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STRATFORD FINANCIAL SOLUTIONS, INC. TM

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P&L INFORMATION SHEET
(CONSTRUCTION COMPANY)

Thank you for considering Stratford Financial Solutions Inc. Below is a detailed breakdown of the Profit and Loss (P&L) information for your construction company. This report provides a clear view of your company's financial performance, including revenues, expenses, and net income, to support better decision-making and strategic planning.

PROFITS

1. Gross Profit

Gross Profit is the revenue remaining after subtracting the Cost of Goods Sold (COGS), which includes direct expenses like materials, labor, and subcontractor costs. It's calculated as:

Gross Profit = Total Revenue - Cost of Goods Sold (COGS)

This reflects the profit from the company's core operations before accounting for other expenses.

2. Operating Profit (Operating Income)

Operating Profit, also known as Operating Income, is the profit from the company's primary business operations after deducting all Operating Expenses (e.g., salaries, rent, utilities). It's calculated as:

Operating Profit = Gross Profit - Operating Expenses

This shows how efficiently the company is managing its operating costs and reflects profitability from regular business activities.

3. Net Profit (Net Income)

Net Profit, also called Net Income, is the bottom-line profit after all expenses have been deducted from the total revenue, including COGS, operating expenses, interest, taxes, and any other costs. It's calculated as:

Net Profit = Operating Profit - Other Expenses (Interest, Taxes, etc.)

This is the company's final profit, reflecting how much money remains after all financial obligations have been met. Net profit can be distributed to owners or reinvested in the company.

4. Revenue from Projects

The revenue generated from completed or ongoing construction projects is the main source of profit for a construction company. It can include:

Revenue from Fixed-Price Contracts: Profits made when the costs to complete a project are lower than the fixed contract price.

Revenue from Time and Materials Contracts: Profits when the company efficiently manages materials and labor to stay under projected costs.

Revenue from Cost-Plus Contracts: Profits from contracts where the company earns a percentage or fixed fee on top of the costs incurred.

5. Other Income

Other Income includes revenue that is not directly tied to construction projects but contributes to overall profitability. This can include:

- Equipment Rentals: Renting out equipment to other construction companies or clients.
- Consulting Fees: Offering consulting services for other businesses or clients.
- Interest Income: Income earned from investments or interest on cash holdings.
- Sale of Assets: Profits made from selling company assets like equipment or vehicles.

6. Project Bonuses

Performance Bonuses: Many contracts offer bonuses for early completion or exceeding quality standards, which contribute to profits.

Incentives from Clients: Some clients provide financial incentives for meeting or exceeding project deadlines or cost savings targets.

7. Tax Benefits

Tax Deductions and Credits: Certain tax deductions (e.g., for equipment depreciation, interest on loans) or government tax credits (e.g., for energy-efficient construction projects) can contribute to net profits by reducing tax liabilities.

8. Efficiency Gains

Cost Savings: By managing projects efficiently, cutting unnecessary expenses, or negotiating better supplier deals, the company can increase profitability. This can include optimizing labor, reducing material waste, or using technology to streamline operations.

<u>LOSSES</u>

1. Project-Related Losses

- Unforeseen Project Delays: Losses from delays due to weather, permit issues, or supply chain problems that lead to cost overruns.

- Cost Overruns: When the actual project costs exceed the budgeted costs, this can result in losses. Examples include higher-than-expected material or labor costs.

- Underbidding on Contracts: If the company bids too low on a project and the actual costs exceed the contract price, the company can experience a loss on that project.

- Subcontractor Issues: If subcontractors fail to complete their work on time or to the expected quality, leading to rework or fines, this can contribute to losses.

2. Operating Losses

- Fixed Costs During Idle Periods: When there are no active projects, the company might still incur fixed costs (like rent, salaries, and equipment depreciation), which would lead to operating losses.

- Excessive Overhead: High administrative or operational costs, such as salaries for non-productive staff or high office costs, can contribute to losses if not properly managed.

3. Material Losses

- Wastage: Losses due to wasted or damaged construction materials.

- Inventory Write-Offs: If materials or equipment become obsolete, expired, or damaged beyond use, they must be written off as a loss.

4. Litigation or Legal Issues

- Lawsuits: Losses resulting from legal disputes, such as contract disputes or injury claims on job sites, especially if the company has to pay settlements, fines, or legal fees.

- Contractual Penalties: Penalties for failing to meet contractual obligations, such as missing deadlines or breaching terms, can lead to significant losses.

