
Accounts Receivable Collection	0	20000	18000	25000	20000	30000	35000	35000	35000	25000	30000	35000	308000
Total Cash	18000	32000	29000	34500	29750	38750	45250	48000	50750	43500	48750	55250	473500
Cost of Goods Expense	0	15000	13500	18750	15000	22500	26250	26250	26250	18750	22500	26250	231000
General & Admin Expense	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	72000
Total Disbursements	6000	21000	19500	24750	21000	28500	32250	32250	32250	24750	28500	32250	303000
Cash Surplus (Deficit)	12000	11000	9500	9750	8750	10250	13000	15750	18500	18750	20250	23000	170500

ASSUMPTIONS

Average collection period is 30 days

Gener & Admin Expenses are paid in month incurred

Payment for Accounts Payable will lag Cost of Goods Sold by one month

Beginning cash = 3 months G&A

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Net Sales	20000	18000	25000	20000	30000	35000	35000	35000	25000	30000	35000	35000	343000
Cost of Goods Sold	15000	13500	18750	15000	22500	26250	26250	26250	18750	22500	26250	26250	257250
Gross Profit	5000	4500	6250	5000	7500	8750	8750	8750	6250	7500	8750	8750	85750
General & Admin Expense	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	72000
Net Profit (Before Tax)	-1000	-1500	250	-1000	1500	2750	2750	2750	250	1500	2750	2750	13750

ASSUMPTIONS

Cost of Goods Sold = 75%

SALES	20000	18000	25000	20000	30000	35000	35000	35000	25000	30000	35000	35000	343000
COST OF GOODS SOLD	15000	13500	18750	15000	22500	26250	26250	26250	18750	22500	26250	26250	257250

CASH BUDGET

Beginning Cash Balance	18000	12000	-9000	-8500	-15250	-11250	-19750	-22000	-19250	-16500	-6250	-9750	-107500
Accounts Receivable Collection	0	0	20000	18000	25000	20000	30000	35000	35000	35000	25000	30000	273000
Total Cash	18000	12000	11000	9500	9750	8750	10250	13000	15750	18500	18750	20250	165500
Cost of Goods Expense		15000	13500	18750	15000	22500	26250	26250	26250	18750	22500	26250	231000
General & Admin Expense	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	72000
Total Disbursements	6000	21000	19500	24750	21000	28500	32250	32250	32250	24750	28500	32250	303000
Cash Surplus (Deficit)	12000	-9000	-8500	-15250	-11250	-19750	-22000	-19250	-16500	-6250	-9750	-12000	-137500

ASSUMPTIONS

Average collection period is 60 days

General & Admin Expenses are paid in month incurred

Payment for Accounts Payable will lag Cost of Goods Sold by one month

Beginning cash = 3 months G&A

Resources

- www.score.org
- www.sbecouncil.org
- www.venplan.com
- www.sbaonline.sba.gov
- www.BizStats.com
- www.cfma.org
- www.dnb.com
- www.rmahq.org



Thank You!

Joan Baldwin
Baldwin Services
Jmbtec@Comcast.net