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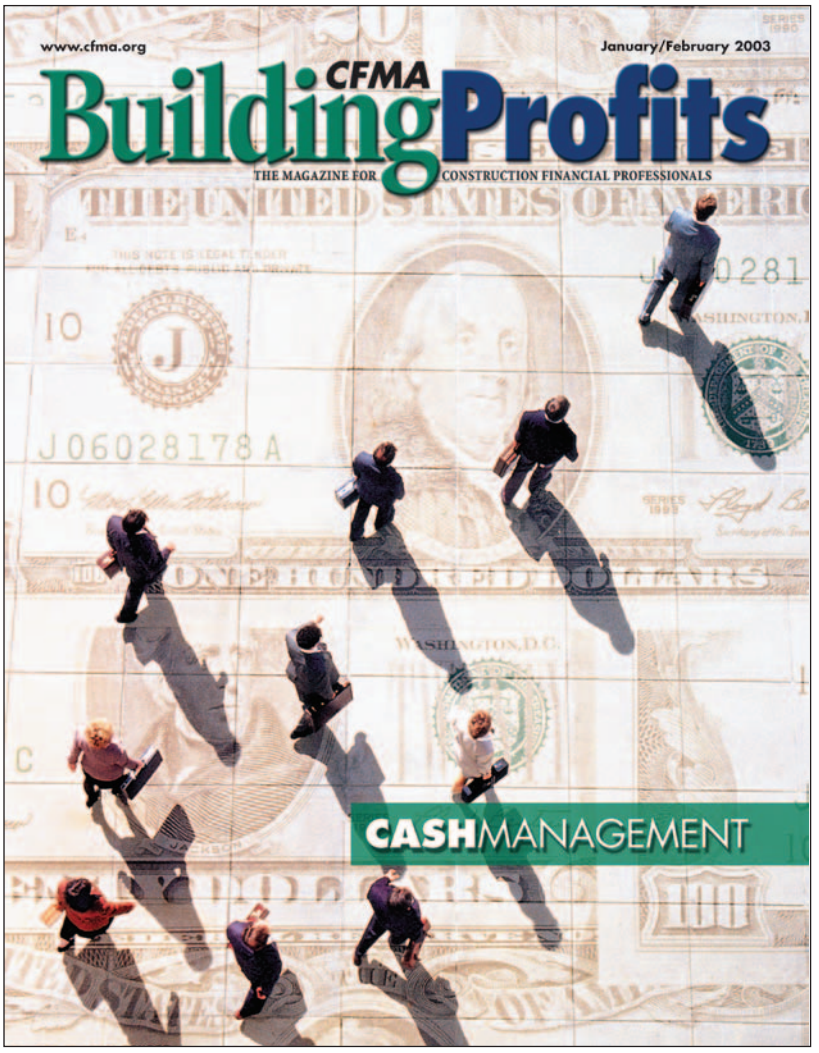

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What's New for CFMs in Financial Reporting Software?

BY CHRISTIAN R. BURGER

With all of the current advances in software systems for project managers, designers, and estimators, wouldn't it be nice if the rays of technology would shine on the accounting function for a brief moment?

Well, the good news is, they have. Unfortunately, up until now, these advances have not been as well marketed or understood as they should be. But, all of this is changing.

Introduction

Three trends have occurred in the marketplace over the last four to five years that have made the accounting function – specifically the G/L – a more complex process with more sophisticated requirements.

First, the tremendous increase in the number of consolidations and acquisitions has made the financial reporting function more complicated than it was in the days of single-entity and single-division reporting. It's difficult to imagine the new breed of consolidation tools having a market in construction prior to the boom of the '90s.

In addition, nearly all construction companies have seen tremendous growth over the last five years – in many cases, due to, or resulting in, diversification. This, in turn, has led to more division reporting, overhead allocations, and cost analyses.

And finally, the demands of contractors' in-house management teams (as well as such outside parties as banks and bonding companies) have become more sophisticated. In the current economic climate, these outside parties are more cautious and concerned about the fiscal health of their clients and expect more financial information.

Many CFMs have been facing these changes armed with nothing more than a spreadsheet and countless hours at the computer. But, take heart, because help has arrived in the form of new and improved software.

G/L Applications & Report Writers Break New Ground

This article explores the significant changes that software developers have been making in their G/L applications. (If you are currently shopping for a new accounting system, reading this article should help you evaluate this often-overlooked application.)

The second part of this article will review recent advances in financial statement report writers.

Features & Functions in G/L Software

If you compare all of the G/L applications that serve the construction industry, you will find that about 85% of their features and functions are the same. (After all, there is only so much you can do with debits and credits.)

Ah, but that 15% difference can be extremely important if your company requires specialized features!

Multi-Currency

For instance, not all G/L applications handle multi-currency equally well – and some do not handle it at all. Of the products that do, most allow the user to first establish the translation rate in a table and then to key each transaction to a specific currency. The system automatically handles the conversion and entry for gain or loss. For contractors doing work in and around Canada or Mexico, this feature can be a significant timesaver.

