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MASTER CLASS

How Business Processes Impact Accounting

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DEC 11, 2024

Target Audience

- Executives leading System Integration businesses
- Operations Functional Areas
 - Sales
 - Service
 - Purchasing
 - Warehousing

Learning Objectives

By the end of this session, you will be able to:

- Identify at least five operational strategies to minimize your Accountant's headaches at Month End
- Differentiate between "Accounting" vs "Accounting Process"
- Define the use of Cost Accounting in your business
- Identify key roles, responsibilities and hand-offs in Workflows that impact financial transactions

Agenda

1. Introduction
2. Accounting
 - a) Definition and Purpose
 - b) Cost Accounting / Revenue Recognition
 - c) GL Accounts
3. Month End Starting Point and Operations Processes
4. Reports and Dashboards
5. Summary
6. Q&A
7. Wrap Up and References



1. Introduction

- Month End Reconciliation MasterClass (March, 2023)
- How can we prevent Month End “clean up”?
- Flawed processes = erroneous accounting results
- Q360 allows business activities to "automate" Accounting
- The solution is not to make a corrective entry or adjust the database, but to correct the process issue

Today's goal is to help you identify and address commonly seen process issues, so you are not sorting through the proverbial 'box of receipts' at Month End



1. Recap: Month End Reconciliation MasterClass

- Process drives Accounting
- Review Chart of Accounts
 - Job Costing
 - Labor / Burden allocation
- Review Branch and Department setup
- Review Default Extended Accounts
- Month End Reconciliation and checklist



2a. Accounting: Definition and Purpose

- **Accounting:** Systematic recording, reporting, and analysis of financial transactions
- Snapshot of the Organization's financial health, guiding decision-making for management, investors, and regulatory bodies
- **Tax Compliance:** Ensure compliance with tax laws and prepare filings
- **Financial Analysis:** Analyze trends, profitability, and cost structure to inform strategic planning and resource allocation



2b. Cost Accounting

- Captures and analyzes Operational Costs to improve efficiency and profitability
- Calculates Cost of Goods Sold (COGS)
- Ensures compliance and accurate Cost data
- Supports internal decision making and external financial reporting
- Provides data for financial statements
 - Income Statement
 - Balance Sheet
- Meets regulatory and tax reporting requirements



2b. Revenue Recognition

- Amount recognized during a specific period, for the Products and Services delivered during that period
- Q360 uses Expense Ratio as the percent complete methodology (advanced options available)
- Revenue may be recognized before or after Invoices are issued / posted / paid
- Invoice issued and Amount Paid is considered a Liability until Work is performed
- Over / Under Billing: the difference between Revenue Earned and Invoiced Amount

2b. Revenue Recognition – Calculation

- **Projected Revenue:** Contracted Amount with Customer
- **Projected Cost:** Estimated cost-to-complete as quoted
- **Actual Cost:** Actual cost-to-date of Equipment, Labor, etc.
- **Blended Expense Ratio:** Labor + Expense
- Revenue does not represent actual balance of Equipment or Labor performed in the period

$$\frac{\text{Actual Cost}}{\text{Projected Cost}} = \% \text{ Complete}$$
$$\% \text{ Complete} \times \text{Projected Revenue} = \text{Revenue Earned}$$

2b. Revenue Recognition – Calculation Example

- Projected Revenue: \$100,000
- Projected Cost: \$80,000
- Actual Cost: **\$20,000**

$$\frac{20,000}{80,000} = 25\%$$
$$25\% \times 100,000 = \$25,000$$

- Actual Invoiced: \$40,000
- Over / Under Billing = \$15,000 Over Billed
- Project Suspense: Liability **debit or credit** based on over / under state

$$25,000 - 40,000 = -\$15,000$$

2b. Revenue Recognition – Change Orders (ICO / CCO)

