The Basics of Construction Accounting & Financial Management

ABC & CFMA Webinar

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Today’s Presenter:

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Basics of Construction Accounting and Financial Management

This webinar focuses on basic construction accounting concepts and will provide an overview

– from job costing to financial reporting
– as well as construction-specific practices that introduces contractors to construction accounting fundamentals.

These fundamentals include: debits and credits and how they work, accounting for job cost, work-in-progress (WIP) schedules, percentage-of-completion revenue recognition, and developing financial statements.
ACCOUNTING is the ART of:

Recording & Summarizing business & financial transactions

AND

Analyzing, Verifying & Reporting the results.

Merriam Webster’s Collegiate Dictionary
10th Edition
Current Construction Market

• Dealing with the realities of a Recovering Construction Market:
  – Sound Financial Management practices help weather
Unique Industry Characteristics

• Each project is different.

• Industry is dominated by small, local, family, or privately owned firms < $10-$50M.

• Revenue is dominated by multi-billion $$$ international & publicly traded corporations.

• A/E/C industry is estimated at 5% of U.S. GDP.
Construction Industry Participants

- Owners
- Architects/Engineers (A/Es)
- General Contractors (GCs)
- Construction Managers (CMs)
- Specialty Trades (Subs)
- Suppliers
Key Financial Partners

- Management Accountants
- Public Accountants/CPAs
- Sureties
- Insurance Agents
- Bankers
- Management Consultants
Types of Contracts – All Companies

- Fixed-Price / Hard Bid – 43%
- Fixed-Price Negotiated – 19%
- Cost-Plus-Fee with GMP – 11%
- Unit-Price – 10%
- Time & Materials – 7%
- Cost-Plus-Fee – 6%
- Construction Mgmt. – 3%

From CFMA's 2011 Annual Financial Survey
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Typical Construction Company Setup

- CEO/OWNER
  - Field Operations
    - Project Controls
      - PM
        - Site Super
  - Estimating/Bidding
  - Purchasing
  - Office Operations
    - Accounting
    - Proj. Acct
    - IT
    - HR
    - Marketing
Basic Debits and Credits and How They Work

**DEBITS**
- Assets
- Expenses

**CREDITS**
- Liabilities
- Equity
- Revenue/Sales
- Net Income

**Basic Equation**

Assets - Liabilities = Owners Equity

Revenue – Expenses = Net Income
Double-entry accounting

- Every transaction affects and is recorded in two or more accounts
- Total amount debited must equal the total amount credited
- The sum of the debit account balances in the ledger must equal the sum of the credit balances
- If the debit and credit balances don’t equal an error has been made
- Increases in assets are recorded on the debit side of the asset accounts
Double-entry accounting

• Why do assets have debit balances?
  – No specific reason – simply a matter of convention
• Since assets have debit balances then increases in liabilities and owners equity must be recorded as credits
• This results in the accounting equation, $A = L + OE$ and the requirement that debits must equal credits

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Owner’s Equity (OE)</th>
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<tbody>
<tr>
<td>Debits for Increases</td>
<td>Credits for Decreases</td>
<td>Debits for Decreases</td>
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<tr>
<td></td>
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</tr>
</tbody>
</table>

Double-entry accounting
## T - Accounts

**Cash**

<table>
<thead>
<tr>
<th>Debits</th>
<th>Credits</th>
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</thead>
<tbody>
<tr>
<td>Contract Receipts</td>
<td>Rent Payment</td>
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<tr>
<td>$100,000</td>
<td>$ 20,000</td>
</tr>
<tr>
<td>Loan Receipts</td>
<td>Payment of Wages</td>
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<tr>
<td>150,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Total increases</td>
<td>Payment of Taxes</td>
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<tr>
<td>$250,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Less decreases</td>
<td>Total decreases</td>
</tr>
<tr>
<td>(150,000)</td>
<td>$150,000</td>
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<tr>
<td>Balance</td>
<td></td>
</tr>
<tr>
<td>$100,000</td>
<td></td>
</tr>
</tbody>
</table>
The Four Most Common Accounting Methods for Contractors

