

The slide features a white central area with a red and orange gradient border. At the top left is the logo for 'The ShinerGroup' (a green square with a white 'S' and 'G' inside) and the text 'The ShinerGroup'. At the top right is the logo for 'SOLUTIONS360' (a blue circle with a white '360' and 'SOLUTIONS' to its left) and the text 'business.managed' and 'www.solutions360.com'. The main title 'Charting the Course for Profitability' is centered in a large black font. Below it, the subtitle 'Financial Metrics and Business Intelligence' is centered in a smaller grey font. At the bottom left, the text reads 'February 26 - 28, 2015', 'Grand Hyatt Tampa Bay Tampa, FL', and 'www.nasca.org/blc'. At the bottom right is the NSCA logo (a red and blue circle with 'NSCA' and 'YOUR VOICE • RESOURCE • ADVISOR' below it), the text 'Business & Leadership CONFERENCE', a green circular badge with '17th ANNUAL', and 'HOST & TECHNOLOGY SPONSOR: ATLAS SOUND/IED'.

The ShinerGroup

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# Charting the Course for Profitability

## Financial Metrics and Business Intelligence

February 26 - 28, 2015  
Grand Hyatt Tampa Bay Tampa, FL  
www.nasca.org/blc

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The slide features a white central area with a red and orange gradient border. The title 'Today's Market' is centered at the top in a large black font. Below the title is a bulleted list with three main points. The first point is 'Companies are driven by competition', which has two sub-points: 'Great pressure to keep price low' and 'There is no margin for error when it comes to profit'. The second point is 'Need to determine true profitability'. The third point is 'Need objective framework to make good business decisions'. At the bottom right is the NSCA logo (a red and blue circle with 'NSCA' and 'YOUR VOICE • RESOURCE • ADVISOR' below it), the text 'Business & Leadership CONFERENCE', a green circular badge with '17th ANNUAL', and 'FEBRUARY 26-28, 2015 - TAMPA, FLORIDA' and 'HOST & TECHNOLOGY SPONSOR: ATLAS SOUND/IED'.

## Today's Market

- Companies are driven by competition
  - Great pressure to keep price low
  - There is no margin for error when it comes to profit
- Need to determine true profitability
- Need objective framework to make good business decisions

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## Why Are We Doing This?

- NSCA to offer Standardized Chart of Accounts to members
  - The COA is the foundation for understanding and managing the financial aspects of your business
  - We need a common foundation to compare metrics across different companies



## How Will This Benefit My Business?

- The primary purpose of financial metrics is to assist in making better business decisions
- Examples:
  - How should I price this estimate?
  - What lines of business should I pursue/drop?
  - When and who should I hire?
  - Should I take this deal?



**“Numbers and financial metrics will become your best source of information. With no room for error and with eroding margins, it will become a necessity to know the true cost of each and every project.”**

**Chuck Wilson - Jan 10/2014  
Commercial Integrator Magazine**



## What is a Chart of Accounts?

- A list of accounts to categorize financial transactions
- Creation of Financial Statements
  - Income Statement
  - Balance Sheet
- Backbone inside software

NSCA Recommended Chart of Accounts	
Company Name	
Balance Sheet	
As of: xx/xx/xxxx	
Assets	
<b>Cash Accounts</b>	
1000	Checking
1020	Savings
1050	Petty cash
	Total Cash
<b>Current Assets</b>	
1100	Accounts receivable (include allowance for bad debt)
1110	Prepaid insurance
1120	Other prepaid expenses
1150	Payroll advances
1199	Undeposited funds (QuickBooks only)
1200	Inventory
	Total Current Assets
<b>Fixed Assets</b>	
1500	Tools & equipment (>\$500)
1510	Office equipment (>\$500)
1520	Showroom equipment
1530	Furniture & fixtures (>\$500)
1540	Vehicles
1570	Building



## Benefits of Well Organized Financials

- Easier access to company financial data
- Better management decisions
- Government compliance
- Budgeting
- Benchmarking



## Integrator Financial Challenges

- Job Costing
  - Not necessarily a function of the Chart of Accounts
- COGS v. Overhead
  - Tracking true profitability of jobs
  - Tracking overhead to spread across all jobs
- Timing issues
  - Income for jobs across time compared to expenses for jobs across time



## What is GAAP?

- Generally Accepted Accounting Principles
- FASB
- Why are they important?



