Job Costing

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Job Costing Overview

This track will review different Job Costing strategies and discuss the pros and cons of each. We will discuss three different strategies with an emphasis on two of them. We will discuss Actual Costing, WIP (Work in Progress) and Percentage of Completion. The emphasis will be on the WIP and Percentage of Completion methods.

What is Job Costing

Job Costing is a management process of tracking and categorizing all the costs incurred on a Job. In SedonaOffice terms, a Job is the installation of a new System or a major System upgrade being tracked in the Job Management System.

When utilizing Job Costing, the costs are categorized by the cost type, such as:

- Labor
- Equipment
- Materials
- Burden
- Subcontractors
- Commissions

The goal of any Job Costing system is to be able to measure in detail, how and why costs are being incurred; such as:

Profitability

Being able to measure the profitability of a Job is key to Job Costing, and one of the reasons for doing Job Costing. The level of desired profitability may change by the type of the job, but without properly recording all the incurred expenses you will not be able to measure the outcome.

Estimating

Estimating the profitability of a job is a key element and benefit provided with Job Costing. Many companies think they know how to estimate a job for sales purposes. Job Costing will allow you to truly understand if you really know how and are properly estimating a job. Job Costing will allow you to understand if you truly know how, and if you are properly estimating a job.

Estimated vs. Actual Reporting

Once you have established an estimate, it is essential to report on the estimated costs vs. the actual costs of the job. This will allow you to understand if you know the real costs necessary to complete a job, and if you are selling the job based on the true costs. Some jobs may lose money, but this is offset by the creation of RMR. Understanding the loss is essential to know your true creation cost of the RMR. (Creation Multiple)

Managing Costs

By establishing estimates, you can then measure your actual operating costs associated with the job against the estimates. When a large job is in progress, understanding when the job is moving above estimated costs is your best tool to minimize the loss of a job.

Notes

Implementing Job Costing

Like any process you put into place in your business, a good strategy to use is the 3 P's. (Preparation, Practice and Performance) Implementing Job Costing is not easy, and should not be taken lightly. There are many factors, processes and procedures you need to consider and have in place. Following the 3 P's is the smart way of moving forward with Job Costing.

Preparation

Know what you want to achieve before putting your plan together. Start with your objectives, the reports you desire, the information you want to report on, the types of jobs you want to measure. Then, understand all of the processes and rules you need to put in place in order to track all your job expenses. These include inventory, purchases, labor, contractors, rentals, overhead/burden, commissions, etc.

Once all of this is understood, put together your processes and procedures. Identify and document the workflow, data entry, changes, and return process to name a few.

Practice

Walk before you run. Practice your plan before implementing it company wide. Start small and work your way up. Biting off more than you can handle initially can be the death of any project. Once you see things are working as planned, you can move on to the next step. Practice will also highlight the areas you didn't consider and show you the things that may not be necessary.

Performance

Put it all together and work the process on an ongoing basis. This takes a commitment from the top. Evaluate the results of your Job Costing on a weekly and monthly basis. You're putting all this work into Job Costing, put the results to work for you.

As you evaluate your results, re-examine your processes and reports. Work the entire process over again and again. Don't be afraid to change your processes and reports as time goes on.

A Few Things to Consider

Before implementing your Job Costing solution, here are a few things to consider.

Why Job Cost?

Define your goals, what do you want to achieve from Job Costing.

- Accounting – Your Job Costing will have a big effect on your accounting. You will need to determine how you want this to factor in (we'll discuss this more in detail).
- Job Types – Different types of Jobs require different levels of Job Costing needs.
- Creation Multiple – Is it important to know the cost of your creation multiple on a per job basis?
- Management – Who will be evaluating the Job Costing reports?
- Time & Money – Is there a payback for doing all the work to properly Job Cost?

GIGO

Remember "Garbage in Garbage Out". If you are going to perform Job Costing, you must be committed to putting in place the processes and procedures necessary to manage the process timely and effectively.

