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IS IT TIME TO GRADUATE FROM ENTRY-LEVEL ACCOUNTING SOFTWARE?

BY FRED ODE

Take the 5-Step Test

Just as “professional” college students postpone graduation for the comforts and familiarity of college life, many construction business owners are reluctant to graduate from their entry-level accounting software system.

And it’s easy to see why.

Small business accounting applications are often the best software alternative for small contractors that want to do their own financial recordkeeping and management but shy away from advanced accounting. These easy-to-use, affordable, off-the-shelf programs provide non-financial types with fast and usable tools for bookkeeping and accounting tasks.

Despite all the benefits, however, small-business accounting systems have their limitations. For the growing contractor with 10 or more employees, for the company with revenues in excess of \$500,000, or for the financial manager who wants more detailed information, better reporting or job-costing data, it may be time to consider stepping up to the midlevel range of construction-specific job cost accounting software.

Construction-specific job cost accounting software is usually the next logical step for growing construction companies. Generally, these powerful, feature-rich programs, designed to handle the complex issues of construction accounting, require a steeper investment. With the right selection, contractors can expect to quickly recover costs through better financial decision-making and greater operational efficiency.

So how does a contractor know if the time has come to graduate from an entry-level accounting system? Sometimes it takes more than 20/20 vision to clearly see the signs. The following test can help users definitively answer that question. A “yes” answer to one or more of the following questions means it may be time for a construction company to start looking to upgrade its accounting software.

THE FIVE-STEP TEST OF OVERSTRESSED SOFTWARE

1] Is the system designed to work the way construction works?

Construction contracting is a complex business, especially in terms of accounting procedures and reporting. For that reason, mid-level, construction-specific accounting systems handle information in a way that contractors work—from data entry through immeasurable reporting possibilities.

For instance, instead of tracking things by “category” or “item,” as many small business systems do, transactions are tracked by task, phase or cost code. This allows for the reporting of important information such as work-in-progress, percentage of completion, retainage, projected cost, estimated vs. actual cost, revised estimates with change orders, production variance, unit price and beyond. Using a program designed specifically for construction, contractors can spend more time analyzing information than trying to gather it.

2] Is the same data entered in several different programs?

Many small contractors find the reporting capabilities of their entry-level accounting systems are adequate for their business needs. Others, however, find it difficult to produce the reports they need and often end up re-entering the same data in a separate program, such as Excel.

Basically, a second set of books is created to produce such things as work-in-progress, job costing or billings reports. These “customized” reports must be manually updated outside the accounting system with each new transaction, job change, equipment usage and so on. Time-consuming and inefficient, the method allows plenty of room for error and provides no guarantee that the data is accurate or up-to-date.

Companies need to determine if they are spending too much time creating—and depending on—spreadsheets for important information that they automatically could get from a more sophisticated job-costing program.

3] Can the system adequately handle payroll activities?

Even for the contractor with 20 employees or fewer, payroll activities

can be complex. Because small business accounting software does not handle all the intricacies of construction payroll, contractors using these systems sometimes spend long hours calculating multi-state taxes, certified payroll and fringe benefits—or they hire an outside payroll service. The downside of outsourcing is that companies still must spend time preparing information, and this critical job-cost data may never become available for reporting or analysis.

In contrast, many construction-specific accounting programs are designed to manage all aspects of construction payroll, including automatic calculation of prevailing wages, deductions and fringes, and multiple taxing authorities from a single timecard. A time-saving benefit of construction-specific programs is the ability to instantaneously prepare and calculate reports on certified payroll, minority compliance, workers’ compensation and 401(K) plans. With some mid-level programs, payroll hours or labor dollars can be used to calculate overhead allocation, providing even more accurate reporting of net profits.

4] Can job information—no matter how detailed—be accessed instantaneously?

Many construction businesses require specific reporting and job-costing information to keep the company productive and profitable. To understand how a job is doing, contractors need immediate access to job data. Information that cannot be retrieved on the fly is of little use to project managers or decision-makers who need time to turn a job around. When a system is incapable of generating such reports or takes too long to compile data, the current system may be inadequate.

Contractors struggling to access information from their entry-level systems may soon realize that most small business accounting systems were designed to automate financial recordkeeping but fall short in the area of reporting and management information. In contrast, construction-specific accounting programs provide not only reporting capability but also powerful drill-down features for instant answers to job-cost questions.

5] Is the system CPA friendly, or does it cause CPA over-dependency?

Construction CPAs are vital to the fiscal health and success of any construction company. They provide invaluable services in such areas as tax preparation, auditing, financial advice and consultation. Contractors that rely on their CPAs for much more help than this, however, may be doing so because they are not getting the necessary information from their own accounting systems. A CPA consultant is not necessarily the person who should be preparing work-in-progress reports, current cash-flow information or data that should come from a financial statement.

For small contractors with limited budgets, CPAs almost always recommend an easy-to-use small business accounting system that can provide reliable financial recordkeeping. For larger contractors, and those with more complex accounting needs, CPA professionals will more likely recommend a good construction-specific accounting program that provides better reporting, more accurate records, complete audit trails and other features that can make accounting tasks and financial management easier for both the contractor and the CPA.

WHICH CLASS OF SOFTWARE IS THE BETTER FIT?

Clearly, a huge market exists in construction for the small business accounting software products that line retail shelves. With straightforward designs and easy learning curves, these affordable programs have given hundreds of thousands of start-up and small construction companies the tools needed to manage accounting tasks without the need for any formal accounting training.

But what about the growing construction company with needs that have obviously graduated from an off-the-shelf system? Should it continue to revel in the simplicity and familiarity of its software, refusing to believe that there is a better way to automate financial recordkeeping and reporting? Or will it acknowledge the possibility that the current small business accounting program may no longer meet its unique business needs? The first step to change is recognizing that standing still can be even more costly and inefficient than the unknown.

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