



# Signs .....

## ..... You're Due for an Accounting System Change

by Fred Ode

You've heard of Chronic Fatigue Syndrome? Well, in construction, there's an ailment among bookkeepers and accounting managers referred to as Construction Accounting Software Deficiency (CASD). It's brought on by slow and inefficient processes, spreadsheet abuse, duplication of data entry, and the inability to retrieve timely job data. And the symptoms? Irritability, frustration and headaches!

OK, CASD is not actually a medically defined ailment, but that doesn't mean thousands of sufferers aren't out there. The condition usually goes something like this: non-financial-type contractors purchase small business accounting software because it is affordable and offers user-friendly functionality. It's a great fit for the small contractor and startup company, but as the contractor grows, serious limitations begin to surface. Soon, the overstressed software is no longer boosting efficiency and productivity; rather, it's creating overstressed users. Read on to discover the five signs of accounting software deficiency.

### 1 Are you overly dependent on spreadsheets?

In other words, are you creating "customized" reports outside the system for such things as work-in-progress, billings, job costing or labor-production analysis? This is a sure sign your current accounting system is not meeting your reporting needs.

When a system is incapable of providing information the way contractors need to see it, users are forced to re-enter data into separate programs, such as Excel®. In effect, they create a second set of books, which must be continuously updated and maintained with each new transaction, job change, equipment usage and so on. Time-consuming and inefficient, this method only guarantees more time will be spent gathering information than actually analyzing it.

Sometimes, contractors overuse spreadsheets simply because they are not taking full advantage of their current software's capabilities. It's possible

some users are reluctant to give up their spreadsheets, or others simply need more training. However, it could also mean the current software is lacking. In this case, contractors should consider a construction-specific accounting system that offers accurate, instant and extensive reporting capabilities. What's more, systems built upon secure databases, and designed to handle tens of millions of records and multiple users, produce reports that can be shared and accessed without tampering concerns.

### 2 Does your accounting system work the way construction works?

Construction contracting, which operates on a project-by-project basis, is significantly different from most other businesses. So, it stands to reason that major differences between general purpose accounting software and construction-specific software will exist.

Consider job costing. Most generic accounting systems that claim to do job costing are geared to handle only simple project accounting needs. These systems force contractors to track costs by "item" or "category" instead of organizing projects into jobs, phases/cost codes and cost types. A good coding system should produce the general ledger information accountants need as well as the job-costing information project managers and owners need. It will also make sure these numbers are always in balance. It takes a detailed job-costing design to produce such essential reporting as over/under billing, retainage, revised estimates with change orders, and beyond.

When you consider the many unique business and accounting issues contractors face — such as retention, WIP schedules, unions, prevailing wages, multi-state payrolls, AIA billing, T&M jobs, etc. — it's easy to see why generic accounting programs fall short for growing contractors. Even among construction-specific software products, 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 the best features.

### 3 Can you get detailed job information ... on the fly?

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 requires too much time to compile data, it may be a clear sign of software deficiency.

Most small-business accounting systems are designed to automate financial recordkeeping, but their reporting capabilities are weak. These systems provide financial statements, cash flow, current balances and breakdowns of expenses by job, but they have serious limitations when it comes to extensive and customizable reporting. For example, some of the reports an owner may want to see are production, estimate vs. actual, unit price, projected cost to complete, committed cost, etc. A small business system would not be able to produce these reports. The owners have access to this information through a series of different reports and spreadsheets, which take time to compile.

Meanwhile, robust reporting is the cornerstone of most good construction-specific accounting programs. They typically offer advanced reporting features such as standard reports, customizable report-writers and easy data input and export into popular third-party software products.

#### **4 Does your accounting software handle payroll efficiently?**

For growing contractors using generic accounting software, painful payroll activities will often raise a red flag on software deficiency. Even with 20 or fewer employees, payroll activities and the reports derived from payroll information can be complex. Off-the-shelf accounting software can generate payroll checks and book the costs to the general ledger, but most packages lack the sophistication to handle union benefits, multiple jobs, prevailing wage, multi-state deductions and other construction payroll issues.

Mid-level construction accounting systems, on the other hand, offer time-saving efficiency and productivity when it comes to the intricacies of construction payroll. From a single timecard, for example, a good system will automatically 1) calculate an employee's time to multiple jobs/phases; 2) compute multi-state and local taxes, prevailing or union wages, deductions and fringes, and other burdens; and 3) update both the general ledger and job-costing modules. The bottom line is: if you are performing manual payroll calculations or creating payroll reports outside the accounting system, you're not working as productively as you could be.

#### **5 Is your current system slow and cumbersome?**

It could be your growing business has stretched the limits of your accounting system. These systems typically use proprietary databases, which are designed to handle transactions for companies with 20 or fewer employees and annual revenues of less than two million dollars. However, since businesses track information differently, it's possible for contractors with less than 20 employees and less than \$2 million revenue to outgrow their system. Thus, the rule of thumb should be: the more transactions contractors complete, the more robust their databases need to be. In contrast, many mid-range construction accounting software products use an open-system database, like Microsoft SQL, giving them more power, speed and integration capabilities.

Below are the more obvious signs your company has outgrown an existing system: 1) To gain more speed, users turn off audit trails and other preferences; 2) The system cannot handle more than one or two users at the same time; 3) Users of the system manually enter the same information

multiple times throughout the system; 4) Simple tasks require many steps to complete; 5) Users complain the system is painfully slow.

Considering all these factors, is it possible your off-the-shelf accounting system is dragging you down? Could the program that once served your company so well is now draining resources?

Ironically, it's the very characteristics that make off-the-shelf accounting software products so appealing to small contractors that actually create problems as a company expands. The software's limited system features, which make them easier to use, and their minimal database performance, which make them cheaper to buy, are often the largest roadblocks to accounting efficiency and productivity for growing contractors. But not to worry! Converting to a more sophisticated, construction-specific accounting application may be just the cure your company needs! ⓘ

*Fred Ode is the CEO of Foundation Software. Mr. Ode has managed the company's growth to serve more than 2,000 clients across a variety of construction trades. You can reach him at [fred@foundationsoft.com](mailto:fred@foundationsoft.com). Reprinted with permission.*



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P.O. Box 2229  
Corona, CA 92878-2229  
(951) 736-7600