

Labor Activities (Labor Codes) – What is their purpose, to what extent to I need them?

Does your firm employ a long or complete list of labor activities? Do you or others in your firm find the list of labor activities confusing or overwhelming? I have found the use of them vary widely from firm to firm. Some firms have hundreds of direct or billable labor activities. In my consulting firm, I utilize just two, “Labor” and “Travel Labor”.

At times, to understand why our system is structured in the manner it is, we have to retrace the steps that take us to our present system setup. In the early DOS versions of A&E accounting systems, Labor Activities were used to assist in the description of the work that was being performed. As systems progressed, labor activities retained their purpose. However, a new feature was introduced and refined. That feature was Timesheet Notes. The timesheet notes were available to print on the invoice, invoice backup, or other project management reports to provide a detailed description of the work performed. Timesheet notes are less confusing and completely flexible in terms of the description. In my opinion, timesheet notes marked the death of labor activities as we know them. In general, I find a large list of labor activities to be redundant and confusing. I believe many project professionals share my opinion.

Here are some tips and insights to see if your firm is a candidate for reducing or eliminating (except one) billable labor activities:

- Do you find that some Activities are used exclusively while others are not used at all? This is because the staff simply reuses an activity they are familiar with and one they know “works”. They probably do not understand it should be description of the work performed.
- New employees call for instruction or advice on which one to use. This is because labor activities are inherently not intuitive and confusing.
- Billable Labor Activities are not represented on your client invoices. If you do not use them for invoicing, there may not be a need for a broad list.
- Your firm uses timesheets notes and the PM’s rely on these notes for billing and other purposes rather than an activity description.
- Ask yourself. Have I ever moved time from one activity to another (in the same manner as phase to phase)? My guess is NO. That is because the budget is typically at the phase level and PM’s simply don’t care which labor activities are used on the project.
- Would you or your company’s management base decisions on a report that recapped the firm’s monthly timesheet hours by billable labor activity? I have been working and consulting in this industry for 20 years and I have yet to create a report for a company’s management team that summaries this data.

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For reference, below are some practical uses of billable labor activities.

- Identifying travel labor from regular labor for billing or other purposes.
- Identifying onsite vs. in office work for certified payroll or insurance purposes.
- Identifying hours worked within a city limit for payroll tax calculations (San Francisco).

Whether your firm experienced the migration path described above or is new to project management accounting software, understanding your firms reporting and work breakdown needs is far more important than structuring your system to follow past practices and retaining outdated system architecture. This may be a subject worth revisiting.

The process of reducing your labor activities / labor code is a quick and simple one. If you feel your firm may need assistance in this effort, please contact me.

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Michael J. Brennan, CPA is one of the nations leading experts in the management of A&E and professional services firms. Mr. Brennan has twenty five+ years of accounting and consulting experience in Architectural, Engineering, and Construction (AEC) industry. His certifications include:

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Prior to starting unlockthedata.com he held the position of Controller at the Bentley Company and he was Manager of IT Consulting Services at Lautze & Lautze, a regional accounting firm in San Francisco. Mike is also an accomplished speaker, speaking to hundreds of A&E professionals each year at seminars and professional association conferences. He graduated in 1984 from Western Illinois University, with a BA, Accounting, and passed the CPA in Illinois in 1986.

Beyond the box is Mike's approach to consulting, not limiting his skills and expertise to consulting on the Protrax and Ajera products. His approach is to help companies identify areas of weakness, and then provide solutions to address those weaknesses.