- Cash
- Accrual
- Completed contract
- Percentage-of-completion
Cash Method

- Cash basis accounting records transactions based upon the timing of cash flows i.e. income when deposited and expenses when paid.
- Simple to maintain because billings and accounts payables are not recorded.
- Low administrative costs.
- Doesn’t give true presentation of profitability.
- Not a Generally Accepted Accounting Principal (GAAP) Method.
Accrual Method

• Simple -- billings posted as revenue; costs posted as expenses
• Method used by most contractors until converted to Percentage of Completion (PCM)
• Easy to convert to percentage of completion method
• Provides good information on cash flow
• This Methodology is required by Generally Accepted Accounting Principles (GAAP)
Completed Contract Method

- No revenue or expense (net income) is recognized until project is “substantially” complete
- Revenues/expenses recorded in balance sheet accounts
- Simple to maintain
- May be available for income tax purposes
- Profitability not accurately presented by general ledger
- Can be an acceptable GAAP method
Percentage of Completion

- The concept under which a contractor recognizes income from fixed-price contracts as the work progresses rather than the amounts billed or collected
- This methodology is required by GAAP for contractors
- Revenue recognized based on extent of costs incurred
- Work-in-process schedule ties into general ledger
- Shows as Underbillings/Overbillings
Provision for Contract Losses

• The expected loss on an individual contract must be recognized in full when it becomes apparent that there will be a loss

• This is regardless of the percentage of completion
## The Four Most Common Accounting Methods

### Contract Information:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total contract amount</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Total estimated costs</td>
<td>$800,000</td>
</tr>
<tr>
<td>Estimated profit</td>
<td>$200,000</td>
</tr>
<tr>
<td>Costs incurred to date</td>
<td>$600,000</td>
</tr>
<tr>
<td>Billed to date</td>
<td>$700,000</td>
</tr>
<tr>
<td>Cash collected to date</td>
<td>$450,000</td>
</tr>
<tr>
<td>Costs paid to date</td>
<td>$400,000</td>
</tr>
</tbody>
</table>

### Accounting Methods:

<table>
<thead>
<tr>
<th>Method</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$50,000</td>
</tr>
<tr>
<td>Accrual</td>
<td>$100,000</td>
</tr>
<tr>
<td>Completed – Contract</td>
<td>$0</td>
</tr>
<tr>
<td>Percentage – Completion</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

\[
\text{Cost to date} = 75\% \times \$1,000,000 = \$750,000 \\
\text{Total Est. costs} = \$800,000 \\
\$750,000 - \$600,000 = \$150,000
\]
Method chosen has substantial impact on net income.
Policies & Practices Unique to the Construction Industry

• Every contract has unique terms.
• Every job has different “everything.”
  - Customer
  - Location
  - Drawings
  - GC & Subs
  - Project & Field Staff
• Estimating is an integral part of job procurement & revenue recognition.
• Change orders are unavoidable.
Importance of a Job Cost System

Goals

• Understand how accurate job costing fits into the whole construction process
• Understand the importance of knowing all your costs
• Learn what components make up job costs
• Learn what three major types of expenses make up indirect costs
• Learn the different methods of allocating indirect costs and covering general overhead costs
What is a Job Cost System?

- Not part of the double entry system
- It is a by-product of the double entry system
- It is the heart and soul of the contractors job “score card”
- The job cost system doesn’t just keep score
- If managed correctly it can be the predictor of a jobs future profitability
  - later we will discuss how it feeds contract information to the contract-in-progress (CIP) schedule
The Components of Job Costs!

