

Smart Solutions: The Top 10 Bookkeeping Mistakes in Engineering Firms

8 min read



In any business, owners must manage both the business's core function, such as engineering in an engineering firm, in addition to the business's management function, such as the bookkeeping and accounting, which is necessary for the business to operate properly, compliantly, and successfully. Of course, not many bookkeeping experts decide to start engineering firms.

Key Takeaways

- **Failing to Track Time Accurately:** Your biggest cost is almost always going to be labor, and it's important to have an accurate record of how your employees are using their time...
- **Not Tracking and Forecasting Cash Flow:** Cash flow shortages are the most common reason why businesses fail. No matter how much recorded revenue you have, without cash flowing into your business, you might not be able to cover your expenses or make payroll...
- **Why You Should Outsource Your Bookkeeping and Accounting:** Using a combination of an experienced team, back-office tools, and automated technology, outsourced bookkeeping and accounting services can help you get a handle on your back office at a fraction of the cost...

However, good bookkeeping skills are necessary for running an engineering business. As a result, engineering firms often suffer from the following common bookkeeping mistakes.

Top 10 Bookkeeping Mistakes Made in Engineering Firms (and What to Do Instead)

1. Failing to Track Time Accurately

In a service-based business, like an engineering firm, your biggest cost is almost always going to be labor, and it's important to have an accurate record of how your employees are using their time. Time tracking is essential to knowing your true costs so that you can properly price your services.

Additionally, time tracking makes it possible to calculate ROI on labor costs on a more granular level. Rather than just looking at ROI on labor with a business-wide perspective, you can calculate ROI on labor by class (i.e. job, client, project, service, department, etc.).

Instead of relying on self-[reporting](#), which can be inaccurate and also time-consuming for your employees, use a time-tracking application such as QuickBooks Time (formerly

TSheets) to create a clear picture of the portion of your total labor costs that are direct and indirect.

Read More: [Why We Love TSheets for SMBs & Why You Need It Too](#)

2. Avoiding the Automation of Manual Processes

Small and medium-sized engineering firm owners often find themselves mired in manual bookkeeping processes. If you're using a physical general ledger or writing checks, recording transactions, reconciling accounts, processing expense reimbursements, or handling any other bookkeeping task by hand, then you're wasting time, energy, and resources. Additionally, manual processes create infinite opportunities for human error.

To save time and money while creating a highly accurate and reliable set of financial records, begin automating your back-office processes by using accounting software. Digitizing your records helps to eliminate errors, improve accuracy, and generate timely and reliable reports. Additionally, it's much easier to create a backup of a digital system that is securely stored in the cloud so that you can rest easy knowing your financial records are safe from disorganization, degradation, and loss.

3. Not Choosing QuickBooks Financial Management Software

Using any accounting software is better than managing your bookkeeping without software. However, [Intuit's QuickBooks](#) products are by far the most popular and highly recommended for business bookkeeping and accounting, and QuickBooks can be highly useful in an engineering firm as it can help you automate transaction recording in addition to producing estimates and invoices, streamlining cash flow management, and more.

Read More: [The Best QuickBooks® Consultants For Your Business](#)

Both QuickBooks Desktop and QuickBooks Online are available in a variety of different packages and price points. As a result, it's designed to meet the bookkeeping needs of different businesses while being easily accessible for most small and medium-sized businesses.

4. Not Thoroughly Categorizing Expenses

Categorizing expenses is essential not only for tax and compliance purposes but also for management purposes. Having accurate and thorough expense categorization

records is vital to knowing your true costs and even allocating indirect expenses for accurate pricing.

Do not simply maintain a chart of accounts with expenses sorted into the appropriate itemized categories for tax time. You should also be tagging (easily done in [QuickBooks](#) software) expenses with additional information such as department, client, or service. To do this, you need to maintain accurate and thorough transaction records. Consider using an application to easily digitize receipts and invoices so that you'll have a digital record of every transaction's details.

From breakeven to \$1 million in profits.

How'd they do it? We'll give you a hint: QuickBooks, Job Costing, and an Outsourced Accounting Team.

