

THE More Profitable Contractor™

PROFIT-BUILDING INFORMATION FOR CONTRACTORS

Year-End Made Easier: Part 1

By Leslie C. Shiner, MBA

Many construction companies struggle at year-end because of the variety of special accounting tasks that must be completed. (Even companies who aren't closing their fiscal year must still complete payroll, 1099 forms, and other tax-related forms.)

With some strategic planning, though, year-end can be greatly simplified. As well, it provides an excellent time to review what's working well for your construction company...and what areas might need improvement.

Plan for Success

Most year-end business management tasks must be performed within a certain (and limited!) window of time. This doesn't mean there aren't tasks that can be performed well in advance of January 1 to save time and reduce stress. These include:

- Order W-2 and 1099 forms (and decide which ones work best based on if you have a laser or dot matrix printer).
- Verify names, addresses, and social security numbers for all employees.
- Review Federal Tax Identification Number (FEIN) for all subcontractors paid over a year. Send out W9's to anyone with whom you've done business and do not have a current tax ID number.
- Purchase storage boxes for archived files.
- Run audit checks for balanced transactions and payroll audit errors.

In addition, year-end is also an excellent time to review the following:

- Outstanding receivables/bad debts
- Company hiring and retention policies
- Company safety policies
- Company benefits
- Data backup systems and procedures

Other standard year-end processes that can be started early include:

- Check equipment inventory, copy vehicle registrations, and update maintenance records.
- Physically audit and reconcile materials inventory to your books.
- Compare suppliers in terms of pricing, quality, and service provided.

Q & A with Gary Lewis

Editor's Note: Based in Wilmington, Massachusetts, Gary Lewis is part-owner and president of Management & Associated Services, Inc. He has been assisting contractors since 1984.

What do you stress to your contractor clients this time of year?

We go in during November or December—not January—and sit down with our clients and really assess where they're at in all areas of their business. We look at bonding, insurance, their cash flow, what purchases they might be considering making, and so on. We want to find problems or be in a position to make informed business decisions in 2004, not 2005.

So the focus isn't just on tax planning?

No. Every area of a business should be looked at. Look at your IT (Information Technology). Review your books, see what adjusting entries might need to be made this year. Go to your bank, give them an update on what's going on in your business. I also suggest contractors secure or extend a line of credit now, before they need it.

And, of course, there are taxes.

Of course. Bring in your tax planner in December, see what can be done now. You can't do effective 2004 tax planning in March of next year.

What else might a contractor look at?

Look at your employees, at HR (Human Resource) issues. Are you planning to pay a bonus this year? Do you have a bonus plan in place? There have been several key HR changes this year. If a contractor isn't up-to-date on these, they should bring in a professional.

Boil it all done, what you seem to be advocating is for a contractor to be proactive, not reactive.

Exactly. Take the time now, in December—don't wait until January or February. And by all means seek out expert advice. You don't know what you don't know. Being proactive also allows you the time to make changes or corrections this year. If you wait until the new year, it's almost always too late.

Year-end Answers to Your Questions

Year-end usually generates questions from contractors regarding what to do and how to do it. At the same time, late December and early January traditionally are the busiest times for the Technical Support of any financial software company.

Here are ways to receive quick and accurate answers to your year-end questions:

Utilize the Software's Help

Most business management software has built-in Help information that will answer most of your questions, particularly year-end issues. Intuit® Master Builder™, for example, contains information on topics such as:

- Fiscal Year-end Routines
- Calendar Year-end Routines
- Closing Vendor 1099's
- Closing Payroll at Calendar Year-end
- Printing W-2's
- Printing 1099's

Set up a Sample Company

You might try setting up a sample company and copying all your data into this sample company. This will allow you to experiment and run "what if" scenarios with familiar and meaningful data without worrying about whether or not you are damaging or in any way modifying real data.

Know Revised Tech Support Hours

Many software companies have revised Tech Support hours during the holiday season. Find out in early December the availability of key support groups to your business, including Tech Support, business consultants, your tax advisor, etc.

Prep for Your Tech Support Call

When you do need to contact Technical Support, (1) be at your workstation with the program running and a pad of paper and pen handy to take notes, and (2) have the following information ready before you call:

- Your computer's operating system
- Your software's version number
- The type of network (if any) you're using
- Where the error occurred (which window or part of the program)
- Printouts of any corresponding reports or print screens
- Your primary telephone number

As with almost anything else, planning ahead will help you find answers to your questions when you need them.

Analyze, Analyze, Analyze...

