



Your Office is Leaking Money:

How to Identify Losses
and Plug the Holes

Introduction

Most firms look at profitability as a bottom-line metric. They use this as a gauge to determine if the firm is financially healthy. However, every firm is composed of countless independent elements: employees, clients, projects, phases, consultants, and various expenses.

So, what does a firm do when they aren't achieving the profit margins they desire or experiencing losses?

Most A&E firms don't apply the same rigor, discipline, and consistency that they use when executing their projects.



In this eBook, we show how easy it is for your firm to be well-organized, efficient, and profitable by applying best practices and utilizing modern, effortless, affordable computing technologies.



Outline of Best Practices

- Remove Inefficient Technologies
- Firm and Project Management Software
- Eliminate Spreadsheets
- Integrated Accounting
- Project Accounting
- Chart of Accounts
- Accounts Receivable
- Collections
- Electronic Payments
- Cost Optimization
- Financial Budgeting

Inefficient Technologies

Firms seeking profitability should be using technology to manage and automate tasks and remove the negatives that are introduced when working with spreadsheets.

It's important to examine your own internal processes and the technologies behind them. Next, compare these to state-of-the-art systems and you will understand that one of the biggest leaks in your office is due to obsolete, inefficient technologies.



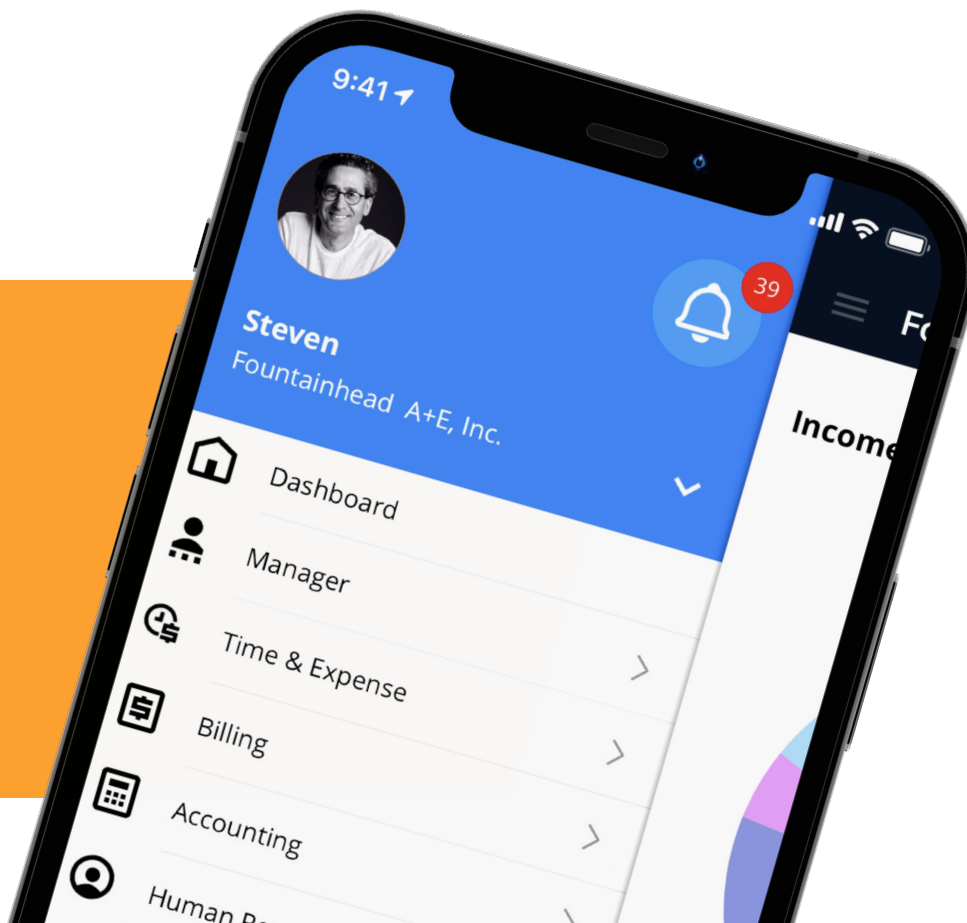
Firm and Project Management Software

It's liberating when you take away manual project management from an individual and allow an unbiased system to evaluate the information that is being fed into it and help you make decisions based on facts.

