



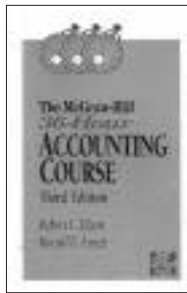
The Numbers Game

by Judith F. Miller



Accounting and Financial Management for Builders, Remodelers, and Developers by Emma Shinn (Home Builder Press, 3rd edition, 1993; 800/223-2665). Softcover, 8 1/2x11, 126 pages. \$25.

The McGraw-Hill 36-Hour Accounting Course by Robert Dixon and Harold Arnett (McGraw-Hill, 3rd edition, 1993; 212/512-2000). Softcover, 6x9, 456 pages. \$19.95.



Although a natural love of building inspires many carpenters to start their own companies, it is a forced marriage to bookkeeping and accounting that allows them to grow. I've seen more than a few excellent craftsmen bankrupted by their inability to comprehend financial statements. But anyone who can figure excavation quantities on a hillside site can easily calculate owner's equity or return on investment. All it takes is time and inclination, and either of the following books.

Accounting and Financial Management for Builders, Remodelers, and Developers, published by NAHB and now in its third edition, is the simplest and easiest-to-read book on the subject I've found in five years of teaching construction accounting.

While the second edition seemed more appropriate to developers, new sections for remodelers and custom builders have been added here. Chapter 13, "Tips for Remodelers," discusses how the general information presented in the rest of the book might be modified to fit the requirements of a remodeling company. The book even states that "because of the risk factor involved in ... many remodeling jobs,

the gross profit ratio should be significantly higher than in new construction." Heeding this piece of advice alone could more than pay for the book and the time invested in learning bookkeeping.

Author Emma Shinn, assuming no prior knowledge, leads the reader through simple discussions of basic accounting concepts, including the dreaded "accounting equation," the various financial statements, and a brief explanation of the "audit trail." Each concept is explained in less than a page and the entire chapter occupies only seven pages. This is simple, right-before-bed reading. Read a couple pages a day, and apply the basics to your company. No matter what stage of development your business is in, you and your company will benefit.

After explaining the basics, Shinn unravels the common confusion about cash vs. accrual accounting. She clarifies the meaning of accounting terms such as "revenues vs. cash," "expenses vs. costs," "profit vs. cash in bank," and "fixed vs. variable costs."

When you've read this far, you will be ready to set up a simple chart of accounts. Six detailed appendixes lay out good charts for builders with different needs. The "Basic Accounts for Small-Volume Builders" only requires 1 1/2 pages to list the needed accounts. Most small-volume builders, including remodelers, would probably use even fewer. The "Complete NAHB Chart of Accounts" requires 11 pages and includes a glossary explaining the meaning and use of each account title.

If you've already developed your bookkeeping and accounting systems to this level, you can skim the first four chapters and jump right into the rest of the book. While "Bookkeeping Procedures" and "Internal Control" might send some readers off to sleep, this information is critical to producing good reports. Without reliable reports, your analysis becomes mean-

ingless. The chapter "Overview of Job Cost Accounting" lays out a simple costing system to track progress against budget. Even if you use a computer program for this task, it is vital to understand the process.

Now you're ready for the truly fun parts of accounting — "Financial Analysis" and "Financial Planning." Analyzing the data provides a yardstick by which you can measure your success against others and against industry standards. Bankers use the same information to determine your financial strength. Ratio analysis, cash-flow analysis, and break-even analysis all provide valuable information. The chapter concludes with advice on ways to improve ratios.

Now that you've set up a system, pulled the numbers together and analyzed them, you can begin to plan the future of your company the same way you plan a job. The author provides schedules for forecasting each element of a financial plan. Unfortunately, though, she did not include a sample plan for our review. In reading the last page of the book, however, I noticed that Home Builder Press recently published *Your Business Plan: How to Create it, How to Use it*. Obviously the coverage in this book was minimal for a reason.

Beyond Basics

If you feel comfortable with the basic information presented above and want to better understand the nuances of accounting, or if you prefer a more structured approach to the subject, try this next book.

The McGraw-Hill 36-Hour Accounting Course is pure gold. Although not written for builders, authors Dixon and Arnett dig deeply into the subject in a straightforward step-by-step manner. They are well aware of the negative press accounting gets and are determined that their readers "suffer" as little as possible. They have set up a "self-study" process that includes examples and tests at the end of most chapters. It aims to "quickly and effectively paint the big picture" in 36 hours of assignments, and it assumes "zero knowledge of the accounting process at the outset."

This text explains accounting terminology and functions better than the NAHB book. But it doesn't tie

those functions specifically to the builder's office. Still, reading only the first seven of the 22 chapters should be enough to provide most builders with a more sophisticated point of view about their finances. The authors write in a conversational style that makes the book fun to read. In discussing the concept of T accounts, for example, the authors ask, "Now how do we use this gadget?" Throughout the book they rely on uncommon definitions of old vocabulary and manage to keep the subject lively and relevant.

The chapters "The Balance Sheet" and "The Income Statement" lay out the functions of these reports in great detail. This book also explains common misconceptions of both.

Other chapters on working capital and cash flow provide information valuable to builders of any size. The Cash Budget Form tracks monthly cash requirements, including the maintenance of a minimum bank balance. Using this form regularly would reduce the bounced-check fees that many growing builders pay. The Cash Flow Statement addresses the question asked by many builders: "If I make all this money, why isn't it in my checking account?" The other question I often hear is, "If I lost all this money, why is there money in my checking account?" This book answers both.

Although a brief discussion of "leverage" in the chapter on Long-Term Debt might be of interest to builders, many of the remaining chapters focus on the concerns of larger corporations with many departments. This book is more suited to the larger builder involved mainly in financial planning and long-term strategy.

If you are looking for an introduction to accounting for builders, or if you're looking for an introduction to financial analysis for builders, read the NAHB book first. But if you have even a slight perverse interest in understanding the complex beauty of the accountant's world, take the *36-Hour Accounting Course* and study hard. You'll reap great rewards. ■
Judith F. Miller consults with builders in Oakland, Calif., about accounting, financial management, computerization, and office procedures.