WIP & Revenue
Maconomy Workspace Client
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Objectives

At the end of this module you should be able to identify:

- Progress Evaluation
  - Project Parameters
  - Estimated Time To Completion
  - Batch Revenue Recognition
  - Detailed Revenue recognition

- Evaluation Work in Progress
  - Project Parameters
  - Included in Fixed Price
Agenda

- Progress Evaluation process
- Calculate Estimated Time to Completion – ETC
- Revenue Recognition
- WIP Evaluation
Adjustments of WIP and Revenue can be done in two ways:
- Revenue Recognition
- WIP Evaluation

The result of the processes are similar. In both cases the adjustments will be posted WIP and Revenue.

In Maconomy the process is a little different:
- Revenue Recognition use a completion percentage based on the project budget
- WIP is based on the sum of the open entries on the projects

<table>
<thead>
<tr>
<th>Revenue Recognition</th>
<th>WIP Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget</td>
<td>1,000</td>
</tr>
<tr>
<td>ETC 60%</td>
<td>600</td>
</tr>
<tr>
<td>Actual</td>
<td>650</td>
</tr>
<tr>
<td>Adjustment</td>
<td>-50</td>
</tr>
<tr>
<td>Open WIP</td>
<td>650</td>
</tr>
<tr>
<td>Evaluated WIP</td>
<td>600</td>
</tr>
<tr>
<td>Adjustment</td>
<td>-50</td>
</tr>
</tbody>
</table>
Revenue Recognition can be calculated for both Fixed Price and T&M projects.

- The process will often be split between the Project Manager and Finance.
  - The Project manager will make sure the Budget is up to date and make the Estimated Time to Completion (ETC).
  - Based on the ETC calculation Finance will run the Revenue Recognition either per project or in a batch process.
  - Finance can make adjustments before the approval and postings,
Progress Evaluation Process

Workspace Projects
Update contract Budget
Progress Evaluation ETC
Calculate Revenue Recognition
Adjust & Approve
Revenue Recognition parameters

- Revenue per project can be calculated on projects where project parameter *Revenue Recognition By Completion Percentage* is Yes
- Use below parameters to select how the estimate should be calculated

**Use Calculate Completion % From** to determine whether Maconomy should base the completion percentage of a project on the entered billing price or the costs incurred on the project.

Use the **Completion % Budget Type** and **Fixed Price Budget Type** project parameters to determine the budgets that Maconomy uses as the basis for calculations.

**Use Detail By** to select the level of details for the recognition.

**Use Limit Revenue** to control the max revenue amount
Fixed Price in Project Information can be transferred from either Quote or Budget depending on attribute Fixed Price Basis in Pricing Principle parameter. The amount is the latest approved Quote or the type of Budget as selected in Fixed Price Budget type. Value is the sum of billing price for entries included in fixed price.
Criteria for calculation in sample:

- Revenue recognition uses a completion percentage based on budgeted cost prices.
- The fixed price of the job is based on a job budget.
- Capitalization is at the billing price.
- The Create Invoice Upon Job Closing job parameter attribute is set to Yes.

First Estimate with a total revenue and WIP adjustment of 6.000

<table>
<thead>
<tr>
<th>Budget Time</th>
<th>Actual Time</th>
<th>ETC Time 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>20.000 / 40.000</td>
</tr>
<tr>
<td>Billing Price</td>
<td>60.000</td>
<td>Billing Price 36.000</td>
</tr>
<tr>
<td>Cost Price</td>
<td>40.000</td>
<td>Cost Price 20.000</td>
</tr>
</tbody>
</table>

Revenue 30.000

Adjustment - 6.000

30.000 + 36.000
In below example Maconomy calculate the project to be 100% as the total cost price is higher then the budgeted cost price.

Second Estimate - Revenue will be adjusted with further 4.000 to a total write down of 10.000.

<table>
<thead>
<tr>
<th>Budget Time</th>
<th>Actual Time</th>
<th>ETC Time 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billing Price 60.000</td>
<td>Billing Price 34.000</td>
<td>45.000 / 40.000</td>
</tr>
<tr>
<td>Cost Price 40.000</td>
<td>Cost Price 25.000</td>
<td>Revenue 60.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adjustment -10.000</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>Total 60.000 – 70.000</td>
</tr>
<tr>
<td></td>
<td>Billing Price 70.000</td>
<td>(6000 + 4000) = -10.000</td>
</tr>
<tr>
<td></td>
<td>Cost 45.000</td>
<td></td>
</tr>
</tbody>
</table>
In case the Billing Price in the Budget is changed to 80.000 a new calculation will adjust Revenue Recognized with the 20.000 and instead of a write down the adjustment is now a write up of 10.000.

