HOW TO HARDSCAPE

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Importance of Knowing Your Numbers

Know your numbers. It is probably the most overused yet underrated saying in owning and operating your own business, especially in contracting. There is definitely a reason why it is used so frequently. Contractors typically do not go out of business because of a lack of work. They go out of business because they do not know the financial aspects of their business.

Budgeting is the first step in knowing your numbers followed by estimating and quoting appropriately for a project. What follows this is even more important to operating a successful business. This is the bookkeeping and accounting practices that allow you to deconstruct aspects of your business and identify areas that need to improve and can become more efficient.

Following job costing practices will allow you to discover where you are losing money on a specific project and allow you to recalculate and readjust for future projects or to even make a business decision such as purchasing a piece of equipment or hiring a new employee.

Proper bookkeeping is what allows you to job cost accurately and follow accounting practices to formulate and dissect a Profit and Loss Statement / Income Statement or a Balance Sheet. These statements will help you to zoom out on your business and make decisions on the health and wellbeing of your business. You can then adjust your budget as necessary and ensure the success of your business. It all starts with knowing your numbers.

Data is the most crucial part of knowing your numbers. Having data allows you to create forecasts and compare the actual data to those forecasts and make adjustments along the way. This could be as simple as having your budget history as data to compare each year / season to the next in order to make a sales forecast based on the previous year’s numbers. This could also be note taking in the field in order to ensure you are hitting the estimated hours for a project.

The importance of having this data cannot be understated. Whether you are taking physical or digital notes in the field, using a spreadsheet, or you have a software that helps you track this, ensure that you are taking the time to take those notes. Break every part of a project down by the different steps and take notes on how many people were on the job and how many hours it took them to do a specified number of square feet. File that note away. This will help you create a production rate for future estimates or quotes. The more data you have on each step of the process, the more accurate you can get with having an average production rate for each step of the process to quote from.

Any cost that comes from the field needs to be properly labeled and filed as to who purchased it, the date they purchased it, and what job it is associated with. This will help in the job costing process, along with your own bookkeeping.

Ensure that your data is accurate when dealing with inputting expenses into a budget. Monthly payments, yearly costs, whatever it may be, accuracy is crucial to creating reports in your business that will lead to business decisions that will shape your business.

Job Costing

Job costing is an accounting method in which actual numbers are compared to the estimated or quoted numbers. It is a retrospective accounting system that allows you to compare how your estimate or quote performed in reality.

Job costing for construction is a necessity. It helps you understand further about your numbers and adjust as you progress. It allows you to look at each variable of your quote or estimate and to see what went wrong and what went right.

For example, if you budgeted a certain amount of man hours for your project but it took 10% more to complete the project and this reoccurs on project after project, evidently your man hour estimating or your production rates are slightly off. Or you may not be factoring in something to your quotes like the drive to and from a job site.

Construction job costing is vital to the ongoing success of your business. Being able to properly calculate an estimate or quote is important. But being able to use a system that allows you to judge where your quotes are off in their calculations or where you can improve on your estimating, this is where you can really improve your business.

Job costing in construction involves precise record keeping in the field. The larger the project and the more people involved, the more complex it becomes. However, if you have the proper systems in place you should have no problem implementing job costing into your business.

Characteristics of Job Costing

The various characteristics of job costing are easy to implement in your business with some organization and a little coordination among your foreman, office staff, and yourself. It is important that you create a system for this that is easy for all to buy in to and support as you continue to evolve this part of your business.

Once you have a quote or estimate created, you should keep a copy of that available to you and recorded somewhere so that you are prepared when the client decides to proceed with your services. It seems obvious, but having a Google Sheet or Excel File for each of your quotes with a consistent title for each file like the last name or address of the customer and date it was created and put into a folder for each month or week of the year. That way you can reference the date it was created or even simply type the name or address into the search bar to find the quote or estimate. This took me a while to figure out in my business because organization is not my strong suit, but once I created a simple system for this it became much easier.