• Direct versus Indirect costs:
  – *Difference between Direct and Indirect*
  – *Examples of direct costs*

• The three major most common indirect cost – pools charged to jobs
  – *indirect job cost/overhead*
  – *equipment*
  – *labor burden*
Components of Job Cost

- General Ledger
  - Detail Accounts
    - Labor
    - Materials
    - Subcontractors
    - Equipment
    - Indirect Costs
- WIP Schedule

Need to “drill down” to lowest level of detail

Job #1: Cost by Phase
Job #2: Cost by Phase
Job #3: Cost by Phase
Job #4: Cost by Phase
Job #5: Cost by Phase
The Job Cost System

What Is It?
Who Uses It?
Why Is It Important for Contractors?
Job Cost System Objectives

For Management Accountants –
Provide useful information to decision makers

For Project Management –
A risk management tool
Direct Job Costs

- Material
- Labor
- Subcontractors
- Equipment (rentals & installed)
- Other
  - Bond premiums, Permits, etc.
Direct Costs

• Direct Costs Include All Costs Which Can Be Directly Identified with an Individual Job.
• Direct Job Costs Allow You to Measure Your Actual Performance Against Your Estimate.
Indirect Job Costs

• Indirect labor
• Contract supervision
• Tools & consumables
• Insurances
• Owned equipment costs
• Other
Indirect Costs

- Indirect Costs Are Those Costs Which Cannot Be Directly Identified With a Specific Job, But Which Primarily Relate to the Completion of Contracts.
Construction Job Costs *Exclude*

- General & Administrative Expense
- Selling Expense
- Boats, airplanes, vacation homes, snowmobiles, ATV’s, Race Cars, etc.
- Pre-contract costs normally excluded
General & Administrative Costs

- General & Administrative (G&A) Costs Are Not Direct or Indirect Costs. These Costs Should Include the Costs of Running the Office, Accounting, Human Resources, Information Technology and Marketing the Business.
Allocating Indirect Job Costs

- Cost Pools
- Allocation Methods
Indirect Job Cost - Pool - Jobsite Overhead

Normal jobsite overhead, also referred to as general conditions items, includes costs such as:

- Project managers
- Superintendents
- Secretarial and clerical workers
- Timekeepers
- Office trailers
- Office equipment

- Office supplies
- Temporary electricity
- Temporary water
- Temporary sewer
- Telephone costs
- Sanitary facilities
- Trucks and automobiles
Cost of Equipment - Pool

- Depreciation
- Interest
- Repairs & Maintenance
- Transportation
- Licenses
- Fuel, Oil, & Supplies
- Insurance
How Do You Allocate Equipment Costs to Jobs?

- Hourly? Daily? Weekly?
- Customer Billing Rate?
- Internal Cost rate?
- Third-party Rate Book?
- Idle Rate?
- Operating Rate?
Home Office Overhead (SGA)

Normal home office overhead includes costs such as:

- Advertising
- Depreciation (office equipment & furniture)
- Donations
- Dues and subscriptions
- Insurance (office items and health / life)
- Interest and bank charges
- Office supplies
- Professional fees
- Rent
- Salaries - office
- Salaries – officer
- Labor burden (office)
- Taxes – business
- Telephone
- Travel and entertainment
- Utilities
- Yard expense
- Miscellaneous
- Education
- Computer
- Bad debts
Why is knowing **all** your costs **the most important** aspect of construction accounting?

- It helps you:
  - in the bidding process
  - to determine problem jobs and people
  - to price change orders
  - in the claims process
  - to reconcile job cost reports to the financial statements
  - to make better business decisions
Users of Job Cost Reports

- Project Management (primary)
- Top Management (important)
- Estimator (if proactive)
- Management Accountant (analysis)
- External Financial Execs (rare)
- Customers – cost-plus auditing
At the end of today’s session, you will be able to:

- Calculate earned revenue.
  - Understand percentage of completion revenue recognition process
- Grasp the importance of monitoring job costs
- Identify what a construction company expects from its financial manager.
WIP/Percentage of Completion Components

• Percentage-of-Completion Cost-to-Cost Method
  – Total Contract Value
  – Costs Incurred to Date
  – Estimated Costs @ Completion

