Acumatica
The Cloud ERP

PROJECT ACCOUNTING:

6 Opportunities and Potential Pitfalls on the Road to Profitability

Project accounting is essential to maintaining control of your budgets and resources, generating timely and accurate billing, and establishing your projects' profitability. Any project accountant can tell you that it's the only way to manage project budgets and resources.

Project-based industries—from construction to marketing to engineering—rely on project accounting to give them accurate estimates, manage time and resources, generate billing, and, most importantly, determine whether the project was profitable. Nevertheless, many project-based businesses are not using project accounting software to help them manage their projects.



CONSIDER THESE STATISTICS:

- 34% of projects have no baseline (Wellingtone)
- 27% of all IT projects go over budget (HBR)
- Businesses see "capturing time/costs against projects" as their biggest challenge in project management (Capterra)
- 20% of service professionals don't track the time spent in meetings (Accelo)
- 60% of SMBs use manual methods for project management, non-project management software, or nothing at all to manage projects (Software Advice)
- The most requested project management features are task management and reporting (Software Advice)
- 52% of projects experience scope creep (Project Management Institute)

In this eBook, we'll discuss several common pitfalls that can affect every project. We'll then describe how, with the right project accounting tools, you can avoid these pitfalls and ensure profitability for your projects, regardless of size or complexity.

Project Accounting Defined

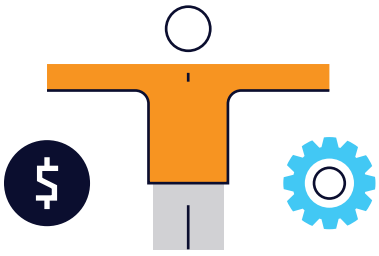


While financial accounting is more interested in the company's overall financial performance, project accounting focuses on the financial performance of individual projects.

Projects have specific start and end dates, and project accountants want to make sure that the project meets the financial contracts in place. They are responsible for estimating, forecasting, cost accounting, revenue recognition, and cash flow processes of each project.

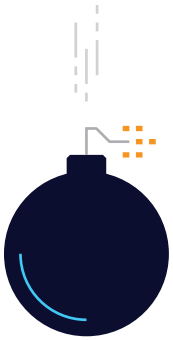
AREAS OF INTEREST TO THE PROJECT ACCOUNTANT ARE:

- The availability of resources to take on a new project
- Creating budget forecasts for the project using previous projects as a baseline
- Determining whether the start and end dates are realistic, taking into consideration time, costs, and resources
- Establishing sufficient reserves in the budget to account for unplanned risks and overruns
- Tracking costs and revenues against planned costs and milestones
- Identifying the role, task, or milestone that is creating the most drag on project costs



The project accountant is often described as having one foot in accounting and the other in project management.

Pitfalls and Opportunities





Several areas in project accounting pose potential pitfalls—but also provide opportunities.

Here are some common pitfalls and opportunities in project accounting, and how Acumatica Project Accounting can help with:

#1 SCOPE CREEP

#2 PROJECT RISK

#3 ACCURATE ESTIMATES

#4 MANAGING THE PROJECT CLOSE

#5 REVENUE RECOGNITION

#6 TIME KEEPING AND SCHEDULE MANAGEMENT

"Gaining project level profitably via the Acumatica Project module was a key cornerstone moment because it was no longer something that was assumed. Now I am actually seeing project level profitability and to have the ability to pull reports and see the data was really eye-opening."

– CHRIS WILLIAMS, DIRECTOR OF BUSINESS OPERATIONS, INTERACTION ASSOCIATES

PITFALL / OPPORTUNITY #1

Scope Creep



PITFALL

Adding new requirements that impact the project timeline and budget occurs in most projects. These changes can represent anything from requests for more functionality and changes in requirements to modifications of contract terms or any other changes to the initial Statement of Work.

In some instances, these changes cannot be avoided. Construction projects could run into problems with the availability of specified building materials, building code requirements, or discovering that additional work will be needed to remove hazardous material that was previously unknown.

In other cases, the client might request additional functionality that was not part of the original contract. These requests frequently occur in the software or architectural requirements, where the customer begins to anticipate future needs and requests a change in project scope or direction.

Change requests can also originate from the service provider, as the project team uncovers issues beyond the initially projected work assignments but are necessary to complete the project.

