# BUSINESS FINANCIAL PLAN

For

Johnson Mechanical Contractors
2754 Grand Avenue
Madison WI, 53714

Analysis as of: December 31 2011

JOHNSON
MECHANICAL CONTRACTORS

PREPARED BY

The Profit Forecaster Team
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Report Date: February 15 2012

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February 15 2012

Mr. Alexander Johnson, President
Johnson Mechanical Contractors
35 Pipefitter Drive
Middleton, WI 53562

Dear: Mr. Johnson:

Thank you for contacting us. The following is the information that you requested on Johnson Mechanical Contractors located at 2754 Grand Avenue, Madison, WI 53562. Enclosed you will find our complete Operations Analysis for this business. This letter contains a general overview of the findings of our analysis. For more complete data, please review the enclosed information.

Our analysis of the company's last year's financial performance can be seen in the results that were obtained in a review of the company's income statement and balance sheet that has yielded the following key financial ratio performance: Acid Test Ratio: 2.06, Current Ratio: 2.64, Asset Liquidity Ratio: 0.85, Debt Equity Ratio: 0.61, Return on Investment: 22.55, Working Capital Turnover Ratio: 4.46, Inventory Turnover Ratio: 4.75, Average Age A/R: 77.42, Average Age A/P: 56.39, Cash Conversion Period: 158.11, Cash Turns: 2.31, Cash Demand Period: 115.49, Profit Margin Before Tax: 5.05, Return on Assets: 19.84.

As part of our financial analysis, we estimated the potential of the company's next year's financial performance by creating a financial model. To begin this model, we started with a budget, which is a short term financial plan that uses the company's last year's financial performance as the base standard and adjusts the base using assumptions that either increase or decrease the sales and/or price and/or expense line-items. The final result of this analysis is totally dependent upon the assumptions made herein. Since this is a financial analysis that is dependent upon the listed assumptions, it must be understood that different financial variable assumptions would yield different results. Using the assumptions that are shown on each of the expense line-items contained on the attached proforma budget, and assuming the sales will change by 3% and assuming the price will change by 1.5%, next year's budgeted profit would be 6.44%, $620,396.

As part of next year's short term financial plan, we have included a job costing analysis that would accurately determine, when multiplied to the estimated cost of labor and/or materials of the company's product(s), both the job cost multipliers for job or product's cost and the job cost multipliers that would create the base selling price standard needed to achieve the company's budget goal. To achieve the results of the attached budget goals, the multiplier that would be used for the labor calculation is 2.4412 and the multiplier that would be used for the materials calculation is 1.5949. To determine cost of any job or product, the multiplier that would be used for the labor calculation (if appropriate) would be 2.2965 and the multiplier that would be used for the materials (if appropriate) would be 1.5004. If your product(s) use both labor and materials, you would use the sum of the labor cost of your product times the labor multiplier and the material cost of your product times the materials multiplier. If your product contains either labor or materials, you would use the appropriate multiplier.

To conclude our analysis, we determined the cash demands of the company that would be needed to achieve the next year's budget profit goals. As part of the analysis, we considered the historical number of days-out that was being experienced in the collection of receipts and the payment of the company's obligations. An analysis of the effects on profit and/or cash demand that other collection or payment periods would have on the cash flow are also available as a separate analysis. Based upon the attached anticipated cash flow schedule, it was determined that the following cash or credit line of $266,956 would be needed to fund next year's budget goal. Based upon an anticipated credit line having a rate of 7.5%, $10,902 would be paid in interest expense to fund the credit line. After adjusting the original budgeted profit of $620,395 for the additional expense of the credit line and any additional profit generated from discounting, the new anticipated Net Profit Before Taxes would be 6.79%, $654,640.

This is an accurate mathematical analysis that is dependent upon the assumptions made herein. Since the analysis is dependent upon the listed assumptions, remember that different financial variable assumptions would yield different results. I would be glad to work with you in creating any additional business models that are based upon different sales, price and expense assumptions that you would like to consider.

Sincerely,

*The Profit Forecaster Team*

The Profit Forecaster Team

Enclosures

Year 1

## INCOME STATEMENT SUMMARY

| | % | Actual Year Ending 12-31-2011 |
|---|---|---|
| INCOME: | | |
| Sales | 100 | $9,216,687 |
| Total Income | 100 | $9,216,687 |
| | ==== | ========= |
| Cost of Goods Sold: | | |
| Direct Costs - Labor | 23.20 | $2,138,590 |
| Direct Costs - Materials | 23.84 | $2,197,498 |
| Direct Costs - Equipment | 0.20 | $18,568 |
| Direct Costs - Subcontractor | 2.70 | $248,976 |
| Direct Costs - Other | 1.13 | $103,848 |
| Total Cost of Goods Sold | 51.08 | $4,707,480 |
| | ==== | ========= |
| GROSS PROFIT | 48.92 | $4,509,207 |
| | ==== | ========= |
| LESS: OPERATING COSTS | | |
| Total Variable Costs | 18.80 | $1,732,522 |
| (See detail schedule on next page) | ==== | ========= |
| Fixed Costs | | |
| Total Fixed Costs | 25.22 | $2,324,035 |
| (See detail schedule on next page) | ==== | ========= |
| Total Operating Expenses | 44.01 | $4,056,557 |
| (Fixed Costs plus Variable Costs) | ==== | ========= |
| Other Income (Expenses) | | |
| Total Other Income (Expenses) | 0.14 | $13,078 |
| | ==== | ========= |
| NET OPERATING INCOME (NPBT) | 5.05 | $465,728 |
| (Before Debt Service) | ==== | ========= |

# INCOME STATEMENT DETAIL

| | % | Actual Year Ending 12-31-2011 |
|---|---|---|
| Variable Costs | | |
| Advertising & Promotion | 0.77 | $71,395 |
| Auto & Truck Gas, Oil, Repairs | 2.05 | $189,190 |
| Bad Debt | 0.30 | $27,710 |
| Bank Charges | 0.10 | $9,619 |
| Employee Benefits | 2.26 | $208,674 |
| Freight | 0.21 | $19,539 |
| Insurance - W. C. Direct Labor | 0.91 | $84,071 |
| Laundry, Cleaning | 0.09 | $8,646 |
| License & Permits | 0.06 | $5,735 |
| Miscellaneous | 0.00 | $418 |
| Office Supplies | 0.63 | $58,475 |
| Other | 0.09 | $8,014 |
| Payroll Taxes (Direct Labor) | 2.16 | $198,776 |
| Shop Supplies & Small Tools | 0.62 | $57,051 |
| Travel, Lodging & Entertainment | 0.02 | $2,104 |
| U.P.S./FedEx | 0.02 | $1,861 |
| Union Benefits/Dues | 7.71 | $710,512 |
| Warranty Expense | 0.77 | $70,732 |
| Total Variable Costs | 18.80 | $1,732,522 |
| | ==== | ========= |
| Fixed Costs: | | |
| Contributions | 0.03 | $2,434 |
| Depreciation | 1.32 | $121,985 |
| Dues & Subscriptions | 0.23 | $20,867 |
| Insurance - Auto & Liability | 3.97 | $366,043 |
| Insurance - Group Health | 0.17 | $15,248 |
| Insurance - Officer | 0.10 | $8,981 |
| Other - Expenses | 1.58 | $145,787 |
| Payroll Tax - Office | 0.88 | $81,028 |
| Professional Fees | 0.70 | $64,435 |
| Property Taxes | 0.21 | $19,584 |
| Rent | 0.76 | $69,665 |
| Repairs & Maintenance | 0.05 | $4,409 |
| Salaries - Owner | 1.57 | $145,000 |
| Salaries - Office/Shop | 13.40 | $1,234,609 |
| Telephone | 0.11 | $9,960 |
| Utilities | 0.15 | $14,000 |
| Total Fixed Costs | 25.22 | $2,324,035 |
| | ==== | ========= |
| Total Operating Costs | 44.01 | $4,056,557 |
| | ==== | ======= |

Year 1

# BALANCE SHEET SUMMARY

| | Actual Year Ending 12-31-2011 |
|---|---|
| CURRENT ASSETS | |
| Total Current Assets | $2,821,702 |
| | ========= |
| FIXED ASSETS | |
| Total Fixed Assets | $467,157 |
| | ========= |
| OTHER ASSETS | |
| Total Other Assets | $35,150 |
| | ========= |
| TOTAL ASSETS | $3,324,009 |
| | ========= |
| CURRENT LIABILITIES | |
| Total Current Liabilities | $1,067,394 |
| | ========= |
| LONG TERM LIABILITIES | |
| Total Current Liabilities | $191,546 |
| | ========= |
| TOTAL LIABILITIES | $1,258,940 |
| | ========= |
| NETWORTH | |
| Total Net worth | $2,065,069 |
| | ========= |
| TOTAL LIABILITIES AND NETWORTH | $3,324,009 |
| | ========= |

## BALANCE SHEET DETAIL

| | Actual Year Ending 12-31-2011 |
|---|---|
| CURRENT ASSET ADJUSTMENTS | |
| Total Current Assets | $2,821,702 |
| | ========= |
| FIXED ASSET ADJUSTMENTS | |
| Total Depreciable Assets | $1,806,196 |
| | ========= |
| Net Book Value | $467,157 |
| Total Fixed Assets | $467,157 |
| | ========= |
| OTHER ASSET ADJUSTMENTS | |
| Total Other Assets | $35,150 |
| TOTAL ASSET ADJUSTMENTS | $3,324,009 |
| | ========= |
| CURRENT LIABILITIES ADJUSTMENTS | |
| Total Current Liabilities | $1,067,394 |
| | ========= |
| LONG TERM LIABILITIES ADJUSTMENTS | |
| Total Long Term Liabilities | $191,546 |
| | ========= |
| TOTAL LIABILITIES | $1,258,940 |
| | ========= |
| NETWORTH ADJUSTMENTS | |
| Total Networth | $2,065,069 |
| | ========= |

# PROFORMA FIRST YEAR FINANCIAL BUDGET SUMMARY

Budget Assumptions:
Sales Increase = 3%
Price Market Adjustment to Achieve Profit Goal = 1.5%

| | % | Budget Year Ending 12/31/12 |
|---|---|---|
| INCOME: | | |
| Sales | 100 | $9,635,585 |
| Total Income | 100 | $9,635,585 |
| | ===== | ========= |
| Cost of Goods Sold: | | |
| Direct Costs - Labor | 22.86 | $2,202,748 |
| Direct Costs - Materials | 23.49 | $2,263,423 |
| Direct Costs - Equipment | 0.20 | $19,125 |
| Direct Costs - Subcontractor | 2.66 | $256,445 |
| Direct Costs - Other | 1.11 | $106,963 |
| Total Cost of Goods Sold | 50.32 | $4,848,704 |
| | ===== | ========= |
| GROSS PROFIT | 49.68 | $4,786,881 |
| (Total Income less COS) | ===== | ========= |
| LESS: OPERATING COSTS | | |
| Total Variable Costs | 18.52 | $1,784,498 |
| (See detail schedule on next page) | | |
| Fixed Costs | | |
| Total Fixed Costs | 24.86 | $2,395,458 |
| (See detail schedule on next page) | | |
| Total Operating Costs | | |
| (Fixed Costs plus Variable Costs) | | |
| Total Operating Costs | 43.38 | $4,179,955 |
| | ==== | ========= |
| Other Income (Expenses) | | |
| Total Other Income (Expenses) | 0.14 | $13,470 |
| (See detail schedule on next page) | | |
| BUDGET- NET OPERATING INCOME | 6.44 | $620,396 |
| | ==== | ========= |

