

How to Read and Interpret Financial Reports for Your AEC Firm

8 min read



Business owners know that maintaining financial records is necessary for generating financial reports, budgeting, making payroll, and keeping up with the general requirements of operating a business.

Key Takeaways

- **Financial Reporting:** Financial reporting is a standard method for communicating a business's financial information to internal and external stakeholders...
- **Why Leadership Needs to Understand Its AEC Firm Reports:** A whopping 44% of survey participants cited this as their number one challenge, and 78% of respondents included it in their top three...
- **Management Accounting for More Effective AEC Business Leadership:** Set up with the team, tools, and technology for financial success paired with the industry experts, you can learn to read, interpret, and use your company's financial reports and metrics...

You may be an AEC industry (Architecture, Engineering, and Construction) professional by trade, but if you're running an AEC firm, then you must also be adept at business financial management; working as an architect or engineer is one job, but running an AEC firm is another.

In order to take the reins of your company, you must know and understand your business's numbers, and this means being able to read and interpret financial reports.

What Is Financial Reporting?

Financial reporting is a standard method for communicating a business's financial information to internal and external stakeholders. Financial reporting, at its most basic level, includes the regular generation of a set of standard [financial reports](#) including the balance sheet, income statement (profit and loss statement), [cash flow statement](#), and annual report.

Beyond these basic financial reports, management accounting tracks additional financial reports, metrics, and charts to improve business leadership, management, operations, profits, growth, and strategy.

Why Leadership Needs to Understand Its AEC Firm Reports

Deltek's 43rd annual comprehensive report, Clarity: Architecture & Engineering Industry Study, AEC firms are facing new financial challenges [1]. With participants asked to rank their top-three concerns and challenges most frequently and strongly reported by leadership in AEC firms included the following:

- Finding and Retaining Qualified Staff (78%) - The challenge of hiring and retaining staff during The Great Resignation has hit the [AEC industry](#) hard. A whopping 44% of survey participants cited this as their number one challenge, and 78% of respondents included it in their top three.
- Managing Growth (48%) - Managing growth also increased over the previous year's responses. As demand has increased, AEC firms are struggling to grow their businesses fast enough to keep up with the increasing demand.
- Increasing Profitability (46%)
- Succession Planning and Ownership Transition (37%)
- Increasing Financial Knowledge/Savvy of Project Managers/Project Leaders (32%)
- Cash Flow (18%)
- Organic Topline Growth (15%)
- Managing Merger and Acquisition Activity (10%)
- Unpredictable Spending Environment (8%)
- Alignment with Executive Management (7%)

The purpose of the annual survey is to work in conjunction with AEC firms and industry organizations to identify industry trends and market conditions. However, it also sheds light on the importance of keeping a close watch on your business's numbers and knowing how to read and interpret financial reports so that you can make data-driven decisions to overcome these rising challenges in the industry.

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

Learn to Read and Interpret Your Financial Reports

Balance Sheet

The balance sheet provides a snapshot of your company's value at a given point in time. It lists all of the company's assets in addition to line items for its liabilities and owner's equity. Your balance sheet can be used to quickly measure your company's liquidity and ability to pay its debt. It can also be used to compare the amount of a company financed by debt versus equity.

Income Statement (Profit and Loss Statement)

An income statement is a report of your company's financial activity over a set period of time. It shows how much money has been earned and spent during that period, revealing how profitable your company's activities were.

You can use your income statement to calculate and assess your company's gross profit margin, net profit margin, contribution margin and break-even point, and operating profit margin in addition to a variety of other useful KPIs. Evaluating the metrics contained within an income statement over time can reveal insightful trends in your business's performance indicating progress toward goals or a need to reassess your strategy.

Statement of Cash Flow

Cash flow statements are useful for showing you how much actual cash flows in or out of your business during a set period of time. While your balance sheet might report a certain amount of assets, your cash flow statement could look quite different. This is especially true if your billing cycle is long, clients are slow to remit payment on invoices, or you do not charge fees up-front or regularly throughout your projects.

