The Value of an Accountant

More and More, Wall and Ceiling Contractors Are Putting Emphasis on Management, Accounting Skills

People in the construction industry recognize that business skills have as much impact on the bottom line as construction skills. This was borne out at last year’s convention of iWCC/GDCI in San Francisco. About 1,000 people attended the forums on business management topics.

This increase in concern about business skills is stimulated by increasing pressures from creditors, owners, and participants in construction management projects and joint ventures for more information about the architects, engineers, and contractors they plan to work with.

Accounting firms familiar with the needs of the construction industry are responding with a smorgasbord of services beyond the traditional year-end audit work they normally do.

Credit Relationships Role Expanded

A typical example is the expanded role expected of accountants in the maintenance of credit relationships. Since the period of unusually high losses of the early 1970’s, both bankers and sureties have insisted, with increasing frequency, that financial reports should be audited. But credit grantors are asking for more information than just the minimum required in an audit report by generally accepted accounting principles.

The most frequent request is for a detailed analysis of the gross profit reported, separating jobs in progress from those completed and showing the rate of profit recognized each year on long-term jobs. The second most popular item is an analysis of the allocation and absorption of indirect job cost, such as equipment, maintenance, support facilities, and fringe benefits.

A few years ago, The Robert Morris Associates, the major association of bank credit officers, submitted to the American Institute of Certified Public Accountants a model financial statement with illustrations of these analyses. They called it “Sample Contractor” and requested that it be made the new standard of disclosure for companies in the construction industry whose financial statements rely on job costing and recognition of income on a project basis.

As a result, the accounting profession is now revising its audit guide.

Continued on page 31
for the industry and should publish a
draft in about a year. In the meantime, construction oriented accounting firms are finding that they can offer a highly useful service to their clients by including the additional information called for by “Sample Contractor” as optional supplements to the regular audit report. This involves nearly no additional cost since the information should be available in their work papers.

Many creditors think that the basically historic disclosures of audit reports, even with supplemental data, are still not sufficient for making major credit judgments, and this has escalated the demand for information even more.

Difficult cases sometimes require such items as a series of future-dated pro forma financial statements which show the effects of contemplated events, such as new jobs and commitments. Companies look to their accountants for assistance in organizing the data for such presentations. Consequently, requests to attend meetings with creditors are becoming commonplace for accountants although they must be cautious to maintain an independent role and should not be an advocate for their client companies.

Accountants Give Consulting Services

Because a properly conducted audit touches on so many aspects of a client’s business and requires an understanding of its operations, the accountant who knows construction is in a unique position to provide a variety of consulting services. There are many opportunities for cost-effective, tax-related services. Selection of a tax reporting method and effective planning for its use to maximize the deferral of income taxes is fundamental since it helps to extend the leverage on the resources most frequently limited: cash and working capital.

Development of compensation plans to fit the objectives of the ownership group usually include consideration of bonus plans, fringe benefits and management perquisites, as well as tax-qualified pension and profit-sharing plans and deferred income planning. Life, health and disability insurance plans, as well as medical reimbursement plans also fall into this category.

Business continuity and estate planning are very valuable services for owners and members of the management group.

Many profitable opportunities exist

Continued on next page
in the operating areas of a contractor's business. Estimating, for example, is largely a job of data management, a discipline closely associated with accounting. An analysis of the performance of the estimating department and a review of the adequacy of its controls can produce a high yield for the contractor.

Development of a proper basic accounting system and related job cost controls is a frequent need. Systems that go beyond historic cost accounting and provide assistance with the actual management of the

jobs are becoming more necessary, and many contractors are seeking accounting firms that provide this service.

Such systems usually require some automation, and many accounting firms have the capability to assist in the selection of the appropriate means of automation, often finding solutions that don’t require the contractor to invest in a computer in his own office.

The accountant can also participate in the development of field reporting systems to support the job management effort and the necessary training to make it work.

Most Useful in Business Planning

Business planning is the area in which the experience of a good accounting firm and its detailed knowledge of the client’s business can be most useful. The development of business plans is likely to be the best investment a company ever made.

Starting with the goals and objectives of the ownership and management group, the plan should include market strategy, financial strategy — including a return on alternative uses of capital — financing requirements for up to five years, methods to maximize bank credit and bonding capacity, operating and reporting systems, cash plans and budgets, organization charts, job descriptions, incentive compensation programs, acquisition strategies, equipment philosophy and objectives, and all other facets of the business.

An accounting firm with extensive construction experience can be helpful in a variety of special situations, too. It can assist with the documentation and preparation of a claim. It can investigate acquisition opportunities, conduct training programs, evaluate the technical competence of employment candidates in financial areas, and serve as a sounding board on many business matters.

Whether the person they represent is an owner, developer, architect,
engineer, construction manager, or contractor, accountants can often add to the development of new projects, starting at the negotiation stage and including the development of cost keeping and reporting systems for the use of all parties.

An architect, engineer or contractor may become the single largest creditor of his customer-owner or his joint venture partner.

Many cautious companies use their accountants to assist in the process of evaluating prospective customers or potential joint venture partners and to work with the attorneys when contracts or joint venture agreements are developed to assure that they can be properly accounted for and contain sufficient financial controls.

Construction managers selecting contractors for fast-tracking jobs can use competitive bidding, if the invitation for bids is designed to select contractors based on their markup rate on certain defined cost categories, with provision for continuous auditing by accountants to see that progress billings are properly classified.

Conclusion

The contractor businessman of today considers that the advice of his independent accountant has an important impact on the profitability of the business.

Rather than limiting the use of accountants to the attest function and tax work, he is finding many opportunities for highly cost-effective engagements in the areas of operations, credit, business planning and a variety of other services.

At the same time, the accountant of today who recognizes the variety of valuable services he can offer to all members of the construction industry is prepared to meet those needs.

(Editor's Note: The author of this article, Dennis Bersch, is a partner with Touche Ross in the company's Milwaukee office. It is the second in a series on the accountant's role in construction.)