[Read the full case study HERE.](#)

5. Losing Track of Reimbursements and Petty Cash Funds

Your business and personal records, accounts, and credit cards should always be kept separate. However, it might still be necessary for you or your employees to purchase items for business use using personal funds or the company's petty cash account.

It is essential that you have a good system for keeping track of these transactions and reimbursements (when necessary). Poorly managed reimbursement systems are messy, leave black holes in your financial records, and they render your business highly vulnerable to internal fraud.

Require that receipts be turned in along with reimbursement requests and make sure you have a secure process for approving and reimbursing these expenses. We recommend using an app such as Expensify to streamline the expense tracking and reimbursement process. (Plus, Expensify fully integrates with QuickBooks along with hundreds of other business management applications!)

6. Improperly Recording Accrued Revenue

Failing to properly and accurately recognize revenue in a business using the accrual-basis accounting method is actually fraud. For example, a company might record revenue for contracts that are not yet settled or at an inflated level, making its

total revenue look healthier than it is. Sometimes, however, improperly recorded revenue can happen accidentally as a result of poor bookkeeping practices.

To maintain compliance and operate legally, your firm must have a process for recording and recognizing revenue that fits within the generally accepted accounting principles (GAAP). Maintaining a thorough record of transactions will help you create more accurate estimates. Plus, project management or workflow software can help you keep better track of client accounts so that you'll know when contracts for upcoming work have been settled and when revenue should be recorded.

Read More: [Financial Reports vs. Management Reports: What's the Difference?](#)

7. Not Tracking and Forecasting Cash Flow

[Cash flow](#) shortages are the most common reason why businesses fail. No matter how much recorded revenue you have, without cash flowing into your business, you might not be able to cover your expenses or make payroll. For this reason, careful cash flow management is essential to maintaining financial health in a business using the accrual accounting method.

Cash flow management makes it possible for you to know how much cash is actually on hand at any given moment in your company. You'll understand the timing of money flowing into and out of your business so that you can better manage bill payments and investments in your company.

8. Using Financial Reports for Compliance Purposes Only

Basic [financial reports](#) such as cash flow statements, income statements (profit and loss statements), and balance sheets must be generated for external, compliance purposes. These reports, however, and additional management reports are essential to keeping track of your engineering firm's financial health.

You should create a habit of generating and reading these reports on a regular basis. Incorporate your financial reports into your operating framework by using them to set goals and track the progress made as you work toward them.

9. Operating a Back Office With Fewer Than Three People

Don't make the mistake of believing your engineering firm is immune to internal fraud. Every business is at risk, and small and medium-sized businesses are the most likely targets.

SMBs must often resort to operating their bookkeeping and accounting departments with scant crews and PTO coverage problems. This, however, is a big mistake because it leaves your business highly vulnerable to internal fraud.

Your business needs a minimum of three back-office employees at all times. This is the only way to adequately separate duties and powers while ensuring proper checks and balances to mitigate the risk of internal fraud.

Read More: [How to Establish Internal Controls with QuickBooks®](#)

10. Falling Behind Regulatory Change

Engineering firms are required to follow tax laws and industry-specific rules and regulations within their bookkeeping and accounting systems. These laws change every year, and it's your responsibility to ensure your business is up-to-date and operating compliantly to avoid unnecessary fees, penalties, reputational damage, or even loss of licenses that can occur as a result of non-compliance.

Instead of risking avoiding non-compliance, hire a professional accounting or compliance consultant with experience in the AEC industry. Maintain a well-functioning back office so that you are audit and tax-ready at all times. Practice good due diligence by scheduling regular internal audits to ensure you're always prepared.

Why You Should Outsource Your Bookkeeping and Accounting

From basic bookkeeping and accounting to complex compliance and financial management challenges, [outsourced](#) bookkeeping accounting, and [controller services](#) can solve your firm's back-office problems. Using a combination of an experienced team, back-office tools, and automated technology, outsourced bookkeeping and accounting services can help you get a handle on your back office at a fraction of the cost of hiring a full, in-house bookkeeping and accounting team.

Outsourced bookkeeping services help ensure that your back office is in order so that your daily operations, cash flow management, and financial strategy are in good health.