This is also great for recalling the quote in the future to be able to complete the job costing process. Along with this system, you should also create a consistent system for how you are going to keep records for the receipts in the field. A lot of vendors allow you to add a job name or number onto the receipt or order of your invoice. This allows you to create a name or number for that specific job that you can then add to the quote or estimate. From this quote or estimate, you can create a project description that includes the layout, notes, and any other important information for your foreman. From this, the foreman will know all of the information he needs for the project and the job name or number that they are to stamp on every receipt or invoice that they receive for that specific project.

In addition to keeping track of all of the receipts and invoices from the field, the foreman should also be keeping track of time for each task on the job site. If your foreman is not used to doing this, perhaps you will want to ease them into time tracking. You can be extremely fine with your numbers and measure how long it takes you to prepare in the mornings at the shop, how long it takes you to unpack at the job site and get started on the first task, how long each of the job site tasks takes you, and how long cleanup and pack down at the shop takes you.

This is a lot of note taking for a foreman that has never done this before. However, for the most part these numbers are for your production rates and efficiency factor that we discussed. What your foreman should be reporting on for each project is the people present each day on the job site and the amount of hours they were clocked in for. This is the information that is important to your job costing. You need to know how much it costs you for your labor in total from clock-in to clock-out for that project and who is included in that.

This not only affects your labor costs, but also your overhead expenses for that project. How many hours you spend on that project has a direct effect on how much money you spent on your overhead expenses. Remember that overhead expenses are the obvious and less obvious expenses from equipment to marketing and business operations costs that cost you money and are not specific to one project.

With all of this information that can be recorded in the field and added to a folder whether digitally or physically, the foreman can submit it at the end of the day, week, month, or at the end of the project. That way the office or yourself as the owner can input these numbers and compare them to your quoted or estimated numbers and see what went right and what went wrong in your estimate. You can see what your projected profit was calculated as and what it ended up being. You can see if your labor, materials, or overhead expenses cost you more or less than expected.

This is why job costing is so important to your business and why it is so effective to construction companies. Really any company that is sending out quotes and estimates to their clients will benefit from the implementation of this job costing strategy.

Objectives of Job Costing

As we stated, the objectives of job costing are simple. We want to know how our actual numbers compare to our quoted or estimated numbers. This reflection will help us improve our quoting and estimating process or even to identify something in our business that needs to be improved on.

For example, we can look at our labor costs and see if they cost us more or less compared to the estimated amount. If they were more or less, we can begin to discuss further why that was. Maybe one of the laborers missed a couple of days on the project because they were sick which allowed us to save money on the labor portion because they are not a skilled worker thus making us more efficient on site. Maybe that employee is the weak link of the crew. Perhaps the project cost us more in labor because we underestimated the amount of time it would take us to complete the project. Maybe we should be looking into improving our on-site efficiency by purchasing a piece of equipment.

Overhead expenses and labor costs will be very closely linked, but in our overhead expenses we can look into what equipment is being used on a daily basis and which ones are not. Perhaps there is a piece of equipment that just is not getting used and we could benefit from selling it and renting it when we need to. This also has tax benefits as rentals are inputted in the cost of sale of the job rather than being a depreciating asset that you will never see full value for financially.

You can also identify your material costs and see how your estimating was. If you needed to get more materials, then perhaps your measuring was off. If this is a recurring theme, you will need to address it by ordering a certain percentage more than what you measure. This can also have effects on your labor time as somebody has to leave the site to pick up more materials and drive back to the site.

Finally, and most importantly, you can see what your actual profit was for the project. What did your business earn from this project after all of the costs are taken into factor? What did you think your profit was going to be on this project? This is important to the future success of your business.

Advantages of Job Costing

There are several job costing advantages to you and your business. There is no doubt in our minds that if you are not yet using this system in your business, you should be considering implementing it or already be working on a strategy to get everyone on your team on board with this process of record keeping and comparing your numbers.

1. Record Keeping

Not only is this a good business practice that you and your crew should be getting used to, it will provide you with very important data over time in how you can be improving your business. Record keeping is just the first step to job costing, but it is also the first step to open a lot of doors in your business. It took me a long time in my business to stop thinking that it was just a waste of time. However, when I started to keep records my business became much easier to manage with my production rates, job costing, and other systems that evolved from the data that I was able to collect.

