

# THE More Profitable Contractor™

PROFIT-BUILDING INFORMATION FOR CONTRACTORS

## Year-End Habits for Success and Growth

By Lloyd Franke & Gary Lewis

*"Be not afraid of growing slowly. Be only afraid of standing still."*

—Chinese Proverb

I have a poster that states "Time flies whether you're having fun or not!" From the business perspective, one could say "Time flies whether you are achieving your goals or not!"

At this time each year, we typically look back to evaluate our performance for the past 12 months by asking questions such as:

...How did the business do this year? Am I satisfied with the results?

...If not, what changes must take place to do better?

...How will these changes be implemented next year?

Are you resolved to make changes and improvements to do better next year? If so, the following brief overview of some year-end routines will help guide your business progress in 2006 and beyond.

### Develop and Follow a Strategic Plan

Many small business owners dismiss formal strategic planning as unnecessary because they think they know where they want to go and will direct their managers and workers to get there. This works fine...until the company reaches a level where further growth is stalled due to lack of delegation of responsibility and authority. To grow beyond this, a management team must be established and given responsibilities and performance measures that are aligned with top-level goals. This frees up time for business owners to focus ON the business versus fighting day-to-day issues working IN the business.

Here are key steps to creating and executing a Strategic Plan:

#### ~ Follow a Planning Process

Follow a formal process to complete the annual evaluation. (Large companies can take three months or more to complete the process of information gathering, evaluation, prioritization, budgeting, project planning, and communication throughout the organization; in smaller companies, this planning cycle may be completed over several weeks.) What's more, this process should have started by the time the clocks are set back in the Fall.

*Editor's Note: The following checklists were compiled by Leslie C. Shiner, MBA, and members of Intuit Construction Business Solutions, makers of Intuit® MasterBuilder™. For specific year-end questions, contact your Master Builder ProAdvisor or Solution Provider.*

## Part 1: General Ledger Close

### PREPARATION TASKS:

1. Perform Balance Sheet Audit—review all the balances and make adjustments and corrections accordingly.
2. Review status of all jobs. To delete and clean A/P, A/R and Job Costs, changed closed jobs to “Closed” status (6). Globally change job status through 3-5, Update, Closed.
3. Verify job removal on 1-6 screen from Option menu. Check text file created by verify job removal. Text file can be found on your local drive
4. Review reconciliation of cash checks. Look for any checks from Prior Year still outstanding (indicated with a “P” on the reconciliation screen). Create entry to correct and reconcile all corrections.
5. Print checks, to confirm there are no 0000 checks still unprinted.
6. Review Retained Earnings Setup in 1-8 to make sure profit will close to correct account.
7. Make sure all recurring transactions have been posted.
8. Run Audit in 1-6. If needed, run repair in 1-6. Resolve any audit errors before proceeding.
9. If using Inventory, run an inventory audit in 12-5.
10. Make a backup.
11. Log on as Supervisor, exclusive.
12. Run reports:
  - o Balance Sheet (2-2)
  - o Income Statement (2-3)
  - o Job Cost Totals (6-1-6)
  - o Open AR Invoice. List by job (3-1-2-31, status 1-3)
  - o Open AP Invoice. List by job (4-1-2-31, status 1-3)
  - o Service Invoice. List by client (11-2-31, status 1-3)
13. Count records in 1-3, 3-2, 4-2, 5-2-2, 6-3 screens
  - o Make note of these record number counts

### CLOSING ACTIVITY:

1. Make 2 backups. Put one in a safe storage area.
2. Close current working company (1-6). Create Archive Company with name such as “Company05GL”.
3. In the 1-6 screen, selecting “Remove closed and refused jobs” will remove all job-related records, including document history, schedules, takeoffs, progress billings, time and materials setup, closed purchase orders, subcontracts, change orders, budgets, proposals, accounts payable and receivable invoices with a paid or void status.
4. In the 1-6 screen, selecting “Remove paid and void payable invoices with no job number” will remove all AP invoice with no job assigned in the header of the invoice.
5. In the 1-6 screen, selecting “Remove paid and void Service invoices dated prior to...” will remove all service invoices with a paid, void, or completed status prior to the designated cut-off date. Typically, if this option is chosen, the date should be several years earlier to keep several years of data for historical purposes.

