CONTRACTOR

January > February 2014

Watch out for the usual suspects when it comes to safety

Temporary employees: The new normal for contractors

Plus!
Construction Success Story
Ownership change leads to renewed customer service

Financial reporting for contractors

Is the latest accounting framework for you?

Financial reporting for contractors

Is the latest accounting framework for you?

Recently, a new special-purpose accounting framework was released that may ease financial reporting for smaller, privately held, owner-managed companies that aren't required to follow Generally Accepted Accounting Principles (GAAP).

This American Institute of Certified Public Accountants (AICPA) guidance — known as the "Financial Reporting Framework for Small- and Medium-Sized Entities" (FRF for SMEs) — was developed to produce "financial statements that provide useful, relevant information in a simplified, consistent, cost-effective way," says the AICPA. But is the FRF for SMEs for contractors? Read on and we'll explore the concept.

GAAP and OCBOA

There's no mandatory accounting standard for private businesses in the United States. Although GAAP is required only for publicly traded businesses, it's used by many companies to standardize their financial statements.

While GAAP-based financial statements are useful to stockholders and securities analysts covering large public companies, such statements can be difficult and costly to maintain for small to midsize businesses. For construction companies, the complex rules involved often don't provide much guidance that's of particular interest or use — especially if the contractor never expects to go public or be acquired by a publicly traded company.

There have also long been a variety of alternatives to GAAP — commonly referred to as other comprehensive bases of accounting (OCBOA). But these don't always perfectly meet the needs of small to midsize businesses either.

Blended approach

According to the AICPA, the FRF for SMEs was developed by blending aspects of traditional accounting methods and accrual income tax accounting methods. A primary goal is to minimize the amount of recordkeeping a company must do that's beyond what the IRS requires; GAAP generally requires a lot of additional recordkeeping. Here are some key financial reporting areas affected by the framework:

Income taxes. GAAP stipulates that a deferred income tax method be used. The FRF for SMEs, on the other hand, lets owners use a taxes-payable method.

Intangible assets. Under GAAP, intangible assets may be categorized as having indefinite lifespans. The new framework stipulates that all intangible assets have definite lifespans for amortization purposes.

Goodwill. The FRF for SMEs allows for the amortization of goodwill during a 15-year period, the same time period as the federal tax code.

Revenue. GAAP outlines complex, specific criteria for how income should be categorized. The new framework uses a simplified and expansive definition.

Is your curiosity piqued? A FRF for SMEs checklist

The new "Financial Reporting Framework for Small- and Medium-Sized Entities" (FRF for SMEs; see main article) may fit the needs of some construction companies. Is your curiosity piqued? Here's a checklist of "good fit" criteria to get you a little further along:

- ❑ You operate only in the United States.
- ❑ You aren't required to follow Generally Accepted Accounting Principles (GAAP), nor do you do so voluntarily already.
- ❑ You're a privately held business "in which the people who own a controlling ownership interest in the entity are substantially the same set of people who run the company."
- ❑ You don't intend to go public.
- ❑ You don't work on federal, state or municipal projects.
- ❑ You don't "engage in overly complicated transactions."
- ❑ Your financial statements are primarily used to determine business performance, assets, liabilities and cash flow, and this information is the main concern of the owners and managers who typically review these statements.
- ❑ Your bankers use collateral, not just your financial statements, to evaluate your loan applications.

If you're able to check all these boxes and are still interested, talk to your financial advisor about making the switch.

Defined-benefit plans. Under the FRF for SMEs, owners are allowed to use either a current contribution payable method or an accrued benefit obligation method. GAAP stipulates that owners use a projected benefit obligation model.

Inventories. GAAP requires companies to account for inventory using a complex formula that determines the market price for unsold goods. Under the FRF for SMEs, businesses may value inventory using the "lower of cost or net realizable value." This could be useful to contractors who maintain parts or supplies inventories.

Construction matters

Whether or not the FRF for SMEs suits construction companies is probably best decided on a case-by-case basis. But there are some preliminary issues to consider.

For example, the framework generally isn't advisable for "specialized" industries with complex financial reporting methods. Is percentage of completion accounting, which is used by many contractors, such a method? Are account billings in excess of costs and estimated earnings on uncompleted jobs compatible with the FRF for SMEs? As of this writing, the answers aren't clear but are well worth discussing with your financial advisor.

Also, many sureties require detailed financial statements to determine your bonding capacity. Yours may not accept financials generated under the FRF for SMEs — so be sure to raise the issue before converting.

The right fit

The FRF for SMEs may provide certain construction companies with a more efficient means of generating financial statements. But the new framework is but one option of many for how you might better handle your financial reporting. As mentioned, your financial advisor should lead the discussion about whether it or another method would be the right fit for your business. ■

Watch out for the usual suspects when it comes to safety

They're with you on every job site: the usual suspects. You can't see them, of course. No, that would make them too easy to catch. The usual suspects are lurking up above; they're lying in wait in half-built walls and on the ground; they're even ready to strike underground.