2. Adjustments

This is the best part of job costing. You can identify what is going right and what is going wrong in your business. Where does your business need to improve or where do you need to improve in your estimating and quoting. Do you need to order a percentage more in your products so that it is available on the job site? Are you spending more time on a job site than you should be? You can then ask the foreman what happened and you can identify what were the mistakes that were made on the job site and how they can be prevented in the future. There is an endless amount of things that can be adjusted in your business from job costing.

3. Profitability

Of course the biggest advantage to implementing job costing into your business is to know that you are profitable. Not midway through the year or at the end of the year which can be a shock for some, but from project to project you can know how your business is doing and you can adjust your future estimates accordingly. This way there are no surprises during the season or at the end.

Calculating Job Costing

Calculating job costing is as simple as comparing your quoted or estimated numbers that you sent to your client to the actual numbers at the end of a project. Having records of the expenses from the entire project is key to adding up the material costs, as well as records of the amount of hours for each crew member and total time on project are important in calculating your labor cost and overhead expenses.

When you are calculating your quote or estimate, you should be considering a few things:

1. Material Costs / Cost of Sales
2. Labor Costs
3. Overhead Costs
4. Profit

The job costing calculation involves adding up the same numbers that it actually cost your business to complete the project and comparing again the quoted or estimated numbers. There is no job costing formula. Knowing how to calculate job costing is as simple as adding and subtracting. Maybe a little multiplication and division if you are quoting and estimating.

Rent vs Own

When it comes to scaling your business and becoming more efficient in the field, equipment plays a major role. Especially as the labor shortage worsens, equipment holds a very important place in any construction business. There are pieces of equipment that should be on every single project, but it can be difficult to accomplish that when you are just starting out in business. Where would you possibly come up with a significant amount of money especially if you are debt adverse or do not have the ability to take on debt.

Well, an important aspect of beginning a business is being able to use what is available to you. Renting is the answer there and comes with an amazing advantage for a business owner. When the time comes that you are able to own, then you will have a significant amount of experience with various types of equipment to make a decision on what exact model you will purchase.

So, how do you know when the time is right to purchase a piece of equipment? It is all in the numbers. To know what to look for in your business, it is important that we discuss the advantages and disadvantages of owning and renting in your business. From there, we can look at your position to decide whether or not to purchase a piece of equipment.

Owning Construction Equipment

When it comes to purchasing a piece of equipment, here in Ontario anything over $500 is classified as a depreciating asset and therefore not 100% deductible on that first year. That means any piece of equipment under $500 is an easy purchase for us in terms of equipment. This is a very limited number of pieces of equipment that fall into that category, mostly these are just power tools. But it is important to separate why we make the decisions in our business. For this reason, we have a budget for tools under $500 each year that is based on our previous year's tool expenses. This helps ensure that we are recouping those costs year in and year out in our estimating process.

When purchasing a piece of equipment, it becomes an Overhead Expense. This means that no matter whether or not it is being used on a job site, whether or not you are operating that work day, that machine is costing you money. How much does it cost you exactly? Much more than that price tag on the machine.

Total Cost of Ownership

For the machine itself:

((Cost of the Machine - Resale Value) ➗ Estimated Years of Use) ➗ (Weeks per Season ➗ Working Days per Week) =
Machine Cost per Day

This cost should be included into each day of a quote whether or not that machine is going to be used on that project. Otherwise this money is coming out of your pocket each and every day. This is why as your business scales up, you price yourself out of smaller projects that may have helped you get started. This is why you need to have conviction that you are ready as a business to take on larger scale projects as you purchase more equipment.

Now you need to factor in other costs that come with owning a piece of equipment. These are the hidden costs that often get overlooked when it comes to purchasing your first piece of equipment. These include:

Owning and Operating Cost of Construction Equipment

1. Maintenance

Maintenance is going to have to happen on an ongoing basis and before purchasing your machine you should have a good idea of what you are going to need to maintain on an ongoing basis and to be able to calculate that as a yearly cost. This includes materials required to maintain and possibly repair the equipment from greasing to replacing tracks or pumping up wheels.

