Reading Your Financials

You started your business with a dream, to do what you love and make a decent living at it. If your business is not as profitable as you had hoped, consider reviewing your company's financial reports. Most contractors are not comfortable reading financial reports and so don't. It is our hope to make these reports easy to understand, maybe even fun. Understanding the information they provide will enable you to make the best decisions in running your business. In this series, we will start by explaining the basics of how to read your Balance Sheet and Income Statement also called Profit and Loss Statement or P&L.

Because your business is constantly changing and is affected by turns in the economy, you need to be able to reflect on the past, see the present, and anticipate the future to remain profitable. The information contained in your financial reports, specifically your balance sheet and income statement, provides some helpful tools to accomplish this.

Balance Sheet

Your balance sheet is the financial portrait of your business at a given moment and is divided into three categories; assets (what you own), liabilities (what you owe), and equity (or net worth). Paying attention to this information helps you know when you can afford that new equipment and when to hold off purchasing. Your balance sheet also tells you how much equity you actually have in your business and how much your creditors have.

Balance Sheet As of 6/30/2010

Assets			Liabilities		
Current Assets			**Current Liabilities**		
Cash in Bank	$9,000		Accounts Payable	$5,000	
Accounts Receivable	8,500		Payroll Taxes Payable	1,000	
Total Current Assets		**$17,500**	**Total Current Liab.**		**$6,000**
Long Term Assets			**Long Term Liabilities**		
Vehicles	7,500		Vehicle Loans	2,000	
Office Equipment	1,000				
Total Long Term Assets		**8,500**	**Total Long Term Liab.**		**2,000**
Accumulated Depreciation			**Equity**		
Accum. Dep. Vehicles	(800)		Current Profit (Loss)	7,000	
Accum. Dep. Office Equip.	(200)		Retained Earnings	10,000	
Total Accum. Dep.		**(1,000)**	**Total Equity**		**17,000**
Total Assets*		**$25,000**	**Total Liabilities + Equity**		**$25,000**

Total Assets Must = Total Liabilites + Total Equity

Income Statement

Your income statement is a financial representation of your business over a specific period of time. Your income statement calculates your net profit by subtracting direct expenses (also known as cost of goods sold) and overhead expenses from income. Understanding the information on your income statement will help you to calculate gross profit margin, manage expenses, find break even points, and allocate overhead appropriately during the estimating process. Knowing these can save you time and money, as you know, there are times it is best to say no to a job rather than just be busy.

Income Statement from 1/1/10 to 6/30/10

Operating Income			
Construction Income	$50,000		
Total Operating Income		**$50,000**	
Direct Expense			
Materials	15,000		
Equipment Expense	3,000		
Subcontracted	6,500		
Other Job Expense	2,000		
Direct Labor w/Burden	8,000		
Total Direct Expense		**34,500**	
Gross Profit			**$15,500**
Overhead Expense			
Office Rent	6,800		
Office Supplies	500		
Utilities	200		
Overhead Labor w/Burden	1,000		
Total Overhead Expense		**8,500**	
Net Profit			**$7,000**

If you don't know where to start, the first and possibly most difficult step is to make sure your bookkeeping is accurate. Once you accomplish this, the rest will fall easily into place and is very rewarding when you use your financial information to discover opportunities and identify potential problems in the path of reaching your financial goals. Later in this series, we will focus on these reports in greater depth.