Overhead & Burden

Do you really want to track Overhead & Burden costs on your Job Costing? There are additional accounting factors you will need to consider and put into place. Most security companies want to see the actual costs involved in the Job Costing, so they do not add in an Overhead or a Burden cost.

Use Technology to Your Benefit

The usage of technology is necessary to maintain an accurate Job Costing system.

Reports

Reporting is one of the key elements of Job Costing. While SedonaOffice has many good reports, don't be content if the reports don't meet your needs. Either learn how to create your own reports, or have SedonaOffice create the ones you need.

Which Accounting Method Should You Choose?

This is the $64,000 question. There are many advantages and disadvantages of each of the Job Costing strategies we are going to discuss. First, before making any decision, be sure to review your options with your CPA. There may be tax advantages for your business for one strategy over the other. Your CPA should also be able to help you choose which is best for you.

Here are a few things to keep in mind.

- Always discuss with your CPA.
- Resources – Know your resources and don't implement something you can't manage.
- Type of Jobs – Understand your Job Types, and build around them.
- Information – What information do you need and want to report on?
- Financial Statements – How do you want to report your Revenue & Expenses?

Notes

Actual Costing

Actual costing is the simplest accounting method to use and in many cases will be just fine. With actual costing, all revenue and expenses are recognized as incurred. This method is best suited for companies installing smaller systems where the installation is normally just a few days long. Also, if your company does not prepare detailed monthly financial statements, and you don't need to worry about the monthly fluctuation of revenue and expenses, this method may be suitable for you.

WIP (Work in Progress)

WIP costing is the method whereby all expenses on the job are capitalized on the balance sheet as Work in Progress (WIP) until the job is either invoiced or closed, and at such time either a percentage or the entire amount of the WIP is recognized as expense.

With a WIP method, when you partially invoice a job that is in progress, you could recognize a percentage of the completed expense. Another approach would be to defer the revenue on the job when the invoice is created, and recognize the entire revenue and expense amounts when the job is closed.

WIP costing has been a very popular means to do cost accounting in the alarm industry, so that revenue and expenses are more aligned. Companies installing larger jobs that span multiple accounting periods would use the WIP accounting method.

WIP costing is the most difficult method to audit on a monthly basis.

Notes

Percentage of Completion

Percentage of Completion is quickly becoming the most common method of cost accounting among SedonaOffice users, simply because it has the ease of use and auditing of Actual Costing, but provides the benefits of equalizing the revenue and expenses based on the actual work completed in the monthly period.

With Percentage of Completion, all expenses and revenue are reported on the income statement as incurred. No costs are flowing through WIP.

At the end of each month, all the jobs are analyzed to determine their percentage completed, and amount already invoiced. By analyzing this you can easily determine the amount any job was either over or under invoiced. The amount which was over or under invoiced is used to create a journal entry to the revenue, so revenue on a monthly basis will be based on the actual work performed. (We will take a closer look at this in a moment.)

When using the Percentage of Completion method, it is essential to have accurate estimates for your jobs. Without accurate estimates, you cannot report correctly on the percentage of the job that has been completed when evaluating the actual costs incurred vs. the estimated cost of the job.

Advantages to Percentage of Completion Method:

- The monthly income statements will reflect consistent revenue based on the actual work being performed each month, regardless of any partial invoicing.

- There is no WIP to audit. Since all costs are being expensed as incurred, there is no need to audit your WIP each month.

- One accrual entry at the end of each month to recognize your Over or Under Invoicing for all your Jobs. (Or you can do multiple by Branch and/or Job Types.)

