

# IS YOUR ACCOUNTING

## *Software Overstressed?*

These five signs that construction-specific software could benefit your business

**S**tart small and build. That's how most construction businesses operate. New equipment is added if, and when, the growing workload demands it. But when workloads in the back-office grow, the need for new equipment, or software technology, is sometimes less obvious.

Most small contractors begin their businesses with the help of a common tool: small business accounting software. Affordably priced and easy to use, this is typically all a small construction company needs to handle basic accounting and bookkeeping tasks. But once a construction company grows beyond a certain level, off-the-shelf systems simply become less than efficient. How to tell: Processes take longer, data entry is duplicated, and contractors have no easy access to reliable data.

### THE FIVE SIGNS OF OVERSTRESSED ACCOUNTING SOFTWARE LISTED BELOW INDICATE THAT IT'S TIME TO INVEST IN A BETTER SYSTEM.

#### 1. The Accounting System Does Not Work the Way Construction Works.

Construction is significantly different from nearly every other industry because it is project-based. Contractors must keep accurate costs for projects and project components in order to control the costs of current projects and for bidding of future projects. It stands to reason that there will be major differences between general purpose accounting software and construction-specific software.

Generic accounting systems that claim to do job costing can generally handle only very simple project accounting needs. Instead of organizing projects into jobs, phases/cost codes



and cost types, they force contractors to track costs by item or category. In contrast, a good construction-specific package will provide a coding system capable of producing the general ledger information accountants need and the job-costing information project managers and owners need. Equally important, the system will make sure that these numbers are always in balance. Without a detailed job-costing design, an accounting system is virtually incapable of producing such essential reporting as over/under billing, retainage and revised estimates with change orders.

Generic accounting programs fall short for growing contractors because they were not designed to handle the many unique business and accounting issues that contractors face—such as retention, WIP schedules, unions, prevailing wages, multistate payrolls, AIA billing and T&M jobs. Even among construction-specific software systems, not all products are equal. Contractors need to understand their particular business, their processes and procedures and the requirements for running the company in order to select an application with best-fit features and functionality.

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This article was provided by Foundation Software Inc., which specializes in job-cost accounting, scheduling and project management software for construction. For more information, please call 800.246.0800, e-mail [info@foundationsoft.com](mailto:info@foundationsoft.com) or visit [www.foundationsoft.com](http://www.foundationsoft.com)

## 2. The Current System is Overly Dependent on Spreadsheets.

When contractors spend their time maintaining, updating and manipulating data outside the accounting system, it usually means one thing: Their current system is not providing the information they need, in formats they can use.

When a system is incapable of providing job-cost reporting and other essential information, users are forced to re-enter data into a separate program, such as Microsoft Excel. The result is disconnected sets of data, all of which must be constantly updated and maintained with each new transaction, job change, equipment use and so on. Time-consuming and inefficient, this method guarantees only that too much time will be spent gathering information rather than actually analyzing it.

Sometimes, contractors become dependent on spreadsheets simply because they are not taking advantage of their current software's reporting capabilities. It's possible that some users are reluctant to give up their spreadsheets, or others simply need more software training. But it could also mean that the current software is lacking. In that case, contractors should consider a construction-specific accounting system which offers accurate, instant and extensive reporting capabilities.

## 3. The Company's Accounting System Does Not Give Detailed Job Information When it is Needed.

Accurate and timely job-cost data is critical to any construction business. Information that cannot be retrieved on the fly is of little use to decision makers or project managers who need time to turn a job around. When a software system is incapable of producing such reports or compiles data too slowly, it is a clear sign of software deficiency.

Most small business accounting systems are designed to automate financial recordkeeping, but their reporting capabilities are weak. For example, some of the reports an owner may want to see are production, estimate versus actual, unit price, projected cost to complete and committed cost.

With simple accounting systems, accessing this information would be difficult and time-consuming. Most good construction-specific programs, however offer advanced reporting features such as standard reports, customizable report writers and easy data input and export into popular third-party software products.

## 4. The Current Software Does Not Easily Handle the Payroll.

A major indication that a company has outgrown its generic accounting software program is painful payroll activities. Even for a company with 20 or fewer employees, payroll activities and the reports derived from payroll information (multiple tax jurisdictions, worker's compensation, certified payroll, union) can be complex.

Small-business accounting software might be capable of

generating payroll checks and booking the costs to the general ledger, but most packages lack the sophistication to handle union benefits, multiple jobs, prevailing wage, multistate deductions and other construction payroll issues.

Mid-level construction accounting systems offer time-saving efficiency and productivity when it comes to the payroll.

From a single timecard a good system will automatically:

- calculate an employee's time to multiple jobs or phases;
- compute multistate and local taxes, prevailing or union wages, deductions and fringes and other burdens; and
- update both the general ledger and job costing modules.

The bottom line is when users perform manual payroll calculations or create payroll reports outside the accounting system, they're not working as productively as they could be.

## 5. The Current System Is Slow and Inefficient.

Designed around finite proprietary databases, small-business accounting systems are equipped to handle limited transactions for companies with 20 or fewer employees and annual revenues of less than \$2 million. However, some businesses track information differently, it's possible for contractors with less than 20 employees and less than \$2 million revenue to quickly outgrow their accounting systems. The rule of thumb should be: The more transactions, the more robust the database.

Some of the more obvious signs that a system is inefficient include the following:

- Users turn off audit trails and other preferences to gain more speed
- The system can handle only one or two users at the same time
- The same information is entered into the system multiple times
- There are many steps required to complete simple tasks
- The system is extremely slow

### The Bottom Line.

After considering these five warning signs, many contractors want to know how their small-business accounting system, which served well in the past, is no longer meeting their needs. Ironically, the advantages that simple accounting systems provide can become disadvantages as a company grows.

For example, the software's limited construction functionality (which makes it easier to use) and its minimal database performance (which makes it cheaper to buy) are often the largest roadblocks to accounting efficiency and productivity for expanding contractors. Over the long term, construction-specific accounting applications, can offer cost-saving advantages that busy, growing contractors cannot afford to be without. ♦