5. Equipment-Related Losses

- Equipment Damage: Unexpected costs for repairing or replacing damaged construction equipment.

- Depreciation: While depreciation is accounted for as a normal business expense, excessive depreciation due to poor equipment management or loss of asset value may contribute to overall financial losses.

6. Bad Debts

- Unpaid Invoices: If clients fail to pay their invoices for completed work, those amounts would be considered bad debts and written off as a loss.

7. Interest Expenses

- High Interest on Loans: Excessive interest expenses from loans, especially if the company is financing operations or equipment with borrowed funds, can reduce profitability and result in losses.

8. Tax Penalties

- Late Tax Payments or Errors: If the company incurs fines or penalties for late tax filings or payment errors, these will count as losses.

9. Natural Disasters/Uninsured Losses

- Losses Due to Natural Disasters: If the company's operations or equipment are affected by natural disasters (such as floods, hurricanes, etc.), and there is no adequate insurance, this can lead to significant financial losses.

ASSETS

What the company owns or controls that provides future economic benefits:

1. Cash and Cash Equivalents:

Examples: Cash in bank accounts; Petty cash for day-to-day expenses

Explanation: Readily available cash or cash-like assets.

2. Accounts Receivable:

Examples: Invoices billed to clients for completed or ongoing work that has not yet been paid.

Explanation: Money owed to the company by clients for services already rendered.

3. Construction Equipment:

Examples: Bulldozers, cranes, forklifts, excavators, and cement mixers.

Explanation: Equipment owned by the company used in construction projects.

4. Vehicles:

Examples: Company trucks, vans, and other vehicles used to transport workers, materials, or equipment.

Explanation: Any vehicles the company owns for business operations.

5. Inventory:

Examples: Construction materials like lumber, cement, steel, pipes, and nails.

Pre-purchased fixtures or equipment that will be installed on projects.

Explanation: Goods or materials the company has purchased but not yet used.

6. Tools and Small Equipment:

Examples: Power tools, hand tools, and safety equipment (drills, hammers, saws).

Explanation: Smaller tools and equipment used by employees for construction tasks.

7. Real Estate (if owned):

Examples: Office buildings, warehouses, or lots owned by the company.

Explanation: Any property owned by the business.

8. Prepaid Expenses:

Examples: Prepaid insurance, rent, or construction permits.

Explanation: Expenses paid in advance for services or contracts not yet rendered.

9. Investments:

Examples: Stocks, bonds, or other financial investments made by the company.

Explanation: Financial assets the company holds to generate returns.

10. Work in Progress (WIP):

Examples: Partially completed construction projects where the costs incurred are yet to be billed.

Explanation: Costs related to ongoing projects that haven’t been billed to clients yet but will be when completed.

Liabilities (What the company owes or obligations it must settle in the future):

1. Accounts Payable:

Examples: Unpaid bills to suppliers or subcontractors for materials or services.

Explanation: Short-term obligations for goods or services already received but not yet paid for.

2. Short-Term Loans:

Examples: Business credit lines or loans to finance short-term project needs.

Explanation: Any loans or credit that must be repaid within the next year.

3. Long-Term Loans/Debt:

Examples: Bank loans used to finance equipment, property, or business expansion.

Explanation: Loans that are due over a longer period, typically more than one year.

4. Leases (If not owned):

Examples: Leased office space or equipment, such as rental payments for machinery.

Explanation: Rental obligations for assets the company does not own.

5. Wages Payable:

Examples: Unpaid salaries, wages, or bonuses owed to employees.

Explanation: Money owed to workers for labor already performed but not yet paid.

6. Taxes Payable:

Examples: Property taxes, payroll taxes, or income taxes owed to the government.

Explanation: Any taxes the company owes but hasn’t yet paid.

7. Accrued Expenses:

Examples: Utilities, legal fees, or insurance premiums that have been incurred but not yet paid.

Explanation: Expenses that have been incurred but payment is still pending.

8. Subcontractor Payments:

Examples: Outstanding payments to subcontractors for work completed or underway.

Explanation: Money owed to subcontractors for their services.

9. Customer Deposits:

Examples: Advance payments made by customers for projects not yet completed.

Explanation: Cash received upfront from clients for future work, which is recorded as a liability until the project is completed.

10. Deferred Revenue:

Examples: Payments received for work or services not yet performed.

Explanation: Obligations to provide goods or services in the future for which the company has already been paid.

EXPENSES

Costs the company incurs to operate

1. Labor and Wages:

Examples: Salaries for employees, wages for construction workers, payroll for administrative staff.