Firms see countless, manually created reports and schedules prepared by managers that allege to calculate the profitability of their projects or define the overall project schedule. When these are

compared to what the facts say when a project is being monitored through technology – there is quite a different story.

If you want to hear facts, not fiction, everything that touches money in your firm must be reported directly out of a rigorous and well-designed project management accounting system and not subject to human manipulation.



The Problem with Spreadsheets

There are **three** primary problems with spreadsheets:

1

Spreadsheets **require people to manage** them, which means they aren't doing something else that is valuable.

2

Spreadsheets have a **high probability of error**. Anytime you ask someone to create a spreadsheet, you introduce errors. It could be a calculated field that doesn't include all the cells that it should, or someone might have entered a number into a cell but transposed some of the characters which will lead to wrong results.

3

Spreadsheet results are not in real-time. Most reports are manually created and distributed about **two weeks too late** for anyone to make meaningful adjustments to their project or business. All that lost time that was unnecessary could have been fixed by simply having the right technology.

Integrated Accounting

There are two levels of accounting your firm should consider: **business accounting and project accounting.**

These two items can be part of a single system or separate. However, the beauty of any system is that it should be fully integrated. You don't want to be working with two disconnected systems. Whether it's a single system, or two systems integrated, either way, this is far better than working with spreadsheets.



What You'll Gain from Project Accounting

The benefit of implementing project accounting in your firm is the detailed insight into your operations.

If you implement project accounting, you will be able to:

- Identify every profit center for your firm.

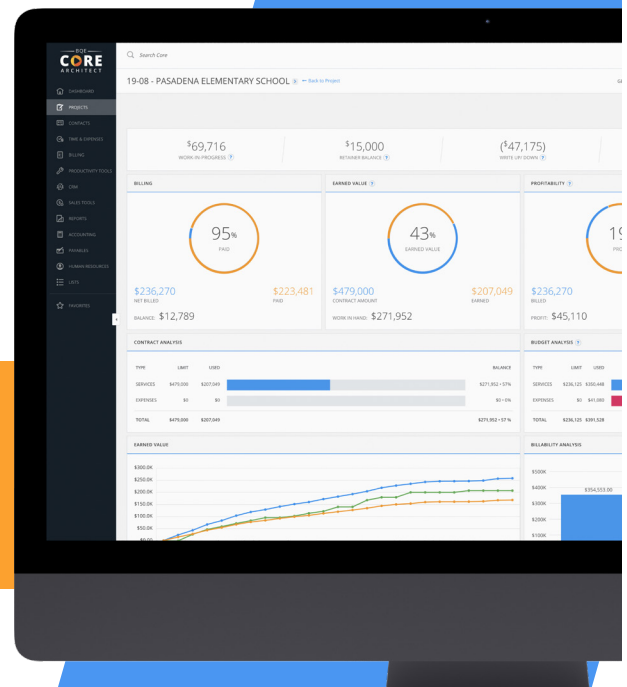
Discover which principals or partners

- are bringing in projects that add to your bottom line.

Learn about the true skills of your project

- managers and find out which are running projects that bring you a profit and which are draining your fees.

Every project is its own little business now that you have project accounting, and a profit/loss statement can be produced at the project level not just at the firm level as you do with your business accounting system. This elevates project managers into business managers.



What You'll Gain from Project Accounting

- Learn about profitability as it relates to contract types. For example, you will learn that billing hourly for your services might be marginally profitable, but there is a limit to that profit. For projects where you have fixed-fee contracts (for phases or the overall project), you can improve your efficiency and make a significant profit, far beyond hourly billing rates.
- Discover the truth about how your fees are earned during each phase of your project.
- Find out which types of projects are most lucrative for your firm. (And make stronger decisions as to how to better market your services).
- Lastly, find out which clients are your most profitable—and which are draining your firm.

A well-designed project accounting system will open your eyes and give you pause to rethink your contracts and priorities.

Chart of Accounts

When it comes to the chart of accounts, you should be primarily focused on segments 4000 and 5000. These are what have a tremendous impact on your Profit and Loss and can show you areas of weakness. This looks at every dollar you earn and all the costs you incur to perform the services that bring you revenue.

The first three sections of the chart of accounts, 1000, 2000 and 3000, link to the Balance Sheet. The

Balance Sheet is simply a snapshot of your firm's overall health at a moment in time. It tracks your assets, liabilities, and equity. It's like looking at your wallet and seeing what's there but provides no insight as to how it got there.