OPPORTUNITIES

The best way to mitigate scope creep is to thoroughly discuss the project with the client and understand their vision of what they expect the project to accomplish. This often allows you to uncover those requests during the discovery process and build them into the project plan. As defined in the Statement of Work, the project plan and project requirements serve as your commitment to the client of what the finished project will look like once completed.

Still, change requests will occur, and, even though it is always tempting to maintain goodwill by accepting a new request, you should establish a formal change request procedure before the project starts. Having a change request procedure ensures that the project team can assess each change request for any impacts the change will have on the design of the project, the availability of personnel and equipment necessary to make the change, and the cost and project milestones. Change requests are also an excellent opportunity to upsell the client on better or additional functionality.

One key to success is to track change requests and have complete transparency with the client on the impacts the change will have on the current project. This communication allows both you and the client to assess the change request's financial and timeline effect and decide whether to accept the change request—and keep the project on track!

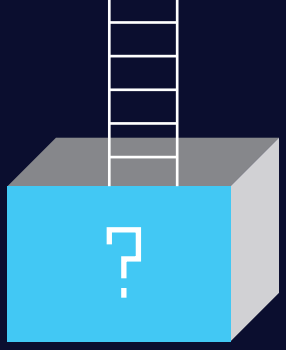
HOW ACUMATICA CAN HELP

Acumatica Project Accounting helps by controlling changes to the project scope, including customer and internal requests. Users can create a change order within Acumatica and attach electronic copies of all documentation, including the request being made, the revised project plan, and reports showing the impacts the change will have on the revenue budget, cost budget, and resource commitments. Tracking requests and documentation within Acumatica ensures that the project budget is always up to date and accurately reflects resource allocations and all revised project team notes and documents.

Acumatica also allows users to define automated workflows to route change requests to the appropriate people, including the client, for approval.

PITFALL / OPPORTUNITY #2

Project Risk



PITFALL

No plan is foolproof. Unforeseen or overlooked details can derail any project.

Project risk can take on many forms, from the untimely departure of a critical project team member due to illness, to design flaws uncovered during testing, to the bankruptcy of a principal contractor or vendor. It would be senseless to try to predict every possible risk in a project plan. However, you can anticipate that something will happen that will significantly impede the project and build in contingencies to adapt and correct them without delaying the project or exceeding the project budget.

OPPORTUNITIES

Project managers must plan on uncertainty in their projects and build contingency into the schedule to provide enough time on crucial tasks that allow for rework if the initial execution of that phase fails or requires adjustments. For example, a software development project might require redesign and additional testing of a module. The project manager must provide a reasonable buffer in the schedule to accommodate the time and effort to redesign and retest or provide a workaround for the problem.

Encouraging creative thinking can also help reduce budgets and make up for any lost time. Project managers can ask each member of a project team what they can streamline in their design or workstream and still provide the required functions and performance in the final deliverable.

Another characteristic of successful project managers is the ability to communicate and collaborate with the team at all levels and at all times. A principle of agile project management is short, but frequent, group conversations to identify problems as early as possible and work together to develop and implement solutions.

HOW ACUMATICA CAN HELP

Acumatica lets you add activities to your project and define or change tasks as needed. Tasks can have specific start and end dates, which helps organize work assignments and duties. Date ranges will also help minimize the possibility of people entering time against the wrong task.

Timesheets and resource allocations link to specific projects, so you always have accurate, up-to-date information on every project's status.

“Acumatica works perfectly. It handles project accounting, cash flow, project monitoring; but Acumatica is not just confined to project-based operations. Other departments like sales and marketing love it as well.”

– ELIZABETH BARRATT, MANAGER: PROJECT EXCELLENCE, ASK AFRIKA

PITFALL / OPPORTUNITY #3

Accurate Estimates



PITFALL

Establishing a project baseline plays a vital role in either accepting or rejecting a proposed project. Even so, 34% of projects have no baseline. Without an accurate estimate, it is nearly impossible to know whether the project will be profitable.

OPPORTUNITIES

Spending the time upfront on your estimates has a big payoff in the end.

There are many factors to consider in preparing an estimate. For instance, some projects only collect revenue when the project is complete. Others collect revenue as various phases of the project are completed. These examples show two very different cash flow forms that must be accounted for in the project budget. If collection waits until the end of the project, then all financial outlays must be made by the service provider before it receives compensation, eating into the company's cash reserves.

Project managers are also responsible for accurate estimates for materials and labor, including the cost of rented and purchased equipment and the use of contract, hourly, or salaried workers (and their benefits). An often-overlooked element of project labor costs is the time spent on project meetings and reading emails, which can add a significant cost burden to the project.