## Basic Income Statement (P&L)

### Multi-Step Financial Statement


*For 12 Months Ended 12/31/XX*

Income	\$XXX	100%	<b>The Line</b>
<u>(COGS)</u>	<u>\$(XX)</u>	<u>xx%</u>	←
Gross Profit	\$XXX	Gross Margin	
<u>(Overhead Expenses)</u>	<u>\$(XX)</u>	<u>xx%</u>	
Net Income	\$XXX	xx%	
	Dollars	Percentages	




## What Goes Above The Line

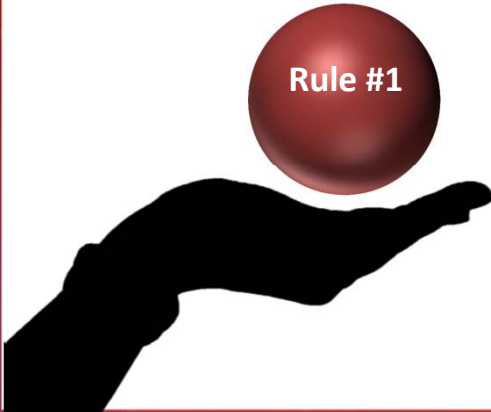
- Equipment / material with burden
- Direct field labor with burden
- Direct sub-contract labor
- Project management
- Misc. job related (permits, lift rentals, direct travel, meals, etc.)
- Allocated costs

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## Allocated Costs

- Costs that really are for jobs
  - But too difficult to specifically identify each item to each job
- Examples:
  - Vehicle costs
  - Consumables
  - Project management
- Sometimes referred to as 'indirect-direct'


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**Rule #1**


**Unless it generates revenue, it can't go above the line!**

- Expenses directly related to creating revenue

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## What Goes Below The Line

- SG&A (Sales General and Administration)
- Typically fixed expenses
- Costs not directly correlated with volume
- Typically rent, utilities, commissions, marketing etc.

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## Small Business Requirements

Be able to determine gross margin on each job and for the company overall



Be able to determine if gross profit covers overhead and leaves money for net profit

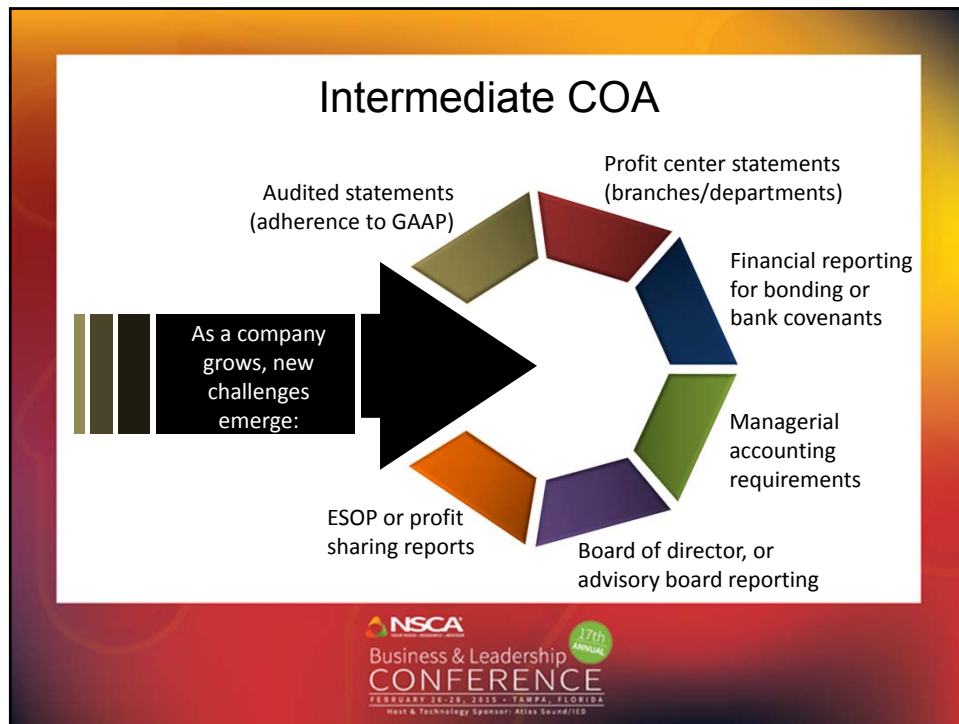


## Measure True Profit

- Timing is everything!
  - Accounting uses arbitrary time frames
- Measure gross margin and gross profit as the job progresses, not just at the end of the job
- Make sure your numbers “match”
  - The Matching Principal
  - Measure gross margin using revenue and costs based on the same percentage of completion

