

Biggest Accounting Challenges (And Solutions) For Architecture Firms

7 min read



Although it is not your core function, your architecture firm's bookkeeping and accounting department is like its engine. Without healthy finances, your firm cannot operate, and your back office helps to ensure ongoing financial health.

Key Takeaways

- **Tracking Time Accurately:** In a service-based business like an architecture firm, labor is typically your biggest cost. Accurately keeping track of employee time is essential to knowing your true costs...
- **Hiring and Retaining Talent:** Since the beginning of the Great Resignation, hiring talent and retaining employees has posed a significant challenge to all businesses, including those in the AEC industry...
- **Design a Better Back Office With Outsourced Accounting Services for SMBs:** Bookkeeping, accounting, and compliance can be difficult for business leaders to manage on their own, and in small and medium-sized businesses hiring a full, in-house back-office department is often an unrealistic expense...

Unfortunately, business bookkeeping and accounting are complex tasks that can present several challenges. The following are some of the most common and important challenges faced by business leaders in the AEC industry.

10 Accounting Challenges for Architecture Firms

1. Accrual Accounting and Revenue Recognition Issues

Architecture firms must use accrual accounting and follow the generally accepted accounting principles ([GAAP](#)) for compliance. A primary aspect of accrual-basis accounting is recording revenue and expenses as they are incurred - not as payments are actually received or sent.

The need to record revenue before it's received can lead to the problem of inaccurately estimating revenue, and, in some circumstances, this can even be considered fraud. The solution to this problem is to use accounting software that helps you accurately track your costs and invoicing so that you can create accurate, fact-based estimates that to recognize revenue appropriately.

2. Choosing the Right Accounting Software

Most bookkeeping and accounting best practices recommend automating as many manual processes as you can in your back office, and accounting software is the solution for automation.

Accounting software should streamline your bookkeeping and accounting department by automating the majority of your manual processes, increasing efficiency, improving accuracy, and maximizing the reliability and timeliness of your financial reports. Unfortunately, many architecture firms choose the wrong financial management software and wind up working against it and finding themselves with more work and more repetitive tasks than before.

There are countless accounting software solutions available for business purposes, and it's important that you select one that will meet your architecture firm's needs. The software you choose should accommodate your volume of transactions, client numbers, access needs, and number of users. Additionally, the accounting software you choose should integrate with the additional [bookkeeping](#), workflow, and management applications you use.

Read More: [What Accounting System Is Best For Architecture Firms?](#)

In terms of accounting software, the best and most popular option, by far, is Intuit's QuickBooks. QuickBooks is available in QuickBooks Desktop and QuickBooks Online versions, and both come in a range of tiered packages that offer different combinations of features and services.

3. Tracking Time Accurately

In a service-based business like an architecture firm, labor is typically your biggest cost. Accurately keeping track of employee time is essential to knowing your true costs, pricing services appropriately, determining profit margins on projects, and calculating your ROI on labor costs.

There are several applications that can help you track employee time and the time they spend on specific jobs, projects, and other tasks in order to facilitate accurate job costing and optimize pricing. If you are using [QuickBooks](#) accounting software, then QuickBooks Time (formerly TSheets) is a powerful time-tracking application that seamlessly integrates with your accounting software to automate management reporting that can help you improve the operation and productivity of your firm.

4. Cash Flow Management

Accrual-based [accounting systems](#) can create a cloudy picture of actual cash on hand because payments and revenue are reflected as they are incurred or earned and not as they are sent or received. As a result, when operating with an accrual-based accounting system, it's essential to keep a close eye on cash flow so that you always have a transparent picture of how much cash is on hand and flowing into and out of your architecture firm at any given time.

Running your back office with an accounting software solution that provides real-time financial data, such as QuickBooks Online, allows you to pull up cash flow statements at any time. This means you can clearly see the actual cash on hand in your firm to improve daily operations.

Additionally, with daily cash flow management, you can actively improve your ability to forecast cash flow. As a result, this will improve your firm's overall cash management, budget planning, and operations.

Pricing Uncertainty?



AEC firms often struggle to know if they're pricing their jobs correctly- for profitability.

[3 Steps To Fixing Your Pricing \[DOWNLOAD GUIDE\]](#)

5. Regulatory Compliance and Tax Law Changes

Compliance and keeping up with regulatory changes is a concern for every type of business. Businesses operating in the AEC industry are held to industry-specific standards. Your business must maintain compliance with these rules and regulations which are ever-changing to avoid unnecessary penalties, reputational damage, or losses of business licenses.

To ensure you remain compliant, you can perform routine internal audits in addition to consulting with lawyers and accounting experts on an ongoing basis to ensure you stay up to date with changes and new regulations.

6. Securing the Bookkeeping and Accounting System

Small and medium-sized businesses are particularly susceptible to internal fraud and attacks from cybercriminals. It's essential that you have at least three people running your back office at all times to ensure proper checks and balances are in place and that duties and powers are adequately separated.

7. Hiring and Retaining Talent

Since the beginning of the Great Resignation, hiring talent and retaining employees has posed a significant challenge to all businesses, including those in the AEC industry. Employee attrition is surprisingly expensive because it results in direct and indirect costs associated with the loss of the money invested in the previous employee, the cost of hiring a new employee, and the lag time associated with bringing a new employee up to speed.

By using the back office to measure the effectiveness of various human capital management strategies and other HR-related efforts, architecture firms can more effectively improve their hiring processes and employee retention.

Read More: [What Every Architecture Firm Needs To Know About Accounting](#)

8. Maximizing ROI on Labor Costs

With labor being the largest cost in an architecture firm, it's essential to keep a close watch on the firm's labor ROI by carefully tracking time, categorizing revenue, and measuring the effectiveness of employee incentive programs. Use your back office to determine the most effective ways to maximize employee engagement and productivity.

9. Financial Reporting

Financial reporting for external purposes (traditional reporting) and internal purposes (management reporting) requires that you have well-organized, accurate, timely, and reliable financial data that can easily be used to generate a variety of financial reports such as your basic balance sheet, income statement (profit and loss statement), and [cash flow](#) statement in addition to the charts and metrics that are most pertinent to your architecture firm's operations.

10. Financial Strategy and Tracking the Right Metrics

When running an architecture firm, you need to have a vision for its future. This should include a set of long-term goals and short-term benchmarks that collectively create a pathway to your future vision. While having a business plan is a great start, it won't be possible without a financial strategy to support it.

While managing your firm, you should be setting goals and identifying the specific metrics or key performance indicators (KPIs) that can help you measure your progress, financial health, and business success.

Design a Better Back Office With Outsourced Accounting Services for SMBs

Bookkeeping, accounting, and compliance can be difficult for business leaders to manage on their own, and in small and medium-sized businesses hiring a full, in-house back-office department is often an unrealistic expense. With [outsourced](#) accounting, SMBs can access a complete back office of experienced bookkeeping and accounting professionals. Outsourcing makes it possible to overcome the accounting challenges faced by architecture firms while improving operations and strategy to maximize profits and success.