# PROFORMA FIRST YEAR FINANCIAL BUDGET DETAIL

| | % | Budget Year Ending 12/31/12 |
|---|---|---|
| Variable Costs: | | |
| Advertising & Promotion | 0.76 | $73,537 |
| Auto & Truck Gas, Oil, Repairs | 2.02 | $194,866 |
| Bad Debt | 0.30 | $28,541 |
| Bank Charges | 0.10 | $9,908 |
| Employee Benefits | 2.23 | $214,934 |
| Freight | 0.21 | $20,125 |
| Insurance - W. C. Direct Labor | 0.90 | $86,593 |
| Laundry, Cleaning | 0.09 | $8,905 |
| License & Permits | 0.06 | $5,907 |
| Miscellaneous | 0.00 | $431 |
| Office Supplies | 0.63 | $60,229 |
| Other | 0.09 | $8,254 |
| Payroll Taxes (Direct Labor) | 2.12 | $204,739 |
| Shop Supplies & Small Tools | 0.61 | $58,763 |
| Travel, Lodging & Entertainment | 0.02 | $2,167 |
| U.P.S./FedEx | 0.02 | $1,917 |
| Union Benefits/Dues | 7.60 | $731,827 |
| Warranty Expense | 0.76 | $72,854 |
| **Total Variable Costs** | **18.52** | **$1,784,498** |
| Fixed Costs: | | |
| Contributions | 0.03 | $2,434 |
| Depreciation | 1.27 | $121,985 |
| Dues & Subscriptions | 0.22 | $20,867 |
| Insurance - Auto & Liability | 4.16 | $400,543 |
| Insurance - Group Health | 0.18 | $17,078 |
| Insurance - Officer | 0.09 | $8,981 |
| Other - Expenses | 1.56 | $150,100 |
| Payroll Tax - Office | 0.86 | $82,649 |
| Professional Fees | 0.67 | $64,435 |
| Property Taxes | 0.22 | $21,151 |
| Rent | 0.72 | $69,665 |
| Repairs & Maintenance | 0.05 | $4,409 |
| Salaries - Owner | 1.53 | $147,900 |
| Salaries - Office/Shop | 13.07 | $1,259,301 |
| Telephone | 0.10 | $9,960 |
| Utilities | 0.15 | $14,000 |
| Total Fixed Costs | 24.86 | $2,395,458 |
| **Total Operating Costs** | **43.38** | **$4,179,955** |
| Other Income (Expenses): | | |
| Other Income | 0.60 | $57,630 |
| Other Expense - Interest | 0.46 | $44,159 |
| **Total Other Income (Expenses)** | **0.14** | **$13,470** |

COMMENTS – BUDGET

ADJUSTMENTS FOR YEAR: 2012

| Line Item Adjusted | Comments |
|---|---|
| Insurance - Auto & Liability | An insurance quote was obtained and an increase of $34,500 is budgeted. |
| Insurance - Group Health | Health insurance quotations show that there will be a 12% increase in health insurance in 2012. |
| Other - Expenses | An increase of other expenses is anticipated for 2012. |
| Payroll Tax - Office | Payroll taxes will increase in 2012 due to the budgeted increase in the owner |
| Property Taxes | Property taxes will be increasing by $1,567. |
| Salaries - Owner | Owner's salary is budgeted to increase by 2%. |
| Salaries - Office/Shop | Office/shop salaries is budgeted to increase by 2% in 2012. |

# PROFORMA FIRST YEAR FINANCIAL BUDGET DETAIL Q1

| | M1 % | Amount | M2 % | Amount | M3 % | Amount |
|---|---|---|---|---|---|---|
| Income: | | | | | | |
| | 7.59 | $731,341 | 9.39 | $904,781 | 6.65 | $640,766 |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Cost of Goods Sold: | | | | | | |
| Direct Costs - Labor | 22.86 | $167,189 | 22.86 | $206,838 | 22.86 | $146,483 |
| Direct Costs - Materials | 23.49 | $171,794 | 23.49 | $212,535 | 23.49 | $150,518 |
| Direct Costs - Equipment | 0.20 | $1,452 | 0.20 | $1,796 | 0.20 | $1,272 |
| Direct Costs - Subcontractor | 2.66 | $19,464 | 2.66 | $24,080 | 2.66 | $17,054 |
| Direct Costs - Other | 1.11 | $8,118 | 1.11 | $10,044 | 1.11 | $7,113 |
| **Total Cost of Goods Sold** | **50.32** | **$368,017** | **50.32** | **$455,293** | **50.32** | **$322,440** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **Gross Profit** | **49.68** | **$363,324** | **49.68** | **$449,488** | **49.68** | **$318,326** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Variable Costs: | | | | | | |
| Advertising & Promotion | 0.76 | $5,581 | 0.76 | $6,905 | 0.76 | $4,890 |
| Auto & Truck Gas, Oil, Repairs | 2.02 | $14,790 | 2.02 | $18,298 | 2.02 | $12,959 |
| Bad Debt | 0.30 | $2,166 | 0.30 | $2,680 | 0.30 | $1,898 |
| Bank Charges | 0.10 | $752 | 0.10 | $930 | 0.10 | $659 |
| Employee Benefits | 2.23 | $16,313 | 2.23 | $20,182 | 2.23 | $14,293 |
| Freight | 0.21 | $1,527 | 0.21 | $1,890 | 0.21 | $1,338 |
| Insurance - W. C. Direct Labor | 0.90 | $6,572 | 0.90 | $8,131 | 0.90 | $5,758 |
| Laundry, Cleaning | 0.09 | $676 | 0.09 | $836 | 0.09 | $592 |
| License & Permits | 0.06 | $448 | 0.06 | $555 | 0.06 | $393 |
| Miscellaneous | 0.00 | $33 | 0.00 | $40 | 0.00 | $29 |
| Office Supplies | 0.63 | $4,571 | 0.63 | $5,656 | 0.63 | $4,005 |
| Other | 0.09 | $626 | 0.09 | $775 | 0.09 | $549 |
| Payroll Taxes (Direct Labor) | 2.12 | $15,540 | 2.12 | $19,225 | 2.12 | $13,615 |
| Rentals | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Sales Commissions | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Sales Tax Expense | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Shop Supplies & Small Tools | 0.61 | $4,460 | 0.61 | $5,518 | 0.61 | $3,908 |
| Travel, Lodging & Entertainment | 0.02 | $164 | 0.02 | $203 | 0.02 | $144 |
| U.P.S./FedEx | 0.02 | $146 | 0.02 | $180 | 0.02 | $127 |
| Union Benefits/Dues | 7.60 | $55,546 | 7.60 | $68,719 | 7.60 | $48,666 |
| Warranty Expense | 0.76 | $5,530 | 0.76 | $6,841 | 0.76 | $4,845 |
| **Total Variable Costs** | **18.52** | **$135,441** | **18.52** | **$167,564** | **18.52** | **$118,668** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Fixed Costs: | | | | | | |
| Contributions | 0.03 | $203 | 0.02 | $203 | 0.03 | $203 |
| Depreciation | 1.39 | $10,165 | 1.12 | $10,165 | 1.59 | $10,165 |
| Dues & Subscriptions | 0.24 | $1,739 | 0.19 | $1,739 | 0.27 | $1,739 |
| Insurance - Auto & Liability | 4.56 | $33,379 | 3.69 | $33,379 | 5.21 | $33,379 |
| Insurance - Group Health | 0.19 | $1,423 | 0.16 | $1,423 | 0.22 | $1,423 |
| Insurance - Officer | 0.10 | $748 | 0.08 | $748 | 0.12 | $748 |
| Insurance - W. C. Office | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Other - Expenses | 1.71 | $12,508 | 1.38 | $12,508 | 1.95 | $12,508 |
| Payroll Tax - Office | 0.94 | $6,887 | 0.76 | $6,887 | 1.07 | $6,887 |
| Postage, Mailings | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Professional Fees | 0.73 | $5,370 | 0.59 | $5,370 | 0.84 | $5,370 |
| Property Taxes | 0.24 | $1,763 | 0.19 | $1,763 | 0.28 | $1,763 |
| Rent | 0.79 | $5,805 | 0.64 | $5,805 | 0.91 | $5,805 |
| Repairs & Maintenance | 0.05 | $367 | 0.04 | $367 | 0.06 | $367 |
| Salaries - Owner | 1.69 | $12,325 | 1.36 | $12,325 | 1.92 | $12,325 |
| Salaries - Office/Shop | 14.35 | $104,942 | 11.60 | $104,942 | 16.38 | $104,942 |
| Telephone | 0.11 | $830 | 0.09 | $830 | 0.13 | $830 |
| Utilities | 0.16 | $1,167 | 0.13 | $1,167 | 0.18 | $1,167 |
| Total Fixed Costs | 27.28 | $199,621 | 22.04 | $199,621 | 31.16 | $199,621 |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **Total Operating Costs** | **45.81** | **$335,062** | **40.58** | **$367,185** | **49.67** | **$318,289** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Other Income (Expenses): | | | | | | |
| Other Income | 0.60 | $4,374 | 0.60 | $5,411 | 0.60 | $3,832 |
| Other Expense – Interest | 0.46 | $3,352 | 0.46 | $4,147 | 0.46 | $2,937 |
| Other Expense | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| **Total Other Income (Expenses)** | **0.14** | **$1,022** | **0.14** | **$1,264** | **0.14** | **$895** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **BUDGET – NET OPERATING INCOME** | **4.00** | **$29,284** | **9.24** | **$83,567** | **0.15** | **$932** |
| | ==== | ===== | ==== | ===== | ==== | ===== |

# PROFORMA FIRST YEAR FINANCIAL BUDGET DETAIL Q2

| | M4 % | Amount | M5 % | Amount | M6 % | Amount |
|---|---|---|---|---|---|---|
| Income: | | | | | | |
| | 8.11 | $781,446 | 8.30 | $799,754 | 10.31 | $993,429 |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Cost of Goods Sold: | | | | | | |
| Direct Costs - Labor | 22.86 | $178,643 | 22.86 | $182,828 | 22.86 | $227,103 |
| Direct Costs - Materials | 23.49 | $183,564 | 23.49 | $187,864 | 23.49 | $233,359 |
| Direct Costs - Equipment | 0.20 | $1,551 | 0.20 | $1,587 | 0.20 | $1,972 |
| Direct Costs - Subcontractor | 2.66 | $20,798 | 2.66 | $21,285 | 2.66 | $26,439 |
| Direct Costs - Other | 1.11 | $8,675 | 1.11 | $8,878 | 1.11 | $11,028 |
| **Total Cost of Goods Sold** | **50.32** | **$393,231** | **50.32** | **$402,442** | **50.32** | **$499,901** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **Gross Profit** | **49.68** | **$388,215** | **49.68** | **$397,312** | **49.68** | **$493,528** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Variable Costs: | | | | | | |
| Advertising & Promotion | 0.76 | $5,964 | 0.76 | $6,104 | 0.76 | $7,582 |
| Auto & Truck Gas, Oil, Repairs | 2.02 | $15,804 | 2.02 | $16,174 | 2.02 | $20,091 |
| Bad Debt | 0.30 | $2,315 | 0.30 | $2,369 | 0.30 | $2,943 |
| Bank Charges | 0.10 | $804 | 0.10 | $822 | 0.10 | $1,022 |
| Employee Benefits | 2.23 | $17,431 | 2.23 | $17,840 | 2.23 | $22,160 |
| Freight | 0.21 | $1,632 | 0.21 | $1,670 | 0.21 | $2,075 |
| Insurance - W. C. Direct Labor | 0.90 | $7,023 | 0.90 | $7,187 | 0.90 | $8,928 |
| Laundry, Cleaning | 0.09 | $722 | 0.09 | $739 | 0.09 | $918 |
| License & Permits | 0.06 | $479 | 0.06 | $490 | 0.06 | $609 |
| Miscellaneous | 0.00 | $35 | 0.00 | $36 | 0.00 | $44 |
| Office Supplies | 0.63 | $4,885 | 0.63 | $4,999 | 0.63 | $6,210 |
| Other | 0.09 | $669 | 0.09 | $685 | 0.09 | $851 |
| Payroll Taxes (Direct Labor) | 2.12 | $16,604 | 2.12 | $16,993 | 2.12 | $21,109 |
| Rentals | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Sales Commissions | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Sales Tax Expense | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Shop Supplies & Small Tools | 0.61 | $4,766 | 0.61 | $4,877 | 0.61 | $6,058 |
| Travel, Lodging & Entertainment | 0.02 | $176 | 0.02 | $180 | 0.02 | $223 |
| U.P.S./FedEx | 0.02 | $155 | 0.02 | $159 | 0.02 | $198 |
| Union Benefits/Dues | 7.60 | $59,351 | 7.60 | $60,742 | 7.60 | $75,451 |
| Warranty Expense | 0.76 | $5,908 | 0.76 | $6,047 | 0.76 | $7,511 |
| **Total Variable Costs** | **18.52** | **$144,723** | **18.52** | **$148,113** | **18.52** | **$183,983** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Fixed Costs: | | | | | | |
| Contributions | 0.03 | $203 | 0.03 | $203 | 0.02 | $203 |
| Depreciation | 1.30 | $10,165 | 1.27 | $10,165 | 1.02 | $10,165 |
| Dues & Subscriptions | 0.22 | $1,739 | 0.22 | $1,739 | 0.18 | $1,739 |
| Insurance - Auto & Liability | 4.27 | $33,379 | 4.17 | $33,379 | 3.36 | $33,379 |
| Insurance - Group Health | 0.18 | $1,423 | 0.18 | $1,423 | 0.14 | $1,423 |
| Insurance - Officer | 0.10 | $748 | 0.09 | $748 | 0.08 | $748 |
| Insurance - W. C. Office | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Other - Expenses | 1.60 | $12,508 | 1.56 | $12,508 | 1.26 | $12,508 |
| Payroll Tax - Office | 0.88 | $6,887 | 0.86 | $6,887 | 0.69 | $6,887 |
| Postage, Mailings | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Professional Fees | 0.69 | $5,370 | 0.67 | $5,370 | 0.54 | $5,370 |
| Property Taxes | 0.23 | $1,763 | 0.22 | $1,763 | 0.18 | $1,763 |
| Rent | 0.74 | $5,805 | 0.73 | $5,805 | 0.58 | $5,805 |
| Repairs & Maintenance | 0.05 | $367 | 0.05 | $367 | 0.04 | $367 |
| Salaries - Owner | 1.58 | $12,325 | 1.54 | $12,325 | 1.24 | $12,325 |
| Salaries - Office/Shop | 13.43 | $104,942 | 13.12 | $104,942 | 10.56 | $104,942 |
| Telephone | 0.11 | $830 | 0.10 | $830 | 0.08 | $830 |
| Utilities | 0.15 | $1,167 | 0.15 | $1,167 | 0.12 | $1,167 |
| Total Fixed Costs | 25.56 | $199,621 | 24.96 | $199,621 | 20.09 | $199,621 |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **Total Operating Costs** | **44.06** | **$344,344** | **43.48** | **$347,734** | **38.61** | **$383,604** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Other Income (Expenses): | | | | | | |
| Other Income | 0.60 | $4,674 | 0.60 | $4,783 | 0.60 | $5,942 |
| Other Expense – Interest | 0.46 | $3,581 | 0.46 | $3,665 | 0.46 | $4,553 |
| Other Expense | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| **Total Other Income (Expenses)** | **0.14** | **$1,093** | **0.14** | **$1,118** | **0.14** | **$1,389** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **BUDGET – NET OPERATING INCOME** | **5.75** | **$44,964** | **6.34** | **$50,696** | **11.20** | **$111,313** |
| | ==== | ===== | ==== | ===== | ==== | ===== |

