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## NO. 5: ARE UNTIMELY AND INACCURATE BILLINGS CAUSING FINANCIAL DISTRESS?

**Editor's Note:** *Following is the fifth article in our ten-part series called, "Accounting Software Checkup: Ten Ailments That Can Hinder a Healthy Bottom Line," by Fred Ode, CEO, chairman and founder of Foundation Software. Each "ailment" will be discussed in detail to help you determine if your seemingly healthy business has an underlying problem.*

Construction business owners, like the hard-working people from Smith Barney, prefer to make money the old-fashioned way. They earn it.

Unfortunately, some contractors never see all the money they've earned. Or at least they don't receive those earnings in time to stay in business. Bad billing and collection procedures, as well as an ineffective accounting system, can quickly result in cash flow problems. And, as the experts tell us, negative cash flow is the leading predictor of contractor bankruptcy.

Here, in part five of our "Construction Accounting Software Checkup"

series, we will take a look at how your current accounting software stacks up when it comes to the bookkeeping tasks known as accounts receivable. No matter what type of billing contract a contractor takes on (lump sum, cost plus, time and material, unit price billing, etc.), the type of accounting software the company uses is likely to have a huge impact on its billing efficiency and accuracy.

### Are Time and Material Billings Slowing You Down?

From a time and materials standpoint, the differences between generic accounting programs and

### 10 Ailments That Can Hinder a Healthy Bottom Line

1. The Symptoms of Spreadsheet Addiction
2. Tired of Redundant Work and Double Entries?
3. Has Inconsistent Job Cost Reporting Left You Feeling Irritable?
4. Get Relief from Weak Financial Reporting
- 5. Are Untimely and Inaccurate Billings Causing Financial Distress?**
6. Warning: Unmanageable Growth Can Lead to Excess Staffing
7. Learn to Use Your CPA in a Well-Balanced Way!
8. Is Pressure Building Between Accounting and Field Staff?
9. Stop End-User Rejection Before It Grows
10. Technophobia: The Hidden Disease

construction-specific software products can be significant. Before sending receivable invoices, a contractor using generic accounting programs for billing must first make sure that all historical job data has been gathered (such as employee timecard information, material and equipment costs, subcontract costs, burdens and overhead expenses). Next, all job expenses must be marked up according to predetermined rates. And finally, the invoice must be prepared.

As a construction company grows, the ability to produce timely and accurate time and material billings using a generic accounting package becomes more and more of a challenge. Because generic programs do not integrate with job costing, payroll or accounts payable, contractors must use a manual system of gathering data for each invoice. This means pulling timecards, finding receipts, shuffling through filing cabinets for invoices and hoping that no expenses were overlooked... or double-billed. Once all the job costs have been gathered, the contractor then must calculate the markups, which are usually broken down into numerous categories. The entire process is as time-consuming as it is prone to error.

In contrast, a good job cost accounting system will eliminate virtually all the manual work involved in time and material billings. The system gathers job data, calculates markups and creates invoices. The tracking of time and material job costs happens automatically with every timecard entry and every accounts payable transaction. In most cases, users are able to define both the costs to be included and the format of the invoice. As for markups, most programs will allow contractors to define markups in an infinite number of ways, such as employee by trade, department or earn code. Once the company has defined its settings and formats, the switch to a construction-specific system often results in hours

or days of time-saving efficiency for companies doing predominantly cost-based billing.

### Are Progress Billings Becoming Progressively Painful?

Contractors who use progress or lump sum billings often complain that their

generic accounting systems are inadequate for these all-important tasks. The billings, which are almost always done outside the system, become increasingly difficult as the company takes on more and more jobs. Because these invoices are tied to the percent-complete factor of a job, the importance of having an integrated system

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## ■■■ Accounting Software Checkup

becomes more obvious.

Take, for example, the contractor who is four weeks into a \$100,000 contract. How does this contractor know how much to bill at this point in time by using a generic accounting system, which does not put costs to specific jobs? Either someone must manually

add up all the costs, or they take a guess. By using an accounting system, which collects detailed job costs as they occur, the contractor will know what the percentage of completion is, and therefore, how much to bill. If the system says the job is 50 percent complete, the contractor bills \$50,000. It's

really that easy. There is no guesswork and, better yet, no tedious, manual billing process.

### Recognize the Signs of Inflexibility

When construction business owners use accounting systems that were not designed to work the way contractors work, a lot of time is spent doing work-arounds. The functionality of a system's billing application is a perfect example.

Many contractors spend hours trying to produce their billings in specific industry formats, such as those meeting the American Institute of Architecture (AIA) specifications. Others, who perform work for their state Department of Transportation (DOT) or other government agencies, spend hours re-entering data into specialized unit price billing formats. And the list goes on. Whether it's the need for specific cost and coding structures to create invoices or the ability to track and release retainage items, a good construction-specific accounting system should do all this and more.

So, when it comes to your construction company's billing needs, how does your accounting system measure up? Untimely, inaccurate or inefficient billing problems may lead you to consider a healthy alternative: construction-specific, job cost accounting software.

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