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WIP Defined

- In General, WIP is work performed, marked up with fee or spent value, but not yet billed.
- In Ajera unbilled WIP are transactions that are billable and associated with an invoice with a status of Draft or dated beyond the cutoff date of the current draft invoice (Client Invoice = Null).

Statuses in Ajera

- Bill (Use)
- Hold (Use)
- Defer (Use)
- Write-off (Use with Caution and Controls)
- NonBillable (Use Cautiously)

WIP Classifications

WIP is unlike any other transaction in the accounting world. It is often misunderstood, and as a result not treated with same controls as other accounting transactions. For purposes of this discussion, WIP can be classified into two groups Good WIP and Bad WIP.

Characteristics of Good WIP

- It is aged less than 60 days old.
- Dated beyond the last invoice cutoff date for the projects it was charged to.
- The value, when added to the billed to date amount, is less than or equal to the current contract amount.

Characteristics of Bad WIP

- It is aged greater than 60 days old.
- Dated prior to the last invoice cutoff date for the projects it was charged to.
- The value, when added to the billed to date amount, is greater than the current contract amount.
- Non labor transactions covering periods or performance that have already been billed. This is typically subcontractor activity.
- WIP for proposals or other non traditional billable work.

Managing WIP

WIP transactions properly managed and controlled can be a source of valuable data to assist management with decision making. It can also reveal the secrets of an over spent project or the secrets of a under spent project. WIP transactions not properly managed and controlled serve only as a basis to bill projects. They can mislead management in regards to the health of a project, or even the firm's fortunes.

Below are tools and tips for managing WIP

Managing, Processing, and Reporting on Ajera WIP

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Tips

- Do not be passive in "accepting" any WIP entry.

  WIP defined as bad WIP should be dealt with sooner than later. Set policy for WIP that falls within the definition of Bad WIP. It should be written-off on a zero invoice expeditiously. By doing so, it will get exposure on a WIP write off report and adjust the profitability percentages on project performance reports. Bad WIP left on the books will only serve to mask the true status of a project.

- Do not blindly accept Ajera's Revenue Recognition results.

  Revenue Recognition portion of Ajera operate with "blinders" on. It does not know how to distinguish good WIP from Bad WIP. If a transaction has a status Billable, Defer, or Hold, it will be included in the revenue stream for the period it originated. I do not view this as an Ajera weakness. I view it as an industry issue. Every company has a different approach to revenue recognition, and each company must adopt procedures to support their policies.

- Use guidelines when including WIP in revenue calculations (see definitions of Bad WIP).

  Exclude WIP for proposals or similar situations.

- Use % complete calculations (Earned Value Management) or other means to ensure revenue is being recorded responsibly as work progresses; otherwise a WIP write down may ensue.

- Do not "not bill ahead" to make it easier. Keep the cash flowing.

  Projects should be billed as aggressively as possible. This will help the project progress on its own cash flow. However, keep in mind that billings do not equate to revenue. Have procedures in place to record revenue as the project progresses not as the billings are issued. Failure to do so will result in trailing costs without revenue at the end of the project.

Use the power of Ajera to aid in the WIP management effort.

- Use Rate tables with a -100% markup for proposal or non billable entries.
- Use a Custom report or inquiry to validate the revenue calculations that matches your company's policy.
- Use a custom Aging report to set the value of "Bad" WIP to -0-. Then record an allowance against WIP for the difference of your GL balance and reports results. (similar to Accounts Receivable allowance)

WIP Pitfalls (to Watch For)

1. On Lump Sum or Progress Bill Projects, All WIP is moved with the invoice and flagged as billed regardless of value. The status of these transactions are Billable. For these projects, WIP write offs cannot be measured at the transaction level. This is because all transactions carry the same status of Billed. WIP Write-offs are measured as follows: PTD Fee – (Billed + Current WIP Value) = WIP write off/up.
2. Use of Non-billable Project Billing Type.
   - There is no measurable value to gauge the write-off other than cost.
   - The transaction is not available in Manage Client Invoices
   - No spent value generated.

Methods of Writing Off (up) WIP

Like WIP itself, there are several methods for writing off WIP, good methods and not so good methods.

