



**Dennis Piper & Associates, P.C.**  
Certified Public Accountants

# 4 Strategic Advantages Hidden in Your Books

Dennis Piper & Associates, P.C.

Dennis Piper, CPA, MPA, PFS

October 23, 2017

# 4 Strategic Advantages Hidden in Your Books

The back office of your business—the processes you use, the records you keep, and the data you collect—could be your biggest source of revenue potential. While businesses typically look outward for growth by acquiring new clients and new projects, the right accounting and bookkeeping approach can increase your profit per project and give you strategic insights into future projects.

You don't need to be an accountant or a QuickBooks guru to capitalize on these opportunities, but you do need to provide the high-level direction to your team to keep projects on budget. Opportunities to increase revenue and improve job profitability include:

1. Use real-time reporting to compare estimated costs to actual costs
2. Gather and analyze historical financial data to plug leaks in your business and identify new revenue opportunities
3. Develop an understanding of work in process (WIP) and percentage of completion accounting
4. Leverage your improved tracking and reporting tools to streamline processes like AIA billing

Each of these topics warrants its own whitepaper, but let's take a look at each section at a high level.

## Estimated Costs vs. Actual Costs

In construction, true profitability can be difficult to determine as you process change orders, haggle to lower material costs, and execute payroll. Many construction companies and contractors, even the largest ones, don't have a clear window into just how much of an impact the day-to-day execution of a project impacts the ending profitability.

Comparing the lump sum of expenses to the original estimates (and using the difference to determine profitability) is a dramatic oversimplification of the complexity of your work. If you are using robust accounting software and processes, you can measure your output every step of the



way. Having results of the overall job at project's end is useful, but having real-time reporting during the job is even more valuable.

With real-time job costing, you can address potential revenue losses early. Some common cost overruns may include over-staffing on labor before enough materials arrive at the job site, subcontractors overbilling from agreed-upon fixed price, or frequent runs to a supplier for small purchases of materials that add up. By monitoring the estimated vs. actual costs along the way, you are better able to identify problems on the job site and make the necessary decisions before it is too late.

## Historical Data, Future Decisions

Analyzing historical data gives you an advantage in business planning. Effectively estimating or bidding jobs is an important piece of the puzzle, but being able to review and zoom in to the detail of positive or negative trends will provide you the opportunity to better match your big picture strategy to your in-the-trenches execution.

For example, you may discover a particular project manager consistently brings certain types of projects in under budget and on schedule but is average on all other types of projects. That analysis could lead to a change in how you assign projects. You could spend time with the project manager to understand what's happening on his or her job sites to make them more effective in certain cases, and use that insight to improve your business.

What the insights will be will vary from business to business, but we can say with certainty that those insights are there. To find them, you need the right reporting and an expert that can guide you through managing and analyzing your financial data.

## Work in Process (WIP) and Percent of Completion

The construction industry often requires that you recognize revenue progressively over the life of a project. This accounting practice applies to longer term contracts and is called percentage of completion. If your business submits financial statements to third parties (i.e. bonding company or bank), then the rules of percentage of completion accounting also require the presentation of a work in process (WIP) schedule. This schedule details the stage of completion for each project and the profitability of the job in the current period and to date.

Your business may not use these methods because of the complexity of the calculations or because you simply are not required to. However, the benefit to implementing this practice is to





provide a reasonably accurate measurement of how your jobs are progressing and match or “even out” your revenue and expenses over the contract term.

Having your accounting system properly set up to use the accrual method of accounting to capture this information is key to preparing the WIP schedule and percentage of completion calculations. Not only will your financial statements be more consistent and accurate, you will be able to manage your business in a more reliable manner and eliminate unwanted surprises.

## Standard AIA Billing Pitfalls

AIA billing is a routine part of major construction projects, but errors in completing this common form may result in inaccurate billings and delayed payments. As a growing business managing multiple projects, tracking subcontractors and submitting compliance documents will become a larger challenge. With those challenges come costly traps.

Though you may not think of form compliance and management as an accounting or bookkeeping issue, we do, and here's why: All of these forms are associated with some form of cost, and they can be more effectively managed with accounting software rather than manually creating AIA draw requests and entering data multiple times in spreadsheets.

Inadequate administrative processes can quickly lead to inaccurate forms, missing materials invoices, or overlooked retention money. If your business is not actively generating the real-time reports we discussed previously, you are likely making mistakes in AIA billing that cost your business revenue.



# Seizing the Advantage

Now that you have a better understanding of what opportunities might exist within your books and financial records, here's how you can begin to capitalize on them:

Centralize all of your bookkeeping and records into one software platform. Spreadsheets are prone to error, and they dramatically limit your ability to learn from your data. We prefer QuickBooks and the construction-specific plugins that are available on the platform.

Build the right bookkeeping framework for your business. Setting up your software and establishing the core processes that you need before you start to take in new data will get your initiative moving in the right direction from the start.

Bring in an expert to consult with you on the administrative and accounting areas, so you can get back to doing what makes you successful. Here are the three things you should demand of that expert:

- Have regular meetings with your CPA to ensure that the framework you set up is actually being executed. Change is hard, and employees often drift back to old habits that muddy the waters of your books and limit the effectiveness of your new initiatives.
- Run an in-depth analysis of the records you have with an expert from outside of your company. A fresh set of eyes, especially from a CPA who works with dozens of businesses, can uncover opportunities that even the most experienced person in your team will miss.
- Make your CPA an active part of your business planning discussions. They may not be making the final decisions in your business, but their insight, experience and data analysis can inform the conversations you have with your leadership.

With this work behind you, you now have the information that you need to tap into new revenue streams and make better decisions than your competitors. And it all starts with your books and a trusted advisor to help at every stage



## About the Author

### Dennis Piper, CPA, MPA, PFS

Dennis Piper is a Pittsburgh CPA with over 40 years of experience in providing business advisory, tax compliance and tax consulting services to corporations, individuals, partnerships, limited liability companies, estates and trusts, non-profits, and pension and profit-sharing plans. Dennis also provides computer system support services to clients and is an Advanced Certified QuickBooks ProAdvisor® and Certified Enterprise Solution ProAdvisor®. Dennis was named Western Pennsylvania Small Business, Financial Services Champion in 2008

## About the Company

### Dennis Piper & Associates, PC

Dennis Piper & Associates, P.C. was established in 1993. We are the #1 provider of QuickBooks services in Greater Pittsburgh with nine Certified QuickBooks ProAdvisors. Dennis Piper & Associates sponsors over 20 QuickBooks Training Seminars a year and has 14 professionals on staff, including six Certified Public Accountants.



**Dennis Piper & Associates, P.C.**  
Certified Public Accountants

[www.dennispiperassociates.com](http://www.dennispiperassociates.com)