# PROFORMA FIRST YEAR FINANCIAL BUDGET DETAIL Q3

| | M7 % | Amount | M8% | Amount | M9 % | Amount |
|---|---|---|---|---|---|---|
| Income: | | | | | | |
| | 8.27 | $796,863 | 8.95 | $862,385 | 6.11 | $588,734 |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Cost of Goods Sold: | | | | | | |
| Direct Costs - Labor | 22.86 | $182,167 | 22.86 | $197,146 | 22.86 | $134,588 |
| Direct Costs - Materials | 23.49 | $187,185 | 23.49 | $202,576 | 23.49 | $138,295 |
| Direct Costs - Equipment | 0.20 | $1,582 | 0.20 | $1,712 | 0.20 | $1,169 |
| Direct Costs - Subcontractor | 2.66 | $21,208 | 2.66 | $22,952 | 2.66 | $15,669 |
| Direct Costs - Other | 1.11 | $8,846 | 1.11 | $9,573 | 1.11 | $6,535 |
| **Total Cost of Goods Sold** | **50.32** | **$400,988** | **50.32** | **$433,959** | **50.32** | **$296,256** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **Gross Profit** | **49.68** | **$395,875** | **49.68** | **$428,426** | **49.68** | **$292,478** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Variable Costs: | | | | | | |
| Advertising & Promotion | 0.76 | $6,082 | 0.76 | $6,582 | 0.76 | $4,493 |
| Auto & Truck Gas, Oil, Repairs | 2.02 | $16,115 | 2.02 | $17,441 | 2.02 | $11,906 |
| Bad Debt | 0.30 | $2,360 | 0.30 | $2,554 | 0.30 | $1,744 |
| Bank Charges | 0.10 | $819 | 0.10 | $887 | 0.10 | $605 |
| Employee Benefits | 2.23 | $17,775 | 2.23 | $19,237 | 2.23 | $13,132 |
| Freight | 0.21 | $1,664 | 0.21 | $1,801 | 0.21 | $1,230 |
| Insurance - W. C. Direct Labor | 0.90 | $7,161 | 0.90 | $7,750 | 0.90 | $5,291 |
| Laundry, Cleaning | 0.09 | $736 | 0.09 | $797 | 0.09 | $544 |
| License & Permits | 0.06 | $489 | 0.06 | $529 | 0.06 | $361 |
| Miscellaneous | 0.00 | $36 | 0.00 | $39 | 0.00 | $26 |
| Office Supplies | 0.63 | $4,981 | 0.63 | $5,390 | 0.63 | $3,680 |
| Other | 0.09 | $683 | 0.09 | $739 | 0.09 | $504 |
| Payroll Taxes (Direct Labor) | 2.12 | $16,932 | 2.12 | $18,324 | 2.12 | $12,510 |
| Rentals | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Sales Commissions | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Sales Tax Expense | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Shop Supplies & Small Tools | 0.61 | $4,860 | 0.61 | $5,259 | 0.61 | $3,590 |
| Travel, Lodging & Entertainment | 0.02 | $179 | 0.02 | $194 | 0.02 | $132 |
| U.P.S./FedEx | 0.02 | $159 | 0.02 | $172 | 0.02 | $117 |
| Union Benefits/Dues | 7.60 | $60,522 | 7.60 | $65,499 | 7.60 | $44,715 |
| Warranty Expense | 0.76 | $6,025 | 0.76 | $6,520 | 0.76 | $4,451 |
| **Total Variable Costs** | **18.52** | **$147,578** | **18.52** | **$159,714** | **18.52** | **$109,031** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Fixed Costs: | | | | | | |
| Contributions | 0.03 | $203 | 0.02 | $203 | 0.03 | $203 |
| Depreciation | 1.28 | $10,165 | 1.18 | $10,165 | 1.73 | $10,165 |
| Dues & Subscriptions | 0.22 | $1,739 | 0.20 | $1,739 | 0.30 | $1,739 |
| Insurance - Auto & Liability | 4.19 | $33,379 | 3.87 | $33,379 | 5.67 | $33,379 |
| Insurance - Group Health | 0.18 | $1,423 | 0.17 | $1,423 | 0.24 | $1,423 |
| Insurance - Officer | 0.09 | $748 | 0.09 | $748 | 0.13 | $748 |
| Insurance - W. C. Office | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Other - Expenses | 1.57 | $12,508 | 1.45 | $12,508 | 2.12 | $12,508 |
| Payroll Tax - Office | 0.86 | $6,887 | 0.80 | $6,887 | 1.17 | $6,887 |
| Postage, Mailings | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Professional Fees | 0.67 | $5,370 | 0.62 | $5,370 | 0.91 | $5,370 |
| Property Taxes | 0.22 | $1,763 | 0.20 | $1,763 | 0.30 | $1,763 |
| Rent | 0.73 | $5,805 | 0.67 | $5,805 | 0.99 | $5,805 |
| Repairs & Maintenance | 0.05 | $367 | 0.04 | $367 | 0.06 | $367 |
| Salaries - Owner | 1.55 | $12,325 | 1.43 | $12,325 | 2.09 | $12,325 |
| Salaries - Office/Shop | 13.17 | $104,942 | 12.17 | $104,942 | 17.82 | $104,942 |
| Telephone | 0.10 | $830 | 0.10 | $830 | 0.14 | $830 |
| Utilities | 0.15 | $1,167 | 0.14 | $1,167 | 0.20 | $1,167 |
| Total Fixed Costs | 25.06 | $199,621 | 23.15 | $199,621 | 33.9 | $199,621 |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **Total Operating Costs** | **43.57** | **$347,199** | **41.67** | **$359,335** | **52.43** | **$308,652** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| Other Income (Expenses): | | | | | | |
| Other Income | 0.60 | $4,766 | 0.60 | $5,158 | 0.60 | $3,521 |
| Other Expense – Interest | 0.46 | $3,652 | 0.46 | $3,952 | 0.46 | $2,698 |
| Other Expense | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| **Total Other Income (Expenses)** | **0.14** | **$1,114** | **0.14** | **$1,206** | **0.14** | **$823** |
| | ==== | ===== | ==== | ===== | ==== | ===== |
| **BUDGET – NET OPERATING INCOME** | **6.25** | **$49,790** | **8.15** | **$70,297** | **-2.61** | **($15,351)** |
| | ==== | ===== | ==== | ===== | ==== | ===== |