Allocation

Although not all designed in the same way, most G/L applications provide some overhead allocation functionality. The better ones allow you to allocate across the company and to post to jobs, as well as to accounts.

The allocation calculation methods vary, too, ranging from the simple percentage approach to the more complex method of using a proportion of the balances in another account.

Allocations can be done in a way that maintains the original account balances and only uses the allocations for reporting. This feature is handy for "what-if" analysis.

The Statistical Account

The statistical account provides heavy/highway contractors and aggregate producers with additional useful features. It allows the user to post units as well as dollars into an account and then use those values for reporting. The statistical account can be used for posting tons, cubic yards, therms, or any other unit of importance to the company. The data can then be used for comparative financial reporting across companies or divisions.

Budgeting

Budgeting is an area we will touch on again when we review report writers; however, in the context of this section, suffice it to say that if the G/L is the primary financial reporting tool, then the budgeting function should be robust.

For example, your G/L application should allow you to:

- budget for a future year before the current year is closed,
- maintain multiple versions of a single year's budget,
- generate budgets based on prior years' results, and
- import budgets from spreadsheets.

All are important functions, but not all G/L applications handle them well.

From here, let's move on to financial statement development tools and how this new class of software developed.

Reporting Features/Functions

Some years ago, the developers of construction industry accounting software wisely decided that certain functions were best left to the more specialized (niche) software developers. For example, many accounting suites now use Best for their fixed asset applications, Vertax for tax table maintenance, and Crystal Reports or similar products for their report writing tools.

In the near future, some of these developers will integrate a third-party financial management product with their otherwise basic G/L application. In fact, as of this writing, a few accounting software developers have already adopted external financial reporting tools for financial statement development and consolidation. Let's take a look at them now.

How These New Tools Work

Rather than extracting the data from the G/L table and posting it into a new table, these new reporting tools, or programs, actually connect to the G/L table via Open Database Connectivity (ODBC) and offer a view of the data that can be further manipulated, without disturbing the data in the G/L.

This method has one very significant advantage over older report writers: You don't have to worry about your financial reports not agreeing with your trial balance because the actual data is never touched.

Most of these new products allow for mapping of the actual G/L accounts to a related coding structure in the tool itself. If you add an account in the G/L, the reporting program knows it and will ask you where you want to assign it within the reporting structure. And, perhaps more importantly, when new transactions are made to the G/L, the reporting tool is also instantly updated.

How the New Report Writers Fit into the Mix

A tremendous amount of flexibility and power is available to you once the G/L data (trial balance) has been connected to the financial report writing tool!

Possibly one of the most powerful functions is the ability to do ad hoc or "what-if" reporting without actually journalizing any transactions. Employing the "drag-and-drop" technique, the user can move all costs of a single type from multiple divisions into a single corporate account, or vice versa; divisions or entities can also be combined by type or region.

These report writers typically display the data in a hierarchical structure similar to a Windows file folder structure; each click expands the view one level deeper until you reach the account level. With just a few mouse clicks, financial statements can be regenerated with the new results.

This same tool can produce a report package that can be distributed via e-mail or posted to an intranet site. Not all products handle this function equally well, so investigate carefully if this is a feature/function you need.

Some of these financial report writers come with their own viewers or include a run-time version of the viewer that allows users who do not have the actual report writing software to read the reports. Others produce the report in a PDF format and allow such users as banks and bonding agents to read them with Adobe's Acrobat Reader.

Some of the products also allow for drill-down capability within the report, even after it has been e-mailed (though not all readers may be eligible or interested in that level of detail).

Allocation/Forecasting/Recasting

Another powerful function of this class of report writers is the ability to allocate, forecast, and recast within the structure of the trial balance and without changing the G/L. Many of these products have more sophisticated allocation routines available for spreading balances from one account or department to another based on a number of different variables or methods.

Reports can be produced that use a certain number of months of actual results, along with forecasted or budgeted results for other months. Each month of actual results replaces a month of budget as the year progresses.

Budgeting

Budgeting is also a function at which many of these report writing tools excel. For example, they can:

- increment or decrement account budgets from prior periods or years,
- allow the user to manipulate the data, and
- use both budgeted, actual, and forecasted data in financial reports.

Taming the G/L

These new financial report writing tools are beginning to replace some of the secondary functions of most G/L applications. In some cases they have, in effect, relegated the G/L to a position of little more than a bookkeeping ledger.

Some, but not all, of these products allow you to connect to more than just the financial data in the G/L. The potential here is tremendous when you consider using a tool like this to report from job cost for WIP, HR for wage and benefit forecasting, and equipment for reporting market values.

In fact, any schedule that supports the income statement or balance sheet can be produced with this program. Again, if this sounds like something you need, evaluate the current offerings carefully.

A Boon for Multi-Entities

If your company has many business units not on the same enterprise accounting system, a more powerful financial report writing tool like the ones we're discussing is a "must."