In addition to completing required payroll, business, and tax documents, year-end also affords an excellent opportunity to analyze your construction company's financial health. Questions you'll almost certainly want to ask yourself about 2004 include:

- Did our company achieve its sales and profit goals?
- Did expenses fall within budgeted amounts?
- Can we accurately determine the profitability of each job?

Here are several key reports you'll want to review and the pieces of information they provide:

Income Statement. A report of net income or net losses. This report, also called a Statement of Earnings or Profit and Loss (P&L) Statement, summarizes all expenses subtracted from all revenues. An analytical tool, comparing this year's and prior year's Income Statements may even show unnoticed revenue or expense trends.

Balance Sheet. A snapshot of the company's financial health, it represents all short-term and long-term assets and liabilities, and a statement of owner's equity.

Statement of Cash Flow. This shows the three different ways cash can go up or go down, based on Operations, Investing activity, and/or Finance activity. If you keep your books on an accrual basis to determine your net profit, this report helps you determine your cash flow and converts your operations back to a cash basis.

Budget to Actual. Creating a budget at the beginning of an accounting cycle is an important element of a management plan. Periodically reviewing actual expenses and revenue compared to budgeted (forecasted) amounts will help reduce surprises at year-end. Reviewing budgets to actual, in other words, presents a great opportunity to resolve problems, adjust expectations, and re-establish or modify goals.

Tax Planning

As the year-end approaches, make sure to contact your tax preparer and review your statements to date. There are many decisions that you can make in December to help alleviate some tax consequences of a really good or really bad year. Do not miss the opportunity to make important purchases either before the year ends or after to help your tax situation.

Conclusion

Year-end doesn't have to be a frantic financial time. With proper planning, it can go smoothly and offer an excellent "window" into your business's financial health.

*For more than 20 years Leslie Shiner has provided business and financial management assistance to contractors. She also speaks to local, regional, and national construction groups and associations, and is the author of *Health Checkup for Your Construction Business* and other titles available at www.profitpress.com.*

Year-end Made Easier: Part 2

By Gary Lewis

All contractors want to finish the current year strong and start the new year even stronger. Year-end activities, when done correctly, can pay huge dividends for your business and help you "end strong, start strong."

Plan to Succeed

In addition to December planning meetings, schedule with your key management staff sufficient time in January to oversee implementation of your new plan. Involving management-level personnel in reviewing and developing plans works better than giving them directives without their input. Also, have a facilitator to lead discussions and keep meetings on track.

Here are several essential activities to start with; your business may require others.

Update Business/Strategic Plan

How did the company do this year? Were goals met? Do you have the key information you need to manage effectively? What changes should be made for the upcoming year?

Questions to ask in the planning sessions for the coming year include:

- What are the company's strengths and weaknesses, niche market, "sweet spot"?
- How can we best market our services to get the most desirable jobs?
- What additional resources and personnel are needed to accomplish our goals?
- How can we maximize profit?
- Is funding available within the company or will it have to be borrowed?

Do Tax Planning

To be effective, tax planning must be done proactively and year-end is the time to review the entire year, to enact strategies to minimize the present tax year liability, and to develop strategies for the next. This is the time to make decisions about where to apply equipment expenses including leasing and purchase costs and the appropriateness of allocating costs of equipment to specific jobs. Consider the benefits of straight-line versus accelerated depreciation. Loans need to be posted to the appropriate accounts and shown on the liability section of the balance sheet. Payments made to retire a loan should be entered, the principle removed, and the interest expensed.

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CASH FLOW TIP: Waste Fewer Dollars

Strong, stable cash flow depends on collecting money due your company. But reducing or eliminating “cash wasting mistakes” also boosts cash flow—and your bottom line.

To enhance cash flow, avoid these capital crunching mistakes:

1. Impulse purchasing
 2. Lax or no inventory control
 3. Paying bills too early or paying bills too late
 4. Underutilizing your profit and loss (P&L) statement
 5. Discounting your prices to win jobs
 6. Under or devaluing owner labor/time
 7. Ineffective time management
 8. Over or mis-staffing
 9. Vague chart of accounts
 10. Too detailed or too general cost code/item list for job costing
- If you have questions about any of these cash-wasters, contact us today.

Next Issue Preview

The next issue of *The More Profitable Contractor* will be available in February 2005. We'll help you jump-start your new year with articles and information devoted to sales and marketing.

Need Assistance?

Whether you're struggling with a year-end issue or are exploring expanding your computer hardware or software capabilities, we can help! Contact us today and put our expertise to work for you.