

## General Accounting Software vs. Construction Specific

### Why Spend The Money?

By Larry True, Systems and Business Consultant

I can't count the number of times I have heard contractors mention that they bought MAS90<sup>®</sup> (or Great Plains<sup>®</sup> or Peachtree<sup>®</sup> or QuickBooks<sup>®</sup> – just pick one) and that it didn't seem to fit all of their needs."

I wonder to myself, "Why?" Not why it didn't fit their needs, but why they selected a general purpose accounting system for their construction company in the first place.

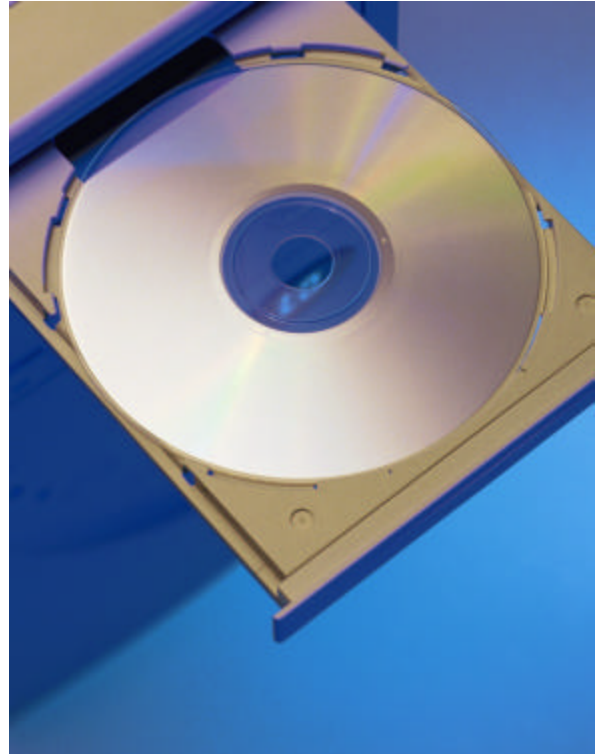
What I've learned is that many contractors simply do not realize that construction-specific software exists, so they buy a popular brand name with little regard for what the program could actually do. In other cases they receive bad advice – unfortunately sometimes this advice comes directly from their accountant.

Consider the differences between general purpose accounting software and construction-specific software. Most smaller construction companies typically need general ledger, accounts payable, accounts receivable, payroll and job cost. All systems have those packages so why not pick any one of them, right? Not necessarily. Here are a few things to think about before making that decision.

#### Job Cost

Let's consider job cost first. Most general accounting job cost systems are geared toward the needs of small manufacturing companies, or, at best, they handle very simple project accounting needs.

In my experience, the needs of a small contractor really aren't that much different than those of a larger one; but both are very different than the needs of manufacturing companies. For contractors, projects need to be organized into tasks or phases and, depending on whether they do highway work, commercial building work, or housing, the coding structure may be different. Many general contractors use the CSI (Construction Specifications Institute) coding structure for their job costing, while highway



contractors often use their state DOT codes. Housing contractors sometimes use the HUD coding structure which is quite different from the others. You get the picture. The needs vary quite a bit."

What about project revenue recognition and over/under billing? Many general systems simply don't deal with revenue recognition or over/under billing at all, forcing the contractor to handle this task off-line-usually in an Excel<sup>®</sup> or Lotus 1-2-3<sup>®</sup> spreadsheet. This makes extra work that is completely unnecessary.

And forget about management reports. Most general accounting job cost systems provide a standard budget versus cost report with no thought about budget revisions, change order tracking, projected cost, committed cost or estimated cost at completion.

#### Subcontracts

Subcontracts are rarely handled well in general accounting systems. Subcontracts are a special type of accounts payable that includes agreement for services as well as the specific payment terms,

insurance requirements and frequently a tie to the owner's payment to the prime contractor. Most simple general accounting systems have accounts payable, and some have purchasing. Rarely will you see commitment analysis and insurance tracking, much less change order management or any link to the prime contractor's billings to the owner or higher-tier contractor.

### **General Ledger**

Consider the general ledger. Many construction companies have complex organization structures with different divisions, locations and profit centers. Most general accounting systems can accommodate some type of organization structure, but many of them can't even begin to handle all of the relationships between sub-modules and the general ledger that exist in a construction company.

### **Equipment and Cost Management**

Equipment and cost management is another important issue. If a contractor owns equipment, and the accounting system doesn't handle it, the contractor is left to create or buy a separate system to meet his needs. This results in extensive efforts to either create journals that can be imported back into the general ledger or manually re-key the information into both the job cost and general ledger systems.

It is true that the maintenance tracking function does not necessarily need to connect to the accounting software, but charging the equipment cost to jobs and booking the depreciation and repair costs to equipment certainly do.

### **Payroll**

Don't forget payroll. Contractors who use QuickBooks® or Peachtree® may be able to create payroll checks and book the cost to the general ledger. However, the level of detail will not be as comprehensive or informative and the ancillary tasks associated with a construction payroll will most certainly take longer using a general accounting system versus one that was designed for construction.

Additionally, what about all the reporting needs? Union reports, certified payroll reports, EEO reports - these are never adequately accommodated within a general accounting system. Users find themselves, once again, performing operations off-line, either manually or within a spreadsheet program. Workers' compensation insurance calculations must also be done by hand. All of this takes valuable time away from thinking about important business issues.

Management may not even be aware of the lost efficiency due to all of the manual processes that go on when the system is not construction-specific. When it finally is added up, it can be substantial. So when somebody says, "Why do we need to spend more to get a construction specific system? Can't we just use QuickBooks®?" the answer is simple. Do the math and it will be apparent that you can't afford not to buy a system that fits *all* of your needs, not just the minimum accounting requirements.

### **About the Author...**

*Larry True is a Systems and Business Consultant with over 30 years of construction and related experience. Over the past 20 years, Larry has been involved with selection and implementation of more than a hundred systems in companies ranging in size from under \$1 million to over \$1 Billion in annual revenues.*

*Larry has sold, implemented and supported systems ranging in size from a few users to hundreds of workstations, all in A/E/C and manufacturing.*

*His hardware and systems experiences include mainframe, midrange and networked systems with hands-on software experience with over a dozen different integrated construction accounting, estimating and project management systems.*

*Larry's construction background includes estimating, accounting, cost engineering and project management experience over a 22 year span. He has a BS in Civil engineering, with Honors, from the University of Colorado and has been an active member in a number of construction societies and professional associations including CFMA, AGC and ABC. He is a frequent speaker and author.*

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