2. Transportation

Transportation is one that will vary as you purchase more equipment. For your first piece of equipment, it may mean an added upfront cost of purchasing a trailer to be able to transport it. If a trailer is already owned by the business and there is no upfront investment into a new one because the new piece of equipment can be added on to the trailer, then this will save that trailer investment. However, there should be an added cost included for breakdowns in transportation, flat tires, and maintenance on the trailer.

3. Down Time

Down time is any time that machine breaks down and needs to be repaired either on site or off site. If it is on site and can be repaired by any of your crew members, then this will save you the cost of transportation but will cost you a loss of time by those crew members involved in the repair on that project. If the machine needs to be transported off site for repairs, you are out the cost of the transportation as well as the added cost of renting a machine to replace it or added time in labor on the project to complete more labor intensive work.

4. Labor

Labor came up a lot when discussing down time, and it is most definitely an added cost of the equipment when it goes down. It is also an added cost in transporting that machine from job site to job site or picking it up at the shop in the morning and taking it to the job site. It is most definitely an added cost in maintaining that piece of equipment as well and should not be missed when calculating the cost of ownership. Never discount your own time. For example, do not say that you as the owner are going to maintain the machine yourself on the weekend and that will save you the cost of labor. By doing this, you are working for free and discounting your own value. Rather factor in the cost of somebody on your crew that can be taught how to maintain the machine and what their hourly rate is.

5. Storage

Storage much like transportation depends on whether or not you already own or rent space to store the equipment. Regardless, that space that the machine takes up should be calculated into the cost of ownership. Does it take up 5% of the yard space that you have available whether you store it at your house or off-site, then that should be calculated against the rent that you are paying to factor into the cost of ownership of the machine. Are you having to rent out a small storage space just for the machine itself? Then that is the full cost of that storage space.

6. Insurance

Insurance is a costly expense that should not be forgotten when calculating the cost of ownership. Contact your insurance company and ask them how much it would cost to insure the piece of equipment prior to purchasing in order to get this number to add it to your calculation. This will differ from region to region and company to company. Potential theft is something that should be considered as well and should be considered under the insurance category of ownership as this will likely impact your insurance and is a real possibility.

7. Fuel

Fuel is that final expense you should calculate in regards to how much that machine is going to be used and how much fuel usage it will cost in terms of the full year or season of use.

If you add all of these expenses up, you now have your full cost of ownership for that machine which can be calculated on a yearly basis to be able to decide if owning a piece of equipment is worth it to you and your business at the current point in time in your business. It may not make sense to purchase a piece of equipment today in your business, but maybe next year it will. This comparison of cost should be done each year in your business, comparing the numbers from last year renting to the cost of ownership in order to decide whether it is a financially sound decision to purchase that machine. This takes all of the emotion out of purchasing the equipment. It's no longer you saying I want that, but you saying I need that because it is going to be cheaper for my business to own rather than rent.

Advantages of Owning Construction Equipment

There are obvious advantages in owning a piece of equipment in your business. For one, it is an asset to your business. Something that you own that is something you can resell at any point given there is a demand for the machine. It is also convenient to own equipment as you are no longer having to go pick up equipment from the rental shop or having to worry about whether or not it is going to be delivered. And if you are still working by hand, the convenience of having a machine is the improvement in efficiency and professionalism that it will add to your business with the ownership that comes with that machine.

Disadvantages of Owning Construction Equipment

The disadvantage is that it is a depreciating asset. Each year, that asset is losing value. It is not like purchasing land for a shop that will appreciate in value. It is a tool that will slowly lose its value year after year. Additionally, the cost of ownership outlined above is a definite disadvantage. Something that needs to be considered before you purchase a piece of equipment to decide whether or not ownership is financially viable. And these costs should be added as overhead expenses for every project, otherwise you are paying out of pocket for these ownership costs. Not knowing how to price projects properly will kill your business if you purchase a piece of equipment. Additionally, not all of these costs of ownership are 100% deductible against your tax bill. A machine is allowed to depreciate against your tax bill, but the fuel your machine uses is 100% deductible (consult your accountant to confirm these deductions).

