

# Financial vs. Management Reports: What AEC Firms Need to Know

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6 min read



Reporting is the primary method of recording and communicating business performance with both internal and external stakeholders. It is the process of using a standardized bookkeeping and accounting system to collect financial data, organize it, and then record it within a set of standard reports.

## Key Takeaways

- **What Is Financial Reporting?:** Examples of financial reports include your AEC firm's profit and loss statement (aka income statement), balance sheet, accounts payable, accounts receivable, and...
- **Best Practices for AEC Firm Reports:** Timeliness and accuracy are essential to generating reliable data, and reliable data is essential for both financial reports and management reports. Neither can serve their purpose if your data is...
- **Business Leadership and Compliance:** What do business leadership and compliance have in common? They both begin with a well-run back office. If your AEC firm struggles to collect financial data and generate reliable reports, then...

These reports fall into two basic categories: financial reports and management reports. Both types of reports are integral to any AEC firm's operation, management, and success, but you will find that they are useful to your firm in different ways.

## Financial Reports vs. Management Reports: What's the Difference?

Both financial reports and management reports contain information based on your AEC firm's performance and financial data. The two types of reports, however, differ in the way they are used in and out of your business.

### What Is Financial Reporting?

Financial reports are essential to the legal and compliant operation of your business.

As GrowthForce President and CEO, Stephen King, explained in an article recently published in [Forbes](#), "Financial reports are compliance-oriented and are primarily used for external purposes—although they *can* be used internally to assess your company's financial health and performance. They include standard weekly, monthly, quarterly, and annual reports that your business generates."

**Read More:** [How to Read and Interpret Financial Reports for Your AEC Firm](#)

Examples of [financial reports](#) include your AEC firm's profit and loss statement (aka income statement), balance sheet, accounts payable, accounts receivable, and statement of [cash flows](#)

## What Is Management Reporting?

Management reports are vital to your ability to make data-driven decisions to successfully lead and grow your business. "Management reports are primarily used internally for management purposes—although they *can* sometimes be used externally to demonstrate business health or projections for potential investors or lenders," King explained. "They provide insight into specific areas of a business and allow CEOs to improve operations and create better business strategies."

There are literally countless [management reports](#) that your AEC firm could produce. Some of the most popular include profit and loss by class, cash flow forecast, realization rate, utilization rate, employee retention rate, employee turnover rate, customer acquisition cost, and customer lifetime value.

In an AEC firm, you will likely also want to see reports on some of the most useful metrics in the industry such as your net multiplier, overhead multiplier, effective cost rate, work in progress (backlog), aged accounts receivable, profit to earnings ratio, and net revenue per employee.

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

## Best Practices for AEC Firm Reports

### General Best Practices and Guidelines

- Always Have Current and Accurate Data - Timeliness and accuracy are essential to generating reliable data, and reliable data is essential for both financial reports and management reports. Neither can serve their purpose if your data is corrupted, incomplete, outdated, or inaccurate.
- Choose the Right Financial Management Software - The right financial management software paired with fully integrated applications can help ensure your data is accurate, complete, and timely. Select software, such as QuickBooks, and a set of integrated tools to help collect all sorts of financial and operational data in real time. This saves time and energy in addition to facilitating automated, reliable reporting.
- Follow the GAAP Financial Accounting Standards and AEC Industry Guidelines - Businesses in the AEC industry are held to specific reporting standards in order to ensure compliant operations. Be sure to follow the Generally Accepted

Accounting Principles (GAAP) as well as your industry and local bookkeeping and accounting rules and regulations to ensure you are operating and reporting compliantly.

- Get Into a Reporting Routine - You should make the practice of reading your financial and management reports a habit to ensure you're getting the most out of your numbers and keeping a close eye on your firm's health and performance.

### **Financial Reports Best Practices**

- Be Compliant - Since your financial reports are for external (as well as internal) use, it's essential that they are generated in a compliant manner using financial data that was collected according to compliant bookkeeping and accounting standards. This is essential for legal purposes, and compliance is essential to the ongoing operation of your business.
- Learn to Understand Your Financial Reports - While financial reports are primarily associated with compliance and meeting standards, they are also useful for managing your business - if you know how to read and understand them. If you are not familiar with financial reports, then it's important to take the time to learn to understand the numbers contained within them and how you can use these numbers to gauge financial health while making data-driven decisions to improve the business.

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## Which KPIs should your AEC firm be tracking?



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### Management Reports Best Practices

- Track the Right Metrics - According to King, "Management reports are most useful when you understand which reports and metrics are most applicable to your business operations and strategic decision-making needs." As stated above, there is an endless list of possible management reports, metrics, and key performance indicators that you could be looking at for your AEC firm. This, however, requires more time than you actually should (or probably have) to spend on management reporting. Instead, identify the metrics and reports that are most essential to your business and its unique goals and spend your time focused on those.
- Use SMART Goals - [SMART](#) (specific, measurable, achievable, relevant, and time-bound) [goals](#) can help to inform the management reports you select. Setting goals for your business to achieve, such as a specific profit margin or net multiplier, can help you grow your business in an intentional way that will help lead you to successfully hitting your benchmarks and achieving your long-term goals.
- Understand Your Profit Drivers - Use your management reports to really understand the profit drivers in your AEC firm. Look at profit and loss statements by class to assess your clients, jobs, and departments. This can help you identify

the specific areas that generate the most profit (not revenue) for your company. You can then eliminate areas of the firm that aren't generating a healthy profit and focus on growing those that do.

**Read More:** [Why You Should Outsource Your Engineering Firm's Back Office](#)

## **Do It Right: Business Leadership and Compliance**

What do business leadership and compliance have in common? They both begin with a well-run back office. If your AEC firm struggles to collect financial data and generate reliable reports, then you're going to struggle to lead and you'll also struggle to maintain compliance - and either issue could be serious enough to sink your business.

Thankfully, even small and medium-sized AEC firms can afford to have robust back offices with outsourcing. Outsourced bookkeeping and accounting services are the perfect solution for SMBs to get a handle on their back-office functions while improving operations and performance to maximize productivity and profits. With a smoothly operating bookkeeping and accounting system, you can begin relying on your financial reports and management reports to help you improve your service-based business leadership skills and find success in the AEC industry.