

What Every Architecture Firm Needs To Know About Accounting

7 min read



When you transition from being an architect to running your own architectural firm, you must also transition from focusing solely on your passion to also focusing on the ins and outs of operating and managing a business.

Key Takeaways

- **The Difference Between Tax/Compliance Accounting and Management Accounting:** All businesses are required to maintain records for the purpose of filing an annual tax return with the IRS. All businesses, however, should also be using...
- **Which KPIs Your Architectural Firm Should Be Tracking:** There are countless KPIs out there that you can track, but it's often most useful to select a few essential metrics to focus on improving at a time. Some of the most important for architectural firms include...
- **How Your Small Architectural Firm Can Afford a Fully Functional Back Office:** The fact is most small and medium-sized businesses can't afford to bring in a complete, full-time bookkeeping staff, and this leaves them vulnerable to fraud

This means you need to understand enough about bookkeeping, accounting, accounting systems, and your company's financials to create business strategies and make the kinds of data-driven decisions that will ultimately lead your firm to success.

Even if you bring in outside bookkeeping and accounting help (as you should, if you're not also an accountant), you'll still need to know enough to find your way around the back office and use your numbers to your advantage.

6 Things You Need to Know About Accounting for Architectural Firms

1. What Is The Main Responsibility Of An Architecture Firm's Bookkeeper?

Bookkeeping is the process of classifying, recording, carrying out, and reconciling financial transactions within a business.

This includes the management of expenses, reimbursements, payroll, accounts payable, and accounts receivable.

The bookkeeping process collects all of the data necessary for the accounting processes to generate financial reports that are necessary for both the tax compliance and the financial management of your business.

2. The Difference Between Tax/Compliance Accounting and Management Accounting

There are several different types of accounting, but two of the most commonly used are:

- **GAAP (Generally Accepted Accounting Principles)** - used for filing taxes and maintaining regulatory compliance
- **Management Accounting** - Used for making evaluating a company's financial performance and making data-driven decisions for financial success

All businesses are required to maintain records for the purpose of filing an annual tax return with the IRS. All businesses, however, should also be using management accounting. Without financial reports geared toward managing and operating a business, business leaders are forced to make blind decisions, reactionary decisions, and decisions based on their gut feelings – all of which can lead you into financial trouble and failure.

Management accounting enables business leaders to set SMART (specific, measurable, attainable, relevant, and time-based) financial goals for their businesses, devise strategies to achieve the goals, and measure their progress toward those goals in real-time.

Read More: [6 KPI Charts to Drive Performance & Profitability in Small Businesses](#)

3. Which Financial Reports Can Help You Run Your Architectural Firm

There are several financial reports available, and as you become more comfortable reading and evaluating them, you can add more to your list of routine financial management. However, the most basic financial reports you need to be looking at (and understanding) regularly include:

- **Balance Sheet** - The balance sheet is a snapshot of your company's assets, liabilities, and equities at any given moment in time. The balance sheet provides a basic picture of your architectural firm's overall financial health.
- **Income Statement (Profit & Loss Statement)** - An income statement reports the firm's total revenue, costs, and profits over a specific financial period (i.e. weekly, monthly, quarterly, or annually).
- **Statement of Cash Flow** - The statement of cash flow shows the amount of money flowing into and out of your firm over a specific period of time. At a glance, the cash flow statement reveals whether you're bringing in more cash than your firm is spending or if you're spending more than you're bringing in.
- **Trailing 3, 6, and/or 12-Month Charts** - Trailing charts are a good way to assess trends, patterns, and seasonality in your company's finances. We recommend evaluating these charts to help forecast cash flow in addition to changes in revenue, expenses, profits, business growth, and business value.
- **Profit & Loss by Class** - Carefully tracking and categorizing expenses and time, while also allocating overhead costs to specific projects makes unit economics possible. With this data, you can pull profit and loss statements by class, meaning you can evaluate the profit margins generated by different job types, clients, departments, employees, and more.

4. Which KPIs Your Architectural Firm Should Be Tracking

Key performance indicators (KPIs) are metrics that can be calculated from the data collected by your bookkeeping department. There are countless KPIs out there that you can track, but it's often most useful to select a few essential metrics to focus on improving at a time. Some of the most important for architectural firms include:

- Gross profit margin
- Utilization rate
- Customer acquisition costs

- Customer lifetime value
- Net revenue per employee
- ROI of labor
- Days sales outstanding

The KPIs you choose to track will largely depend on the overarching goals you set for your company. You'll start by setting long-term goals and outlining the short-term benchmarks that are needed to reach those goals. You can then identify the KPIs that will enable you to measure the progress you make while working towards your long-term business goals.

5. The Risks of Internal, Workplace Fraud

Another aspect of bookkeeping and accounting that is essential for business leaders in architectural firms to understand is the very real and significant risk of internal fraud. Many small firms can't afford to hire enough personnel for the back office to implement sound policies and procedures within their accounting systems. As a result, they are left highly vulnerable to financial and reputational losses as a result of fraud.

At a minimum, you need at least three people handling your bookkeeping and accounting processes so that there is an adequate separation of duties and powers within the department. No one person should be responsible for more than one step in any transaction. For example, one person should be approving an expense/opening the mail, a second person should be writing the check, and a third person should be reconciling the accounts. The person writing the checks should never be the same person balancing the books.

Read More: [How to Protect Your Small Business From Fraud](#)

6. How Your Small Architectural Firm Can Afford a Fully Functional Back Office

If hiring three full-time bookkeeping and accounting employees with the experience, education, and know-how to run a well-controlled back office is out of your firm's reach, you're not alone. The fact is most small and medium-sized businesses can't afford to bring in a complete, full-time bookkeeping staff, and this leaves them vulnerable to fraud and with financial records that are not always current or reliable.

Thanks to secure cloud computing technology and outsourced accounting services, however, SMBs can enjoy all the benefits of a complete back office (team, tools, and technology) at a fraction of the cost. When selecting an outsourced accounting service provided, be sure to choose a reputable company with experience in accounting for architectural firms. Additionally, look for a company that offers scalable services that can easily grow along with your business's needs.

Outsourced Architecture Bookkeeping, Accounting, and CFO Services

When it comes to maintaining impeccable books and up-to-date financial reports, your firm must have the tools, technology, and team in place to form a fully functioning back office.

With [QuickBooks](#) and a variety of time-tracking and expense-tracking software programs, you can streamline your bookkeeping functions. Paired with a scalable, outsourced team of architecture accounting experts, your firm will be set up for regulatory compliance in addition to data-driven decision-making.

By outsourcing your firm's back-office processes, you can free up your own time to focus on doing more of what you love – being an architect, working with clients, and leading your architectural firm to business success.