• What’s 4th component?
  – Billings
Contract Value Includes

• Basic Contract Value
• Contract Options and Additions +/-
• Change Orders +/-
• Claims +/-
• Incentive/Penalty Provisions +/-
Importance of Percentage-of-Completion Revenue Recognition

\[
\begin{align*}
\text{Cost incurred to date} & \quad = \quad \text{Percent complete} \\
\text{Total estimated costs} & \\
\$1,000,000 & \quad = \quad 50\% \\
\$2,000,000 & \\
\text{Percent complete} \times \text{Total contract Amount} & = \text{Earned Revenue} \\
50\% \times \$2,200,000 & = \$1,100,000 \\
\text{Earned Revenue} - \text{Billed to date} & = \text{Under (Over) billed} \\
\$1,100,000 - \$1,000,000 & = \$100,000 \text{ underbilled} \\
\text{(Cost and estimated earnings in excess of billings)} \\
\end{align*}
\]
Estimating Costs to Complete

- How important is this step?
- Key test of Project Manager’s foresight
- Key attribute of reliable Job Cost Management System
- An art, not a science
Estimated Costs to Complete

- Basis of WIP # is a job cost system
- Requires regular, periodic comparisons to budgeted/estimated costs
- Computed differently @ cost code level (yes?)
- Reflect all costs associated with performance of contract?
Overview of Claims

- Usually involve contract scope and/or timing issues

- Five broad categories:
  1. Delay
  2. Disruption
  3. Changed Conditions
  4. Changes in Scope
  5. Termination
What is Earned Revenue?

• That portion of the total contract amount that a company is able to record during a particular accounting period.
# The WIP Schedule

## Exhibit 3: Work-in-Process Schedules (000s)

*For the Year Ended December 31, 200x*

<table>
<thead>
<tr>
<th>Job Number</th>
<th>Contract Amount</th>
<th>Estimated Costs</th>
<th>Gross Profit</th>
<th>Gross Profit %</th>
<th>Current Year Billings</th>
<th>Billed to Date</th>
<th>Current Year Costs</th>
<th>Cost To Date</th>
<th>Percent Complete</th>
<th>Total Revenue Earned</th>
<th>Prior Year Revenue</th>
<th>Current Year Revenue</th>
<th>Cost Over Billings</th>
<th>Billings Over Cost</th>
<th>Revenue Earned Net of Current Year Cost</th>
<th>Net Current Year Losses</th>
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<td>1010</td>
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<td>42</td>
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<td><strong>58.8</strong></td>
<td><strong>$30,125</strong></td>
<td><strong>$12,525</strong></td>
<td><strong>$17,599</strong></td>
<td><strong>$1,500</strong></td>
<td><strong>$201</strong></td>
<td><strong>$2,200</strong></td>
<td><strong>($202)</strong></td>
</tr>
</tbody>
</table>

*Note: Prior Year Billings and Prior Year Costs are not shown due to space limitations.*
Costs & Est. Earnings in Excess of Billings (analysis)

- Reflects drain on cash flow
- Over-recognized earnings
- Suggests potential poor billing disciplines
- Increases financial risk
Exercise & Discussion
Costs in Excess (CIE) - Asset

• Compute CIE

• Examples of what creates a costs in excess position.

• What’s greatest danger of a CIE position?
Cost in Excess

Scenario – Period 1

ABC/CFMA Basic Construction Co., Inc., began work on the office building just awarded.

<table>
<thead>
<tr>
<th>Contract Value</th>
<th>$20,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Costs</td>
<td>$18,000,000</td>
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<tr>
<td>Estimated Gross Profit</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Gross Profit %</td>
<td>10%</td>
</tr>
<tr>
<td>Cost to Date</td>
<td>$4,500,000</td>
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<tr>
<td>Estimated costs to complete</td>
<td>$13,500,000</td>
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<tr>
<td></td>
<td>$18,000,000</td>
</tr>
<tr>
<td>Billings to Date</td>
<td>$4,500,000</td>
</tr>
</tbody>
</table>

Calculate the following from the above data:

Revenue Earned $5,000,000

Billings to date $4,500,000

Costs in Excess $500,000
Exercise & Discussion

Billings in Excess (BIE) - Liability

• Compute BIE
• Discuss examples of what creates a billings in excess position.
• What’s biggest danger of a BIE position?
• Suggest possible bad billing disciplines
Billings in Excess

Scenario - Period 2

ABC/CFMA Basic Construction Co., Inc. began work on the job.