Accounting for overhead is often overlooked or performed incorrectly as well. Overheads are monthly costs to keep the organization running and include office rent, telephone expenses, electricity, salaries, and supplies. Each project must be able to provide its portion of supporting the day-to-day operation of the company.

Make sure your cost projections are accurate and up to date as the project progresses. These estimates will help you track your project plan's accuracy against the actual cost of time, equipment, and labor. Accurate estimates will also help you identify areas of highest cost to your projects and those projects that provide the most revenue for your company.

HOW ACUMATICA CAN HELP

Acumatica Project Accounting helps you create project estimates, revise these estimates while keeping track of revisions, and compare actual costs against estimated costs.

With Acumatica, you can:

- Create project estimates as quotes in Acumatica CRM or Project Accounting, assess the profitability of the project based on the estimate, and then create a new project based on the estimate when the quote is accepted
- Allocate overhead and shared expenses to individual projects, including billable or nonbillable items
- Include inventory items, nonstock items, labor, services, and more in project budgets and compare actual project costs with original and revised budgets by period with real-time reports
- Keep better track of costs by correctly accounting for work in progress to avoid impacting COGS prematurely
- Enter and modify project budget forecasts, and compare these forecasts with the actual project costs and incomes for each financial period

“By using the power of the information available from data through the use of the Acumatica project accounting module, we are able to make strategic decisions on how best to manage our accounts. In fact, we took our largest division from a 18% profitability to a 31% profitability in about seven months’ time. The whole team got excited about that.”

– DERRICK ELLEDGE, VP OF OPERATIONS, POWER STORAGE SOLUTIONS



HEAR WHAT OUR CUSTOMERS HAVE TO SAY:

“Now we can see progressive job profit and loss on a daily basis via the use of project accounting rather than at the end of a project when it’s too late to make adjustments.”

– KELLY BURNS, ERP DEVELOPER & FORMER CHIEF OPERATING OFFICER, M3 TECHNOLOGY GROUP

PITFALL / OPPORTUNITY #4

Managing the Project Close



PITFALL

Effectively closing a project is critical for several reasons:

- It releases resources for use by other projects
- It establishes the formal completion of the project and the final acceptance by the client
- It allows the project accountant to tally up the actual revenue, costs, profit, and margin

Unfortunately, in the push to get the project across the finish line, the project closure is often overlooked or rushed. Issues that complicate the project close include the inability to find paperwork, such as contracts, change orders, approvals, and emails, accounting for all expenses incurred in the course of the project, and accurately tracking and billing for the hours' employees and contractors spent on the project.

OPPORTUNITIES

To make the process of closing the project easier:

- Establish a process at the beginning to track all approvals, emails, paperwork, and any other documentation related to the project
- Make sure you have the formal delivery acceptance of the finished project by the customer
- Ensure you update all costs associated with the project
- Release all employees, contractors, equipment, and material from the project so that they can be available for other projects within the organization

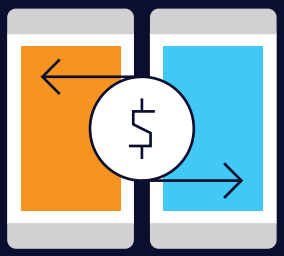
HOW ACUMATICA CAN HELP

Acumatica Project Accounting can help make closing your project easier:

- Acumatica allows you to keep all project documents, photographs, and communications associated with the project in one place so you can access them digitally
- Integration with DocuSign and Adobe Sign allows you to accept digital signatures and attach them to your project
- Project Accounting will track all labor and material costs, including overhead, making it easy to calculate actual project costs and compare these against budget forecasts
- Close tasks as you complete them, making it easier to track any outstanding or unfinished tasks. You might also choose to keep one outstanding task open specifically to capture work performed during the project close.
- Acumatica Project Accounting integrates seamlessly with Accounts Payable and Purchase Orders giving you visibility into all outstanding transactions that might hinder your project, making you aware of your outstanding obligations and eliminating surprises.

PITFALL / OPPORTUNITY #5

Revenue Recognition



PITFALL

Revenue recognition required by ASC 606 and IFRS 15 can pose problems for companies with complex, multi-element sales scenarios. Revenue recognition under ASC 606 requires revenue to be recognized when the contractual obligation is met and not when payment is made.

For some recurring revenue situations, such as a subscription service, upfront payments must be recognized as earned over the life of the contract, not necessarily when the money was paid.