4000 INCOME

4100 Net Operating Income (NOI)
4110 Professional Fees
4120 Mark-up on Reimbursable Expenses
4130 Mark-up on Consultant Fees
4140 Miscellaneous Service Income

4200 Reimbursable Income from Consultants)
4210 Consultant Fees SMEPCL
4220 Consultant REI

4300 Project related Reimbursables
4310 Auto - Local Mileage or Uber billed to Client
4320 Building Permits
4330 Meals Billed to Client
4340 Models or Renderings Billed to Client
4350 Photography
4360 Reproductions
4365 Large Format Printer
4370 Sample Costs charged by Vendors billed to Client
4380 Shipping, Messenger Billable to Client
4390 Travel - Billed to Client (Flights/Hotels Rentals)

4400 Furniture / Fabric / Purchases billed to Client as reimbursable pass-through

4500 Account Receivable Discount (Invoice discounts)

5000 COST OF SERVICES (Expenses Billable to Clients)

5100 Direct Labor - Salary Expenses billed to projects
5110 Direct Labor - Principal
5120 Direct Labor: Professional / Technical
5130 Direct Labor: Administrative
5140 Direct Labor: Contract (1099 services)

5200 Sub-Consultants SMEPCL
5210 Labor Sub-Consultants SMEPCL
5220 REI Sub-Consultants SMEPCL

5300 Project Related Reimbursable
5310 Auto - Local Mileage or Uber billed to Client
5320 Building Permits
5330 Meals Billed to Client
5340 Models or Renderings Billed to Client
5350 Photography
5360 Reproductions
5365 Large Format Printer
5370 Sample Costs charged by Vendors billed to Client
5380 Shipping, Messenger Billable to Client
5390 Travel - Billed to Client (Flights/Hotels Rentals)

5400 Furniture / Fabric / Purchases billed to Client as reimbursable pass-through

5500 Discounts Given to Client

Chart of Accounts: Profit & Loss

The Profit & Loss (P&L) section is where you have the potential to understand more about where you make your money and what it cost you to earn it. The P&L looks at a range of time. It could be this year, last year, last month, or last quarter. It gives you the ability to compare periods to better understand trends within the firm – like P&L Q2 2021 compared to Q2 2022.

The real trick to your chart of accounts is to have it set up so that you don't just know if you are making a profit and how much you made, but who or what is responsible for the profit. Similarly, when you are losing money, it can tell you who or what is responsible for the loss. Knowing this type of information means you finally have an understanding of where the problems lie, what to fix, or what to exploit further.

Fountainhead A+E, Inc.
PROJECT PROFITABILITY BY MASTER PROJECT
1/1/2007 - 12/31/2025

All values are within date range specified except for A/R which is as of the ending date. Profit = (Invoiced Revenue + WIP) - Credits - Write-Offs - Costs