Explanation: Direct labor costs for construction projects and support staff.

2. Subcontractor Payments:

Examples: Payments made to subcontractors (electricians, plumbers, etc.).

Explanation: Costs incurred for outsourcing certain parts of a project to specialized subcontractors.

3. Materials and Supplies:

Examples: Lumber, concrete, steel, nails, paint, and other construction materials.

Explanation: Costs of materials used directly in construction projects.

4. Equipment Rental/Leasing:

Examples: Renting heavy machinery like cranes, forklifts, or excavators.

Explanation: Rental fees for equipment that the company doesn’t own but uses for projects.

5. Vehicle Expenses:

Examples: Gas, maintenance, insurance, registration, and leasing for company vehicles.

Explanation: Costs associated with company trucks, vans, or other vehicles used to transport materials and staff.

6. Fuel and Utilities:

Examples: Fuel for equipment, electricity, water, or gas at job sites or company offices.

Explanation: Utility costs required to run the business or keep job sites operational.

7. Insurance:

Examples: Workers' compensation, liability insurance, and equipment insurance.

Explanation: Insurance policies to cover business operations, employee protection, and equipment.

8. Permits and Licensing:

Examples: Building permits, contractor licenses, and inspection fees.

Explanation: Costs to comply with regulatory requirements for construction projects.

9. Office Expenses:

Examples: Rent for office space, office supplies (paper, ink, computers), internet, and phone bills.

Explanation: General administrative expenses to support the business's back-office operations.

10. Marketing and Advertising:

Examples: Website design, social media advertising, and print advertisements.

Explanation: Expenses incurred to promote the construction company and acquire new clients.

11. Legal and Professional Fees:

Examples: Lawyer fees, accountant fees, and fees for consultants or business advisors.

Explanation: Costs of hiring professional services to handle legal or financial aspects of the business.

12. Depreciation:

Examples: Depreciation of company-owned equipment, vehicles, and buildings.

Explanation: The expense of using long-term assets over time as they wear out or lose value.

13. Maintenance and Repairs:

Examples: Repairing construction equipment, vehicle maintenance, or repairing office facilities.

Explanation: Costs to maintain and fix equipment, vehicles, or property.

14. Training and Certification:

Examples: Courses for safety certification, training for employees, continuing education for skilled labor.

Explanation: Expenses related to keeping the workforce certified and trained.

Deductions (Expenses that reduce taxable income)

1. Cost of Goods Sold (COGS):

Examples: Labor, materials, and subcontractor payments.

Explanation: All direct costs related to producing a project are deductible as COGS.

2. Depreciation:

Examples: Depreciation of construction equipment, office buildings, and vehicles.

Explanation: Tax deduction for the gradual reduction in value of long-term business assets.

3. Interest on Loans:

Examples: Interest paid on business loans for purchasing equipment, vehicles, or property.

Explanation: Interest on business loans is deductible as a business expense.

4. Business Use of Home (If applicable):

Examples: Deductions for using part of the home as an office or storage for business purposes.

Explanation: A portion of home expenses (mortgage, utilities, etc.) can be deducted if used for business.

5. Employee Benefits:

Examples: Health insurance premiums, retirement contributions, or other benefits provided to employees.

Explanation: Contributions made to employee benefit programs are deductible.

6. Vehicle Deductions:

Examples: Mileage deduction or actual expenses (fuel, repairs, maintenance) for business vehicles.

Explanation: Business-related vehicle expenses are deductible.

7. Office Rent and Utilities:

Examples: Rent, electricity, water, and internet bills for office space.

Explanation: Office rent and utility expenses are deductible business expenses.

8. Insurance Premiums:

Examples: Premiums for business liability, workers' compensation, and property insurance.

Explanation: Insurance premiums are deductible.

9. Marketing and Advertising:

Examples: Costs for advertisements, business cards, website hosting.

Explanation: Marketing expenses aimed at promoting the business are fully deductible.

10. Legal and Professional Services:

Examples: Attorney fees, accountant fees, and fees paid for business consulting.

Explanation: Costs incurred for professional services that help maintain the business are deductible.

11. Business Travel Expenses:

Examples: Transportation, lodging, meals during business-related travel.

Explanation: Travel expenses related to business operations are deductible, though there are limits on meal deductions.

12. Tools and Equipment:

Examples: Deduction for small tools and equipment under IRS Section 179 (for small purchases).

Explanation: The cost of tools and equipment used for business purposes is deductible, either immediately or over time.