### AFTER CLOSING TASKS:

1. In archive company:
  - a. Rerun reports from preparation tasks step 12.
  - b. Verify count of records matches count from before closing.
2. In current company:
  - a. Verify closed jobs were removed.
  - b. Verify that the Archive Company folder is correct in 7-2.
3. Later, after after entering more data to finalize year-end, and after printing final reports for tax purposes, make another backup and store safely.

## Part 2: Payroll Close

### PREPARATION TASKS:

1. Log on as Supervisor, exclusive.
2. Run payroll audit 5-4-4:
  - a. Correct any errors.
  - b. Be sure all payroll is posted to general ledger.
3. Reconcile all quarterlies to year-end. Balance 941's and State Quarterlies to YTD report. Verify YTD income for each individual as well as totals at each wage limit for 2005 (i.e.FUTA<=\$7,000).
4. Review Employees for deletion.

### CLOSING ACTIVITY:

1. Make 2 backups. Put 1 in a safe storage area.
2. Close Payroll in 5-4-5:
  - a. Decide which employees to delete. Delete only employees who are no longer on any existing jobs.
  - b. Create Archive Company with name just as “Company05PR”.

### AFTER CLOSING TASKS:

1. In archive company:
  - a. Print W2's.
  - b. Print 1099's (see below).
2. In current company, update required payroll calculations for the next year (5-3-1):
  - a. Correct SUI and SDI rates and maximum for 2006 – update.
  - b. Correct FICA deduction for 2006: Wages = \$94,200 Dollars = \$5,840.40 – update.
  - c. Correct 401K deduction for 2006: Max Dollars = \$15,000, Over 50: Max Dollars = \$20,000 – do NOT update, but update each employee individually.
3. In current company, update/correct employee calculations for the next year (5-2-1):
  - a. Reset vacation and sick accruals if necessary.
  - b. Reset rates where maximums were hit in 2005 and should not start over again.
  - c. Reset maximums for 401K based on employee age.
4. Delete or alter any other calculations, if necessary (change Dr or Cr accounts if necessary).

## Part 3: 1099 Close

### PREPARATION TASKS:

1. Verify Vendor 1099 types for all vendors (1=misc, 2=rent, 3=sole proprietor, 4=interest).
2. Make sure tax ID numbers and addresses are entered for all 1099 vendors.
3. Verify that every Sole Proprietor vendor (3) has a contact name.
4. Verify 1099 balances with cash disbursements. Compare report 4-1-5-21 (1099 only, sort alpha) with report 4-5-32 (1099 in the list: 1 and 3).
5. Remember, the more corrections you make prior to creation of archive, the less DUPLICATE work needed. If making any changes after close, be sure to update archive company as well as current working company (to facilitate next year processing).

### CLOSING ACTIVITY:

1. Log on as Supervisor, exclusive.
2. Make a backup.
3. Be sure there exists a backup directory for printing 1099's (PR or GL company should suffice).
4. Reset 1099 balances (menu option 4-4-options-reset).

### AFTER CLOSING TASKS:

1. In archive company:
  - a. Print 1099s

*Year-End Habits for Success and Growth* Continued from page 1

~ **Evaluate the current situation**

Where are we now? What are the results for the year? Did we meet our goals? Has the market changed? What is the competition doing? Are there new opportunities that should be explored? Do we have the right resources in place? Are there new options we should consider? Answers to these questions require some research and must be completed first.

~**Decide where you want the company to be: do the “Vision thing”**

Is there a clearly defined vision of what the company is striving to become? Does the company have a mission statement and know how to execute it? This is essential.

~ **Identify actions to close the “Gap”**

The difference in where we are now and where we want to be is known as the “Gap”. To reach our ultimate vision, we must identify those action items that are needed to close the gap.

~ **Prioritize and focus on three action items**

Why three? By creating only three items, you can focus on the high priority tasks needed to close the gap. If you can accomplish those three items, you will have made significant progress. And, if you get them done early, there are always more waiting for attention.

