

Are You Financially Healthy?

by Cheri Tomberlin, CPA



Are you fat? Are you overweight? Is there a lot of excess in your bottom line? I am not talking about your eating habits or your physical weight but your working capital (current assets - current liabilities).

Some of the responses I have received when asked, "What is your financial health?" have been as follows:

1. Great! I just bought a new ski boat this month;
2. Awesome, I just bought a new BMW this month;
3. Incredible, I just built a \$2.5 million dollar home for only \$400,000 because I traded out the rest of it.

Congratulations to all of you in the construction industry who have been able to boast such purchases and successes. My hats off to you!! But now, let's get serious about your financial health. Do you have enough working capital to get bonded. What if that big check from your developer did not come as expected, could you make payroll for the next week, or better yet, the next month? Have you ever asked yourself, where does all the money go?

Let's be honest, many of you really don't know where the cash has gone. Sure you are working hard, but there never seems to be enough cash. However, through pro-active management and regular monthly review of your financial statements you can monitor where your money is going.

The biggest offender to any bottom line in construction is the payroll. Take the time to look at what payroll costs on a per job basis. Also, look at the percentage of payroll to gross revenue. By a detailed review of payroll, you can determine if: a) you are bidding enough for a job, and b) your employees are stealing from you. Depending upon your industry, payroll should be a standard percentage and your company's percentage should fall within in it

The second biggest offender to any bottom line is you. When you perform trade work for your personal residence or commercial building, do not forget that you are expensing materials and labor, for which you are not receiving any cash (income). If you are financially healthy, it is not a problem, but too many trade deals will bleed your company of its cash (working capital).

If you want to trim the fat in your company and have a lot of excess in your bottom line, take the time to read and analyze your financial reports. Most accounting software packages allow you to run job cost reports that will include the job labor cost percentages. Additionally, profit and loss reports by percentage to revenue can be run, as well.

Maintain a minimum of a 2 to 1 working capital ratio at all times. If you fall below this ratio, you may have some fat to trim in your company. Remember, to not let the excesses of the construction industry make you lazy and allow the fat to accumulate in your business. Keep your expenses lean and take the time to focus on your bottom line.

*Cheri Tomberlin, CPA,
Goodecke Clark*

DCA Looking For Volunteers

Overheard at the World Volunteer Conference in response to the observation that volunteers are too often seen as amateurs: "Just remember: Noah's ark was built by amateurs and the Titanic was built by professionals."

The Desert Contractors is always looking for help with our various committees, currently we have positions available on the following committees:

Government/Legislative
(chairperson: Ken Phillips)

Public Relations/Marketing
Committee
(chairperson: Marc Homme)

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