Third Estimate with a change in the Budget from 60.000 to 80.000 and a total net Write up of 10.000

<table>
<thead>
<tr>
<th>Budget Time</th>
<th>Actual Time</th>
<th>ETC Time 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billing Price</td>
<td>80.000</td>
<td></td>
</tr>
<tr>
<td>Cost Price</td>
<td>40.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>45.000 / 40.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Revenue</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Adjustment</td>
</tr>
<tr>
<td></td>
<td>Billing Price</td>
<td>34.000</td>
</tr>
<tr>
<td></td>
<td>Cost Price</td>
<td>25.000</td>
</tr>
<tr>
<td>Total</td>
<td>Billing price</td>
<td>70.000</td>
</tr>
<tr>
<td></td>
<td>Cost</td>
<td>45.000</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>80.000 – 60.000</td>
</tr>
<tr>
<td></td>
<td>-10.000 + 20.000</td>
<td>= 10.000</td>
</tr>
</tbody>
</table>
The progress Evaluation section in the projects workspace has three tabs:

- Progress Evaluation with the ETC calculation
- History with a specification of all approved calculations
- Revenue Recognition detailed level
Progress Evaluation in the Projects workspace is where Project Managers can calculate Estimated Time to Completion from budget entries.
Revenue Recognition can be posted in a batch process from the Revenue Recognition section in the Project Administration workspace.
When projects have been created with Detail Level in project parameter the entries can be reviewed and adjusted per task in the Revenue Recognition tab in the Progress Evaluation section in the Project workspace.
Maconomy calculates the revenue to be recognized at the present point of time. Maconomy will make adjustment to previous posted adjustments. On Main & Sub projects the adjustments are calculated per project. Approved revenue recognition will create a Revenue Recognition journal ready for posting to the General Ledger or it will be posted automatically depending on a system parameter.
Make sure to use the correct budget amount for the calculation of the Estimated Time To Completion. It might be a good idea to have two types of budgets.

- A Contract Budget with the total contract / billing amount for the Revenue calculation
- A Working Budget with the ongoing adjustments that makes it more accurate for the ETC calculation.
Time & Material Projects

- Revenue adjustments does not have any impact on the amount for invoicing on a Time & Material project. All adjustment entries will be posted as closed entries.
- If changes on the job result in adjustments being reversed, the automatic creation of reversing journals ensures that the relevant entries are adjusted.
- As revenue to be recognized on a time and material job is not necessarily limited to the "fixed price" of the job, the completion percentage can be larger than 100%, meaning that more than the "fixed price" of the job can be recognized as revenue.

<table>
<thead>
<tr>
<th>WIP for Invoicing</th>
<th>Time Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Time</strong></td>
<td>15.000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>5.000</td>
</tr>
<tr>
<td><strong>Total WIP</strong></td>
<td>20.000</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td>5.000</td>
</tr>
<tr>
<td><strong>Adj time</strong></td>
<td>- 3.000</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>12.000</td>
</tr>
</tbody>
</table>
Hands-On Activity

Revenue Recognition

Activity 1
WIP Evaluation

- Time & Material Projects capitalized to Billing price can be adjusted in Evaluation of Work in Progress. Adjustments will be made to the actual posted WIP and Revenue and if preferred report a more conservative amount.
- The WIP amount can be adjusted by either a Fixed Amount or a Percentage.
WIP Evaluation Process

- Workspace Project Administration
- Revenue Recognition
- Evaluation Work in Progress
- Select Projects
- Enter New Amount or Percentage
- Approve Adjustments
Revenue per project can be calculated on projects where project parameter *Revenue Recognition By Completion Percentage* is NO.

Use below parameters to select how the estimate should be calculated:

- **Capitalization Method** = Billing Price
- **Evaluate Work in Progress** = Yes
- **Activity for Revenue Adjustment** = Amount Activity
- **Handling of Overrun** = No
- In parameter Pricing Principle Invoicing Method must be Time & Material
Maconomy will only evaluate entries that are part of the fixed price of the projects. Fixed Price in this context means all entries that are not explicitly specified as being excluded from Fixed Price.

This should not be confused with the term Fixed Price Project as created in Project Groups. Although being a Time & Material project, it can consist of a Fixed Price amount and additional expenses.

Entries can be excluded from Fixed Price by using the Pricing Principle project parameter “Fixed Price Inclusion Setup” = Exclude Outlays

<table>
<thead>
<tr>
<th></th>
<th>Not included in Fixed Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee</td>
<td>1.000</td>
</tr>
<tr>
<td>Cost</td>
<td>350</td>
</tr>
<tr>
<td>Total FP</td>
<td>1.350</td>
</tr>
<tr>
<td>Expenses</td>
<td>150</td>
</tr>
<tr>
<td>Total</td>
<td>1.500</td>
</tr>
</tbody>
</table>
Including entries in Fixed Price can also be controlled from Task and Activities

- In Activities under Default values tick the field “Included in Fixed Price on Tasks”
- In the tasklist tick one or more tasks in the column “Included in Fixed Price”
Projects created for WIP evaluation will be displayed in the workspace.

The workspace will save the entered selection of projects from session to session and display the same project selection as last time.

When approved Maconomy creates a journal ready for posting. Depending on the project parameter the posting can be on project or employee level.
Helpful Tip

- When adjustments are made by percentage, Maconomy will keep the percentage and automatically suggest the same relative amount on the following evaluations.
- When adjustments are made by amount, the evaluation is a manual process every time.
Hands-On Activity

Evaluation Work in Progress

Activity 2
Knowledge Check

- What is the difference between WIP Evaluation and Revenue Recognition.
- What is ETC
- What does Detailed Level means