PROJECT	CONTRACT AMOUNT	INVOICED REVENUE	BILLABLE WIP	REVENUE + WIP	INVOICE PAYMENTS	CREDITS & WRITE-OFFS	UNPAID A/R	SERVICE COST	EXPENSE COST	PROFIT	%
19-03 - SANTA MONICA SCIENCE CENTER											
19-03 - SANTA MONICA SCIENCE CENTER	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0%
19-03 - SMSC: Schematic Design	\$150,000.00	\$74,333.49	\$17,187.50	\$91,520.99	\$71,625.36	\$0.00	\$2,708.13	\$66,150.54	\$11,490.15	\$13,880.30	15%
19-03 - SMSC: Design Development	\$210,000.00	\$97,833.60	\$6,833.02	\$104,666.62	\$97,342.83	\$0.00	\$490.77	\$68,565.89	\$24,057.27	\$12,043.46	12%
19-03 - SMSC: Construction Documents	\$180,000.00	\$165,887.30	\$5,719.75	\$171,607.05	\$165,887.30	\$0.00	\$0.00	\$127,932.95	\$21,066.10	\$22,608.00	13%
19-03 - SMSC: Contract Administration	\$0.00	\$84,689.53	\$1,300.00	\$85,989.53	\$84,532.03	\$0.00	\$157.50	\$61,856.14	\$17,161.10	\$6,972.29	8%
19-03 - SANTA MONICA SCIENCE CENTER TOTAL:	\$540,000.00	\$422,743.92	\$31,040.27	\$453,784.19	\$419,387.52	\$0.00	\$3,356.40	\$334,505.52	\$73,774.62	\$55,504.05	12%
19-08 - PASADENA ELEMENTARY SCHOOL											
19-08 - PASADENA ELEMENTARY SCHOOL	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0%
19-08 - PASADENA: Schematic Design	\$54,000.00	\$49,821.88	\$3,800.00	\$53,621.88	\$44,571.98	\$0.00	\$5,249.90	\$37,882.93	\$2,748.75	\$12,990.20	24%
19-08 - PASADENA: Design Development	\$126,000.00	\$67,080.78	\$17,250.00	\$84,330.78	\$60,711.59	\$0.00	\$6,369.19	\$126,452.44	\$5,403.50	(\$47,525.16)	-56%
19-08 - PASADENA: Construction Documents	\$144,000.00	\$38,457.25	\$5,950.00	\$44,407.25	\$38,181.25	\$0.00	\$276.00	\$42,753.38	\$2,750.00	(\$1,096.13)	-2%
19-08 - PASADENA: Contract Administration	\$150,000.00	\$67,354.67	\$0.00	\$67,354.67	\$66,460.92	\$0.00	\$893.75	\$40,834.75	\$10,295.20	\$16,224.72	24%
19-08 - PASADENA: Change Order #1	\$0.00	\$13,555.00	\$0.00	\$13,555.00	\$13,555.00	\$0.00	\$0.00	\$7,235.00	\$3,500.00	\$2,820.00	21%
19-08 - Change Order #2	\$5,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0%
19-08 - PASADENA ELEMENTARY SCHOOL TOTAL:	\$479,000.00	\$236,269.58	\$27,000.00	\$263,269.58	\$223,480.74	\$0.00	\$12,788.84	\$255,158.50	\$24,697.45	(\$16,586.37)	-6%
19-14 - WARNER RESIDENCE											
19-14 - WARNER RESIDENCE	\$0.00	\$15,000.00	\$0.00	\$15,000.00	\$15,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$15,000.00	100%