Finally, not having a use for every job is one problem with purchasing a specific piece of equipment. For example, if you only have the cash, space, or ability to purchase one piece of equipment, but your business does not have a use for that equipment for every project that you take on, you will price yourself out of projects that it does not have a use on. As you scale your business and become more specialized, your work will have to follow suit. So make sure that you are purchasing the right piece of equipment compared to the projects you are taking on or want to take on to grow your business.

Renting Construction Equipment

Renting is an excellent alternative to owning a piece of equipment and should not be discounted when considering how to grow your business. This alternative provides numerous advantages and the numbers speak for themselves if you compare the cost of ownership to renting. If renting comes out less costly year after year, then it is more financially viable for your business at that point in time to continue to rent.

Calculating the cost of renting is quite easy and begins with contacting a local renter and getting prices on the piece of equipment, delivery, and whether that includes insurance and what that insurance covers. Then, you will need to contact your insurance company to see whether or not they cover rental equipment to fill in where the rental company does not. This is the cost of your rental and can be priced in on a project to project basis with the addition of fuel. There is a risk of down time, but it is not your machine and the rental company will typically take care of that with minimal down time to you.

Advantages of Renting Construction Equipment

The first major advantage to renting equipment is that it is 100% deductible. This is because it is part of a cost of goods sold / material cost on each project that you are pricing it into. This includes the cost of rental and delivery (consult your accountant).

This is a major advantage compared to a depreciating asset on your books year in and out with ownership. Because you are pricing it into each project, it allows you to be flexible with the piece of equipment you are renting for each project. For example, some projects with tight access require small equipment which means less productivity, but if you have excellent access it makes sense to rent a larger machine to be more productive. This cannot be achieved with owning, unless you are purchasing numerous pieces of equipment. It also allows you to be flexible with the projects that you can take on. From the small projects to the large projects, you do not have the ownership costs of a machine on your books that you need to include in the overhead expenses of every project. There are less costs, less risk when it comes to getting it delivered and picked up, and allows you to get the right tool for the job on every project. You also get to try out a bunch of different models and brands to then choose the exact model that fits your business model and brand that you like when it comes to purchasing.

Disadvantages of Renting Construction Equipment

The disadvantages with renting equipment is that there is no ownership on your part of the business. You do not have that asset in your business, so there is no resale value to that machine. Also, there is an inconvenient aspect that comes with renting. Perhaps a certain piece of equipment is in high demand at your local dealer and you need to contact several companies to secure one. There may be an added logistical headache to ensuring that the machine is going to be on site when you want it to be much like the delivery of materials. It would be worthwhile when creating a relationship with a local renter to ask them what machines experience high demand at what times in the season and how much time in advance they need to know when you are renting it. This will allow you to plan in advance when renting to ensure you are going to get the machine you want.

Rent vs Own Equipment Analysis

To be able to compare renting to ownership, it is a matter of calculating the cost of ownership and comparing that to the cost of renting. This is going to differ from region to region, state to state, province to province as all of these costs will vary depending on where you live. For our example below, we are using made up numbers based on what was pulled from our local area and some that are estimates. However, the best way to do this is to use your data from the year prior in order to pull how much money you spent on rentals to compare it to what your estimates are on the cost of ownership and to weigh the differences.

Example Analysis:

(($50,000 Cost of Machine - $15,000 Resale Value) ➗ 5 Years of Use) ➗ (36 Weeks per Season x 5 Working Days per Week) =

= $7,000 Cost per Year ➗ 180 Working Days per Season
= $38.89 per Day

This is the cost ONLY for the price tag on the machine itself for this business that does 36 weeks per season. It is important to not overestimate the numbers of use you will get out of the machine or even the number of weeks and days per week you will work a season otherwise you will undercut yourself and not make the money back on the machine that you should.

If you compare this to the cost of rent of the same machine, ownership would make absolute sense as the same machine would likely rent out at a rate of $250 per day. However, this is where the additional costs of ownership come into play as well as being able to calculate how often you would need that machine. If you know you will need that machine every day, likely the numbers make sense to own. If you do not think you will be using it every day, then you are likely still in the renting category.