Notes

Example of Percentage of Completion

Here's an example of how a Job would report on the financial statements using the Percentage of Completion method.
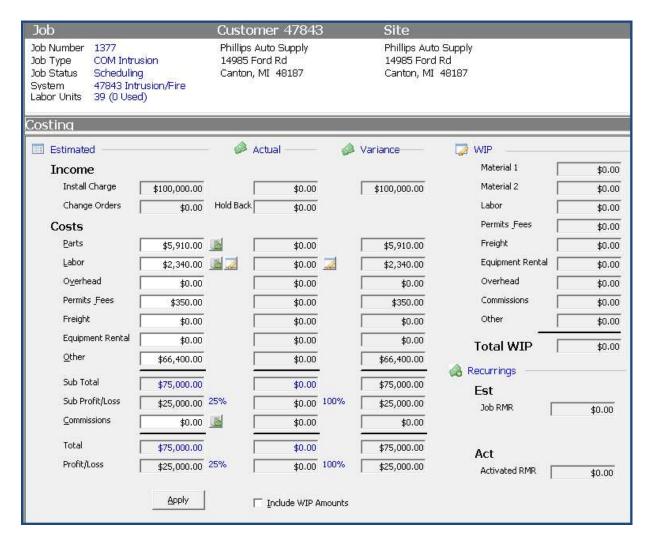
Job Sale Price $100,000

Total Estimated Costs $75,000

Estimated Profit $25,000 (25%)

This job will take 3 months to complete, and in each month we will incur $25,000 in expenses. Our agreement with our customer allows us to invoice the customer 50% when the job is half completed and the remaining 50% when the job is finished.

Job Costing Form with Estimates filled in

At the End of the First Month

We have incurred $25,000 in expense, and no invoice (revenue) has been generated since the job is only 33% complete.

Percentage of Completion Calculation for Over or Under Invoiced

Contract Revenue	Job Estimated Expenses	Actual Expenses	Actual Amounts Invoiced	Percent Complete	Revenue Earned	Over/Under Invoiced
$ 100,000.00	$ 75,000.00	$ 25,000.00	$ -	33.33%	$ 33,333.33	$ (33,333.33)

In the above instance, below would be the Journal Entry to make at the end of the month for this Job.

Journal Entry at End of Month 1 (auto-reverse on first day of the next month)

GL 110500 Costs in Excess of Billings (Under Billed)

DB	CR
$ 33,333.33	

GL 410212 Commercial Job Revenue

DB	CR
	$ 33,333.33

Notes

Below is the Over/Under Billing Report for the end of month 1

Jobs Over/Under Invoiced Report   **Sedona Security**

All open jobs as of 9/30/2016

Job	Customer #	Site Name	Est Income	Est Material	Est Labor	Est OH	Est Other	Est Comms	Tot Est Exp	Est GPM	Est Profit	Over	Under
Job Type	Date Sold	RMR Sold	Act Income	Act Material	Act Labor	Act OH	Act Other	Act Comms	Tot Act Exp	% Comp	Rev Earned	Invoiced	Invoiced
MI													
1377	47843	Phillips Auto Supply	100,000.00	5,910.00	2,340.00	0.00	66,750.00	0.00	75,000.00	25.0%	25,000.00		
Intrusion - Large C	9/1/16		0.00	0.00	450.00	0.00	24,550.00	0.00	25,000.00	33.3%	33,333	0.00	33,333.33
	MI											0.00	33,333.33
													0.00
										Net Amount Under Invoiced			33,333.33
Report Totals												0.00	33,333.33
													0.00
										Net Amount Under Invoiced			33,333.33

Journal Entry at end of month 1

At the End of the Second Month

We have incurred $50,000 in expense, and we invoiced the customer for $50,000 since the job is 2/3 complete.

Percentage of Completion Calculation for Over or Under Invoiced

Contract Revenue	Job Estimated Expenses	Actual Expenses	Actual Amounts Invoiced	Percent Complete	Revenue Earned	Over/Under Invoiced
$ 100,000.00	$ 75,000.00	$ 50,000.00	$ 50,000.00	66.67%	$ 66,666.67	$ (16,666.67)

In the above instance, below would be the Journal Entry to make at the end of the month for this Job.

