BY MELANIE HODGDON

Strategic Bookkeeping

So much information, so little time. Most accounting software can spit out a ton of reports, but the challenge is to figure out what's useful and what's not. No contractor in business today can waste time looking at a bunch of irrelevant clutter. At the same time, there are some key bookkeeping activities that need to be performed each month. Delaying those activities will only make tracking your finances more difficult—and you'll end up wasting even more time straightening out your books just to meet payroll, pay taxes, and figure out what jobs actually cost so you can price them accurately.

FOCUS ON WHAT'S USEFUL

It took one of my clients four days each month to "close" the previous month. The owner was frustrated that he had to wait until a week into the following month before he could look at a report that his staff considered accurate. In addition, some time-consuming practices weren't even yielding useful results. I requested a list of month-end activities, which the owner, office staff, and I reviewed to determine what needed to be done, what could be streamlined, and what could be eliminated. The following activities are from that list; included are comments about their usefulness to this particular company, along with the decisions reached by this company.

Reconcile bank statements. Do as soon as the statement arrives to keep your cash balance accurate and to identify transactions that don't belong to you.

Reconcile credit-card statements. Do as soon as the statement arrives to verify that all costs have been captured.

Reconcile lines of credit. Do as soon as the statement arrives. It's a good idea to review your balance. If you have an arrangement with the bank to automatically transfer monies between your credit line and bank accounts, it's critical to correctly track those auto transfers.

Reconcile loans. Make a single adjusting entry at year end. If you have an amortization schedule and record the split between principal and interest for each payment, then the principal balance should be accurate at year end and not require reconciling. But many companies don't have easy access to the breakdown for each payment; in that case, most simply record payments as 100% principal and make a single adjustment at year end to account for interest. It's important to know that this strategy results in understated interest expense on the profit and loss and an artificially low loan balance on the balance sheet until the adjustment has been made. So you need to take that into account when deciding whether or not it's worth the extra effort for your company to reconcile to exact balances each month.

Record depreciation. Automate because depreciation figures are the same each month. But any new capital purchases will require the monthly amount to be modified. For some companies, that's an automated process; if it needs to be manually calculated and entered, most companies wait until year end and get the figures from their accountant. If you do wait until the end of the year to make an adjustment, you will be "missing" depreciation expense on the profit and loss all year, and the value of your fixed assets will be overstated on the balance sheet. How critical that is depends on how big a chunk depreciation is of your overhead.

Review accounts receivable. Do at month end. Your A/R should be current; that is, if you have payments that are more than 30 days overdue, you shouldn't still be working on those projects! It's easy to lose track of who owes you what when the focus is on production. Review your aging accounts receivable at least monthly and chase down late payers. This is the simplest way to keep your cash flow healthy.

Review accounts payable. Do at month end. If you want good service from your subs and suppliers, you need to keep them happy by paying promptly. And if they offer a prompt-pay discount, you're putting money in your pocket every time you get that discount, so pay attention.

If you have credits with a vendor that you don't intend to purchase from in the near future, ask for a refund check; that's more cash in your pocket.

Review open purchase orders. Do regularly each month, but not necessarily at the end of the month. If you use POs, check them to get a sense of what additional costs can be expected for each job.

Be sure payroll liabilities are paid up. Do following each pay period and be sure you pay the correct amount each period. You don't need to have the federal or state government mad at you; penalties for failure to pay and for paying late are stiff. When faced with a choice of paying the government or paying their electrical sub, many companies make the mistake of paying the sub and letting the payroll stuff slide. This will come back and bite you. Pay the payroll taxes even if you have to draw on your line of credit; penalties on late tax payments will almost always exceed interest on credit lines.

Don't print reports. Discontinue printed reports and replace them with memorized groups of custom reports for each interested party to access. Printed reports are static; that is, you can look at a number but can't get behind it to see what's there. If something looks funny, you need to either go back into the software and run the report yourself, or ask office staff to research it. Both are time-consuming.

The same drawback is true for emailed reports (which are also static), though at least some software, such as the 2017 desktop version of QuickBooks (disclosure: I'm a QuickBooks ProAdvisor), allows you to schedule sets of reports to be automatically emailed to designated recipients.

The most efficient approach by far is to generate a list of useful reports and then have owners or CFOs open and review the reports live in the software.

Finally, there's no point in creating reports that won't be looked at. The bookkeeping staff and owner or CFO should agree on what reports will be reviewed each month or quarter, and in what form the reports should be shared or transmitted.

Review subcontractor insurance expirations. Do regularly each month but not necessarily at the end of the month. The Contractor version of QuickBooks will warn you when a sub's insurance has expired, but it's more valuable to look ahead so you can be sure to get copies of the renewed certificates in good time. Create a report that will list upcoming expiration dates and monitor it each month to stay on top of things.

Review financial reports, including the profit and loss and the balance sheet. Include as part of the set of reports for review; agree on a date by which reports are deemed to be complete. It's only useful to view these reports when the information is current. Look at achieved margins and compare the current month with the year-to-date figures, or the equivalent month last year. Look for trends.

Review job-cost reports. Review weekly if practical. For ongoing jobs, these should probably be reviewed weekly, as long as costs are being entered promptly. Again, there's no point in looking at a report with incomplete data, because any conclusions you draw will be inaccurate. On the other hand, waiting too long between reviews may prevent you from spotting something amiss or knowing about a change order.

Review jobs in progress and close when appropriate. Review briefly each week to determine which projects are nearing completion. The company should establish processes for starting jobs and closing jobs. Criteria should be set up to define exactly when a job is truly done: When the guys leave the site? When the last bill is paid? When payroll has been processed for the last punch-list activity? When the final payment is received?

Once the criteria are established, jobs should be reviewed and, if they meet the criteria, they should be closed. The closing process may vary from company to company, but simple things such as making the job inactive so your list of projects isn't cluttered by old work, confirming that contract price jobs have been invoiced in full, and checking achieved gross margin for the calculation of profit sharing are all potential activities.

MAKING THIS WORK

The key is to not waste time doing anything that fails to contribute to useful information. If nobody cares about a particular report, generating, printing, and distributing it are a waste of time (and paper).

While many of these activities occur at monthly intervals, not all must occur at month's end. For example, your bank account statement may end on the last day of the month, but your credit card statement may run from the 15th to the 14th. Reconciling should occur immediately after you receive a statement. You may want to review subcontractors' insurance expirations on the 20th of the month instead of waiting for month end, so you don't end up doing a whole bunch of once-a-month tasks on the last day of the month. You should always confirm your payroll liability payments are correct every time you make them.

Consider putting together a list of tasks to be completed on a daily, weekly, monthly, quarterly, and annual basis so you don't miss stuff or fall behind. Create and stick to a plan that lists required tasks (like paying taxes); critical tasks (like reviewing financials and job-cost reports); and efficient tasks (such as getting a jump on soon-to-expire insurance certificates). This way you can spread the load out to manageable levels, avoid wasting time viewing distracting information, focus on key information, and hopefully reduce your stress considerably.

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