Maintenance = $1,500 per Season based on an estimated amount for the first 5 seasons of use.
Transportation = Cost of Trailer if not already owning and calculating the actual cost of the trailer per season similar to the formula above.
Down Time = $1,000 per Season based on an estimated amount for the first 5 seasons of use.
Labor = $2,700 per Season based on 90 hours or 30 minutes of maintenance per working day x hourly pay and labor burden rate.
Storage = $1,200 per Year based on an inexpensive storage option.
Insurance = $1,000 per Year based on 2% of the full cost of machine.
Fuel = $1,500 per Season as an estimated amount.

Total Cost of Ownership per Season
= $15,900
= $88.33 per Day + cost of a trailer if not already owned

Still in comparison to the daily rental rate, owning makes more sense. You can see how without this calculation of the true cost of ownership, it is necessary to really see how much that machine will cost you in a season. The cost of the machine actually more than doubled. Without including these costs in your Overhead Expenses, you are bleeding money and losing money on that machine.

Now, where renting makes more sense in the case of this machine is if you do not use that machine every day. At a cost of $88.33 per day, if you do not use that machine for three days straight it would have made more sense to just rent that machine. To simplify that, if you are not using a machine at least **2 out of 5** working days a week or more than **40%** of the time on site then it makes more sense to rent that machine instead of owning it. Not to mention the added tax benefits with renting as opposed to owning. And if you do not include all of these calculations and include them into your budget, then renting is definitely the way you should go because you know exactly how much that machine is costing you and how much to include in the quote.

One major hidden cost of ownership is the cost of growing your business. Purchasing a machine means that your business is growing and will require more work, more projects, and larger scale projects. This comes with an added expense of marketing if you do not necessarily have the word of mouth leads at the rate to which you can service. It also comes with the added cost of training employees on the machine which will add to your labor burden. These small costs are not calculated into the cost of ownership necessarily, but are costs that will sneak up on you if you do not consider all aspects of purchasing that new piece of equipment.

Renting however can lead to you not deciding to have a piece of equipment on site for smaller tasks that if you did own you would be using that equipment to do. Also, owning equipment or at least ensuring you are renting equipment when necessary for your crew shows that you are willing to invest into them and take the hard work out of their job as much as possible thus reducing the fatigue and wear and tear on them.

Additionally there may be a personal interest involved in owning a piece of equipment that should be considered. Some people may have always wanted to own a particular piece of equipment. There is no dollar value that can be attached to something like this and may make up the difference between renting and owning. There is nothing wrong with that, but it is still worth doing the rent and owning analysis described above. Alternatively, some people may be adverse to spending time maintaining machines or spending their employees hours to do so and renting is just too convenient to them for this reason to purchase.

It is also important to understand the space in the market to which your business occupies and where you want to grow your business. If you specialize in small projects or repairs, you likely do not have the use for a piece of equipment to where it makes financial sense for your business to own it. If you do purchase one, you are likely pricing yourself out of those smaller projects with the added expense of it. However, if you are currently servicing these smaller projects and want to grow towards the larger scale projects and you know that you can land those projects because you have already completed a couple and have built up a small portfolio to show future clients, perhaps it is beginning to make more sense for your to purchase a piece of equipment based on your rentals from the previous year.

Bookkeeping and Accounting

Bookkeeping is such an important practice to be able to analyze the financial well-being of your business. If you are not revisiting your financials on a regular basis throughout each quarter, then how do you know exactly how your business is doing? What profit have you earned on each job? How is the cash flow of your business?

I am a firm believer that you should have at least a small understanding of each aspect of your business whether or not you are outsourcing. This includes your craft, your subcontractor's work, marketing, and just as important as all of this your bookkeeping should be something you understand whether or not you are intending to outsource this to somebody else.

If you can have a good understanding of how to organize your finances within your business, how you can analyze the numbers in each of your accounts and within the different categories and subcategories, and how to run different reports within your business then you can really understand how you can grow and even shrink your business in various areas to grow your profits and become a well-oiled machine.

