



HINTONBURDICK
CPAs & ADVISORS

Financial Responsibility for Contractors

Part 2: Finance Fundamentals

Office Locations

Richfield, UT
Cedar City, UT
St George, UT
Mesquite, NV
Gilbert, AZ

Presented by

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Learning Objectives:

- Effective recordkeeping (basic bookkeeping)
- How to read/interpret financial statements
- Cash flow principles and best practices
- Measure the financial health of your company using information collected through recordkeeping

RECORDKEEPING



Why Keep Records?

- Define deductions/reduce tax obligations
- Prepare tax returns
- Prepare financial reports
- Accessible info in the event of an audit
- Make better business decisions
- Plan for tax withholdings and payments
- Provide info for loans
- Monitor growth and progress

What records to keep:

- Cash register tape
- Bank deposit slips
- Receipt books
- Invoices
- Credit card charge slips
- 1099 forms
- Real estate closing statements

How long to retain records:

- In general, keep all payroll (W-4, W-2, 1099), tax, property, bank and invoices for 3 years after the IRS Statute of Limitations expires; **HOWEVER**, if you underreported income and or expenses in excess of 25%, the statute can be expanded another three years, totaling 6 years
- Personnel and employment records – 1 year

Methods of Accounting

- **Cash Basis** of Accounting: Income and expenses are recorded in the period they are received/expended
- **Accrual Basis** of Accounting: Revenues must be matched to expenses. Transactions are measured when events take place as opposed to when cash changes hands.
- If you have gross receipts in excess of a certain threshold, then you could be required to use the accrual basis of accounting.

Chart of Accounts

1000 Current Assets

- 1010 Cash
- 1030 Payroll Cash
- 1050 Petty Cash
- 1210 Accounts Receivable
- 1310 Inventory
- 1410 Supplies
- 1510 Prepaid Insurance

2000 Liabilities and Owners' Equity

- 2010 Notes Payable
- 2110 Accounts Payable
- 2210 Wages Payable
- 2410 Interest Payable

3000 Revenues, Sales, and Cost of Sales

- 3010 Sales, Developed Lots
- 3020 Sales, Raw Land
- 3130 Sales, Speculative Single Family
- 3150 Sales, Custom Single Family
- 3510 Cost of Sales, Developed Lots
- 3520 Cost of Sales, Raw Land
- 3530 Cost of Sales, Speculative Single Family

- 3550 Cost of Sales, Custom Single Family
- 3800 Direct Labor
- 3810 Labor Burden
- 3820 Building Material
- 3830 Trade Contractors
- 3840 Design Fees 9

4000 Indirect Construction Costs

- 4010 Superintendents
- 4020 Project Manager
- 4030 Estimating Department
- 4040 Warranty Department
- 4110 Payroll Taxes
- 4120 Workers Compensation Insurance
- 4130 Health Insurance
- 4140 Retirement Plan
- 4210 Construction Vehicles
- 4220 Travel
- 4230 Customer Entertainment
- 4240 Training and Education
- 4310 Rent Construction Equipment

- 4400 Expense for Marinating Unsold Units
- 4500 Depreciation Expenses

5000 Financing Expenses

- 5010 Interest on Credit Line
- 5020 Interest on Notes Payable
- 5110 Points and Fees
- 5120 Appraisals
- 5310 Closing costs
- 5320 Title and Recording Fees

6000 Sales and Marketing Expenses

- 6000 Sales Salaries and Commissions
- 6100 Sales Payroll Taxes and Benefits
- 6200 Sales Office Expenses
- 6300 Advertising and Sales Promotion

7000 General and Administrative Expenses

- 7010 Salaries, Owner
- 7020 Salaries, Management
- 7030 Salaries and Wages, Office and Clerical
- 7100 Payroll Taxes
- 7200 Office Expenses
- 7300 Office Equipment Expenses

FINANCIAL REPORTS

- Balance Sheet
- Income Statement (Profit & Loss)
- Statement of Cash Flows

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**"Our financial report stinks so bad, when
I brought it home, my dog rolled on it!"**

Income Statement

Company Name
Income Statement
For the year ended December 31, 20XX

Sales		\$	100,000	
Cost of Goods Sold		\$	<u>75,000</u>	
	Gross Profit	\$	<u>25,000</u>	
Operating Expenses				
Selling Expenses				
Advertising Expense	\$	2,000		
Commissions Expense	\$	<u>5,000</u>	\$	7,000
Administrative Expenses				
Office Supplies Expense	\$	3,500		
Office Equipment Expense	\$	<u>2,500</u>	\$	<u>6,000</u>
Total Operating Expenses			\$	<u><u>13,000</u></u>
Operating Income		\$	<u>12,000</u>	
		\$	<u><u>5,000</u></u>	
Non-operating or other				
Interest Revenues				
Gain on sale of investments		\$	3,000	
Interest Expense		\$	(500)	
Loss from Lawsuit		\$	<u>(1,500)</u>	
	Total non-operating	\$	<u><u>6,000</u></u>	
Net Income		\$	<u><u>18,000</u></u>	

Cash Flow Statement

Company Name
Cash Flow Statement
For the year ended in 20XX

Cash Flow From Operations	
Net Income*	\$200
Additions (Sources of Cash)	
Depreciation	\$100
Increase in Accounts Payable	\$30
Increases in Accrued Income Taxes	\$10
Subtractions (Uses of cash)	
Increases in Accounts Receivable	(150)
Increases in Inventory	<u>(25)</u>
Net Cash Flow From Operations	\$165
Cash Flow from Investing Activities	
Equipment	(400)
Cash Flow Associated with Financing	
Activities Notes Payable	<u>\$30</u>
Net Changing in Cash	(205)

Statement of Owners Equity

Company Name
Owners Equity Statement
For the year ended in 20XX (In thousands)

John Doe, Capital, January 1 20XX.....	\$	54,000
Net Income for the year.....	\$	18,000
Withdrawals.....	\$	(16,000)
John Doe, Capital, December 31 20XX.....		<u>\$56,000</u>

INVOICING

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**“The word ‘invoice’ is too soft and friendly.
We need a new word that means ‘pay up or die’.”**

Profit Analysis

- Gross profit margin = gross profit/total revenue measures how efficiently management used labor and supplies to complete a project
- Contribution margin = (product revenue - product variable costs)/product revenue measure the percentage available to contribute to covering fixed costs used to measure gross profitability of a single product
- Break even point = fixed cost/contribution margin calculates the sales needed for income to meet the costs associated with production
- Target profit = (fixed cost + target profit)/contribution margin calculates the sales needed to reach a desired profit amount

Ratios

Ratios are used to assess the financial health of their company

- Current ratio = current assets/current liabilities measures a company's ability to pay off short-term obligations
- Debt ratio = total assets/total liabilities measures how much debt a company carries
- Return on assets = net profit/total assets measures a company's ability to generate profits

...and don't forget your insurance





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