Journal Entry at End of Month 2 (auto-reverse on first day of the next month)

GL 110500 Costs in Excess of Billings (Under Billed)		GL 410212 Commercial Job Revenue	
DB	CR	DB	CR
$ 16,666.67			$ 16,666.67

Notes

Below is the Over/Under Billing Report for the end of month 2

Jobs Over/Under Invoiced Report — Sedona Security

All open jobs as of 10/31/2016

Job / Job Type	Customer # / Date Sold	Site Name / RMR Sold	Est Income / Act Income	Est Material / Act Material	Est Labor / Act Labor	Est OH / Act OH	Est Other / Act Other	Est Comms / Act Comms	Tot Est Exp / Tot Act Exp	Est GPM / % Comp	Est Profit / Rev Earned	Over Invoiced	Under Invoiced
MI													
1377	47843	Phillips Auto Supply	100,000.00	5,910.00	2,340.00	0.00	66,750.00	0.00	75,000.00	25.0%	25,000.00		
Intrusion - Large C 9/1/16		0.00	50,000.00	5,910.12	239.88	0.00	43,850.00	0.00	50,000.00	66.7%	66,666.67	0.00	16,666.67
MI												0.00	16,666.67
													0.00
											Net Amount Under Invoiced		16,666.67
Report Totals												0.00	16,666.67
													0.00
											Net Amount Under Invoiced		16,666.67

Journal Entry at end of month 2

At the End of the Third Month

We have incurred $75,000 in expenses, and invoiced the job in full.

Percentage of Completion Calculation for Over or Under Invoiced

Contract Revenue	Job Estimated Expenses	Actual Expenses	Actual Amounts Invoiced	Percent Complete	Revenue Earned	Over/Under Invoiced
$ 100,000.00	$ 75,000.00	$ 75,000.00	$100,000.00	100.00%	$ 100,000.00	$ -

No Journal entry is required at the end of month 3 – the Job is completed.

Jobs Over/Under Invoiced Report   **Sedona Security**

All open jobs as of 11/30/2016

Job Job Type	Customer # Date Sold	Site Name RMR Sold	Est Income Act Income	Est Material Act Material	Est Labor Act Labor	Est OH Act OH	Est Other Act Other	Est Comms Act Comms	Tot Est Exp Tot Act Exp	Est GPM % Comp	Est Profit Rev Earned	Over Invoiced	Under Invoiced
MI													
1377	47843	Phillips Auto Supply	100,000.00	5,910.00	2,340.00	0.00	66,750.00	0.00	75,000.00	25.0%	25,000.00		
Intrusion - Large C 9/1/16		0.00	100,000.00	5,910.12	2,694.88	0.00	66,395.00	0.00	75,000.00	100.0%	100,000.00	0.00	0.00
	MI											0.00	0.00
													0.00
										Net Amount Under Invoiced			0.00
Report Totals												0.00	0.00
													0.00
										Net Amount Under Invoiced			0.00

Notes

Over / Under Journal Entry

When using the Percentage Completion method, at the end of each month, after all invoicing is completed, and no additional expense transactions will be created against any open Jobs, it will be time to create the accrual entry.

The entry is very simple, a Credit to your Revenue Account, and a Debit to an Asset account, Accrued Revenue. The transaction should be reversed on the first of the next month, as this is an accrual entry.

When creating the Journal Entry, you may select the *Reversal Entry* checkbox on the JE form and enter the date on which the entry should be reversed. If the next month's accounting period is not yet open, you will need to do this first to be able to enter the reversing date. After saving the journal entry, you may close the next month's accounting period until you are ready to have it open for posting transactions. Using the reversal option will save time in not having to manually enter a reversing entry the next month.

Journal Entry Example

1) To record the over / under amount (Post on the last day of the month)
    a. Credit Revenue (debit if over invoiced)
    b. Debit Accrued Revenue (credit if over invoiced)
2) To reverse the entry (Post on the first day of the next month)
    a. Debit Revenue (credit if over invoiced)
    b. Credit Accrued Revenue (debit if over invoiced)

When should I use WIP?

WIP accounting was primarily used in the manufacturing world. As raw materials were being transformed into finished goods, the parts and labor would be tracked as WIP during the manufacturing process.