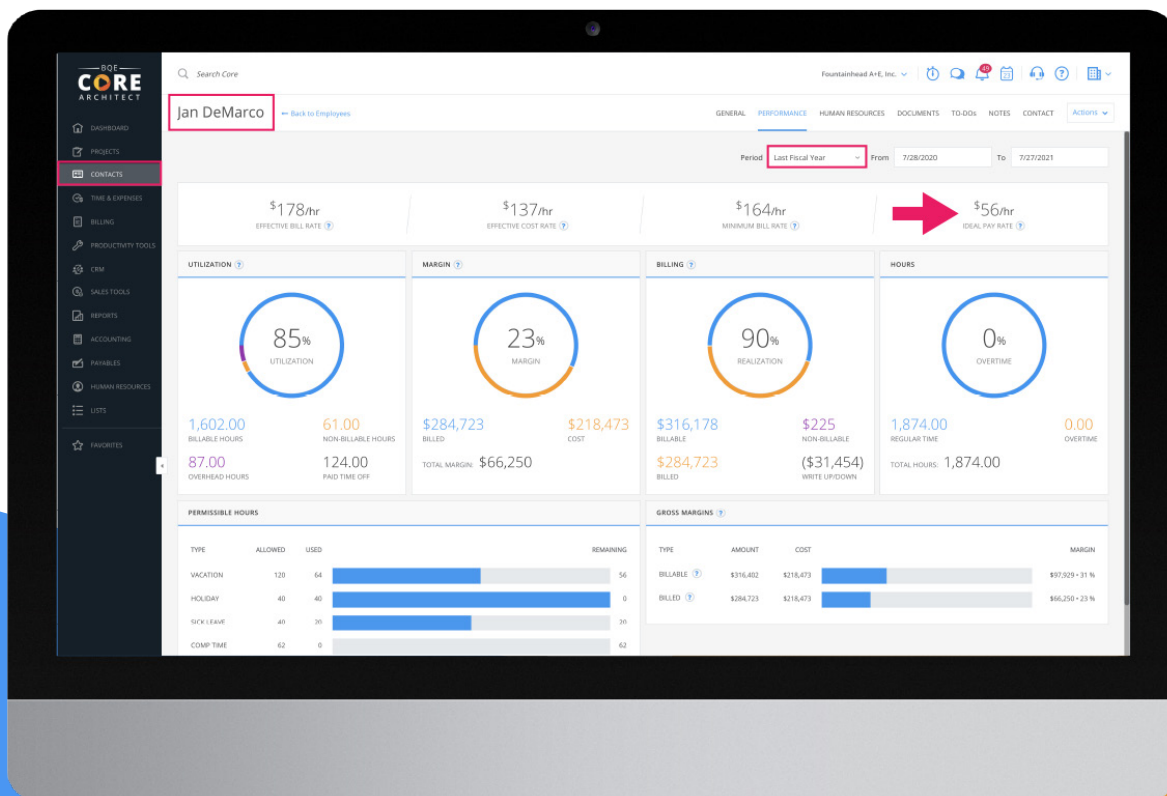
Accounts Receivable

The Accounts Receivable Aging report is one of the simplest tools to help you stop losing money. Your AR is potentially troublesome because if you are bad on collections, you're going to find yourself not only out of money but borrowing money which has a cost associated with it. So, ensuring your clients pay you on time is critical.

When you allow your clients to pay you late, you're giving them more than just an interest-free loan –

you're giving them a loan and paying the interest on their behalf!

Include a clause in your contracts that describes the terms of your invoices and the charges that will be incurred if they are late. Don't ever allow a client to abuse this. It is disrespectful of your firm's services and will become a habit. No one delays paying their attorney. But there is a mile-long list of people who conveniently forget to pay their architect on time.



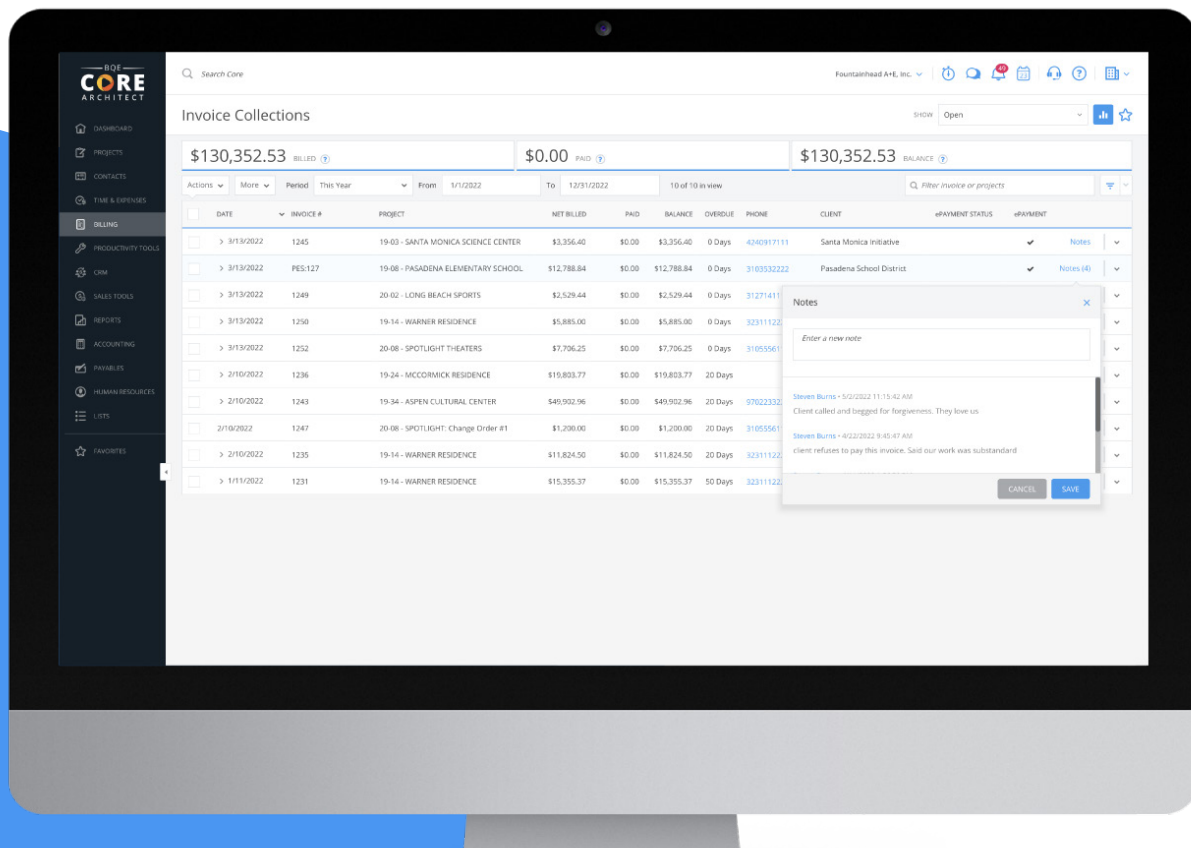
Collections

Software that monitors the aging of your receivables and gives you a platform to manage collections is important. Great systems like this notify you when invoices are in jeopardy. They provide the tools, so you easily communicate with your clients and keep a record of those discussions.