The usual suspects are safety hazards. They're unavoidable, really — just an inevitable part of a relatively high-risk endeavor such as construction. But every contractor needs to keep a watchful eye out for them.

Fall prevention

Many fatal, work-related falls in the United States occur in the construction industry. Fall prevention, like just about every safety issue, starts with training. Teach workers to practice three-point ladder contact, in which they keep one hand and two feet, or two hands and one foot, on ladders at all times.

You can also minimize the risk of falls by, for starters, installing appropriate barriers — such as guard rails and hole covers. For work performed at higher altitudes, invest in fall restraint and fall arrest systems. Dollars spent upfront can save you thousands in workers' comp claims.

If you believe you're already doing these things, check your job sites to make sure. Safety measures often fall by the wayside when project schedules accelerate or employees get overconfident. Ideally, every construction company should have a comprehensive, formal safety program that perhaps includes goal-based bonuses for field personnel dispensed on a weekly, monthly or annual basis.

Electricity risks

Construction sites need electricity; therefore, they all have electrical hazards. Working near overhead or underground power lines, using power tools with insulation breaks in cords or receptacles, or using damaged equipment can lead to electrical shock and even death.

You can reduce the danger of electrocution by using double-insulated tools and protective equipment, such as insulated gloves. In addition, make sure workers practice proper grounding at job sites and replace equipment with frayed cords, missing ground prongs or cracked tool casings.

Costly collapses

When just about anything collapses on a job site, the fallout can be devastating. Trench collapses, for example, account for a large number of excavation deaths. Help workers stay safe by evaluating soil conditions and selecting appropriate ventilation or respiratory equipment.

Moreover, provide safe access into and out of excavation sites, and brace trenches adequately.

Following rainstorms or other potentially hazardous events, inspect the site and each trench thoroughly before returning to work.

Another potentially deadly type of collapse to guard against involves cranes. If your construction company works on projects involving these gigantic pieces of equipment, double-check your risk prevention and safety training regarding them.

> Every construction company should have a comprehensive, formal safety program that perhaps includes goal-based bonuses for field personnel dispensed on a weekly, monthly or annual basis.

2 familiar names

You're probably familiar with their names, but there are two organizations that every contractor should maintain contact with regarding safety:

1. The Occupational Safety and Health Administration (OSHA). OSHA's Alliance Program works in collaboration with construction companies to prevent workplace injuries and deaths. OSHA also has interactive tools on its website (osha.gov) to help employers and employees address industry-specific hazards, develop comprehensive safety and health programs, and learn more about OSHA standards.

A little less than two years ago, OSHA launched a campaign to prevent deadly falls in the construction industry. According to OSHA, the campaign is intended to provide employers and workers with life-saving information and educational materials about working safely from ladders, scaffolds and roofs. You can check it out at osha.gov/stopfalls.

2. The Associated General Contractors of America (AGC). Among the largest national construction associations, the AGC offers safety training and assistance to contractors and other building-related entities. The organization also offers safety and health videos and publications, and it sponsors safety-related meetings and seminars across the country. For more information, visit agc.org.

Safety first

The phrase "safety first" has been repeated so many times that it's often said as a joke. But keeping your workers out of harm's way is no laughing matter. Make sure your safety policies are up to date and being enforced. ■

Temporary employees: The new normal for contractors

An estimated 12% of workers in the United States are temporary employees, according to a recent study by the consulting firm MBO Partners. The survey also suggests that the number of temps will continue to trend upward — to as many as 23 million nonpermanent employees by 2017. That's 6 million more than in 2012.

Temporary help is nothing new in the construction business. But, as the U.S. labor force continues to evolve, this already high number is expected to only get larger. With even more nonpermanent employees in the office or on the job site, it's important to review your current policies to ensure you're prepared, protected and getting the best value out of each temp.

Best practices

First and foremost, managing temporary employees properly shouldn't be an afterthought. These seemingly low-risk, short-term staff members can bring liability and productivity risks. Here are some specific best practices to keep in mind:

Perform due diligence. More and more temp staffing firms are popping up — and not all are created equal. Choose a provider carefully, giving preference to one that specializes in the construction industry. Ask any prospective temp agency about whether and how they perform background and reference checks, drug testing, and criminal records searches.

> It's critical to always deal directly with the staffing company regarding a temporary employee's job performance, remuneration or termination.

Pick your projects. Aside from providing office support, temporary employees are best used for standalone, relatively short-term projects.

For example, a midsize concrete contractor won an unusually large bid to replace an Olympic-size municipal swimming pool. To keep the job on schedule and within budget, the contractor decided to add 10 temps to his workforce for the demolition phase, rather than pushing his established crew into overtime or going through the expense of hiring new permanent employees.

Bring any complaints (or compliments) to their bosses. One potential liability with temps occurs when there's a perception that they're being treated as bona fide employees. They're not: It's critical to always deal directly with the staffing company regarding a temporary employee's job performance, remuneration or termination.