The lump sum contract allowed for advances on estimated subcontract draw requests to begin critical, initial phases.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Value</td>
<td>$20,000,000</td>
</tr>
<tr>
<td>Estimated Costs</td>
<td>$18,000,000</td>
</tr>
<tr>
<td>Estimated Gross Profit</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Gross Profit %</td>
<td>10%</td>
</tr>
<tr>
<td>Cost to Date</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Estimated costs to complete</td>
<td>$16,200,000</td>
</tr>
<tr>
<td></td>
<td>$18,000,000</td>
</tr>
<tr>
<td>Billings to Date</td>
<td>$2,850,000</td>
</tr>
</tbody>
</table>

Calculate the following from the above data:

- Revenue Earned: $2,000,000
- Billings incurred to date: $2,850,000

\[ \text{Billings in Excess} = \text{Billings incurred to date} - \text{Revenue Earned} \]

\[ \text{Billings in Excess} = \$2,850,000 - \$2,000,000 = \$850,000 \]
Billings in Excess of Costs & Est. Earnings (analysis)

- Key source of financing
- Management “sandbagging!”
- Suggest smart billing disciplines
- Unrecognized vendor liability-subs
- Decreases risk ?? (on job level)
Components of Financial Statements

- Independent Auditor’s Report
- Financial Statements
- Notes to Financial Statements
- Supplementary Information
Basic Financial Statements

- Balance Sheet
  - Assets, Liabilities & Equity Accounts
- Statement of Income
  - Revenue and Expense Accounts
- Statement of Retained Earnings
- Statement of Cash Flows
- Work-in-Process Schedule
  - Supplemental Schedules
Notes to Financial Statements

• Additional information important for full disclosure

or

• To emphasize some important issues from the contractor’s perspective
Supplementary Information

• Not required by Generally Accepted Accounting Principals (GAAP)

• Meets needs of various users

• Content and form vary by company

• Should include WIP Schedule
RETENTION

• Range from 5% to 10%
• Generally due and collectible by contractor at completion of contract
• Retention held can be reduced at certain milestones
Practical Concepts

• Review labor performance daily
  - actual production Vs. budget & job to date
• **Profit** is not a “**dirty word**”
• Collecting your receivables is a **Right** not a **privilege**
• Computerize as many aspects of your business as you can
# ABC Construction Company

**Earnings from Contracts Year Ended December 31, 2011**

<table>
<thead>
<tr>
<th>Contract Category</th>
<th>Revenues Earned</th>
<th>Cost of Revenue Earned</th>
<th>Gross Profit (loss)</th>
<th>Profit (Loss) Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracts completed during the year</td>
<td>1,000,000</td>
<td>800,000</td>
<td>200,000</td>
<td>20%</td>
</tr>
<tr>
<td>Contracts in progress at year end</td>
<td>1,500,000</td>
<td>1,200,000</td>
<td>3,000,000</td>
<td>20%</td>
</tr>
<tr>
<td>Unallocated indirect costs</td>
<td>2,500,000</td>
<td>2,250,000</td>
<td>250,000</td>
<td>10%</td>
</tr>
</tbody>
</table>
What is a Balance Sheet?