# PROFORMA FIRST YEAR FINANCIAL BUDGET DETAIL Q4

| | M10 % | Amount | M11 % | Amount | M12% | Amount |
|---|---|---|---|---|---|---|
| Income: | | | | | | |
| | 9.81 | $945,251 | 7.41 | $713,997 | 9.10 | $876,838 |
| Cost of Goods Sold: | | | | | | |
| Direct Costs - Labor | 22.86 | $216,090 | 22.86 | $163,224 | 22.86 | $200,450 |
| Direct Costs - Materials | 23.49 | $222,042 | 23.49 | $167,720 | 23.49 | $205,971 |
| Direct Costs - Equipment | 0.20 | $1,876 | 0.20 | $1,417 | 0.20 | $1,740 |
| Direct Costs - Subcontractor | 2.66 | $25,157 | 2.66 | $19,003 | 2.66 | $23,336 |
| Direct Costs - Other | 1.11 | $10,493 | 1.11 | $7,926 | 1.11 | $9,734 |
| **Total Cost of Goods Sold** | **50.32** | **$475,658** | **50.32** | **$359,290** | **50.32** | **$441,231** |
| **Gross Profit** | **49.68** | **$469,593** | **49.68** | **$354,707** | **49.68** | **$435,607** |
| Variable Costs: | | | | | | |
| Advertising & Promotion | 0.76 | $7,214 | 0.76 | $5,449 | 0.76 | $6,692 |
| Auto & Truck Gas, Oil, Repairs | 2.02 | $19,116 | 2.02 | $14,440 | 2.02 | $17,733 |
| Bad Debt | 0.30 | $2,800 | 0.30 | $2,115 | 0.30 | $2,597 |
| Bank Charges | 0.10 | $972 | 0.10 | $734 | 0.10 | $902 |
| Employee Benefits | 2.23 | $21,085 | 2.23 | $15,927 | 2.23 | $19,559 |
| Freight | 0.21 | $1,974 | 0.21 | $1,491 | 0.21 | $1,831 |
| Insurance - W. C. Direct Labor | 0.90 | $8,495 | 0.90 | $6,417 | 0.90 | $7,880 |
| Laundry, Cleaning | 0.09 | $874 | 0.09 | $660 | 0.09 | $810 |
| License & Permits | 0.06 | $579 | 0.06 | $438 | 0.06 | $538 |
| Miscellaneous | 0.00 | $42 | 0.00 | $32 | 0.00 | $39 |
| Office Supplies | 0.63 | $5,908 | 0.63 | $4,463 | 0.63 | $5,481 |
| Other | 0.09 | $810 | 0.09 | $612 | 0.09 | $751 |
| Payroll Taxes (Direct Labor) | 2.12 | $20,085 | 2.12 | $15,171 | 2.12 | $18,631 |
| Rentals | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Sales Commissions | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Sales Tax Expense | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Shop Supplies & Small Tools | 0.61 | $5,765 | 0.61 | $4,354 | 0.61 | $5,347 |
| Travel, Lodging & Entertainment | 0.02 | $213 | 0.02 | $161 | 0.02 | $197 |
| U.P.S./FedEx | 0.02 | $188 | 0.02 | $142 | 0.02 | $174 |
| Union Benefits/Dues | 7.60 | $71,792 | 7.60 | $54,228 | 7.60 | $66,596 |
| Warranty Expense | 0.76 | $7,147 | 0.76 | $5,398 | 0.76 | $6,630 |
| **Total Variable Costs** | **18.52** | **$175,059** | **18.52** | **$132,232** | **18.52** | **$162,388** |
| Fixed Costs: | | | | | | |
| Contributions | 0.02 | $203 | 0.03 | $203 | 0.02 | $203 |
| Depreciation | 1.08 | $10,165 | 1.42 | $10,165 | 1.16 | $10,165 |
| Dues & Subscriptions | 0.18 | $1,739 | 0.24 | $1,739 | 0.20 | $1,739 |
| Insurance - Auto & Liability | 3.53 | $33,379 | 4.67 | $33,379 | 3.81 | $33,379 |
| Insurance - Group Health | 0.15 | $1,423 | 0.20 | $1,423 | 0.16 | $1,423 |
| Insurance - Officer | 0.08 | $748 | 0.10 | $748 | 0.09 | $748 |
| Insurance - W. C. Office | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Other - Expenses | 1.32 | $12,508 | 1.75 | $12,508 | 1.43 | $12,508 |
| Payroll Tax - Office | 0.73 | $6,887 | 0.96 | $6,887 | 0.79 | $6,887 |
| Postage, Mailings | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| Professional Fees | 0.57 | $5,370 | 0.75 | $5,370 | 0.61 | $5,370 |
| Property Taxes | 0.19 | $1,763 | 0.25 | $1,763 | 0.20 | $1,763 |
| Rent | 0.61 | $5,805 | 0.81 | $5,805 | 0.66 | $5,805 |
| Repairs & Maintenance | 0.04 | $367 | 0.05 | $367 | 0.04 | $367 |
| Salaries - Owner | 1.30 | $12,325 | 1.73 | $12,325 | 1.41 | $12,325 |
| Salaries - Office/Shop | 11.10 | $104,942 | 14.70 | $104,942 | 11.97 | $104,942 |
| Telephone | 0.09 | $830 | 0.12 | $830 | 0.09 | $830 |
| Utilities | 0.12 | $1,167 | 0.16 | $1,167 | 0.13 | $1,167 |
| Total Fixed Costs | 21.11 | $199,621 | 27.94 | $199,621 | 22.77 | $199,621 |
| **Total Operating Costs** | **39.64** | **$374,680** | **46.48** | **$331,853** | **41.29** | **$362,009** |
| Other Income (Expenses): | | | | | | |
| Other Income | 0.60 | $5,654 | 0.60 | $4,270 | 0.60 | $5,244 |
| Other Expense – Interest | 0.46 | $4,332 | 0.46 | $3,272 | 0.46 | $4,018 |
| Other Expense | 0.00 | $0 | 0.00 | $0 | 0.00 | $0 |
| **Total Other Income (Expenses)** | **0.14** | **$1,322** | **0.14** | **$998** | **0.14** | **$1,226** |
| **BUDGET – NET OPERATING INCOME** | **10.18** | **$96,235** | **3.34** | **$23,852** | **8.53** | **$74,824** |

KEY FINANCIAL RATIOS

| | Actual Income Statement and Current Balance Sheet |
|---|---|
| Acid Test: (Quick Ratio) | 2.06 |
| Current Ratio: (Working Capital Ratio) | 2.64 |
| Asset Liquidity Ratio: | 0.85 |
| Debt Equity Ratio: (Total Liability to NW) | 0.61 |
| Net Profit to Net Sales Ratio: | 0.05 |
| AP to Sales Ratio: | 0.04 |
| AR to Sales Ratio: | 0.21 |
| AR to AP Ratio: | 5.13 |
| Sales to AR Ratio: | 4.71 |
| Return on Investment: (ROI) | 22.55 |
| Working Capital Turnover Ratio: | 4.46 |
| Inventory Turnover Ratio: | 4.75 |
| Average Sales per Day: | $25,251 |
| Average Age AR: (Average Collection Period): | 77.42 |
| Average Age AP: | 56.39 |
| Average Age of Underbillings: | 4.51 |
| Average Age of Overbillings: | 13.77 |
| Average Age of Materials Inventory: | 76.18 |
| Cash Conversion Period: | 158.11 |
| Cash Turns: | 2.31 |
| Cash Demand Period: | 115.49 |
| Profit Margin, Before Income Taxes: | 5.05 |
| Return on Net Assets: (RONA) | 19.84 |
| Maximum Sales Limited by Cash Flow: | $6,407,259 |
| Excess Sales: | $2,809,428 |
| Ideal Average Sales per Month: (As Measured by Cash Flow)Key Ratios | $533,938 |

Year Being Viewed: 2011

JOB COSTING/PRICING

Year Displayed: 2012

| Job Costing/Pricing Details / Multipliers | Final Budget |
|---|---|
| **Final Budget** | |
| Sales Revenues | $9,635,585 |
| Budgeted Net Operating Income (Loss) Before Taxes $ (NPBT $) | $620,396 |
| Budgeted Net Operating Income (Loss) Before Taxes % (NPBT %) | 6.44 |
| **Budget Profit Goal Multipliers:** | |
| Labor Profit Goal Multiplier (includes budgeted profit/loss) | 2.4412 |
| MESO Profit Goal Multiplier (includes budgeted profit/loss) | 1.5949 |
| **Burden Rate Multipliers:** | |
| (Doesn’t include other income and expenses) | |
| Labor Burden Rate Multiplier (Calculates cost of labor) | 2.2965 |
| MESO Burden Rate Multiplier (Calculates cost of MESO) | 1.5004 |
| **Breakeven Analysis:** | |
| Breakeven Sales Volume Dollars ($) | $7,687,771 |
| Breakeven Sales Volume Percentage (%) | 79.79 |
| **Single Burden Rate Multipler:** | |
| Labor Profit Goal Multiplier | 3.1537 |
| Labor Burden Rate Multiplier | 2.8851 |

# CASH FLOW—BUDGET

| | | | | | | Budget Fiscal Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FINAL | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Month 7 | Month 8 | Month 9 | Month 10 | Month 11 | Month 12 |
| Percent Of Annual Sales | 100 | 7.59 | 9.39 | 6.65 | 8.11 | 8.30 | 10.31 | 8.27 | 8.95 | 6.11 | 9.81 | 7.41 | 9.10 |
| Fiscal Year | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 | 2012 |
| INCOME | $9,635,585 | $731,341 | $904,781 | $640,766 | $781,446 | $799,754 | $993,429 | $796,863 | $862,385 | $588,734 | $945,251 | $713,997 | $876,838 |
| COSTS OF SALES | | | | | | | | | | | | | |
| Direct Labor | $2,202,748 | $167,189 | $206,838 | $146,483 | $178,643 | $182,828 | $227,103 | $182,167 | $197,146 | $134,588 | $216,090 | $163,224 | $200,450 |
| Direct Materials | $2,263,423 | $171,794 | $212,535 | $150,518 | $183,564 | $187,864 | $233,359 | $187,185 | $202,576 | $138,295 | $222,042 | $167,720 | $205,971 |
| Direct Equipment | $19,125 | $1,452 | $1,796 | $1,272 | $1,551 | $1,587 | $1,972 | $1,582 | $1,712 | $1,169 | $1,876 | $1,417 | $1,740 |
| Direct Subcontractor | $256,445 | $19,464 | $24,080 | $17,054 | $20,798 | $21,285 | $26,439 | $21,208 | $22,952 | $15,669 | $25,157 | $19,003 | $23,336 |
| Direct Other | $106,963 | $8,118 | $10,044 | $7,113 | $8,675 | $8,878 | $11,028 | $8,846 | $9,573 | $6,535 | $10,493 | $7,926 | $9,734 |
| TOTAL COST OF SALES | $4,848,704 | $368,017 | $455,293 | $322,440 | $393,231 | $402,442 | $499,901 | $400,988 | $433,959 | $296,256 | $475,658 | $359,290 | $441,231 |
| GROSS PROFIT | $4,786,881 | $363,324 | $449,488 | $318,326 | $388,215 | $397,312 | $493,528 | $395,875 | $428,426 | $292,478 | $469,593 | $354,707 | $435,607 |
| OPERATING EXPENSES | | | | | | | | | | | | | |
| Total Variable Overhead Expense | $1,784,498 | $135,443 | $167,564 | $118,669 | $144,723 | $148,113 | $183,982 | $147,578 | $159,713 | $109,033 | $175,059 | $132,231 | $162,389 |
| Total Fixed Expenses | $2,395,458 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 |
| TOTAL OPERATING EXPENSES | $4,179,956 | $335,065 | $367,186 | $318,291 | $344,345 | $347,735 | $383,604 | $347,200 | $359,335 | $308,655 | $374,681 | $331,853 | $362,011 |
| OPERATING INCOME (LOSS) | $606,925 | $28,259 | $82,302 | $35 | $43,870 | $49,577 | $109,924 | $48,675 | $69,091 | ($16,177) | $94,912 | $22,854 | $73,596 |
| Other Income and Expenses | $13,470 | $1,022 | $1,265 | $896 | $1,092 | $1,118 | $1,389 | $1,114 | $1,206 | $823 | $1,321 | $998 | $1,226 |
| NPBT (LOSS) | $620,395 | $29,281 | $83,567 | $931 | $44,962 | $50,695 | $111,313 | $49,789 | $70,297 | ($15,354) | $96,233 | $23,852 | $74,822 |
| CASH FLOW PROJECTION | | | | | | | | | | | | | |
| Beginning Cash Balance | | $244,083 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $17,053 | $25,256 |
| Plus | | | | | | | | | | | | | |
| Cash Reserves Carried Forward | | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Collections (A/R) | 77 | $797,269 | $740,209 | $781,359 | $795,450 | $779,547 | $692,115 | $778,566 | $871,575 | $895,809 | $813,951 | $733,614 | $733,044 |
| AVAILABLE CASH | | $1,041,352 | $740,209 | $781,359 | $795,450 | $779,547 | $692,115 | $778,566 | $871,575 | $895,809 | $813,951 | $750,667 | $758,300 |
| Less Disbursements | | | | | | | | | | | | | |
| Direct Labor (Payroll) | | $167,189 | $206,838 | $146,483 | $178,643 | $182,828 | $227,103 | $182,167 | $197,146 | $134,588 | $216,090 | $163,224 | $200,450 |
| Direct Material (A/P) | 30 | $199,906 | $171,794 | $212,535 | $150,518 | $183,564 | $187,864 | $233,359 | $187,185 | $202,576 | $138,295 | $222,042 | $167,720 |
| Direct Equipment (A/P) | 56 | $1,388 | $1,625 | $1,477 | $1,702 | $1,291 | $1,534 | $1,616 | $1,894 | $1,577 | $1,617 | $1,246 | $1,790 |
| Direct Subcontractors (A/P) | 56 | $18,741 | $21,917 | $19,804 | $22,826 | $17,313 | $20,577 | $21,671 | $25,389 | $21,147 | $21,680 | $16,702 | $24,003 |
| Direct Other (A/P) | 56 | $7,844 | $9,169 | $8,260 | $9,521 | $7,221 | $8,583 | $9,039 | $10,590 | $8,820 | $9,042 | $6,966 | $10,012 |
| Variable Overhead (A/P) | 56 | $130,494 | $152,602 | $137,812 | $158,839 | $120,470 | $143,186 | $150,801 | $176,674 | $147,152 | $150,860 | $116,222 | $167,029 |
| Fixed Overhead (A/P) | | $193,669 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 | $199,622 |
| Installment Payments - Bank | | $10,257 | $10,257 | $10,257 | $10,257 | $10,257 | $10,257 | $10,257 | $10,257 | $10,257 | $10,257 | $10,257 | $10,257 |
| Installment Payments - Other | | $1,236 | $1,236 | $1,236 | $1,236 | $1,236 | $1,236 | $1,236 | $1,236 | $1,236 | $1,236 | $1,236 | $1,236 |
| Miscellaneous Payments | | | | | | | | | | | | | |
| Fixed Asset Additions | | $12,000 | $15,700 | $24,000 | $6,820 | $12,000 | $1,200 | $9,500 | $6,000 | $8,500 | $4,600 | $2,500 | $18,600 |
| Other Asset Additions | | | | $2,400 | | | $1,200 | | | $3,600 | | | |
| Bonuses/Profit Sharing | | $250,000 | | | | | | | | | | | |
| Other/Owner Distributions | | | | | | | | | | | | | |
| Interest on Credit Line | 7.5 | $1,375 | $991 | $1,228 | $1,261 | $840 | $485 | $1,497 | $1,668 | $1,206 | $351 | $0 | $0 |
| Federal Income Taxes | 28 | | | $31,858 | | | $57,952 | | | $29,325 | | | $54,574 |
| State/Province Income Taxes | 3.5 | | | $3,982 | | | $7,244 | | | $3,666 | | | $6,822 |
| TOTAL DISBURSEMENTS | | $994,099 | $791,751 | $800,954 | $741,245 | $736,642 | $868,043 | $820,765 | $817,661 | $773,272 | $753,650 | $740,017 | $862,115 |