- Change Orders document deviations from the original Project plan / estimate
 - Unforeseen conditions
 - Client requests
 - Adjustments during execution
- Maintain accurate tracking for internal reporting, budgeting and forecasting
- Updated Costs and Revenue projections enhance financial predictability and Project reporting

2c. GL Accounts: Control and Temp

- Inventory Clearing:
 - Holds value for Non-Project Inventory that is shipped but not invoiced
- Project WIP:
 - Holds value for Project Inventory used, but COGS is not yet posted
 - At the end of the month, this should always be \$0
- Project Suspense
 - Holds the Over / Under value of Project's earned revenue vs invoiced
- Sales Clearing:
 - Advanced box sales billing
- Inventory Suspense:
 - Holds value for PO received but not yet vouchered

Poll #1: Month End

What does your Month End Reconciliation Process look like? (select all that apply)

- a) Our Accounting Team cleans up quite a few issues every month
- b) We need to regularly call Solutions360 for assistance with back-end fixes
- c) Month End Reconciliation informs us of process concerns that need to be addressed
- d) Month End Reconciliation is a just a tick mark on a checklist for us – no problem
- e) I assume everything is fine because I don't hear anything from Accounting

3. Month End Starting Point

| Month End Reconciliation | | | | | | | |
|--------------------------|-------------------------------------|------------|----------------------|--------------------------|----------------------|--------------------------|------------------------|
| Month End Reconciliation | | | | | | | |
| # | Item | GL Account | Description | Account Balance | Subledger/Schedule | SBL Balance | Difference |
| 1 | Trial Balance | | Assets | CAD\$7,419,817.22 | Liability/Equity | CAD\$7,419,817.22 | CAD\$0.00 |
| 2 | AR Balance | 1100 | AR Account | CAD\$-934,122,959,585.66 | Aged Receivables | CAD\$-934,122,959,585.66 | CAD\$0.00 |
| 3 | AP Balance | 2010 | AP Account | CAD\$-4,068,248.04 | Aged Payables | CAD\$-4,362,988.20 | CAD\$294,740.16 |
| 4 | Serv Cont Deferred Revenue Balan... | 2040 | Def Rev Account | CAD\$6,345,169.55 | Def Rev Schedule | CAD\$974,246.83 | CAD\$5,370,922.72 |
| 5 | Project Deferred Revenue Balance | 2042 | Proj Rev Account | CAD\$-2,035,522,220.54 | Project WIP Sched... | CAD\$-25,630,744.70 | CAD\$-2,009,891,475.84 |
| 6 | Project WIP | 1155 | WIP Account | CAD\$5,561,366,593.77 | WIP Schedule | CAD\$5,561,364,976.77 | CAD\$1,617.00 |
| 7 | Inventory Purchase Suspense | 2030 | Suspense Account | CAD\$-5,569,198,655.49 | Purchase Schedule | CAD\$-5,570,023,826.32 | CAD\$825,170.83 |
| 8 | Inventory Clearing | 1150 | Clearing Account | CAD\$44,448,274,117.09 | Shipping Schedule | CAD\$36,939,707,850.29 | CAD\$7,508,566,266.80 |
| 9 | Inventory | 1110 | Inventory Account | CAD\$16,984,113,428.67 | Inventory Schedule | CAD\$16,983,129,096.80 | CAD\$984,331.87 |
| 10 | Sales Clearing | 2041 | Clearing Account | CAD\$-814,043.59 | Invoice Schedule | CAD\$-780,066.98 | CAD\$-33,976.61 |
| 11 | Fixed Asset | 1505 | Acc. Depreciation | CAD\$-152,506.04 | Fixed Asset Sched... | CAD\$-912,756.88 | CAD\$760,250.84 |
| 12 | Pre-Paid Expense | 1175 | Pre-Paid Account | CAD\$-2,343,918.45 | Pre-Paid Schedule | CAD\$33,700.00 | CAD\$-2,377,618.45 |
| 13 | Project Retention | 1105 | Retention Account | CAD\$149,451.57 | Retention Schedule | CAD\$159,183.84 | CAD\$-9,732.27 |
| 14 | Block Suspense | 2043 | Block Account | CAD\$-1,738,467.28 | Block Amount Sum... | CAD\$-1,321,779.23 | CAD\$-416,688.05 |
| 15 | Vendor Deposits | 1180 | Vendor Deposit Ac... | CAD\$329,845.10 | Vendor Deposits S... | CAD\$59,102.00 | CAD\$270,743.10 |

