Understanding What Financial Reports to Get and Timing

They say timing is everything. Well, in accounting and management this saying holds true.

Most contracting companies simply do not get the financial statements on a timely basis. They should, they could, and they need to, but many do not and its costs them profits every single month they allow the timing to suffer. The reason is simple, and it has to do with adjustments. The financial statements tell us about our performance**, and while it is possible to make adjustments without knowing what you are doing well, or poorly (think about that for a moment)**, how effective are they?

So, the answer is to get the financial statements on time, and to also be certain they are accurate. This also means we have to understand the financial statements. The standard financial statements are as follows:

1. **A Detailed Profit and Loss Statement** (also called an income statement). We recommend this be a detailed profit and loss statement – meaning it is organized around your operating characteristics – your departments, and it shows the dollars and the percentages for each account, and finally, it compares you against your budgeted targets.

   You get this statement no later than the 5th day after you close your accounting for the previous month. **Close out May 28th; get P&L on June 2nd! Simple!**

   If you don't, and you get it later, your bookkeeping function and your company personnel are not handling their business well. This is a LEADERSHIP issue, not an accounting issue!

2. **A Balance Sheet** – so called because it balances – the balance sheet tells us about our assets (What we own as resources for our company) and our liabilities – what we owe as obligations in case we do owe people, and finally, our net worth – what we have in the company after we subtract our liabilities from our resources.

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3. **A Cash Flow Statement** – The mysterious financial statement. So called because it mysteriously is absent from virtually every contractor who doesn't make money! Also mysterious (really) because people think this is an intimidating and complicated statement (when in fact it is probably the easiest statement of the three). The cash flow statement tells us about our cash coming in, and our cash going out, and we simply track the way cash goes in and out and look ahead to make sure we have enough of the cash to cover our business operations like payroll, taxes, supplier payables and other expenses.

   We keep this statement up to date weekly, so we get it once a week, and at the end of the month with our balance sheet and our Detailed Profit and Loss Statement!

Oh, there are some other financial instruments we will get to later, a Budget, a Profit and Loss Forecast System, a Labor Utilization (production forecast) and other reports that are financially driven. The bottom-line is you can run a nice, clean profitable business if you pay attention to the three basic statements above.

Follow these steps to get these statements on time:

1. Define your needs and wants for your financial statements – Do you want departmental statements or not? Do you want to have percentages and dollars or not? Do you want to have a comparison of last year versus this year or not? If you don't know what you want, you need to figure it out before your bookkeeper or accountant can help you.

2. Once you determine your needs, meet with your bookkeeper and accountant, and assuming you are NOT getting these statements either in the format you want, or on the time schedule you want, discuss it!

3. There are these reasons! We never get the paperwork on time from the technicians. They don't turn in the invoices until the following week! There are always reasons. This is a leadership issue. The bottom line is, you can and need to get your financial statements by no later than the 5th day after the close.

4. If your people do not turn in their time tickets – change it. Who runs the company?

   If your bookkeeper is incompetent – change it (train them or find a new one if training fails).

   If you need to change things – plan for the issues that will accompany these changes – yes, people will resist this (see changes and managing change, and leadership).

   If you need help – get it! There are lots of helpers out there for you!

5. Your paperwork and forms may need to be adapted. If you are going departmental, you will need to be certain your forms match the chart of accounts you need for the departments.

6. Train the personnel in your company. Here's how:

   a. Set the goals.

   b. Set new, clear expectations for the goals and for the employees.

   c. Involve the personnel in these 1st two steps – it will be easier as it is hard to resist your OWN ideas!

   d. Set a timetable for the changes to occur.

   e. Get a commitment – hands in – yeah team!

   f. Do it – and hold them accountable – you too – someone resists – what do you do – fire them (no), retrain them (then you may have to discipline them), retrain them one last time (then you probably have to let them seek new interests!).

g. Keep at it – get feedback – change is hard, sometimes slow, but it is worth the price, even if you lose personnel, you will find the company will adapt.

7. You may need to upgrade your accounting package – maybe not – but review it to be sure.

8. Don't forget to train yourself on how to use the new information – that helps as well. Nothing worse than getting information for no reason, sends a bad signal to everyone – so start out by considering the ideas of sharing performance. The "sharing" of financial information may be considered taboo by some contractors, but hang with us on the concept. You may come to change your mind. At any rate, when you share the performance, you are rewarding those who climbed up the mountain for you!

Why do getting the financial statements on time matter?

- Timeliness means the ability to react to operational issues that may be occurring such as your labor percentages getting too high in an area based on what you want.

- Do you understand a cash flow statement can save your business, especially if you are on what is known as accrual accounting? Have you ever heard that most contracting companies go out of business because they ran out of cash as opposed to making a profit or loss? It is true, and it can and does happen because the company takes its eye off of the prize (which is CASH).

- CASH is king – and a cash flow statement helps you predict the needs of the business, and sometimes this may mean the need to borrow short term from the bank to take on a particular type of job (commercial or new home) and keep the company able to pay its bills take discounts and improve profits even though it may not have had the cash on hand. Once paid, the short-term note can be re-paid, all with the help of a cash flow system (forecast) that identified your needs as a business for cash.

- A detailed Profit and Loss Statement can help you determine where the company is performing well, or not! Most contractors lump labor into one account (not good). Labor can kill a contractor's profits, so we need to keep very close contact with labor as a percentage to our sales. The bottom line is we NEED to ALWAYS know what labor is as a percentage to sales for every market we do business in, so the detailed P&L is essential whether you are a small contractor or a large contractor.

- The Balance Sheet is underutilized. It tells us what we have as resources. One of our business goals is to get maximum profit and cash flow out of minimal resources. Basically that is a nice way to say we get a high return on investment. The balance sheet is where we find out how well we are actually running the business based on our resources. Heck, anyone can and should be able to make money if they had unlimited assets or resources. Just keep throwing money at the problems right? We are going to use our balance sheet to look at our own company resources, and say, we can and should generate profits based on what we have available.

- **Improving your company financial structure and it will help you MAKE MORE MONEY!**