# CASH FLOW—BUDGET (Continued)

| Plus | FINAL | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Month 7 | Month 8 | Month 9 | Month 10 | Month 11 | Month 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Depreciation Adjustments | $121,985 | $10,165 | $10,165 | $10,165 | $10,165 | $10,165 | $10,165 | $10,165 | $10,165 | $10,165 | $10,165 | $10,165 | $10,165 |
| Sale of Assets | | | | | | | | | $6,200 | | | | |
| Inventory Reduction | | | | | | | | | | | | | |
| Other Cash Infusion (Not Loans) | | | | | | | | | | | | | |
| Direct Materials Discounts Earned | 2.00 | $3,998 | $3,436 | $4,251 | $3,010 | $3,671 | $3,757 | $4,667 | $3,744 | $4,052 | $2,766 | $4,441 | $3,354 |
| INDICATED BALANCE | | $61,416 | ($37,941) | ($5,179) | $67,380 | $56,741 | ($162,006) | ($27,367) | $74,023 | $136,754 | $73,232 | $25,256 | ($90,296) |
| Loans/Notes Adjustments | | | | | | | | | | | | | |
| Loans/Notes to be Obtained | | | | | | | | | | | | | |
| Loans/Notes to be Repaid | | | | | | | | | | | | | |
| Cash Reserves | | | | | | | | | | | | | |
| ENDING CASH BALANCE W/O DRAWS/REPAYS | | $61,416 | ($37,941) | ($5,179) | $67,380 | $56,741 | ($162,006) | ($27,367) | $74,023 | $136,754 | $73,232 | $25,256 | ($90,296) |
| Revolving Credit Line Adjustments | | | | | | | | | | | | | |
| Credit Line Draws - Anticipated | | $0 | $37,941 | $5,179 | $0 | $0 | $162,006 | $27,367 | $0 | $0 | $0 | $0 | $90,296 |
| Credit Line Repayments - Anticipated | | $61,416 | $0 | $0 | $67,380 | $56,741 | $0 | $0 | $74,023 | $136,754 | $56,179 | $0 | $0 |
| Current Credit Line Balance | $220,000 | $158,584 | $196,525 | $201,704 | $134,324 | $77,583 | $239,589 | $266,956 | $192,933 | $56,179 | $0 | $0 | $90,296 |
| MONTHLY ENDING CASH | | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $17,053 | $25,256 | $0 |
| **CREDIT LINE / CASH NEEDED TO ACHIEVE BUDGET** | | | **$266,956** | | | | | | | | | | |
| **ANNUAL INTEREST DOLLARS PAID ON CREDIT LINE:** | | | **$10,902** | | | | | | | | | | |
| **ANNUAL PROFIT INCREASED FROM DISCOUNTING:** | | | **$45,147** | | | | | | | | | | |
| **ANNUAL NET PROFIT BEFORE TAXES $:** | | | **$654,640** | | | | | | | | | | |
| **ANNUAL NET PROFIT BEFORE TAXES %:** | | | **6.79** | | | | | | | | | | |
| **ANNUAL NET PROFIT AFTER TAXES $:** | | | **$459,217** | | | | | | | | | | |
| **ANNUAL NET PROFIT AFTER TAXES %:** | | | **4.77** | | | | | | | | | | |

# Profit Forecast

| | Year 1 | Year 2 | Year 3 | Year 4 |
|---|---|---|---|---|
| Fiscal Year | | | | |
| % Sales Volume Increase (Decrease) Budgeted: | 3% | 3% | 3% | 3% |
| % Price and/or Cost of Living Increase (Decrease) Budgeted: | 1.5% | 1.5% | 1.5% | 1.5% |
| % Direct Costs Category Increase (Decrease) | | | | |
| % Variable Costs Category Increase (Decrease) | | | | |
| % Fixed Cost Category Adjustment: | 3.07% | 3.07% | 3.07% | 3.07% |
| BUDGET - Net Operating Income (Loss) Before Tax | $620,397 | $781,866 | $954,631 | $1,139,323 |
| INCOME | | | | |
| Sales | | | | |
| Total Sales | $9,635,585 | $10,069,186 | $10,522,300 | $10,995,803 |
| Cost of Goods Sold | | | | |
| Direct Costs - Labor | $2,202,748 | $2,268,830 | $2,336,895 | $2,407,002 |
| Direct Costs - Materials | $2,263,423 | $2,331,326 | $2,401,265 | $2,473,303 |
| Direct Costs - Equipment | $19,125 | $19,699 | $20,290 | $20,898 |
| Direct Costs - Subcontractor | $256,445 | $264,138 | $272,063 | $280,224 |
| Direct Costs - Other | $106,963 | $110,172 | $113,477 | $116,881 |
| Total Cost of Goods Sold (CGS) | $4,848,704 | $4,994,165 | $5,143,990 | $5,298,310 |
| GROSS PROFIT | $4,786,881 | $5,075,021 | $5,378,310 | $5,697,493 |
| LESS OPERATING COSTS | | | | |
| Variable Costs: | | | | |
| Advertising & Promotion | $73,537 | $75,743 | $78,015 | $80,356 |
| Auto & Truck Gas, Oil, Repairs | $194,866 | $200,712 | $206,733 | $212,935 |
| Bad Debt | $28,541 | $29,397 | $30,279 | $31,188 |
| Bank Charges | $9,908 | $10,205 | $10,511 | $10,827 |
| Employee Benefits | $214,934 | $221,382 | $228,023 | $234,864 |
| Freight | $20,125 | $20,729 | $21,351 | $21,991 |
| Insurance - W. C. Direct Labor | $86,593 | $89,191 | $91,867 | $94,623 |
| Laundry, Cleaning | $8,905 | $9,172 | $9,447 | $9,731 |
| License & Permits | $5,907 | $6,084 | $6,267 | $6,455 |
| Miscellaneous | $431 | $444 | $457 | $471 |
| Office Supplies | $60,229 | $62,036 | $63,897 | $65,814 |
| Other | $8,254 | $8,502 | $8,757 | $9,019 |
| Payroll Taxes (Direct Labor) | $204,739 | $210,881 | $217,208 | $223,724 |
| Rentals | | | | |
| Sales Commissions | | | | |
| Sales Tax Expense | | | | |
| Shop Supplies & Small Tools | $58,763 | $60,526 | $62,342 | $64,212 |
| Travel, Lodging & Entertainment | $2,167 | $2,232 | $2,299 | $2,368 |
| U.P.S./FedEx | $1,917 | $1,975 | $2,034 | $2,095 |
| Union Benefits/Dues | $731,827 | $753,782 | $776,395 | $799,687 |
| Warranty Expense | $72,854 | $75,040 | $77,291 | $79,610 |
| Total Variable Costs | $1,784,497 | $1,838,032 | $1,893,173 | $1,949,968 |
| Fixed Costs: | | | | |
| Contributions | $2,434 | $2,509 | $2,586 | $2,665 |
| Depreciation | $121,985 | $125,730 | $129,590 | $133,568 |
| Dues & Subscriptions | $20,867 | $21,508 | $22,168 | $22,848 |
| Insurance - Auto & Liability | $400,543 | $412,840 | $425,514 | $438,577 |
| Insurance - Group Health | $17,078 | $17,602 | $18,143 | $18,700 |
| Insurance - Officer | $8,981 | $9,257 | $9,541 | $9,834 |
| Insurance - W. C. Office | | | | |
| Payroll Tax - Office | $82,649 | $85,186 | $87,802 | $90,497 |
| Other - Expenses | $150,100 | $154,708 | $159,458 | $164,353 |
| Postage, Mailings | | | | |
| Professional Fees | $64,435 | $66,413 | $68,452 | $70,554 |
| Property Taxes | $21,151 | $21,800 | $22,470 | $23,159 |
| Rent | $69,665 | $71,804 | $74,008 | $76,280 |
| Repairs & Maintenance | $4,409 | $4,544 | $4,684 | $4,828 |
| Salaries - Owner | $147,900 | $152,441 | $157,120 | $161,944 |
| Salaries - Office/Shop | $1,259,301 | $1,297,962 | $1,337,809 | $1,378,880 |
| Telephone | $9,960 | $10,266 | $10,581 | $10,906 |
| Utilities | $14,000 | $14,430 | $14,873 | $15,329 |
| Total Fixed Costs | $2,395,458 | $2,468,999 | $2,544,797 | $2,622,922 |
| Total Operating Expense | $4,179,955 | $4,307,030 | $4,437,970 | $4,572,890 |
| Operating Income (Loss) - Operations Only | $606,926 | $767,991 | $940,340 | $1,124,603 |
| Other Income (Expense) | | | | |
| Other Income | $57,630 | $59,359 | $61,140 | $62,974 |
| Other Expense – Interest | $44,159 | $45,484 | $46,848 | $48,254 |
| Other Expense | | | | |
| Total Other Income (Expenses) | $13,471 | $13,875 | $14,291 | $14,720 |
| ANNUAL FORECAST - Net Operating Income (Loss) Before Taxes | $620,397 | $781,866 | $954,631 | $1,139,323 |

# MEASURING THE "FISCAL-FITNESS" OF A COMPANY: THE ALTMAN Z-SCORE

Year Being Viewed:

In the early 60's Edward Altman, using Multiple Discriminate Analysis (MDA), combined a set of 5 financial ratios to come up with the Altman Z-Score. This score uses statistical techniques to predict a company's probability of failure using the following 8 variables from a company's financial statements:

From the Income Statement:

| | | |
|---|---|---|
| 1 | EBIT (Earnings Before Interest & Taxes) | $465,728 |
| 2 | Net Sales | $9,216,687 |

From the Balance Sheet:

| | | |
|---|---|---|
| 3 | Total Assets | $3,324,009 |
| 4 | Market Value of Equity | $2,065,069 |
| 5 | Total Liabilities | $1,258,940 |
| 6 | Current Assets | $2,821,702 |
| 7 | Current Liabilities | $1,067,394 |
| 8 | Retained Earnings | $1,643,248 |

The 5 financial ratios in the Altman Z-Score and their respective weight factors are as follows:

| RATIO | Weightage | Range |
|---|---|---|
| A EBIT / Total Assets | 3.300 | -4 to +8 |
| B Net Sales / Total Assets | 0.999 | -4 to +8 |
| C Market Value of Equity / Total Liabilities | 0.600 | -4 to +8 |
| D Working Capital / Total Assets | 1.200 | -4 to +8 |
| E Retained Earnings / Total Assets | 1.400 | -4 to +8 |

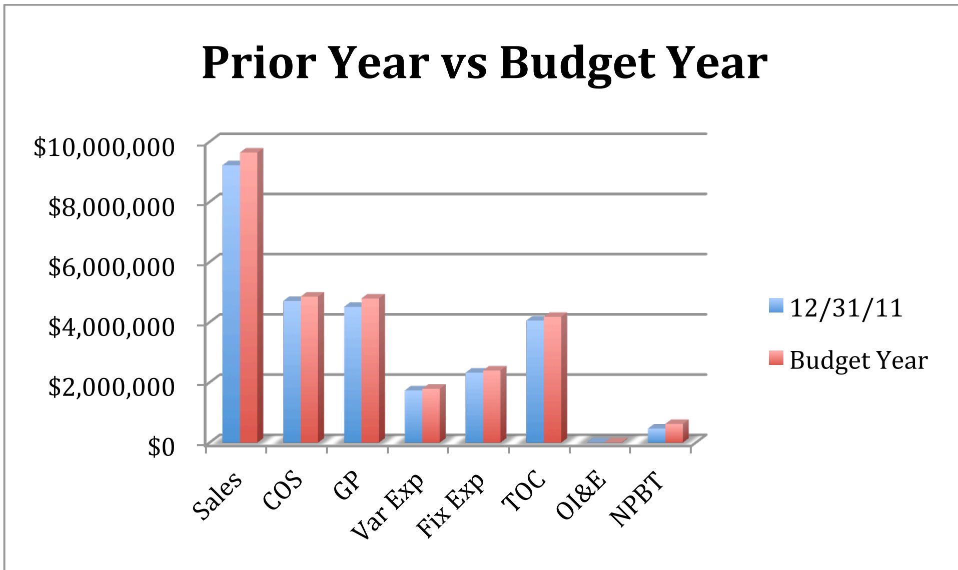
These ratios are multiplied by the weightage as above, and the results are added together.