It will allow you to automatically map and post G/L balances and WIP data directly from the various G/Ls to the consolidating system. This, in turn, will allow you to produce comparative, as well as consolidated, financial statements.

In order to make this work, the individual G/Ls must contain a consolidating code for each native account and must have the ability to export the balances on a monthly basis. But, having this available could save each of the division or business unit controllers considerable time each month during month-end close.

Other Functions

- **Consolidated reporting for companies with different fiscal year-ends:** This feature can consolidate January from Company 1 with January from Company 2, even though that represents period 1 in the first company and period 9 in the second company.
- **Ratio analysis:** Ratio analysis is becoming more important as outside stakeholders and interested parties watch a company's financial position and performance more closely.

  The better reporting tools allow the user to establish the ratio formulas and then assign accounts to the formulas for continual calculation and reporting. The system should also allow for comparative trend reporting and the graphing of the various ratios.
- **Financial statement distribution:** The ability to produce a financial statement in HTML or Active X format for forwarding to someone over the Internet is becoming increasingly attractive. Some products allow for drill-down detail to follow the report via e-mail, while others only show a single layered view.
- **Columnar financial reporting:** For some reason, some construction accounting software products do not allow the user to produce an income statement with each column representing a different division or department. This is useful for doing divisional comparisons if there are a number of divisions involved.

A list of several report writers can be found in the Publications section of *www.cfma.org*.

- **Financial report package production:** Older generations of software required you to produce financial statements one at a time at the end of each month.

  Some of today's more sophisticated packages allow all of the financial statements to be grouped and run with a single command. In addition, the reports can be scheduled for later processing.

- **Notes:** Some G/L report writers allow footnotes or endnotes to be added to the reports. While this may not be necessary for all construction companies, some users do need to produce monthly or quarterly statements for outside readers and would like to have the ability to add explanatory notes with their reports.

- **Graphs:** Some of these tools allow for graphing directly in the software, while others allow for exporting to Microsoft's graphing tool.

- **Multi-currency:** This feature allows G/Ls to be consolidated even if they are based on different currencies. The exchanges occur in the reporting tool, however; no journal transactions are posted back into the G/L.

- **Historical reporting:** Some systems still only allow a fixed number of years of historical financial data to be maintained before being purged from the system.

  Some of the new financial statement reporting tools can maintain an unlimited number of years of financial data for comparative reporting, even if the data is no longer in the base G/L.

How to Choose

The software described in this article may intrigue you, but remember to carefully consider both functionality and technology before any purchase and implementation. G/L applications and external reporting writing tools (like other software applications) do not all function the same in terms of technology and infrastructure requirements.

Some Considerations

First of all, not all products are generally available to the end-user company. Some are sold to the accounting system developer community so they can build interfaces to their G/L applications.

Other products can be purchased directly from the vendor and implemented. In this case, it is important to determine the type of connection the report writing software requires and to discuss your plans and infrastructure with your accounting system vendor. Compatibility at that point becomes your responsibility.

It is also worth knowing whether or not a separate database is required. If so, which one and what are the licensing requirements? Also, what kind of security exists in the new database and/or application? Your company's financial data is at stake, after all; once it's away from the G/L, the security of the data is no longer under the control of your accounting system.

One other consideration: If the system allows for e-mailing of financials and/or posting financials to an intranet sight, determine the technology required to do so and whether or not special run-time applications, tools, or viewers are necessary.

Some Input from Your Peers

So how does your current G/L application stack up? If it and your report writing function pale in comparison to what you've just read, don't worry. Only a few contractors are fully leveraging this technology at the moment – but an upward trend definitely exists, especially among the larger, more diversified companies.

It is interesting to note that *CFMA's 2002 Information Technology Survey for the Construction Industry* addresses this very subject. The data gathered for this report indicates that:

- About 70% of the GC respondents currently use the reporting function directly from their G/L, while 74% of the specialty contractors and only 65% of the heavy/highway contractors do.

- Nearly 25% of the GC respondents are using a spreadsheet for financials, either manually transferring the data or downloading it electronically. The remaining 5% use a third-party tool like those described in this article.

  The numbers run similarly within the heavy/highway contractor group, with slightly more using a third-party tool.

- Just over 21% of the specialty contractors responding to this question use a spreadsheet for financials; only 4% use a third-party tool.

(For additional information on CFMA's 2002 IT Survey visit *www.cfma.org*.)

Conclusion

If you are currently downloading your G/L balances to spreadsheets for financial statement development, spending hours every month on forecasting and analysis, or being asked for increasingly more sophisticated financial information, you may want to consider this latest class of financial reporting software.

First, talk to your G/L system vendor about the compatibility of such tools. And, as with any software, it's important to evaluate and test the solution carefully before buying.

Some products are little more than dressed-up spreadsheets that will require as much work or more to use than your company's current solution. The right tool, however, will save you valuable time and increase your ability to work smarter – not harder. BP

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