3. Operations Processes

- PO Receiving
 - Ensures proper Inventory level
 - Supports purchasing decisions
 - Accurately records Liability for “received not billed”
- Picking/Shipping Equipment
 - Ensures proper Inventory level
 - Supports accurate and timely COGS recognition (Projects)
 - Supports purchasing decisions
- Cost Updates
 - Ensure accurate estimation and profits
 - Support accurate Revenue recognition
 - Support accurate forecasting

Strategies:

- Ensure timely PO Receiving
- Review old unreceived POs
- Make sure Line Item Costs are correct

- Ship Orders / Items in a timely manner
- Review old Orders in Queues
- View open Orders against closed Calls

- Create a process to update pricing
- Ensure PO Item Costs are correct
- Use data in Q360 to negotiate

5. Operations Processes – Continued

- Change Order Management

- Adjusts estimates
- Supports accurate revenue recognition, forecasting and cost-to-complete

- Physical Inventory Count

- Supports purchasing decisions
- Supports Sales and Operations equipment needs
- Helps to avoid large write-offs

- Queues

- Purchasing Q
- Pick / Ship Q
- PO Receive Q
- Orders to Invoice Q

Strategies:

- Review Projects before Month-End and revise estimates as needed
- Use feedback loop to update Estimating Team on Project performance
- Organize warehouse in Sections
- Barcode bins for regular Inventory
- Separate Inventory Stock / Project / Service
- Establish weekly / monthly cadence to review and identify Backlog
- Don't just kick the can

3. Operations Processes – Continued

- Time Bill Posting

- Drives Job Costing and Revenue Recognition
- Allocates Labor burden to jobs
- Helps determine hours to complete
- Populates Employee Utilization report
- Moves amount from “below the line” to “above the line”