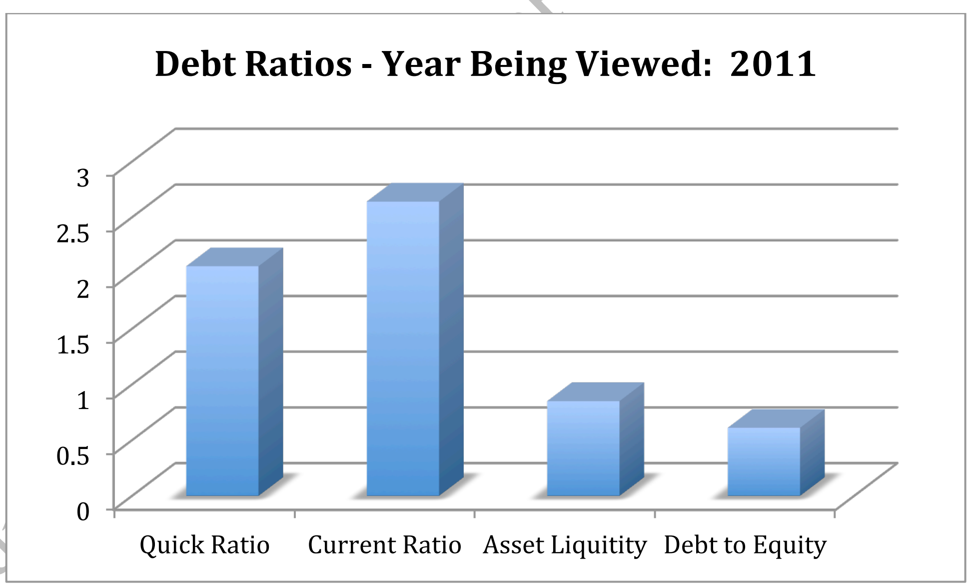
Z-Score = A x 3.300 + B x 0.999 + C x 0.600 +D x 1.200 + E x 1.400

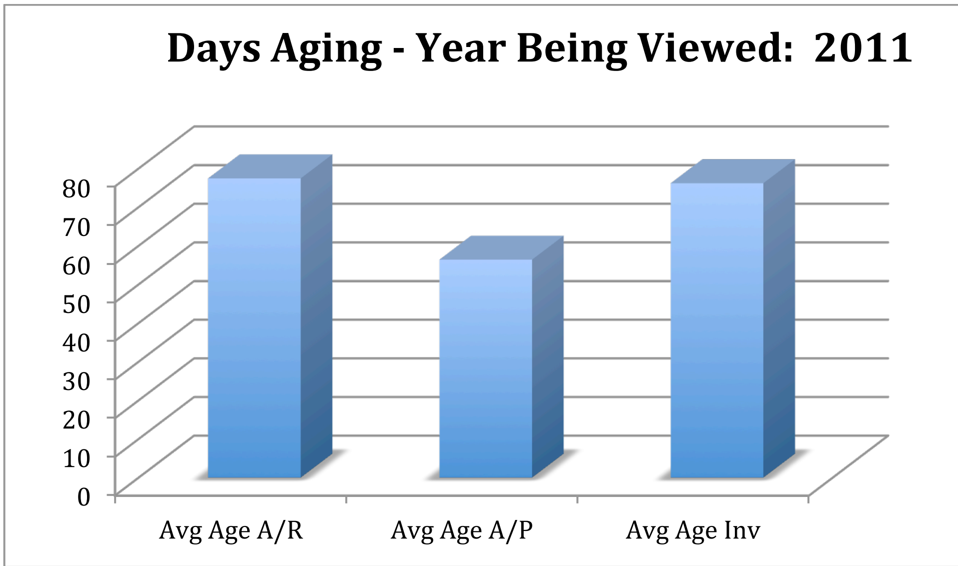
If the Z-Score is:

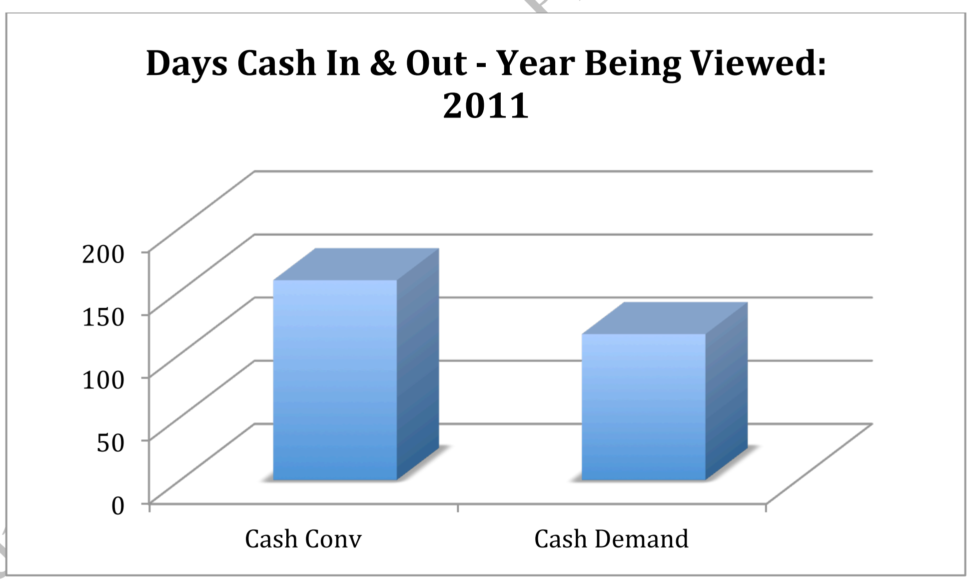
| | |
|---|---|
| Above 3.0 | The company is safe based on these financial figures only. |
| Between 2.7 and 2.99 | On alert. This zone is an area where one should exercise caution. |
| Between 1.8 and 2.7 | Good chances of the company going bankrupt within 2 years of operations from the date of financial figures given. |
| Below 1.8 | Probability of financial embarrassment is VERY high. |

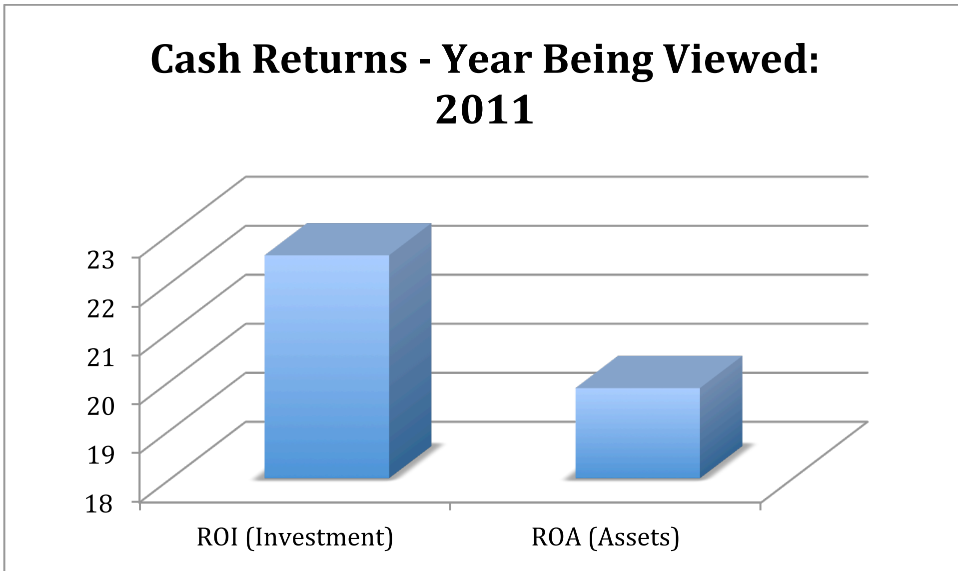
**Z-Score 5.47**

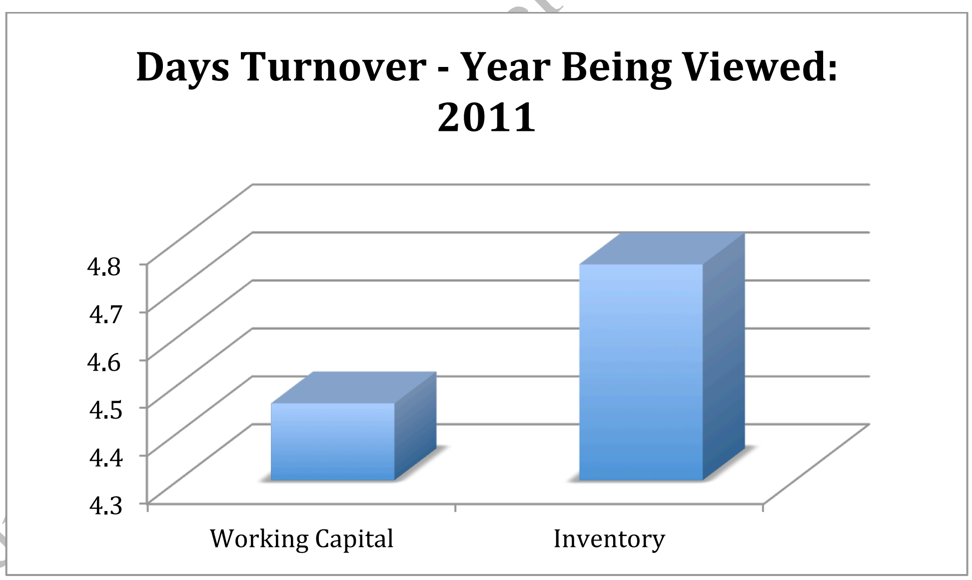

Prior Year vs Budget Year
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
Sales
COS
GP
Var Exp
Fix Exp
TOC
OI&E
NPBT
12/31/11
Budget Year