There are construction bookkeeping services that you can seek out, but you will want to know that they specialize in this type of bookkeeping as it is much different to most bookkeeping types that are taught in school as construction projects are all separate from one another and must be organized within the bookkeeping system that your business adopts.

Not only does your bookkeeper need to be on the same page, but so does every employee in the company that purchases materials or any job related expense. A system should be implemented and everybody should be trained on what they need to do when submitting receipts for purchases. These receipts should include a job name that the expense can be categorized under and a description of the materials that were purchased. This will help you keep all of these expenses organized and know whether or not projects are on track and profitable.

Before we continue discussing bookkeeping for independent contractors, there are some terms that we need to define.

Income / Revenue are generally interchangeable terms and refer to the total sales of your business from each contract that is completed and paid out to your business by the customer or client.

Expenses are the costs that the business incurs based on each job and for being a business. These can be job related like the cost of goods sold or business related like overhead expenses that may not be able to be tied to a specific project like rent.

Profit is the difference between **Income / Revenue** and **Expenses**. It is the money that is left over in the business and is the ultimate number that you should be concerned with above total sales or revenue.

Gross Profit is the profit left over after taking the **Income / Revenue** from a specific job and subtracting the **Expenses** that are specific to that project including the cost of goods sold and the labor involved in completing the project.

Net Profit takes the above one step further and subtracts the **Overhead Expenses** from the **Gross Profit** to provide you with your business Net Profit which is all of the money left over and what your business has generated.

Cash Flow is the money flowing in and out of your business. Having a positive cash flow is what is required to operate your business. Running short on money to meet certain bill payments is what will cause a business to go bankrupt. There are ways that you can improve cash flow during certain periods such as taking more upfront for a project or more frequent payments during a project. Another difficult cash flow period would be during the winter if a landscaping business does not continue their primary services. This is a time that businesses should be preparing for throughout the season to ensure they have enough money to float them through this slower time period or to provide other services during the winters in order to generate more revenue.

In terms of choosing a method of organizing your accounting, you can choose a **cash basis** or **accrual accounting** to document your numbers. Basically cash basis organizes your numbers when the money actually changes hands, whereas accrual documents these numbers when they happen. If something is put on account to be paid later, you can still document that in accrual accounting whether coming into or out of your account. For this reason, we prefer cash basis accounting in our business to document the different payments coming into our business when they actually are paid by customers and document the payments going out of our business when they actually go out of our business.

Accrual accounting provides a better big picture of your business, but cash basis accounting provides you a better picture of how much cash is in your bank accounts at any given period of time.

Whenever money changes hands, you should be documenting each of these transactions and labeling which job they are dedicated to if they are a cost of goods sold line item. If they are an overhead expense item, then it should be labeled in your bookkeeping system as such. The more you can categorize these transactions, the better it will be when you are evaluating the financial health of your business through statements and deciding how you can improve various aspects of your business moving forward.

There are some crucial financial statements that you should be running and analyzing on an ongoing basis in your business to ensure the financial stability and longevity of your business.

Construction Company Financial Statements

Construction financial statements are important to keep track of your business and evaluate where you can improve or double down on. The more you can become familiar with these statements, the more you can grow your business in the right areas and identify those areas that could be slimmed down or use some work. Inefficiencies can be identified and the next piece of equipment can be identified as well as where the money is coming from.

Whether you are going to outsource bookkeeping or not, it is crucial to your business success that you know and can analyze these financial statements for yourself as opposed to relying on somebody else's input into your business who may not quite understand everything about your industry and your business as a whole.

Profit and Loss / Income Statement

A profit and loss statement is an important financial report that you should be evaluating in your business on an ongoing basis. Simply it allows you to see the income and expenses of your business and how those are turned into profit. It helps you understand your cash flow during a specific period of time as well.

When comparing your profit and loss during different periods of time, you can identify time periods when you need to have a certain level of cash flow in order to get you through different periods. One of the most obvious examples of this would be a landscaping business that does not do any services during the winter time. Evidently these businesses would need to hold a certain amount of money in the business to be able to cover certain ongoing expenses through the winter time.