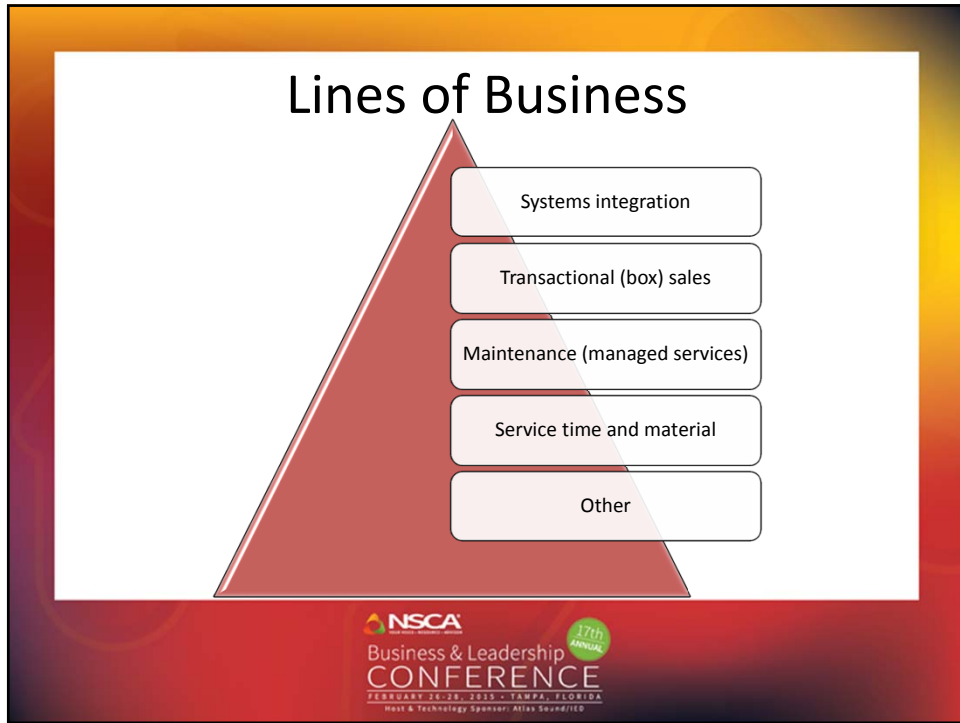






## Taking the COA One Step Further

- You can't manage a large company as one entity
- Need to manage based on profit centers
  - Geographic locations
  - Departmental breakdowns
  - Lines of business



## The Financial Matrix

Lines of business and profit centers create a matrix

<b>Prebon Integration LLC</b>				
<b>December 31, 20XX</b>				
	LAX	NYG	MIA	SEA
<b>Revenues</b>				
Sales - Integration	729,087	8,975,082		2,334,246
Sales - Service	1,690,500	4,228		2,005,940
Sales - Box			2,467,622	
Sales - Managed Service	790,142			
Sales - Over/Under Billings				
<b>Total - Revenues</b>	<b>3,209,730</b>	<b>8,979,310</b>	<b>2,467,622</b>	<b>4,340,187</b>

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## Accounts Related to GAAP

- Balance sheet accounts are used to manage the timing (matching principle) of transactions
  - Match revenue and costs to same activity during the same period
- Use of suspense accounts
  - Can be assets or liabilities



## Two Months Into a Three Month Job

	November	December	Year-End Total
Income	18,000	16,000	<b>34,000</b>
COGS	<u>(5,000)</u>	<u>(10,000)</u>	<b>(15,000)</b>
Gross Profit	13,000	6,000	<b>19,000</b>
Gross Margin	72%	38%	<b>56%</b>

This job looks great!



## But Profit Based on Invoicing...

Can be very misleading!

	November	December	Year-End Total		January	Job Total
Income	18,000	16,000	<b>34,000</b>		6,000	<b>40,000</b>
COGS	(5,000)	(10,000)	<b>(15,000)</b>		(9,000)	<b>(24,000)</b>
Gross Profit	13,000	6,000	<b>19,000</b>		-3,000	<b>16,000</b>
Gross Margin	72%	38%	<b>56%</b>		-50%	<b>40%</b>

How can you manage your business with these numbers?