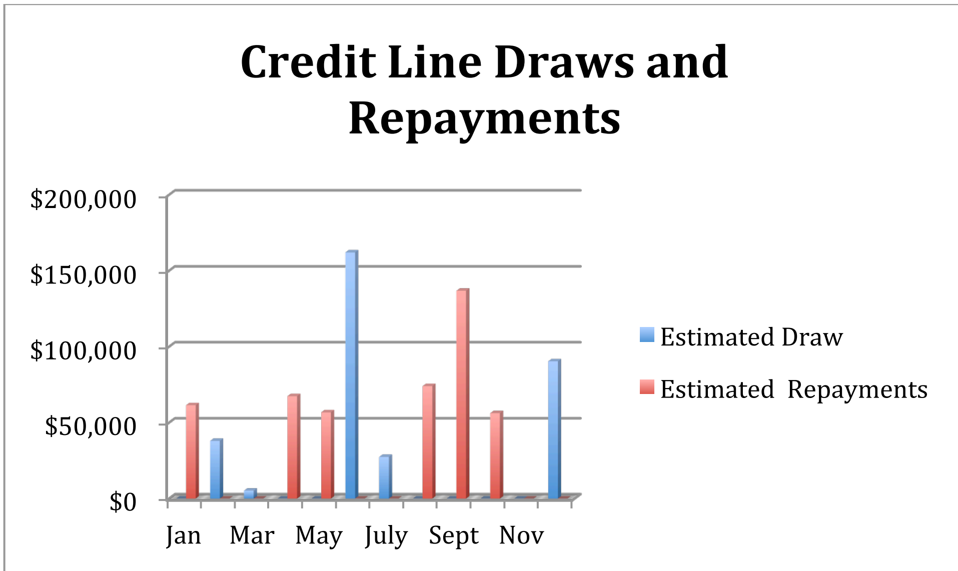

Debt Ratios - Year Being Viewed: 2011
3
2.5
2
1.5
1
0.5
0
Quick Ratio
Current Ratio
Asset Liquitity
Debt to Equity

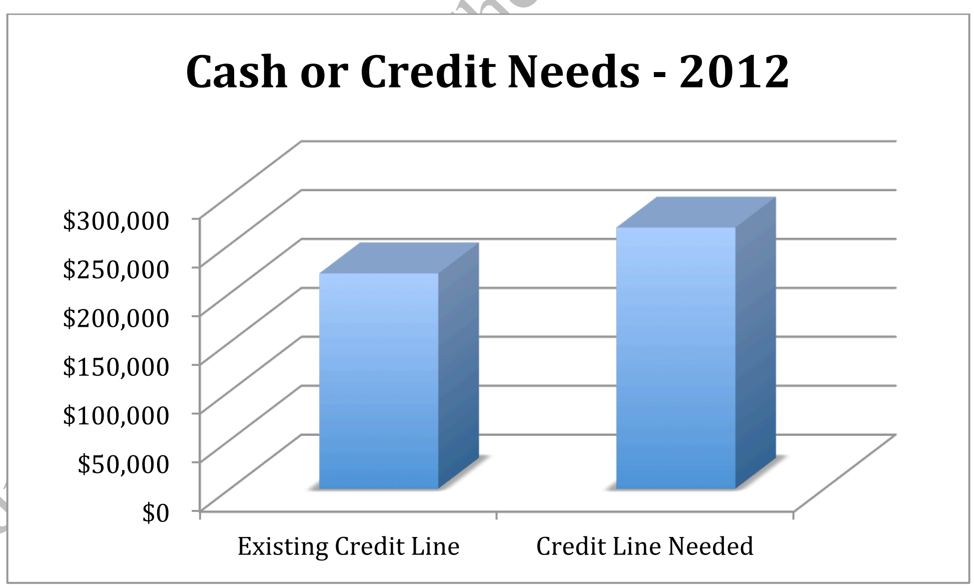

Days Aging - Year Being Viewed: 2011
80
70
60
50
40
30
20
10
0
Avg Age A/R
Avg Age A/P
Avg Age Inv


Days Cash In & Out - Year Being Viewed: 2011
200
150
100
50
0
Cash Conv
Cash Demand


Cash Returns - Year Being Viewed: 2011
23
22
21
20
19
18
ROI (Investment)
ROA (Assets)


Days Turnover - Year Being Viewed: 2011
4.8
4.7
4.6
4.5
4.4
4.3
Working Capital
Inventory


Credit Line Draws and Repayments
$200,000
$150,000
$100,000
$50,000
$0
Jan
Mar
May
July
Sept
Nov
Estimated Draw
Estimated Repayments


Cash or Credit Needs - 2012
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Existing Credit Line
Credit Line Needed

## BUDGET STRATEGIES USED TO ACHIEVE PROFIT GOALS

By using certain proven budget strategies and the proper financial approach, profitability can be increased and the existing cash position enhanced. **To insure the creation of an optimal budget, each of the following financial sales and expense areas in the budget process have been considered and prioritized.**

The first five things, listed by priority that must be done to improve profits are:
1) Increase the selling price (with appropriate market adjustments)
2) Decrease and control the direct costs (labor and MESO).
3) Decrease and control the variable costs (associated costs to direct costs).
4) Increase the sales volume.
5) Decrease the fixed costs.

**1) The first thing that must be done to increase profit is to establish a new selling price standard from which to manage.** The selling price will be adjusted with the appropriate market adjustments needed to achieve the desired profit goal. A system has been developed to insure that annual price increases, including even small cost of living increases, are implemented into the budget and passed through to the job costing/pricing system. Any price increase passes directly through to the bottom line as additional net profit since there are no associated variable or fixed costs connected with the increase. This can be done as long as it is determined that any anticipated price increase would not adversely affect the sales volume and/or profits. Another very successful budget strategy includes increasing the price of the product(s) and/or services to a point where the "price shoppers" will go elsewhere. This resulting drop in sales doesn't necessarily mean that there will be a drop in profitability. To the contrary, most of the time a price increase that was intentionally implemented to reduce the sales levels may actually increase the net profit of the company depending upon the actual amount of the price increase. As the sales volume drops, the flow of order processing and paperwork also drops and gives more time to the administrative personnel to spend on more accurately managing expenses and the policies, procedures and systems that control them. The result can be a drop in the breakeven cost. Also, "price shoppers" must also be considered. Usually they are the most demanding of all of the customers. Keeping this in mind, a drop in volume can be a very good corporate strategy. It is understood that prices can't continue to be increased more than the CPI and expect existing customers to continue to pay them without simultaneously controlling the variable and fixed expenses. Customers will not continue to pay higher and higher prices just to compensate management for their inability to properly manage and control the variable or fixed costs. This is the fastest and most foolproof strategy to immediately increase the profitability. **Therefore, this is the first area of priority that was considered for profitability improvement.**

**2) The second thing that must be done is to decrease the company's direct costs.** Direct costs are defined as the direct labor and/or Material, Equipment, Subcontractor and Other direct costs (MESO) associated with a specific job, product or service. Since the single largest percentage of a company's sales dollar is usually consumed with costs in this category, a very slight percentage improvement in any of these areas will show a compounded benefit to the bottom line. Because of these phenomena, this is the second best place to look for improvements that will reap the fastest profitability benefits. Direct Costs are variable costs. No budget expense improvements were made in any direct variable cost line item unless the cause of the cost increase was identified and the plans to implement the policies, procedures and/or systems needed to correct them are made. If lower expenses in the direct variable cost line items were budgeted without knowing how the results would be achieved, it is highly unlikely that the costs will be reduced. As an example, an employee incentive plan may be implemented to help control the direct labor, or or a better inventory systems may be installed to help control the material/inventory costs. Better financial strategies will help improve the cash management position of a company to control things like cash discounts, etc. **Therefore, this is the second area of priority that was considered for profitability improvement.**

**3) The third thing that must be done is to minimize all of the variable costs associated with each specific job, product or service.** As before, no budget expense improvements were made in any variable cost line item unless the cause of the cost increase was identified and the plans to implement the policies, procedures and/or systems needed to correct them are made. If lower expenses in the variable cost line items were budgeted without knowing how the results would be achieved, it is highly unlikely that the costs will be reduced. If "Bad Debts" are too high, no reduction has been made in the budget without a plan that will be implemented to control them. As an example, better credit control measures can be implemented that will properly screen new customers before they become a bad debt.

Any correlation between any of the direct costs and some of the costs in this variable expense category were noted. As an example, if the direct costs of labor are reduced, the payroll taxes for the direct labor will also be reduced as will union dues and other associated expenses. Certain improvements in the direct cost category will "ripple" down in the form of lower costs and additional profits to other variable cost line items. The variable costs associated with a specific job, product or service is usually the second largest group of individual line-item costs within a company. Because of this, it takes a smaller percentage of improvement on a larger line-item expense to drop to the bottom line with a greater dollar amount of profitability. **Therefore, this is the third area of priority that was considered for profitability improvement.**

**4) The fourth thing that must be done is to increase sales revenues to add additional revenue to the company.** Once the direct and variable line-item costs have been reduced, the sales breakeven point has been lowered and it is now the proper time to consider a plan to increase the sales volume because a higher profit on each sales dollar will be generated. If specific sales focus can be identified and directed to a more profitable department, product or service of the company, it will be even more advantageous to look to an increase in sales as the next thing to do to increase the profitability. A typical misconception is thinking that the first thing that should be done to increase profits is to increase the sales volume instead of waiting until the breakeven point has been reduced. With each dollar increase in sales comes with it an increase in variable and fixed costs. There is a very big difference in "increasing the price" and "increasing the sales". Although both actions increase the line item entitled "Sales", an actual sales volume increase carries with it a proportionate share of the variable and fixed costs needed to finalize the sale but a price increase drops right to the bottom line with no cost increases. It takes proportionally more effort and expense to generate additional sales volume to increase profits than it does by better control the direct and variable costs. **Therefore, this is the forth area of priority that was considered for profitability improvement.**

**5) The fifth thing that must be done is to reduce the fixed costs.** Typically, reducing fixed costs is thought to be the first priority to maximizing profits. The most obvious costs and easiest to cut are fixed costs. They are the most visible and easiest to blame. Looking a little deeper into each line item of the fixed costs category, it can be seen that the line item expenses are typically the single **smallest** percentage of sales and they represent the lowest percentage of costs. Because of this, even a large decrease in costs of some of the smaller line-items in the fixed cost category will typically have a smaller overall effect on profits than will a small decrease in costs of the much larger line-item expenses in the direct and variable expense categories. There are some other issues that must also be considered. Typically, some of the first costs to be cut are the administrative personnel because they are more visible and seem more obvious. Unfortunately, the administrative personnel are the ones who track and control the policies, procedures and systems that when implemented, reduce and control the costs in the direct costs and other variable cost categories. Being frugal in this area can easily backfire on company management who do not understand how to best properly prioritize and control the expenses of their company. **Therefore, this is the fifth place that was considered for profitability improvement.**

As new corrective measures are installed to control the different variable cost line items, systems must be created to control them. Management will then be managing the **systems** that control the details, not the details. This will allow management to control more items simultaneously and in less time. This newfound time will then allow management to turn their attention to other items that are in need of attention but were not a priority earlier in the process. This fact causes the profitability benefits of the earlier corrections to exponentially improve and with it, profits and employee morale.

## ACHIEVING BUSINESS FINANCIAL GOALS

## AN ACTION PLAN FOR LEVERAGING PRICING MULTIPLIERS FOR CONTRACTORS AND MANUFACTURERS

Understanding pricing multipliers and having the ability to use them effectively and track their results properly makes a tremendous impact on bottom line profits. The information in this action plan includes detailed explanations of the pricing multipliers and a simple system for leveraging them to achieve budgeted profit goals.

**First**, we will define pricing multipliers and review the profit goal standards that they create.

**Second**, we will look at a system that, if used on a day-to-day basis in conjunction with the pricing multipliers, will help accurately control profits.

**Third**, we will provide an approach to using the pricing multipliers as a competitive bidding advantage.

### DEFINING PRICING MULTIPLIERS

**What Is a Pricing Multiplier?**

A pricing multiplier is the factor used to calculate the pricing standard for a business that will achieve its budgeted profit goal. This action plan provides pricing multipliers that are unique to each business for its major direct cost categories: Labor and MESO. (The MESO category is the sum total of the Material, Equipment, Subcontractor, and Other direct costs.) These pricing multipliers have been calculated through a series of complex calculations applying the "dual overhead burden" method, blending prior year performance with anticipated annual cost increases and/or decreases along with the profit goals for the budgeted year. The "dual overhead burden" method is one of the most accurate pricing methods available because it allocates the amount of budgeted burden to both the labor and MESO categories proportionate to the business's historical performance.

**How To Use the Pricing Multipliers.**

To calculate the budgeted sales price for each job or product, the LABOR or MESO pricing multiplier is multiplied times the estimated cost of each of these major direct cost categories. The calculated prices for the major cost categories are then summed to determine the total sales budget for each job or product. If a business could sell every job or project at this calculated price, it would achieve its budgeted profit goal for the year (assuming that the rest of the other budgeted line items are managed to budget). Of course, competition comes into play when pricing jobs or products, and a business may be able to charge more for some work; or, may have to charge less to capture other work. The systems that are discussed below can help manage the variances in pricing due to the realities of the competitive environment.