- Additional Suggestions

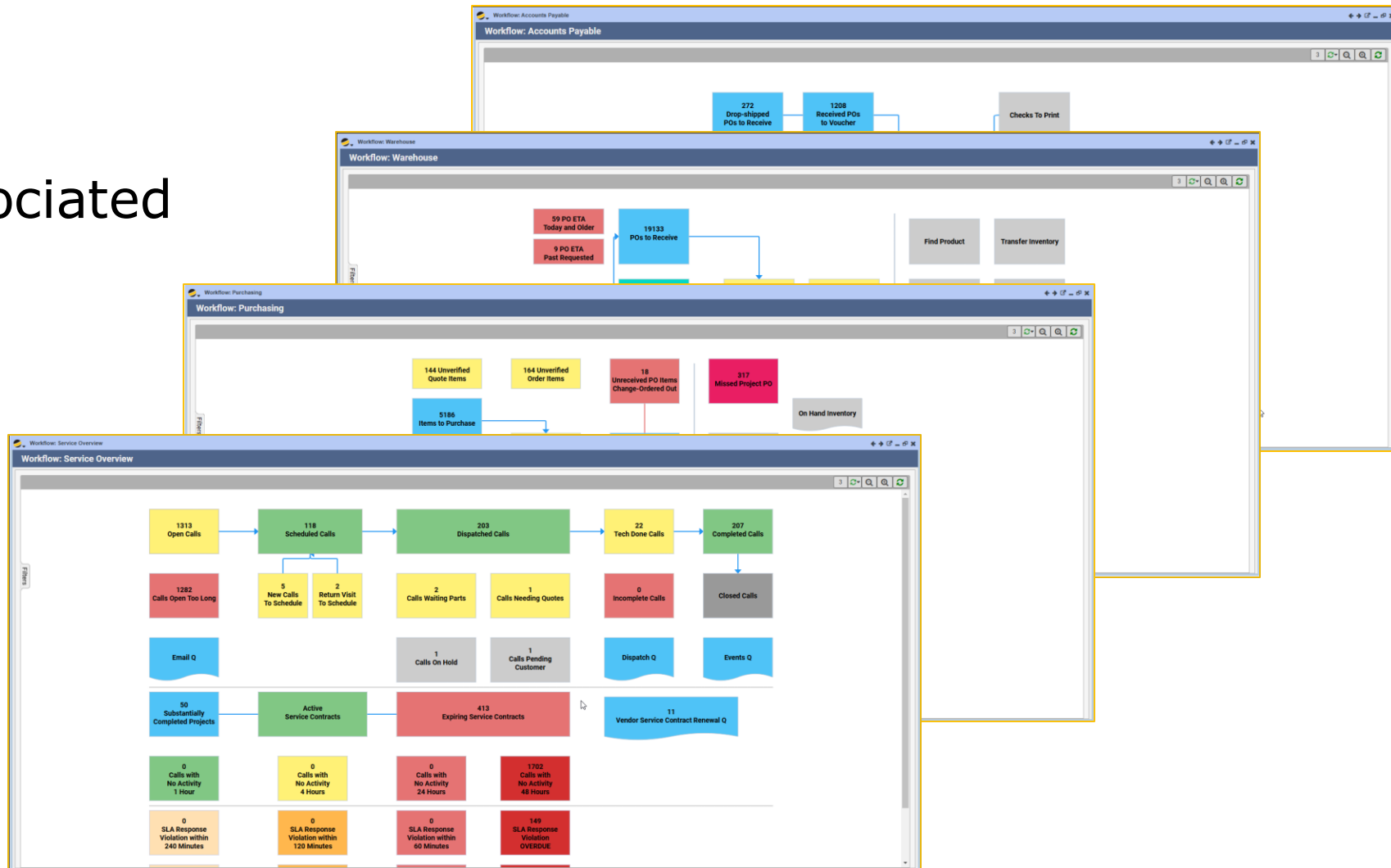
- Have a Month-End check list for each functional area
- Assign responsibility of critical Queues / Workflows
- Establish Departmental cadence for Month-End

Strategies:

- Enter and post Project, Service Call and Pre-Sales Opportunity time bills regularly
- Suggest: Define a hard deadline for time-entry (Daily, Weekly)

4. Reports and Dashboards

- Month-End
- Project WIP
- Workflows (and associated Queues)
 - Service Workflow
 - Purchasing Workflow
 - Warehouse Workflow
 - AP Workflow
 - AR Workflow



5. Summary

- The solution is not to make a corrective entry or adjust the database, but to correct the process issue. Process drives Accounting!
 - Enlist other functional areas in resolving Accounting concerns – Accounting does not exist in a vacuum
- The Accounting Process, Month-End, and reporting all depend on Operational processes
- Regular review of Operational work Queues will help prevent financial surprises
- Well-planned Operational processes will drive faster, more reliable decision making

6. Q&A



Poll #2: Continuous Learning

Would you like to be contacted regarding further Accounting consulting?

- a) Yes
- b) No

7. Wrap Up & References

Q360 > Help > Contents

Q360

Window

Help

Send Email to Customer Care

Contents

Month-end closing

This topic is intended as a checklist for month-end closing procedures.

Month-end closing procedures are driven by workflow processes and tasks to be performed and completed on a monthly basis.