Federal guidance

The U.S. Small Business Administration (SBA) provides detailed information on the proper use of temps.

The agency's guidance stipulates that companies apply the same rules to temporary employees as they do to all employees — including policies regarding harassment, discrimination, health and safety, minimum wage, overtime pay, recordkeeping, and child labor. The SBA also advises companies to keep up with the complex federal statutes that draw distinctions among:

- Temporary employees,
- Independent contractors, and
- Seasonal employees.

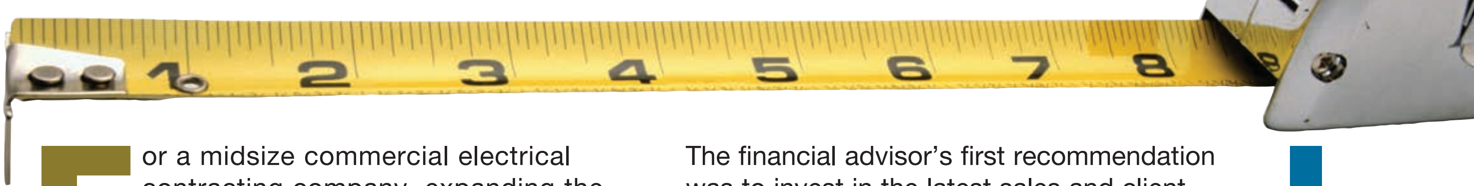
Each may be viewed differently under U.S. labor laws. For example, independent contractors, who frequently work as supervisors or consultants in the construction industry, are typically self-employed and "experienced in certain fields and often work unsupervised or as part of your team," according to the SBA. "It's important to note that independent contractors are hired by you and not employed by you," the guidance states.

Total picture

In addition to legal and operational issues, tax issues may arise from the use of temporary employees — as well as independent contractors and seasonal workers. So your best bet is to review your approach to and policies for these staff members with your financial advisor and attorney. ■

Construction Success Story

Ownership change leads to renewed customer service



For a midsize commercial electrical contracting company, expanding the business meant taking better care of existing accounts — rather than going out and finding new customers.

For three decades, the family-owned company achieved steady annual growth. This all changed five years ago, around the same time that an investor group purchased a stake in the company that would eventually result in a complete transfer of the company's ownership.

Changing of the guard

The business sale five years ago coincided with the retirement of the company's founder. He had been the primary point of contact for every client and performed virtually all of the account management. After the sale, the founder's responsibilities were divided among three vice presidents, who also had other operational responsibilities.

Spread so thin, the vice presidents could manage only limited contact with the company's longstanding customers. Making matters worse, work quality also suffered following the sale. Four years ago, revenues from existing clients dropped 8%. The next year, they fell 6%. As a result, the business had to lay off eight full-time employees.

Making a comeback

During a tax-planning meeting three years ago, the company's financial advisor recommended that the company rethink its customer service strategy.

Driven by the loss of business from existing customers, the financial advisor said, revenues would likely continue to decline — unless the company made an abrupt change in course.

The financial advisor's first recommendation was to invest in the latest sales and client management software. Doing so would allow the company's management to triage clients according to revenues and anticipate what type of work they might need in the future.

In addition, because none of the vice presidents had significant client management experience, the financial advisor recommended they, in the short term, engage a consultant to provide them training. For the long term, the advisor suggested they look for an experienced account manager to build a client services department.

After significant consideration, the management team agreed that it would be best to hire a seasoned account manager to lead the new department. Once onboard, the manager also successfully launched an integrated sales and client services database system that tracks existing customers and follows new targets through the sales funnel.

Reaping the rewards

If it continues at its 2013 pace, in 2014 the company will post its best revenue totals since the founder's retirement. The moral of the story? Nothing lasts forever. In particular, when a key person leaves a construction company, serious retooling may be in order. ■

JHM KNOWS THE CONSTRUCTION INDUSTRY – FROM THE GROUND UP

The needs of the construction industry are unique and specific – that's where the experience and expertise of the Construction Group at JHM Certified Public Accountants really shines. Our team is flexible enough to handle the needs of small, mid-sized and large companies.

Many construction companies throughout the region have come to depend on us for solutions in the traditional areas of audit and tax compliance, as well as non-traditional areas including:

- Bonding assistance
- Multi-state contractor licensing
- Tax planning strategies
- Revenue recognition methods
- Mergers and acquisitions
- Banking and debt issues
- Equipment and overhead costing
- Hiring and recruiting
- Industry benchmarking
- Software implementation
- Form of entity decisions
- Fraud investigations
- Cash flow strategies and budgeting
- Internal control policies and implementation

JHM Certified Public Accountants is proud of the long-term business relationships we have maintained with so many construction clients. We partner with our clients by working, advising, guiding, and listening to help their businesses growing and financially sound. JHM also maintains close close network of banks, surety agents, and underwriters to assist with client needs.

Contact us today so we can help lay your financial foundation.