Overcoming Project Accounting Challenges in Professional Services

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To create a harmonious and successful business, professional services and project-based companies are tasked with controlling budgets, managing resources, providing accurate billing and ensuring project profitability. But for decades, project accounting professionals have been hampered by their reliance on manual processes and disconnected, generic technology systems.

But that's all beginning to change.

Project Management Institute (PMI) reports that **32% of executive leaders believe the "right technology" is the most important factor contributing to their success.** According to Capterra—in its "2023 State of Accounting & Finance Software Adoption Report: The Top 5 SMB Trends"—73% of financial professionals plan to spend more on software in 2023. Such a growing awareness of the importance of technology, combined with spending more on software, suggests that project accounting professionals are ready to invest in modern, comprehensive project accounting software.

In this guide, we explore why project accounting software is the technological tool for project success. We also address the questions project accountants must be able to answer when they take on new projects and reveal how project accounting for professional services helps them overcome any challenges that come their way.

60%

[A] combined 60 percent [of sampled buyers] are using manual methods (pen and paper, spreadsheets or email); non-PM software (including office management suites, such as Microsoft Office or Google Apps) or nothing at all."

– Software Advice

What Questions Should Project Accountants Be Able to Answer?

Before disclosing the vital questions project accountants should ask themselves before taking on each new project, we should first define what project accounting is and how it's different from financial (or general) accounting.

According to **Indeed,** "Project accounting is the accurate tracking of costs incurred through the lifespan of a project. Such costs may include materials, labor and capital equipment. They might occur at any time during the project management cycle."

Essentially, project accounting is the management of all resources used for a specific project, which, by definition, has a start date and an end date. In comparison, financial accounting is the ongoing process of managing, recording and reporting of operational transactions using regulation-based accounting principles. Financial accounting focuses on the health of the entire business rather than the success of individual projects.

With this in mind, here are six questions every project accountant should consider before beginning any project:

1. Are there enough resources available to take on this project?

2. Based on previous projects as a baseline, what is the budget forecast for this project?

3. Are the start and end dates of this project realistic?

4. Is there sufficient reserves in the budget to account for unplanned risks and overruns?

5. Can we effectively track project costs and revenues against planning costs and milestones?

6. What role, task or milestone is creating the most drag on project costs?

By answering these questions, project accountants will ensure there are no project red flags. But even if no concerns are found and they decide to proceed, project accountants should be aware of a few common project challenges.

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What Challenges Do Project Accountants Face?

Projects of any kind are filled with the unknown and can often take longer, cost more and require greater effort than planned due to unforeseen challenges. However, not all challenges are hidden. Below are four major challenges project accountants should anticipate during their projects:

1

Scope Creep

Before any project begins, service providers and clients discuss project expectations, agreeing to a Statement of Work (SOW). The SOW defines the scope of the project, including budget, timelines, deliverables, etc., and it is usually considered a living document, which means it can be modified to accommodate any changes that arise. These changes are what cause scope creep, and scope creep is almost inevitable.

For example, in construction projects, clients frequently ask to alter a design element, building materials become unavailable (thus requiring an alternative selection), or a previously unknown issue (e.g., hazardous materials) is uncovered. When changes like these occur, they skew timelines, costs and more.

The client or the service provider—whomever is responsible for the change—will need to generate a change order request (COR), and the new terms will need to be agreed upon by both parties.

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Challenges Project Accountants Face...

2

Inaccurate Estimating

Estimating the total cost and profitability of a project is a top priority. When done accurately, estimating alleviates the unexpected and unwelcome surprises that can occur throughout a project.

Unfortunately, a Wellingtone's The State of Project Management survey found that 34% of projects have no baseline. In other words, project expectations are not clearly defined, nor are the anticipated costs, including:

› Materials

› Equipment

› Labor

› Time (e.g., project meetings/reading emails)

› Overhead (e.g., monthly costs for day-to-day office expenses)

Inaccurate estimating can lead to expensive operational overruns and severe customer dissatisfaction.

3

Inefficient Project Billing

For service-oriented companies, every project must have its own project billing scheme. How companies track labor and other billable expenses will determine the accuracy and timeliness of project billing. In turn, the accuracy and timeliness of project billing affects the cash flow for the entire organization.
If companies have inefficient project billing and inconsistent cash flow, purchasing supplies, distributing payroll, covering operating costs—and more—become a frustrating challenge that will inevitably affect project success..

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Challenges Project Accountants Face...

4

Revenue Recognition Complexities

Revenue recognition—as required by ASC 606 and IFRS 15—can be a complex requirement. Differing contractual requirements, such as recurring revenue situations and long-term contracts, require differing recognition requirements. Whichever type of contract or contracts are being used, companies must carefully track and keep detailed records in order to comply. This becomes a burdensome chore when handled manually or with aging software not designed for today's revenue recognition standards.

"Revenue recognition is a generally accepted accounting principle (GAAP) that identifies the specific conditions in which revenue is recognized and determines how to account for it. Typically, revenue is recognized when a critical event has occurred, when a product or service has been delivered to a customer, and the dollar amount is easily measurable to the company."

– Investopedia

What Tools do Project Accountants Need to Overcome These Challenges?

To overcome these known project management challenges, project accountants may search for tools to help them out. But they only need one: project accounting software.

Designed for project-based companies, project accounting software is equipped with the exact features and functionality for determining project costs, allocating expenses, comparing budgets, assigning resources, utilizing multiple currencies and more. Modern, cloud-based project accounting software provides project-based companies with the help they need to remove budget-busting obstacles. Here's how..

Managing Scope Creep

› Control changes to the project scope with complete project visibility.

› Create change orders and attach all documentation (e.g., change order request, revised project plan and impact reports) so it is located in one place.

