



# Financial Statements, Budgeting & Cash Flow Planning

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# AGENDA

- Types of Financial Statements
- Importance of Accurate Financial Statements
- Budgeting
- Cash Flow Planning



# Financial Statements: Introduction

- **Overview:**
  - Financial statements are crucial for assessing the financial health of a construction company. They provide insights into the company's assets, liabilities, revenues, expenses and cash flows.
- **Objective:**
  - This presentation aims to explain the key components of financial statements and how they are used in the construction industry.



# Types of Financial Statements

- **Balance Sheet**
  - Provides a snapshot of the company's financial position at a specific point in time, detailing assets, liabilities, and equity.
- **Income Statement**
  - Tracks the company's profitability over a period, showing revenues, expenses and net income.
- **Cash Flow Statement**
  - Illustrates the inflows and outflows of cash, highlighting operating, investing and financing activities.
- **Work-In-Progress (WIP) Report**
  - Offers project-level profitability and billing insights, crucial for construction companies.



# Balance Sheet

- **Assets**
  - Includes current assets like cash, contract receivable, and inventory, as well as long-term assets like property and equipment.
- **Liabilities**
  - Consists of current liabilities such as accounts payable and short-term debt, and long-term liabilities like mortgages and loans.
- **Stockholders' Equity**
  - Represents the owners' claim on the company's assets, including common stock, additional paid-in capital, and retained earnings.



# Income Statement

- **Revenue**
  - Generated from contract revenues and other sources.
- **Expenses**
  - Includes costs of contracts, general and administrative expenses, and other operating expenses.
- **Profit**
  - Calculated as gross profit, operating profit, and net income. EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) can also be a key metric.



# Cash Flow Statement

- **Operating Cash Flow**
  - Shows cash generated from the company's core business operations.
- **Free Cash Flow**
  - Calculated as operating cash flow minus capital expenditures.
- **Financing Activities**
  - Includes cash flows from debt issuance, equity financing, and other financing activities.



# Work-In-Progress (WIP) Report

- **Project-Level Insight**
  - Provides detailed information on the profitability and billing status of individual projects.
- **Revenue Recognition**
  - Discusses alternatives for recognizing revenue and the impact of customer concentrations.



# Importance of Accurate Financial Statements

Building  
Trust &  
Credibility

Informed  
Decision-  
Making

Compliance  
& Risk  
Management

Transparency  
&  
Accountability

Enhancing  
Business  
Performance

Financial Statements are the foundation for a company's financial health and long-term success.



# Building Trust & Credibility

- Accurate financial statements build trust with investors, lenders, and partners. They rely on this data to assess the company's stability and growth potential.
- Example: When applying for a loan or seeking investment, a company with clear, accurate financial statements is more likely to secure funding.



# Informed Decision-Making

- Financial statements provide essential information for making informed business decisions. They help management evaluate past performance, plan for the future, and allocate resources effectively.
- Example: Accurate financial data allows a construction company to identify profitable projects and areas needing improvement.



# Compliance & Risk Management

- Accurate financial reporting ensures compliance with regulatory requirements and helps manage financial risks. Regular reviews and audits can identify potential issues and mitigate risks.
- Example: Regular audits can reveal discrepancies and areas where internal controls need strengthening.



# Transparency & Accountability

- Transparent financial reporting promotes accountability within the organization. It reassures stakeholders that the company is being managed responsibly and ethically.
- Example: Accurate financial statements can prevent fraud and errors by ensuring proper documentation and segregation of duties.



# Enhancing Business Performance

- Financial statements are crucial for assessing the financial health of a company. They provide insights into assets, liabilities, revenues, expenses, and cash flows, which are essential for evaluating overall business performance.
- Example: A construction company can use financial statements to track project profitability and manage cash flow effectively.



# Creating a Budget and Managing Cash Flow

- **Overview:**
  - Understanding how to create a budget and manage cash flow is crucial for the financial health of any business
- **Objective:**
  - To equip you with the knowledge and tools needed to create an effective budget and manage cash flows efficiently



# Importance of Budgeting

- **Financial Planning**
  - Helps in setting financial goals and planning for future expenses
- **Resource Allocation**
  - Ensures that resources are allocated efficiently to various departments and projects
- **Performance Measurement**
  - Provides a benchmark for measuring financial performance and identifying variances





# Steps to Create a Budget

## 1. Identify Income Sources:

- List all potential income sources
- Build out project pipeline; projected WIP schedules

## 2. Estimate Expenses:

- Categorize expenses into fixed and variable costs
- Fixed costs remain constant (rent, salaries)
- Variable costs will fluctuate (utilities, raw materials)

## 3. Use Historical Data:

- Analyze past financial records to make informed estimates for future income and expenses

## 4. Involve Key Stakeholders:

- Engage department heads and key personnel in the budgeting process to ensure accuracy and buy-in



# Steps to Create a Budget

## 5. Utilize Budgeting Tools:

- Leverage financial software and tools to streamline the budgeting process and enhance accuracy

## 6. Plan for Contingencies:

- Include a contingency fund in your budget to cover unexpected expenses and emergencies

## 7. Set Financial Goals:

- Define short-term and long-term financial goals
- Ensure goals are specific, measurable, achievable, relevant and time-bound (SMART)

## 8. Monitor and Adjust:

- Regularly review the budget and adjust as needed
- Compare actual performance against the budget to identify variances



# Importance of Cash Flow Management

- **Liquidity**
  - Ensures the business has enough cash to meet its obligations
- **Solvency**
  - Helps maintain the company's ability to continue operations
- **Growth**
  - Supports strategic investments and expansion plans



# Strategies for Cash Flow Management

- **Improve Receivables**
  - Implement efficient invoicing and collection processes
  - Offer discounts for early payments
- **Manage Payables**
  - Schedule payments to optimize cash flow
  - Negotiate favorable payment terms with suppliers
- **Maintain Cash Reserves**
  - Keep a buffer of cash reserves to handle unexpected expense
- **Monitor Cash Flow Regularly**
  - Use cash flow forecasts to predict future cash needs
  - Regularly review cash flow statements to identify trends and issues



# Strategies for Cash Flow Management

- **Optimize Inventory Management**
  - Avoid tying up too much cash in stock supplies
  - Implement just in time inventory practices to reduce holdings costs and improve cash flows
- **Control Operating Expenses**
  - Cost management – identify areas where costs can be reduced without compromising quality or efficiency
  - Create and adhere to a budget to ensure that expenses are planned and controlled
- **Financing Options**
  - Establish credit lines with banks to access funds when needed
  - Consider short-term loans or financing options to cover temporary cash flow gaps

# Questions?

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