In long-term contracts, revenue is recognized separately if each performance obligation is genuinely distinct, challenging to determine in multi-element sales contracts.

Companies must make sure their contracts accurately identify separate performance obligations and declare their revenue appropriately to remain in compliance.

OPPORTUNITIES

The new revenue recognition standard was designed to offer more consistent financial statements across industries. Because this requires companies to keep more detailed records when tracking their contracts, it will also improve their planning and performance. The standard also offers greater flexibility to recognize revenue based on a company's unique situation.

HOW ACUMATICA CAN HELP

Acumatica's advanced revenue recognition capabilities handle various revenue recognition options, including compliance with ASC 606 and IFRS 15. Acumatica allows you to implement contracts as well as items with multiple revenue components. For example, when you link a deferral code to a stock or non-stock item, Acumatica automatically creates a deferred revenue schedule when inventory and services appear on invoice documents.

"We use the Acumatica Project Accounting Suite that allows us to accurately track project profitability as we were able to automate the time tracking for employees working in the field."

– CHARLES HUTCHINSON, CFO, INSYNC HEALTHCARE/INTRACOASTAL ENVIRONMENTAL/ALEGRA MOTORSPORTS

PITFALL / OPPORTUNITY #6

Time Keeping and Schedule Management



PITFALL

Accurately recording time against a project is essential for payroll, invoicing, measuring productivity, and tracking costs. Knowing how much time was allocated to a project is vital in determining how profitable the project was.

Salaried staff members assigned to a project are often overlooked in the project budget, or even if they are, the individuals do not keep accurate records of their time spent on a project. Invoices and timesheets from subcontractors can quickly become lost or hard to reconcile.

Since labor is the highest cost on most projects, it is important to track time spent on projects accurately.

OPPORTUNITIES

Keeping track of time and schedules lets you know where you stand against the project budget at any time, where you are relative to your project burn rate, and where an unexpected drain on resources or time occurs.

HOW ACUMATICA CAN HELP

Acumatica's time and expense management features include:

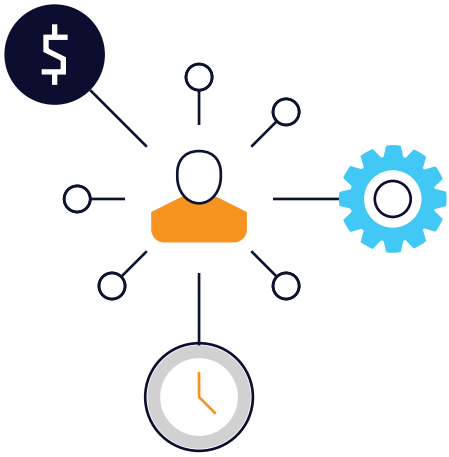
- Tools to help businesses monitor labor and material costs by allowing employees and contractors to track their hours and expenses
- Automated processes for managers to approve time and reimbursement requests
- The ability to generate a customer invoice and update contract status from approved timecards
- A robust reporting engine that allows you to monitor and control utilization, and labor costs including overtime pay

Employees and contractors can also enter time and expenses in the field or on the road with any mobile device using the Acumatica Mobile App.

We use Acumatica's project accounting module to manage security installations and appreciate the control we gained. We have a job costing meeting once a week with all project managers, sales managers and tech managers. As a job is closed out, we do job costing against the project, which now is as simple as running a report."

– BRIAN ROWERDINK, CONTROLLER, SECURITY SOLUTIONS

Conclusion



Project Accounting is responsible for managing the budgets, billing, and profitability of projects that involve any combination of employees, contractors, materials, and tasks. Each item can be assigned to projects and tasks with specific billing rules assigned to each task.

Acumatica Project Accounting integrates with your core financials: general ledger, accounts payable, accounts receivable, sales orders, purchase orders, inventory management, and CRM. Project Accounting allows project managers to create budget forecasts and track actuals against estimates through the project's life.

Let us show you how to gain a complete view of project-related costs for materials, labor, services, and inventory items with Acumatica Project Accounting.

Acumatica
The Cloud ERP

Acumatica Cloud ERP is a comprehensive business management solution that was born in the cloud and built for more connected, collaborative ways of working. Designed explicitly to enable small and mid-market companies to thrive in today's digital economy, Acumatica's flexible solution, customer-friendly business practices, and industry-specific functionality help growing businesses adapt to fast-moving markets and take control of their future.

For more information on Acumatica, visit www.acumatica.com or follow us on LinkedIn.