› Define automated workflows to route change order requests to the appropriate people for quick and streamlined approval.

Creating Accurate Estimates

› Create project estimates directly within the software, which helps tie a customer's historical data directly to the ongoing project.

› Assess profitability in real-time.

› Create a quote as well as a new project when approved directly in the solution.

› Allocate overhead and shared expenses for individual projects (including billable and nonbillable items).

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Tools to Overcome Challenges...

Creating Accurate Estimates...

> Compare actual project costs with original and revised budgets.

> Correctly account for work in progress (WIP).

> Modify budget forecasts.

> Compare forecasts with actual costs and incomes for each financial period.

Increasing Project Billing Efficiency

> Automate and connect project activity with billing and accounting systems.

> Vary billing rates by employee, customer, type of work or specific project.

> Recognize revenue based on completion percentage or task progress.

Addressing Revenue Recognition Complexities

> Comply with ASC 606 and IFRS 15.

> Implement contracts as well as items with multiple revenue components.

> Link a deferral code to a stock or non-stock item and create a deferred revenue schedule when inventory and services appear on invoice documents.

"We were using an accounting software application built on Microsoft Dynamics GP, but we found it was not scalable - it simply couldn't keep up with our growth. We needed a complete technology solution that would support our entire operations and scale with us as we grow. [Ultimately] we chose Acumatica."

– Julien Gilbert
Corporate Controller, VetCare

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What Happens When Project Accounting Software Intersects with a Modern ERP Solution?

Project accounting software's ability to overcome project challenges is exciting, but when it's integrated with—or comes as a module within – an Enterprise Resource Planning (ERP) solution, project accountants can take their project control to a whole new level.

Project accounting software within an ERP solution – such as Acumatica Cloud ERP – seamlessly connects with the ERP's General Ledger, Accounts Payable, Accounts Receivable, Sales Order, Purchase Order, Inventory Management and Time Management applications. Users have real-time access to company-wide data from any location, at any time via a web-enabled device.
With Acumatica's ERP and project management features, project accountants have:

Total Visibility into Costs

Material, labor, service and inventory costs are visible and accessible within a single, centralized system that also provides real-time reports that compare actual project costs with original and revised budgets and forecasts by period. Complex quote processes (e.g., creating and updating quotes, linking them in CRM, tracking versions, creating projects and providing billing details) are all simplified and managed within the integrated project accounting and ERP solution.

Complete Control of Billing

Set billing rate and revenue recognition parameters, stay on top of customer and internal requests with change order management (including all documentation), define approval processes and implement audit trail control while establishing company-specific financial periods in one solution.

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Intersecting with a Modern ERP Solution...

Streamlined & Flexible Accounting

Utilize the best revenue recognition method (e.g., percentage of completion or completed tasks) based on the company's specific needs with recognition rules automatically reflected in the General Ledger entries. Both deferred and recurring revenue models are supported, as is the ability to enter project transactions in different currencies.

No matter how big or small a project is, there are many moving, multifaceted pieces that must come together for the project to stay on budget, meet deadlines and exceed customer expectations. With Acumatica's comprehensive project accounting application, professional services companies have the tools they need to succeed.

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The NexTec & Acumatica Difference

Leading project-based companies turn to Acumatica Cloud ERP to effectively manage their projects and take their businesses to the next level. That's because Acumatica's Project Accounting application provides visibility across projects, finance, customer accounts, inventory and related business processes. With Acumatica, projects are included in company-wide financial reports with full multi-currency support.

Award Winning Software

Acumatica has been named the Best Cloud ERP Solution and Best ERP Software. In 2023, it ranked highest on G2's Relationship Index and was rated the best in terms of overall usability.

True Cloud Solution

Acumatica is a cloud-based solution and provides a consistent experience for all users, whether they access the system from a phone, tablet or desktop. Acumatica's SaaS model ensures reliability and security and gives users the assurance that their data is managed safely and in compliance with applicable regulations.

Rapid Integration

Acumatica seamlessly integrates with commonly used applications, including Office 365, Salesforce, Magento, Power BI, Box, HubSpot and more. Acumatica's Project Accounting application integrates with tools project-based businesses already use, including Paya Credit Card Processing, Biz-Tech Services' ShipStation and ProEst Construction Estimating.

Anywhere, Anytime Access

Because Acumatica is based in the cloud, all of a business' critical stakeholders can access the platform from any device and any location. That means your professional services business can run from the field to the boardroom and beyond.

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Future-proof Functionality

With Acumatica, businesses can add users as they need and scale their number of users up and down as circumstances dictate. Acumatica is unique in that businesses pay only for the functionality they use, not for how many users they have.

NexTec Group is a gold-certified Acumatica implementation partner with almost 30 years' experience in the consulting industry.

We take a holistic approach in integrating the many moving parts of our clients' businesses to remove the manual guesswork and improve their ROI.

As leaders in our industry, we bring a unique advantage to our professional services clients that allow us to:

› Focus on providing the best software options.

› Leverage our experience in ERP and the industries we serve.

› Support our clients' key business initiatives.

› Drive tangible growth across our clients' businesses.

Learn more about Acumatica & how NexTec experts can help make project management a seamless, stress-free process.

Visit us Online Today!

Connect with NexTec expert to explore how a modern ERP can improve your business.

Let's Talk

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NexTec Group is one of North America's largest and most experienced technology consulting firms, specializing in industry-specific solutions for mid-sized organizations. For thirty years, NexTec has been a trusted partner to businesses, delivering, implementing, and supporting the core Enterprise Resource Planning (ERP) and Business Intelligence (BI) solutions they need to scale and grow. With seasoned consultants from coast to coast, and a premium portfolio of innovative business management solutions including Acumatica and Sage X3, we help you get the most out of your technology investments.

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