Warehouse

| Task | Month-End Significance |
|--|---|
| Receive POs | - Allows shipping - Allows voucherizing - Sets up COGS to be re-shipped POs |
| Pick and ship equipment / materials from inventory | Sets up COGS to be re-shipped POs |
| Receive RMAs | Recognizes reduction of |

Accounts payable

| Task | Month-End Significance |
|--------------------------------------|---|
| Voucher POs | Allows posting vouchers |
| Create manual vouchers | Allows posting vouchers |
| Generate vouchers from recurring POs | Allows posting vouchers |
| Post vouchers | Recognizes non-equipment including purchase price |

Revenue and cost recognition

This topic introduces revenue and cost recognition in Q360 for the various job types.

- Q360 job types:
 - Projects
 - Service calls
 - Service contracts
- Simple orders not linked to any of the above, sometimes used for "box" sales
- Master types:
 - Assets and quantity type masters (A types and Q types)
 - Labor (L)
 - Other types

Q360 is an accrual, period-based accounting system, as opposed to cash-based method. The difference between accounting lies in the timing of when revenue and expenses are recorded on your accounts. Cash accounting recognizes revenue only when money changes hands. Accrual basis of accounting records transactions for revenue when incurred. In Q360, revenue is recognized on the percent complete method when a product or service is delivered to a customer with the expectation that money will be paid in the future. Expenses of goods and services are recognized when they are incurred, regardless of when they are paid out yet for those expenses.

Cost recognition rules

| Q360 Job Container | Master Type | Cost Recognized When |
|--------------------|-------------|---|
| Project | A, Q | 1. Equipment / materials are marked as shipped[1]; and 2. Projects COGS are recognized (manual or automated nightly) |
| Project | L | Timebill is posted |
| Project | S, M, F, B | Voucher (vendor invoice) is posted |
| Service Call | A, Q | 1. Equipment / materials are marked as shipped 2. Service call invoice is posted |


Report III: Q360 Month End Reconciliation – a Financial Integrity Tool

Report III: Q360 Month End Reconciliation – a Financial Integrity Tool

Part 3 of the Key Report Series: Drill into reports from the Q360 Month End Reconciliation, a financial integrity tool.

In this MasterClass webinar, we explore key month end financial reports users of Q360 should reference as part of month end reconciliation.

This webinar was recorded on March 22, 2023.



Target Audience

- Users in financial roles
- Users of Q360 (all versions) – demos will use v22.02
- Recommended: Attended and/or reviewed past MasterClass webinar sessions in the Key Report series:

Report: Project WIP Template LD

Report: Q0291

This report is a comprehensive tool within the Q360 system designed to provide a detailed overview of project profitability by-project basis. This report offers unparalleled flexibility, allowing users to modify included fields, filter data, and leverage additional functionality through Q360's live data designer. The data is derived from BI (Business Intelligence) data captured nightly, and stored as of the end of each month, providing a view of project profitability.

To view the Project WIP Template LD Report, navigate to Live Data > Live Data Reports > Project WIP – Template LD Report

This report includes Project Coordinators, Project Managers, Operations Managers, and anyone requiring access to review and control project profitability. The report enables users to review project profitability and compare the original budgeted values to projected values and earned values. The design of the report facilitates the creation of purpose-built versions, facilitating the simultaneous review of multiple projects and their cost management.

Types of financial data:

- Budgeted Revenue, Budgeted Gross Profit, Budgeted Gross Margin, and Budgeted Hours. These values are initially based on the original sales order, allowing users to compare the original budgeted values to projected values and earned values. Configurations may include change orders in the budgeted column, and change orders in the budgeted column on the project > profit tab.
- Projected Revenue, Projected Costs by type, Projected Gross Margin (compared to the prior period), Projected Hours, and Warranty/Deferred Revenue. Projected financials are based on the original sales order, and linked orders to the project.
- Earned Revenue, Earned Costs by type, Earned Gross Margin, Earned Gross Profit, and Earned Hours. These values are based on posted time bills for labor and shipped material with both COGS (Cost of Goods Sold) and COGS.

Information, the report includes the following columns:

- Project-related organizational information
- Specific details identifying the project

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How Business Processes Impact Accounting



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