- Balance sheet is a snapshot at a certain date.
- What does the business own?
- What does the business owe?
- What is the business worth?
- It is a measure of liquidity and leverage.
- Typically presented in liquidity order.
- Liquidity refers to how quickly assets can be converted to cash.
- Liquidity can also be viewed as how capable a business is of covering its obligations.
Balance sheet presentation

- Typically presented in liquidity order.
- Liquidity refers to how quickly assets can be converted to cash.
- Liquidity can also be viewed as how capable a business is of covering its obligations.
• Current assets refer to assets that are converted to cash within a year.
• Under and Over billings are generally current assets/liabilities.
• Fixed assets refer to items that are not for resale and have a life of greater than one year.
  – Equipment, furniture and vehicles are all examples of fixed assets.
Liabilities

- Current liabilities are generally obligations that will be paid or are payable over the next 12 months.
- Long-term liabilities are obligations that are not due until greater than 12 months from the balance sheet date.
Net worth

- Net worth is the difference between what is owned (assets) and what is owed (liabilities).
- Reflected in the equity section of the balance sheet.
- Includes original investment (stock, paid in capital) and retained earnings of the business.
How to analyze the Balance Sheet

• Become familiar with the major components of the balance sheet.
• How much is invested in fixed assets?
• Is inventory a large part of the business?
• How much debt does the business have?
ABC/CFMA, Inc.  
Balance Sheet  
December 31, 2011

## Assets

<table>
<thead>
<tr>
<th>Current Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$300,000</td>
</tr>
<tr>
<td>Contract Receivables</td>
<td>3,400,000</td>
</tr>
<tr>
<td>Costs and Estimated Earnings in Excess of Billings</td>
<td>200,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>300,000</td>
</tr>
<tr>
<td>Prepaid Expenses and other Current Assets</td>
<td>200,000</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>$4,400,000</strong></td>
</tr>
</tbody>
</table>

| Property and Equipment - net                       | 700,000 |

<table>
<thead>
<tr>
<th>Other Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Surrender Value - Officers Life Insurance</td>
<td>150,000</td>
</tr>
<tr>
<td>Accounts Receivable - Officer</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total Other Assets</strong></td>
<td><strong>250,000</strong></td>
</tr>
</tbody>
</table>

| Total Assets                                       | $5,350,000 |
ABC/CFMA, Inc.  
Balance Sheet  
December 31, 2011  
Liabilities and Stockholders Equity

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes Payable</td>
<td>$200,000</td>
</tr>
<tr>
<td>Current Portion of Long - Term Debt</td>
<td>100,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>2,800,000</td>
</tr>
<tr>
<td>Billing in Excess of Costs and Estimated Earnings</td>
<td>250,000</td>
</tr>
<tr>
<td>Accrued Expenses and other Current Liabilities</td>
<td>150,000</td>
</tr>
<tr>
<td>Income Taxes Payable Current</td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>$3,900,000</strong></td>
</tr>
<tr>
<td>Long Term Debt - Less Current Portion</td>
<td>450,000</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td><strong>4,350,000</strong></td>
</tr>
<tr>
<td><strong>Stockholders Equity</strong></td>
<td><strong>1,000,000</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Stockholders Equity</strong></td>
<td><strong>$5,350,000</strong></td>
</tr>
</tbody>
</table>
**ABC/CFMA, Inc.**
**Statement of Operations and Retained Earnings**
**Year Ended December 31, 2011**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned Revenue</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Cost of Earned Revenue</td>
<td>8,000,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>2,000,000</td>
</tr>
<tr>
<td>G &amp; A Expenses</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Net Income Before Taxes</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>400,000</td>
</tr>
<tr>
<td>Net Income</td>
<td>600,000</td>
</tr>
<tr>
<td>Retained Earnings - Beginning</td>
<td>400,000</td>
</tr>
<tr>
<td>Retained Earnings - Ending</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>
Liquidity analysis

- Provides information about the cash position of a business and its ability to cover current obligations.
- Current ratio (current assets less current liabilities). This is the most basic test of liquidity. Will the company have the ability to cover their current obligations?
Income Statement

- Income statement is a widely used and misunderstood statement.
- While the balance sheet was a snapshot picture, the income statement is a diary. It captures all the transactions that happened in a certain time period.
In Conclusion

On behalf of ABC & CFMA...

Thank You for Your Participation!