



CONSTRUCT 2009
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TU13 - Financial Fundamentals

Presented by:

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A FEW REMINDERS...

- Please remember to mute all electronic devices.
- You must swipe your card at the door in order to receive credit for your course.
- No one under the age of 18 is allowed in meeting rooms.



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Learning Objectives:

Upon completing this program, the participant should know how to:

- Review of Terminology
- Key Monthly Processes
- Basic Financial Statements
- Income Statement (Profit/Loss)
- Balance Sheet
- Cash Flow
- Cash vs Profit
- Budgeting Tips
- Basic Ratio Analysis



My Background

- BS and MBA from University of Nebraska
- CMA – Certified Management Accountant
- CFM – Certified Financial Manager
- Author of *Out of the Red* and *Boost Your Bottom Line*
- *Contributing editor for various publications and websites.*



What this course is not:

- It is not to be taken as specific personal accounting or tax advice for your business, but rather an educational session.
 - Visit with your personal accountant for specifics on how these concepts apply to you.
- Will NOT teach you to be an accountant or replace your accountant.
 - Your time is better spent on your core competencies.



Terminology Review

- **Asset**
 - What you own of value (Cash, Accounts Receivable, Inventory, Property, Plant, Equipment, etc.)
- **Liability**
 - What you owe to vendors, lenders (Accounts Payable, Notes Payable, Taxes Payable)
- **Equity**
 - Ownership value
- **Revenue**
 - Sales of product or services
- **Expense**
 - Direct costs of materials and labor are categorized as Cost of Goods Sold
 - Indirect costs are overhead expenses (Rent, Professional Services, Taxes, Advertising, Office Supplies, etc)



Key Monthly Processes

- It is NOT okay to forgo monthly financial processes and statements for any size of business.
- Unacceptable to use the excuse that you are too small, large or busy. You are in business and bookkeeping is a critical part of business operations.
 - You don't have to do it personally, but it MUST be done. No exceptions!
 - Not just for "Uncle Sam" but for you!



7 Key Monthly Processes

1. Data entry into computerized accounting system.
2. Reconciliation of all bank and credit card accounts.
3. Ensure all your bills are entered into your system (paid and unpaid).
4. If you have any Accounts Receivable, you need to have a clear process for collecting.
5. Monthly Financial Statement Review.
6. Analyze variances on your Actual vs. Budgeted Financials.
7. Meet with your Accountant regularly for review.



Financial Statements

- Using a computerized accounting system enables you to enter transactions and not have to know the “behind the scene accounting process” step by step.
- Enter data regularly and you will have access to financial statements at any point in time from your computerized accounting system.



Financial Statements

- Income Statement
 - _____ minus _____ = Gross Profit/Margin
 - Gross Profit minus _____ = Net Profit/Loss
 - Period of time
 - Reports on operating activities.
 - Also known as _____ Statement



Financial Statements

- Balance Sheet
 - _____ = _____ + _____
 - Point in time
 - Reports on investing and financing activities.
 - Also known as Statement of _____.



Cash Flow Statement

- **Cash Inflows**
 - Anything that is bringing cash into the business.
 - Examples:
 - Sales
 - Owner Investments
 - Loan Proceeds
- **Cash Outflows**
 - Anything that is causing cash to leave the business.
 - Examples:
 - Expenses
 - Owner Withdrawals
 - Loan Repayments



Cash Flow Statement

Cash Inflows:

Sales
Personal Investment
Loan Proceeds

Cash Outflows:

Material
Office Supplies
Rent
Wages
Utilities
Personal Withdrawals
Loan Payments (Interest is an expense, principal is a reduction of liability)
Net Inflow/Outflow



Cash vs. Profit

- Understanding the difference between cash and profit.
- Profit is Income – Expense
- You will have items that affect cash, but do not affect profit
 - Personal Investments/Withdrawals
 - Loan Principal Increases and Decreases



Budgeting Tips



- To reach your company's financial goals, you have to have focus.
 - ❑ Your budget provides you the "bulls eye" you are aiming for.
- Utilize budgeting features in your accounting system.
- Estimated numbers for upcoming year
 - ❑ Month by Month
 - ❑ Line by Line
- Need to analyze variances between budgeted and actual figures.
 - ❑ What are you doing well?
 - ❑ What needs improvement?

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4 Basic Ratios

- Current Ratio
 - $\text{Current Assets} / \text{Current Liabilities}$
 - Indicates your ability to pay your current obligations from your liquid assets.
- Debt Ratio
 - $\text{Total Liabilities} / \text{Total Assets}$
 - How much of your assets are financed by debt? How much of a risk are you?
- Gross Margin Ratio
 - $\text{Gross Profit Margin} / \text{Net Sales}$
 - How much are you earning in gross profit from each sales dollar?
- Profit Margin Ratio
 - $\text{Net Income} / \text{Net Sales}$
 - How much are you earning in net income from each sales dollar?

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Ratios

- There are many ratios you can calculate in your business.
- Watch trends. Compare months and years to see if things are improving, decreasing, or staying consistent.
 - Recommend a minimum of 3 years for trend analysis.
- How do you think you can use this in your business?

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Industry Information

- Every industry is different, so when analyzing your business, it is best to compare yourself with your local and national competitors.
- What do you do well?
- What areas could you improve on?
- See additional handout for review.

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Working with Accountants

- Remember that you are the customer and they work for you!
 - Interview them – don't be afraid to ask them any question you have.
 - Get referrals and call them.
 - Ask those business owners what they “wish” they were getting from the accountant (that they are not) .
 - Don't hide anything from your accountant – they can't give you professional advice without the full picture.
 - Follow their recommendations.
 - Don't change professionals randomly, but do change if you are not receiving good advice.

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Review Questions

1. T/F - Profit and Cash are the same thing.
2. T/F - The Balance Sheet Equation is Assets + Equity = Liabilities.
3. T/F - Gross Profit and Net Profit are the same thing.
4. T/F – Budgeting is a key financial process that provides your business a map for upcoming periods of time.

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Review Questions

5. T/F – Rent is considered a direct cost for a construction company.
6. T/F – Equipment valued at less than \$500 is considered an operating expense.
7. T/F – Purchasing a vehicle increases my assets.
8. T/F – Budgeting should be done on a month by month, line item by line item basis.

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Review Questions

9. T/F – I should interview my accountant prior to hiring them.
10. T/F – My accountant is ultimately liable with the government if they make a mistake, not me.
11. T/F – Payroll for my framers is considered a cost of goods/services sold.

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Review Questions

12. T/F – Reconciling bank and credit card accounts should be done monthly as part of my accounting process.
13. T/F – I only need to visit with my tax professional during the first quarter of the year.
14. T/F – To calculate the current ratio, you take your current debt and divide by your accounts receivable.
15. T/F – I should just let my accountant do my bookkeeping for me at year end.

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Review Questions

16. T/F – Comparing my ratios with others in my industry can provide insights on my company's efficiencies and profitability.
17. T/F – Assets include loans from my bank.
18. T/F – Accounts Receivable is an asset.
19. T/F – My personal and business checking accounts should be separate.
20. T/F – When I make a loan payment, the amount is recorded to interest expense and loan principal.

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Action Items



- List 3 action items for yourself.
 - 1.
 - 2.
 - 3.



Thank you!

This concludes the American Institute of Architects
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Any Questions?

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