Often, you'll have a client on a call, and they claim they don't have a copy of the invoice. The system will instantly email any open invoice so

your client can have it before them during a phone call. And of course, the system can allow you to accept payment over the phone or enable your client to pay electronically directly from the invoice. This is where modern technology makes running a firm so much easier.

Make sure you are investing in modern technology that takes advantage of changes regarding electronic invoicing and payments.



Electronic Payments

Another advantage to a feature-rich system is when you take advantage of electronic invoicing and payments, you eliminate so much work from your overhead staff. No manual accounting needs to be done since the systems are automated to record payments and auto reconcile. You have your accounting done without touching the system. This is referred to as zero-touch accounting.

Most of your clients will enjoy the ability to pay electronically as it also simplifies their lives. Your systems should give them the ability to determine the date of their payment so they can take care of paying it the same day they receive it while having the comfort of knowing the funds won't move from their account to yours until the due date.

Cost Optimization

Every dollar you spend should have the potential to return a profit. Once the money is out the door – it's gone. Perhaps you spent \$10,000 on a large format printer? It should be earning you money every month through reimbursable printing expenses. When you hire an employee, you know you are going to spend a lot of money, but you also have an expectation that the employee is going to enable you to make more money than had you not hired them.

Make sure your chart of accounts is granular. Whether looking at sections 4000 and 5000 (project income and expenses) or section 6000, business expenses, the more granular the information the more insights. A well-designed chart of accounts provides clarity like the Hubble telescope can reveal that bright light in the night sky isn't a star; it's actually a galaxy unto itself. Having this level of detail in your business will give you greater knowledge, greater insight, and reveal the truth. This information provides greater control over decisions which can lead to profits.

6000 EXPENSES

6010 Automobile Partner Expense
6011 Automobile - gas or mileage not billable to client
6012 Automobile - lease payments
6013 Automobile - license fees
6014 Automobile - rental
6015 Automobile - repairs and maint.

6020 Business Development
6021 Donations / Contributions
6022 Marketing Related Dues & Memberships fees
6023 Entertainment - Business Meals
6024 Gifts - Business
6025 Networking Functions
6026 Travel Expense Non Billable to Client
6027 BD Other

6030 Employee Benefits & Office Perks
6031 Celebrations : Birthdays, Happy Hours
6032 Education and Seminars
6033 Employee Exercise
6034 Metro Passes
6035 Office Lunche N Learns
6036 Parking

6040 Financial Related
6041 Bank Charges: Wire, ACH, Other Fees
6042 Bad Debt
6043 Depreciation
6044 Interest due on Line of Credit
6045 AP Discount

6050 Insurance Expenses
6051 Insurance - Auto for company car
6052 Insurance - business Insurance - business liability
6053 Insurance - E&O
6054 Insurance - Health Insurance
6055 Insurance - Life/Disab. (Owner)
6056 Insurance - office property
6056 Insurance - workers comp.

6060 Marketing
6061 Advertising
6062 Brochures and Printing
6063 Photography
6064 Social Media Costs
6065 Web Site

6070 Office Expenses Facilities
6071 Janitorial Service, dumpster and Supplies
6072 Kitchen Coffee, Snacks, Equipment
6073 Office Petty Cash
6074 Rent
6075 Repairs and Maintenance
6076 Security
6077 Telephone: Land - Mobile - DSL - FAX
6078 Utilities Expense Gas-Water-Elec
6079 Off Exp Fac Other

6080 Office Expenses
6081 Code Books / Research Book / Magazines
6082 Computer and Software
6083 Contract Labor - Indirect
6084 Copier/Plotter/Equipment Rentals/Maintenance
6085 Furniture & Fixtures
6086 Licenses & Registrations, AIA
6087 Misc Office Supplies: Staples, Office Depot, Etc
6088 Postage / Couriers/ FedEx - Non Billable
6089 Off Exp Prod Other

6090 Professional Development Expenses
6091 Professional Membership Dues
6092 Professional Licence Fees
6093 Professional Exam Fees
6094 Professional Seminar & Conference Fees
6095 Professional Training / Educational Materials
6096 Professional Development Travel