## Suspense Account Example

- Sales Suspense
  - Invoice is created to sell a projector to a customer
  - Invoice is posted and sent
  - The projector has not been shipped, so no revenue can be recognized
  - The invoice must go out to customer for cash flow
  - The revenue lines are posted to the sales suspense account



## Suspense Account cont'd

- The revenue is now sitting on our balance sheet in a liability account as a credit
- When the equipment is shipped, the sales suspense account is reduced, and revenue is recognized on the P&L
- At the same time inventory is reduced and COGS equipment is recognized




## Suspense Account Challenges

- Suspense accounts **MUST** be reconciled regularly
- It is common to have a balance, so there must be a sub-ledger to justify that balance



## Typical Suspense Accounts


- Inventory Suspense**
  - Inventory received, but no vendor invoice has been entered
- Maintenance Agreement Revenue Suspense**
  - An agreement has been invoiced, and it covers a period of time in the future
- Customer Deposits**
  - Revenue was invoiced but not earned



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## Benchmarking

- Comparison across years
  - Is my company more profitable than last year?
  - Have my margins slipped?
- Comparison across other companies
  - Cannot compare unless similar definitions
  - Importance of above the line vs. below the line distinctions



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## You Are in Trouble If:

- You don't know the answer to:
  - What's the lowest markup I can charge?
  - When should I hire more technicians?
  - What sales volume do I need to support my overhead?
  - Which customers are profitable?
- A good Chart of Account should help you answer these questions



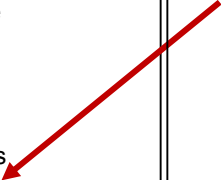
## Typical Chart of Accounts


- Balance Sheet Accounts
  - Assets
  - Liabilities
  - Equity
- Income Statement (P&L)
  - Revenue
  - COGS
  - SG&A



## Financial Statements

<h3 style="text-align: center;">Balance Sheet</h3> <ul style="list-style-type: none"><li>• <b>Assets</b><ul style="list-style-type: none"><li>- Cash</li><li>- Accounts Receivable</li><li>- Inventory</li><li>- Fixed Assets, Equipment</li></ul></li><li>• <b>Liabilities</b><ul style="list-style-type: none"><li>- Accounts Payable</li><li>- Other Payables</li><li>- Notes Payable</li></ul></li><li>• <b>Equity</b><ul style="list-style-type: none"><li>- Stock (or Capital)</li><li>- Retained Earnings<ul style="list-style-type: none"><li>• Net Income</li></ul></li></ul></li></ul>	<h3 style="text-align: center;">Income Statement (P&amp;L)</h3> <ul style="list-style-type: none"><li>• <b>Sales</b><ul style="list-style-type: none"><li>- <u>(Direct Expense - COGS)</u></li></ul></li><li>• <b>Gross Profit</b><ul style="list-style-type: none"><li>- <u>(Operating Expenses)</u></li></ul></li><li>• <b>Net Income</b></li></ul>
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## The Right Level of Detail

- Financial reports vs. managerial reports
- Chart of Accounts is basis for financial reporting – external
- Companies need managerial reports – internal
  - Job specific reports
  - WIP report
  - Customer profitability

  
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## Commissions

- Standardized Chart of Accounts below the line
- Although directly related to jobs, part of SG&A
- Better benchmarking to combine all sales expense
  - Wide variations between base pay and commission
  - Need to review total sales cost as percentage of revenue



## Discounts

- Customer discounts need to be reduction of revenue
- Manufacturer discounts need to be reduction of COGS
  - Rebates are treated as manufacturer discounts
- Early payment discounts need to be reduction of overhead costs
- SPIF's to be treated as commissions



## Where Do We Go From Here?

- Analyzing your existing chart of accounts
  - Strengths v. weaknesses
  - Comparison to standard
- Advantages to changing
  - Greater organization
  - Ability to increase profitability through stronger management
- Disadvantages to changing
  - Reduced historical comparison
  - Time



## How Do I Best Make The Change?

- Timing
  - Beginning of the fiscal year
  - Discussions during tax season
- Implementation
  - Software considerations
- Accounting support



## Tools and Resources

- Sample Chart of Accounts – Excel Spreadsheet
  - Basic
  - Intermediate
- White Paper
- This presentation
- NSCA



## Cross Reference

- What if I don't want to change?
- Create cross reference
  - Use NSCA standard account numbers
  - Allows for meaningful comparisons



## Summary

- Chart of Accounts is the backbone of any financial system
- A good Chart of Accounts helps you manage your company for profitability
  - Not just to do the tax return
- Great financial metrics lead to better estimating, better sales, and more profits!



## Thank You

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