**Labor-Only Pricing Multipliers.**

This action plan also contains a different pricing multiplier for applying burden and profit to labor only. We don't recommend this method because the dual overhead approach is more effective. Nevertheless, if it is decided to use only labor to cover burden and profit, this labor-only multiplier would be multiplied times the estimated direct labor costs to determine the budgeted selling price for labor; then, the estimated MESO costs would be added to this number for the final budgeted selling price. The same system recommended below for managing variance throughout the course of the year would be used.

**Breakeven Multipliers**.

"Breakeven" pricing multipliers are also provided in this action plan that, when applied to the direct cost categories, will calculate a "walk-away" price. The resulting price using these multipliers is that price at which a business is covering its costs only (including burden but not including profit). If a job or product is priced below this breakeven number, a loss would be incurred for that job or product.

The result of using specific and accurate job/product pricing multipliers is that they will create an accurate pricing standard from which to manage and track profit goals. These standards can then be systemized to form an easy way to track performance to budget. Later in this action plan we will discuss how to manage this information in context of actual market conditions and describe a system that will help facilitate tracking company performance.



## CALCULATING PRICING STANDARDS WITH MULTIPLIERS

The income statement has been formatted to allow only 5 specific items to be included in the "Direct Cost" line items: Labor, Material, Equipment, Subcontractor and Other. The Material, Equipment, Subcontractor and Other direct costs are aggregated into a major direct cost category called MESO. These are the only direct costs items that should be used to estimate a job or product's cost because they are easily estimated and/or determined, and there is no need to include other line item costs that are difficult to estimate on a per job or product basis. Examples of non-direct line item costs are corresponding payroll taxes, union costs, etc.

Since the "dual overhead burden" method applies the entire burden ONLY to those items that are listed as job or product expenses in the "direct cost" line items, care must be taken to properly allocate the actual direct labor costs and the direct "MESO" costs.

If jobs or products are priced using both direct labor and materials (MESO):

1) Labor cost allocation: As an example, if an employee has both non-field/production duties in the field or during production, the proportionate share of each should be allocated to direct cost labor and fixed cost administrative salaries as appropriate.

2) Material, equipment, subcontractor and other allocations: ONLY the actual materials, equipment, subcontractor or other expenses that are actually used for the job should be included in the direct cost MESO line items.

If jobs or products are priced using direct labor, materials (MESO) and/or equipment/machine time:

1) Equipment or machinery cost allocations: To properly apply burden to specific equipment or machinery, the actual cost of the equipment or machinery MUST be included in the direct cost line items. These costs would include such things as maintenance and repairs, the fuel or electricity to run the equipment or machinery and the straight line depreciation for each piece of equipment or machinery whose time will be part of the estimating process.

   (a) It is recommended that the direct cost line item entitled: "Direct Cost - Equipment" be used to contain all the costs for all of the maintenance and repairs and the fuel/electricity pertaining to the equipment/machinery that will be broken out and estimated for customer specific jobs.

   (b) The line item entitled: "Direct Cost – Subcontractor" will be used as usual for those subcontractor costs that pertain only to customer jobs.

   (c) It is recommended that the direct cost line item entitled: "Direct Cost – Other" be used to contain the depreciation specific to the equipment/machinery that will be estimated for the job. Any accelerated depreciation that was applied to the equipment/machine and all other depreciation would be listed in the fixed cost category of expenses on the standard "depreciation" line item. (For financial management purposes, remember to add the two depreciation line items together to determine the total depreciation for all company equipment/machines.) If the actual costs and hours of usage of each piece of equipment or machine have been properly tracked, its actual cost per hour can be determined. To estimate the MESO category, during the estimating or bidding process, the cost of materials must be estimated and the number of hours each piece of equipment or machinery will be used must be estimated times the cost per hour. The total materials, equipment or machine cost, subcontractor and other costs will be added together for a total cost of MESO. (To determine the hourly selling price of a piece of equipment or machinery, multiply its hourly cost times the MESO multiplier for the final hourly selling price.)

NOTE: The sample calculations below show equipment/machine time priced as a separate line item. If equipment and/or machine time are not tracked as direct costs and/or if they are not priced separately in the pricing process, this line item would not be included in pricing calculations. However, the logic of using pricing multipliers and tracking variances remains the same.

**Sample Calculations**

Estimate the actual labor and MESO cost for a job.

| | | |
|---|---|---|
| Labor Cost Estimate: 150 hrs X $24.50/hr (w/o benefits) | | $ 3,675.00 |
| MESO Cost Estimate | | $ 740.00 |
| Equip/Mach time: 150 hours @ $115.20/hr | | $17,280.00 |

Sales Price Calculation:

| | | |
|---|---|---|
| Labor: $3,675 X 2.5028 Labor multiplier | | $ 9,197.79 |
| MESO: $740 X 1.6271 MESO multiplier | | $ 1,204.05 |
| Equip/Mach time: $17,280 X 1.6271 MESO | | $28,116.29 |
| Budgeted Sales Price | | $38,518.13 |

Tracking the Variance:

| | | |
|---|---|---|
| Job 1: Budgeted Sales Price (as calculated) | | $38,518.13 |
| Market Sales Price (as determined by sales dept.) | | $39,500.00 |
| Variance: | OVER BUDGET | $ 981.87 |
| Job 2: Budgeted Sales Price (as calculated) | | $ 20,145.00 |
| Market Sales Price (as determined by sales dept.) | | $ 19,700.00 |
| Variance: | UNDER BUDGET | $ (445.00) |

**Net Performance to Budget for Above Jobs**

| | | |
|---|---|---|
| Variance: $981.87 - $445.00 | OVER BUDGET | $ 536.87 |

The sales department, not the accounting department, should have the flexibility to determine the final sales price within management's criteria, and the final sales price should be compared to the budgeted selling price. Then, the variance should be tracked and recorded. When selling a job or product for a price less than the standard, the amount of discount to "get back" to the budgeted pricing standard is clearly known. Remember, the budgeted pricing standard is based upon the prior year's history where some jobs/products were probably sold at a discount and others for a premium. At the end of any period of time, week, month, year, if the variance is equal to or larger than "0", the budgeted profit has been achieved or exceeded. Keep in mind that if big jobs or orders are discounted that are processed over a period of time, the total amount of discount that must be recaptured will not necessarily be all within a one month period. If a job is discounted that will run say 10 months, that discount will have to be "recaptured" over jobs within the next 10 months.

The breakeven multipliers should be used in the same way as shown above to establish the minimum acceptable price standard. This is the "walk away" price. The variance between any final price and the budgeted selling price standard should always be tracked carefully.

## USING THE RELATIONSHIP BETWEEN DUAL OVERHEAD RATE MULTIPLIERS AND A SINGLE OVERHEAD RATE AS A COMPETITIVE ADVANTAGE

The relationship between the dual overhead rate multipliers and the single overhead burden rate multiplier can be used for a bidding advantage. Here's how. The dual overhead rate multipliers are calculated using the average ratio of the direct labor cost to the average direct MESO costs. The burden and profit are then proportionally allocated between the company's historical ratio of direct labor to direct MESO. Let's call this the "sweet spot" of the company's historically average job or project. On the other hand, the single overhead rate multiplier is calculated by simply applying all of the burden and profit to direct labor only.

First, the budgeted sales price of a job or project needs to be calculated by using the dual overhead rate multipliers as shown in the examples above using the estimate of labor and materials. Next, calculate the budgeted selling price using the single overhead multiplier that uses labor costs only plus the cost of materials.

Now, compare the two budgeted sales prices. The base standard will be the budgeted selling price calculated from the dual overhead multipliers. Let's assume that it is known that the competition almost always applies all of their burden and profit to direct labor. If the price using the single overhead rate multiplier is higher than the price calculated using the dual overhead multipliers, the chances are the budgeted price will be lower than the competition because the competition probably has more labor than the company's "sweet spot" job. Knowing this, the price could be increased slightly so as not to "leave anything on the table". Conversely, if the price using the single overhead rate multiplier is lower than the price calculated using the dual overhead multipliers, the chances are the budgeted selling price will be higher on the bid because the job probably has less labor in it than the company's "sweet spot" job. To get the job, it will probably have to be discounted. If the two prices are very similar, the job to be bid is almost identical to the company's "sweet spot" job and the budgeted price will be very competitive. Remember, all variances from the pricing standard need to be tracked as explained above.

## SYSTEMS FOR CONTROLLING PROFITS USING PRICING MULTIPLIERS

The result of using specific and accurate job pricing multipliers is that they will create an accurate standard from which to manage to achieve profit goals. These standards can then be systemized to form an easy way to track performance to budget.

An example of systems that can be used to manage profit goals can be found below.

1) Job /Product Cost and Pricing Worksheet – This form is used, or customized if necessary, to provide a template for proper job, product or service pricing.
2) Job/Product Cost and Pricing Budget Worksheet – This form is used, or customized if necessary, to track the variance of the budgeted selling price from the actual selling price. If a job, product or service has been discounted

or marked-up from the budget price standard on a job or project that will be performed over many months, track the proportionate amount of variance each period so you know what amount of variance must be recaptured or can be used to discount future sales without sacrificing the budget goals.

**[SEE SAMPLE FORMS ON NEXT TWO PAGES]**

# JOB COST WORKSHEET

Project Manager: ____________________ Date: ____________________

Customer Name: ____________________ Customer P. O. #: ________ Customer Chg Ord. #: ________

Job Name: ____________________ Co. Job #: ________ Co. Change Order #: ________

Job Pricing Approval: Mgr. ________ CFO ________ Type of Job: ____ Bid Wage Reporting: ____ Yes

Date: ________ Date: ________ ____ T&M ____ No

| Line No. | Description | | Cost Breakdown | Sales Price Total(s) |
|---|---|---|---|---|
| 1 | **Labor Cost:** Rate ________ Hrs. ________ | | | |
| 2 | Labor Multiplier | | X ________ | |
| 3 | ***LABOR BUDGET SELLING PRICE*** | (#1 X #2) | | |
| | MESO Calculations: | | | |
| 4 | Material (add freight and sales tax) | | ________ | |
| 5 | Equipment (add freight and sales tax) | | ________ | |
| 6 | Subcontractor(s) | | ________ | |
| 7 | Other (permits, company and/or equipment rental, travel, etc.) | | ________ | |
| 8 | Subtotal MESO Cost: | | ________ | |
| 9 | MESO Multiplier | | X ________ | |
| 10 | ***MESO BUDGET SELLING PRICE*** | (#8 X #9) | | |
| 11 | ***LABOR + MESO BUDGET SELLING PRICE*** | (#3 + #10) | | ________ |
| 12 | Bond Multiplier (If bonded by Co.) | | | X ________ |
| 13 | Bond Cost | (#11 X #12) | ________ ⇐ | ________ |
| 14 | MESO Multiplier | (#9) | | X |
| 15 | ***BOND BUDGET SELLING PRICE*** | (#13 X #14) | | |
| 16 | **MESO Cost** (Subtotal MESO Cost + Bond Cost) | (#8 + #13) | | |
| 17 | **Total Costs of Sales** | (#1 + #16) | | |
| 18 | ***BUDGET SALES PRICE*** | (#3 + #10 + #15) | | |

| | SALES TAX AND OPTIONAL MARKETING CALCULATION | | |
|---|---|---|---|
| 19 | Market Price Increase (Decrease) (If necessary, adjust for competition or customer) | | ________ |
| 20 | Extraordinary Travel or Freight (if not included in #7 above) | | ________ |
| 21 | Sales Tax (on #18 above - if applicable) | | ________ |
| 22 | ***TOTAL MARKET SALES PRICE*** | (#18 + #19 + # 20 + #21) | |

# JOB COST BUDGET TRACKING WORKSHEET

Department: ____________________ Project Mgr. / Estimator: ________________________

| Job / Chg. No. | Date | Job Cost Budget | Market Price Adjustment | | | |
|---|---|---|---|---|---|---|
| | | | Increase | (Decrease) | Variance | # Months |
| | | | | | | |
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