Another example of this would be to see certain periods of time in which you need to improve your lead generation strategies to cover certain periods where work may dry up during a season. An example of this would be late in a season after the summer time, customers may be less willing to meet with a landscape contractor because they are no longer able to enjoy their summer in their backyard. Leads can quickly dry up late in the season and you may need to plan months ahead of time to get the work lined up for your business late in the season.

An income statement is an interchangeable term for the Profit and Loss statement, but let's talk further about what tracking your income sources will help you understand in your business.

Tracking where your income is coming from is only as good as how fine you are breaking down exactly what services are generating that income. For example, if you offer more than one service for every project but you only categorize that as one transaction, you will not know which of those services are really generating you the most income per hour that you are investing into that for your business.

If you can take that same transaction and break it down by service regardless of whether or not you break down that to the customer or if you just provide your customer with a single price, then you can really analyze those services that are generating your business the most income and maybe you can work to double down on those services in your business and find ways to improve the efficiency of those services that are not bringing in a significant amount of income or work to subcontract those.

What really helps is if you are able to not just calculate the income, but the net income where it takes into factor the material, labor, and overhead costs of what it takes to complete that service then you can further understand your most profitable services.

Balance Sheet

A balance sheet can help you understand how much equity is built into your business. The formula for this is:

Assets - Liabilities = Equity

Assets include all of the cash in accounts, equipment, and any other ownership of property or items that are included in your business. Liabilities include all debt and expenses that are owing from your business. Equity is what your business has in terms of value once you are able to calculate assets less liabilities. The balance sheet can provide you with an overall snapshot of your business at a certain point in time and what it is truly worth, as well as the overall financial value of your business.

This is a great way to understand how much your business is worth to yourself or somebody else who may want to come in as a partner or to even sell off your business at some point.

What Your Numbers are Telling You

There are so many possibilities as to what your numbers may be telling you from project-to-project and based on your Profit and Loss Statements and Balance Sheet. Ultimately it all depends on what type of business you want to become in order to make those major business decisions. Do you want to be small and lean or big and bossy? The best part about owning your own business is that you can make those decisions for yourself and navigate your business to where you want it to be positioned in your market.

Still there are things that your numbers will be telling you that will save your business from financial ruin if you are willing to listen and make key changes. Job costing will reveal a lot of those changes that you can adjust throughout the year and your accounting reports will help you see the health of your business.

Here is a small list of things that your numbers may be telling you that will help you make some decisions:

1. Renting a piece of equipment is less expensive than owning one or vice versa based on the number of times you rent it in a year.
2. Maintenance on a piece of equipment is equal to or more than what a payment on a new piece of machine is.
3. Delivery costs are less expensive than the time, labor, wear and tear, and risk involved in sending someone to pick something up.
4. Delivery costs and lost time waiting for product are equal to or more than the cost of a truck capable of picking up product.
5. Logistics need to be improved to ensure that product and equipment are on site when needed rather than having labor wasted waiting for the product to show up.
6. Lack of organization on the job site is leading to wasted labor. Implementing a meeting at the beginning of the day will help to keep everyone on the same page and knowing what needs to get done on that day and what their roles are in that.
7. Lack of project planning leads to wasted labor on site trying to plan the job as it goes. Take the time prior to the job to plot out projects to the paver to ensure exact measurements and cuts that may or may not need to be done.
8. Investing into a yard will lead to more opportunities to improve efficiency.
9. Storage of bulk materials will allow you to save on the cost of ordering those materials and the time in which would be wasted sending someone to pick them up at a supplier.
10. Hiring non-labor producing employees such as an office administrator, sales person, and / or designer can lead to further growth, free up time of the owner to take on other important tasks, and improve client experience.
11. Investment into software to store data, communicate with clients, monitor labor hours, etc. can reduce the number of non-labor producing employees required to keep track of these aspects of the business.
12. Outsourcing bookkeeping / accounting can help to improve the financial health of the business by having another set of eyes on the business to aid in making important decisions and to compare against industry benchmarks.

There are many variables that will play into factor on each of these things listed above, but this will help you get started on knowing what to look for within your business.