- Not so Good Methods - Setting the Status to Write-off (Without Controls in Place)

When the WIP status is set to "Write-off" it in essence becomes orphaned from and invoice record. The date of the write off cannot be measured with consistency. The original date off the transaction will dictate the period in which the write off is recorded unless that period is closed then it will prompt you for a write off date.

Let's run through some scenarios. The transactions for all the scenarios are as follows:

There are three WIP Transactions

a. Dated 01/01/2011 for $100
b. Dated 02/01/2011 for $200
c. Dated 03/01/2011 for $500

Scenario 1 – "Don't Allow Entries Prior to" date is set at 01/01/2011. The three WIP transactions are set to write-off on 3/15/2011. General Ledger Effect:

a) 01/01/2011 – will get a write off for $100
b) 02/01/2011 – will get a write off for $200
c) 03/01/2011 – will get a write off for $500

Scenario 2 – "Don't Allow Entries Prior to" date is set at 02/01/2011. The three WIP transactions are set to write-off on 3/15/2011. When prompted for the write-off date the user enters 03/15/2011. General Ledger Effect:

a) January – will get a write off for $-0-
b) 02/01/2011 – will get a write off for $200
c) 03/01/2011 – will get a write off for $500
d) 03/15/2011 – will get a write off for $100

Scenario 3 – "Don't Allow Entries Prior to" date is set at 03/01/2011. The three WIP transactions are set to write-off on 3/15/2011. When prompted for the write-off date the user enters 03/15/2011. General Ledger Effect:

a) January – will get a write off for $-0-
b) February – will get a write off for $-0-
c) 03/01/2011 – will get a write off for $500
d) 03/15/2011 – will get a write off for $300

Scenario 4 (Has "Controls" in place) – "Don't Allow Entries Prior to" date is set at 03/16/2011(this is the control). The three WIP transactions are set to write-off on 3/15/2011. When prompted for the write-off date the user enters 03/15/2011. General Ledger Effect:

a) January – will get a write off for $-0-
b) February – will get a write off for $-0-

c) 03/01/2011 – will get a write off for $-0-
d) 03/15/2011 – will get a write off for $800

There is still a downside with this option. If you run a WIP Aging at 02/28/2011, the 1/1 and 2/1 transactions will not appear on it. I believe this to be an Ajera weakness.

- Write off Invoices – Has the same effect as write off WIP above.

- Good Method
  - Setting the hours for labor or the billable amount for non labor to -0- and processing it on the current or on a separate “zero invoice”.

    Writing off WIP in this manner is controlled by the accounting date of the invoice. It is recoverable, and traceable with reporting. Each WIP transaction is associated with the invoice that was zero billed. The invoice that was zero billed possesses an accounting date and an invoice date. Both dates are acceptable for measuring the date write off.

One Last Item on Write-Offs

Ajera does not record write offs or write ups for WIP on Billings Types that are not set as Time & Expense unless the WIP transactions are specifically set to write-off. Let me explain further. Let’s assume a Percent Complete project has WIP totaling $1,200 and all this WIP is pulled on to an invoice with a billed value of $1,000. In my world, that is a $200 write off. Ajera treats this situation differently. When the invoice is final printed, it will reverse the original $1,200 of unbilled revenue and record $1,000 of billed revenue. The revenue for the period is reduced by $200, but it is not recorded as a write-off.

In my opinion, to truly measure WIP write-offs in Ajera, only WIP that is associated with an invoice (this included -0- invoices) should be evaluated. It should be evaluated by measuring the billed value vs. the spend value. I personally recommend not using a status of write-off, but processing zero invoices will the billable amount set to -0-.

NonBillable WIP Status – When WIP in Ajera is set to NonBillable, it removes the spent value of the transaction, reverses the original revenue entry in the GL, and does not record it as a write-off. Users should NOT use this status freely. Any entry flagged to be changed to non-billable should be probed and researched to find out the nature of the change. These transactions typically “fly below the radar” of management.

Reporting on WIP

Recommended Reports

- WIP Aging (Standard)
- WIP Write Off (Custom)
- WIP Analysis (Custom)

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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.