6100 Payroll for Indirect Labor (Salary) Expense
6110 Indirect Labor: Principal
6111 Principal: Non-project Labor
6112 Principal: Marketing & Business Development Labor
6113 Principal: Pro-Bono Labor
6114 Principal: Paid Time Off (PTO)
6120 Indirect Labor: Professional / Technical
6121 Professional / Technical: Non-project Labor
6122 Professional / Technical: Marketing & Business Development Labor
6123 Professional / Technical: Pro-Bono Labor
6124 Professional / Technical: Paid Time Off (PTO)
6130 Indirect Labor: Administrative
6131 Administrative: Non-project Labor
6132 Administrative: Marketing & Business Development Labor
6133 Administrative: Pro-Bono Labor
6134 Administrative: Paid Time Off (PTO)
6140 Indirect Labor: Temporary / Hourly
6141 Temporary / Hourly: Non-project Labor
6142 Temporary / Hourly: Marketing & Business Development Labor
6143 Temporary / Hourly: Pro-Bono Labor
6150 Payroll Processing

6200 Professional Fees : Outsourced
6201 Accounting Fees
6202 Bookkeeping
6203 Coaching
6204 IT - Computer Maintenance
6205 Legal

6300 Retirement Accounts : Non-Discretionary Benefits, Contributions & Fees
6311 401k Employer Contribution: Principals
6312 401k Employer Contribution: Employees
6320 Roth Ira
6330 SEP Ira

6400 Taxes: Local
6410 Business Tax by City A
6420 Business Tax by City B
6450 Property Tax

6500 Where to put this expense - ASK ACCOUNTANT

Financial Budgeting

Just like you plan and budget your projects, you need a plan and budget for your firm. And while having a business and strategic plan are important, if you ever expect to manifest these objectives, they must be funded.

When using modern accounting software, this process becomes effortless since the system can analyze past periods and display what your firm has been earning, and just as important, how you've been spending that hard-earned money.

Financial budgeting isn't something to do once a year. It is a living document and should be visited no less than quarterly to see if you are going to achieve your objectives. If you find your revenue goals are not

being met, you have some decisions to make. If you find your expenses are over or under what has been budgeted, you will have some other decisions to make. The more frequently you revisit your financial budget and compare it to actuals, the more control you have and the higher the likelihood of achieving your goals.

Smart decisions come about by using smart technology. In your car, your navigation software finds alternative routes for you when the traffic becomes a problem. Financial budgeting is the tool that you'll use to find the most efficient route for your firm to get to the destination you seek.



Key Takeaways

1

Everything that touches money in your firm must be reported directly out of a well-designed **project management accounting system** that is not subject to human manipulation.

2

Use project management software rather than Excel spreadsheets. Spreadsheets require people to manage them which takes time that could be used for more meaningful and impactful activities. Spreadsheets also have a **high probability of error** and results are not in real-time.

3

There are two levels of accounting your firm should consider: **business accounting and project accounting**. These two items can be part of a single system or separate.



Key Takeaways

4

In the Chart of Accounts, you should be primarily focused on **segments 4000 and 5000**. These have a tremendous impact on your Profit and Loss and can show you areas of weakness.

5

Ensuring your clients pay you on time is critical. When you allow your clients to make late payments, you're giving them more than just an interest-free loan – you're giving them a loan and paying the interest on their behalf!

6

Every dollar you spend should have the potential to **return a profit**. Once the money is out the door – it's gone. For example, if you spend \$10,000 on a large format printer it should be earning you money every month through reimbursable printing expenses.

7

Financial budgeting isn't something to do once a year. It is a living document and should be visited **no less than quarterly** to ensure you are on track to achieve your objectives.

Identify Losses and Plug the Holes with BQE CORE

Improve efficiency and accuracy with BQE CORE's all-in-one platform that includes expense tracking, invoicing, electronic payments, accounting, project management, HR, and CRM.

- Understand the full financial implications of project decisions with integrated project accounting and project management tools.
- Instantly see your firm's health and project performance with real-time dashboards.
- Prevent cost overruns, poor team performance, and missed deadlines with real-time visibility into project performance at every phase
- Spend less time on manual processes with automated time tracking, invoicing, and reporting — so your team can focus more on project delivery
- Prevent overworked or underutilized staff by monitoring utilization rates in real-time



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