Use your cash flow statement to assess your short-term and long-term ability to operate. For example, a cash flow statement can help you determine whether there's currently enough cash on hand to cover your payroll, pay the rent, or pay your vendors.

Aggregated over time, historical cash flow statements can also be used to create cash flow forecasts that can help you identify seasonality in your business in addition to making it possible to better anticipate and prepare for future cash flow shortages.

5 Financial Reports Best Practices for AEC Firms

1. Go Beyond Meeting Financial Accounting Standards and Compliance Regulations

While basic financial reporting is required by basic accounting and compliance standards, financial reporting serves a business management purpose, too. You need to go beyond the basics of maintaining regulatory compliance and tax filing to leverage your back office in the management of your business. Use your financial data to keep a close watch on your company's health, performance, and profits. Then use the information to make data-driven decisions that can help you overcome challenges and lead your business to success.

2. Choose Financial Management Software That Works for You

Do not attempt to manage your back office manually. Manual bookkeeping and accounting processes not only create endless opportunities for mistakes, resulting in inaccurate records,

but manual processes are also incredibly time intensive – and, while running a business, you don't have the time to spend on manual bookkeeping, accounting, and report generation.

Additionally, it's incredibly expensive to hire employees for manual back-office processes. Instead, choose a powerful accounting software system, like one of Intuit's QuickBooks products, that can seamlessly integrate with additional bookkeeping and accounting tools. This will automate your bookkeeping and accounting processes, improve the integrity of your financial data, and ensure that you have up-to-date and accurate financial reports available at the click of a button.

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

3. Generate the Reports You Need and Track Your Essential KPIs

There are countless financial reports you could be looking at and an endless supply of key performance indicators you could be tracking. However, you should only spend your time on the ones that are relevant to your business and goals.

Focus on essential reports like the basics (balance sheet, income statement, and cash flow statement) in addition to a few charts that help you keep a close watch on the health and performance of your people and your business. Additionally, identify the specific metrics that drive profits and are attached to your short and long-term business goals, and focus on pulling the levers in your business that improve those numbers.

Introducing: The AEC Scorecard™ The 6 KPIs You Need To Run Your Firm.



[The only scorecard designed for Architecture, Engineering, and Construction leaders to make data-driven decisions.](#)

4. Use Your Financial Reports to Set SMART Goals and Make Data-Driven Decisions

Effective business goals are SMART (specific, measurable, achievable, relevant, and time-bound) goals. Ensure that your short-term benchmarks and long-term goals for the future vision of your business are tied to specific [KPIs](#) that you can use the financial data in your reports to measure and track.

Read More: [Outsourced Accounting Pricing for Architecture Firms](#)

5. Get Expert Assistance With Outsourced Management Accounting

Establishing and running a high-performing back office that can collect financial data and generate reliable financial reports is no simple task, and hiring an in-house team of bookkeepers, accountants, controllers, and CFOs can be incredibly costly – especially for a small or medium-sized business that doesn't necessarily require the expertise of these employees on a full-time basis.

SMBs, however, can still access complete teams of financial experts with direct experience working with businesses in your sector. By outsourcing your back office to a reputable third-party management accounting provider, you can get set up with a bookkeeping and accounting system that is not only compliant but also smart. Plus, you'll have access to a team of experts who can help you read, interpret, understand, and use the information in your financial reports to improve your business's overall operation, management, and strategy across departments.

Management Accounting for More Effective AEC Business Leadership

With an outsourced management accounting provider, even your small or medium-sized AEC firm can leverage its back office to help you achieve your company's full potential. Set up with the team, tools, and technology for financial success paired with the industry experts, you can learn to read, interpret, and use your company's financial reports and metrics. You'll be able to make data-driven decisions to improve your operations, recruit an exceptional team, and maximize your company's profit potential.

[1] <https://info.delttek.com/43rd-Annual-Deltek-Clarity-AE-Industry-Study>