~ **Communicate and evangelize**

It is important for each person in the organization to both buy into the vision and understand how their work contributes to achieving the overall goals of the company. To achieve buy-in at all levels, plans and goals must be written, “evangelized”, and cascaded to lower levels to ensure that all managers and employees are working toward the same end and understand how their daily actions impact internal and external customers and ultimately the company’s greater success.

*Lloyd Franke is an independent consultant focusing on performance improvement in construction contracting companies and other owner-managed businesses. He has over 15 years experience assisting companies to increase profits through continuous improvement programs and business and strategic plan development and implementation. Gary Lewis is co-owner, with his wife Melissa, of Management & Associated Services, Inc. (MASI) located in Wilmington, Massachusetts. He has been assisting contractors with their financial and business management needs since 1984.*

## Balancing Right

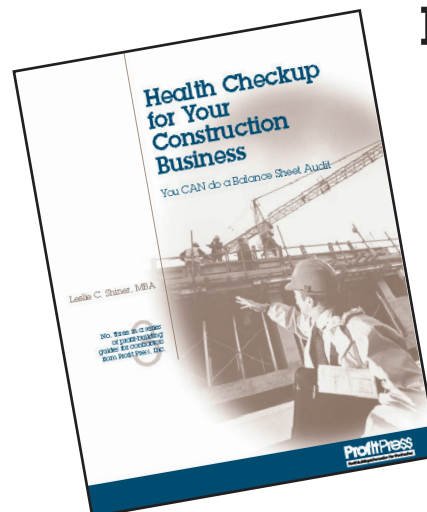
After you have closed your books for the year, you will still need to make entries to the year just closed. Whenever you enter a transaction for the closed year, be sure to post it directly into the current year as period zero transaction, and say “yes” when it asks you if you want to post to the archive. To confirm that this process was followed, it’s important to verify that the ending balance for each Balance Sheet account in the archive still equals the beginning balance for that account in the new year.

So, how can you make sure you did everything correctly? First, print the old year’s Balance Sheet. Compare the balance of each account to the beginning balances on the trial balance of the current year. The only account that should be different is Retained Earnings. Why? Because Master Builder performs a closing entry when closing the books, which means that all income and expense accounts (which add up to the total profit or loss) will be automatically posted into Retained Earnings. Therefore, when looking at the Balance Sheet from last year, take the Net Profit or Loss and add it to the existing Retained Earnings. That number should equal the beginning balance of Retained Earnings for the current year.

The only time this may not be the case is when you also close out a Distribution or Draw account directly into retained earnings. These accounts also should be zeroed out each year, with the balance going into retained earnings.

Therefore, look at the total equity section of your Balance Sheet from last year. Add together Profit, Retained Earnings, and Draw or Distribution. This number should be the beginning balance of the retained earning account in the current year.

This is a good time to touch base with your ProAdvisor or Solution Provider to assist in making your year-end close smooth and accurate.



## Recommended Reading

*Health Checkup for Your Construction Business—You CAN Do a Balance Sheet Audit*

By Leslie C. Shiner, MBA  
34 pages; \$24.95; available at [www.profitpress.com](http://www.profitpress.com)

## CASH FLOW TIP: Budget for Backups

There are many threats to your company's sensitive business data, including power outages, natural disasters, theft, hardware failure, data corruption, and more. Year-end is an excellent time to review your organization's data backup procedures and equipment, create a plan for 2006, and then budget accordingly to best manage cash flow.

There are four primary data backup choices: tapes, compact discs, Zip discs, and the Web. Each has advantages and disadvantages. A thorough review of each pays big dividends. Just remember—to be most effective, your backup should be stored off-site, so any good backup system must be portable.

When you determine which backup method you want to use, be sure to test it out. Don't try this with your real data! Instead, back up the sample company, delete it, then try to restore it. Time spent analyzing and budgeting for this important issue could potentially save your company thousands and thousands of dollars in 2006.

### 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.

### Next Issue Preview?

The next issue of *The More Profitable Contractor* will be published in February 2006. We'll cover marketing and sales-related topics to help get your 2006 off to a strong—and fast—start.