The security industry adapted to using WIP in the 1980's as a means to track work orders for commercial installations. WIP became an acceptable means, as most companies at the time did not have adequate systems and/or procedures to track estimates and/or percentage of completion.

While there is not a "right or wrong" answer about using WIP, it is truly a preference that needs to be understood and determined if it is the best approach for your business.

System Integrators prefer Percentage of Completion

Today, System Integrators prefer Percentage of Completion to WIP for two simple reasons. First, it is easier to manage and second it provides for a more consistent reporting of actual revenue and expenses.

Additionally, Percentage of Completion is widely acceptable as an accounting method by CPA's and accounting professionals.

Deferring Revenue when using WIP

As an option when using WIP, you can elect to defer all revenue created on a Job the Job is closed. Under this method all invoices created for the Job will defer the revenue until the Job is closed. At that time, all the revenue and expenses in WIP will be recognized on the Income Statement.
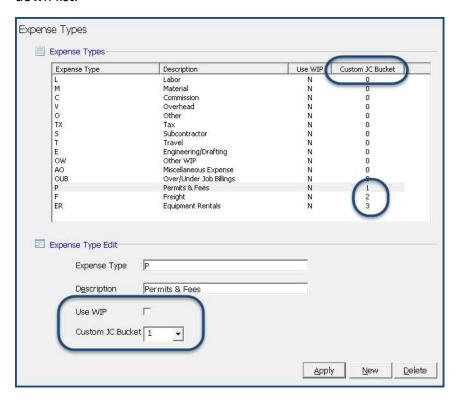
Custom Job Costing Buckets

As of the release of SedonaOffice version 5.7.24 (October 2015), a new feature, **Custom Job Costing Buckets**, was introduced to the application. Each company may define the names of up to 3 custom job costing buckets which otherwise would fall into the expense type of "Other" (e.g. Permits, Freight, Equipment Rental, etc.). Expenses that do not fall into the three custom buckets will be displayed in the job expense type of "Other" on the Job's job costing form.

This new functionality is enabled within your Job Expense Types and a new form located within JM Setup Processing in SedonaSetup.

In the **Job Expense Type** setup table, first determine which expense types you will use for your Custom Job Costing Buckets. You may assign up to 3. On each Expense Type you will be using for custom job costing, in the *Custom JC Bucket* field, select your bucket number from the drop-down list.

Next you will assign field labels to the Custom Job Costing Buckets to which you assigned a number on the Job Expense Type setup table.

In SedonaSetup, navigate to Setup Processing [JM] and click on the **Custom Job Costing Buckets** tab. For each custom bucket that will be activated, in the Description field, type in the words that will appear on the Job Costing form of your Jobs. The software will allow you to enter up to 30 characters, however due to available space on the Job Costing form [of a Job] only the first 17 characters are viewable.

If your company is using Work-In-Process (WIP) for these Expense Types, check the *Use WIP* checkbox and in the *WIP Account* field select the appropriate G/L account that will be used for the Expense Type.
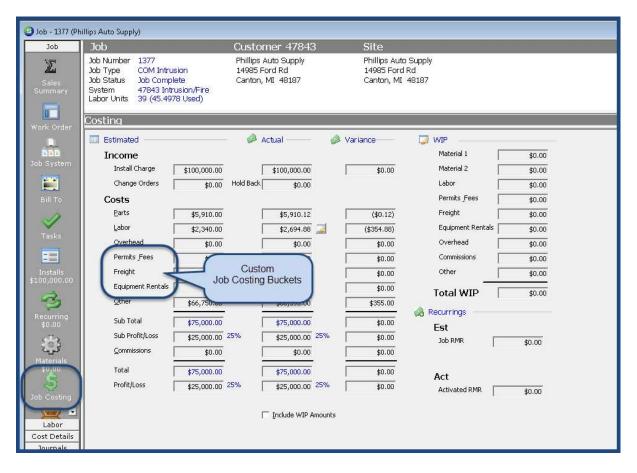
On the next page is an illustration of how the assigned Custom Job Costing Buckets will appear on the Job Costing form.

Job Costing form of a Job

Notes