



CASE STUDY: CONSTRUCTION BOOKKEEPING

In an industry where cost control is imperative for maintaining profit margins, construction companies often find themselves in a situation where bookkeeping gets put in the “too hard basket”. But when this happens, growth and financial stability wavers.

Recently, EzyAccounts was approached by a small construction company that needed assistance getting their books in order.

Although the business continued to grow year in year out, the business owner faced a number of personal problems during the same time. This meant that day to day operations in the business took an understandably lower priority. However, this resulted in:

- months of unreconciled accounts
- missed lodgement dates with the tax office
- a complete lack of understanding of the business’s financial position (because accurate reports were no longer being produced)
- increased expenses (which put cash flow pressures on the business)

Getting Started

When the construction company engaged EzyAccounts, our **first task was to bring their accounts up-to-date.**

Our first priority was to **clear up the backlog of bank reconciliations, and lodge the outstanding statements with the ATO.**

Once the backlog was cleared, automated systems were implemented. This included setting up bank feeds that automatically download bank statements on a daily basis, saving valuable time on data entry. Bank rules were also applied that automatically allocated various bank transactions to the applicable cost accounts so bank reconciliations become a far less time consuming task.

Recurring pay runs were also created so the time required to enter pay runs on a fortnightly basis was significantly less than the previous process.

Both of these small changes resulted in more time effective data entry for the business owner, resulting in a greater amount of time for the owner to develop and implement a strategic plan that would see profit margins continue to grow.

Adding Value

Now that the books were up-to-date, EzyAccounts was also able to provide other value-adding bookkeeping services.

After consulting with the construction company to better understand their business, we worked with the owner to **implement controls for end of day reconciliations** that were completed by the two staff that worked in the office. A mobile recording solution was also introduced which allowed contractors to have quick and easy access to recording **tracking change orders** whilst on the construction site, ensuring that any 'on the fly' change in products were recorded. Reports monitoring the changes in job orders were run on a weekly basis to ensure that individual job profit margins didn't fall below expected levels.

One of the key areas in the business was the engagement of contractors rather than employees. This not only simplified the payroll process, but also resulted in a substantial positive cash flow movement. When previously using an employee model, the client had to annually create revenue in excess of \$2million to breakeven. This was largely due to having to continue to pay employees, irrespective of engagement levels. Once contractors, who could be sent from a worksite if underutilised, were engaged, these costs diminished and the annual company breakeven dropped by 30%.

An inventory control system – incorporating third party consignments from trade suppliers – was also implemented. These procedural changes were small, but the benefits were big. All stock could be accounted for, and in conjunction with the mobile change tracking solution, stock used on each job site could accurately be reported on, and invoiced to the customer upon completion. This saw a dramatic increase in job profitability as all costs were accounted for, whereas previously only items that the business owner knew about were considered.

In addition to the improvements they immediately introduced, they **also allowed us to implement measurable KPIs** surrounding job profitability. Contractor costs as a percentage of total cost was identified as a key cost effecting profitability. Having utilised the previously completed benchmark report, all staff costs including contractor payments were targeted to reduce from rates at over 40% to fall below 35%. Within 3 months, playing closer attention to contractor engagement levels resulted in all staff costs falling under the 35% mark, well below the 37% industry average. Introducing a number of KPI's saw gross profit margins rise from 21% to 26% and net profit margins rise from 12.7% to 15%.

As our bookkeeper looked for other opportunities to improve the business's profitability and efficiency, time taken to receive payments was identified as an area for improvement. With continual monitoring and process improvement, **the company soon improved their average debtors aging by over 70%.**

EzyAccounts also introduced monthly [cash flow forecasting](#). At the beginning of each month, expense analysis for the previous month was completed. Revenue was compared against expenses allocated, and the projected completion and payment dates were assessed. These accurate and timely **reports allowed the business owner to better manage cash flow**, which in turn helped them to identify strategic management plans.

More recently, EzyAccounts completed a benchmark report for the construction company, comparing them with other businesses of a comparable size within their industry. This in-depth analysis has provided additional insights to the business, and allowed the company to identify further areas for development that will ensure their business continues to progress financially.

YOUR CONSTRUCTION BOOKKEEPING

Do you own or manage a business in the construction industry? If this case study describes the position your business is in, we can help.

To learn more, call us today on **1300 313 397**

