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Internal Costs in Agencies - How to Best Handle Them With a Job Costing System

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Integrated Job Costing and Accounting systems will usually have straight forward functions to account for fee time spend on jobs and to record third party costs on jobs. One of the issues often not integral to a system, that comes up again and again when implementing new systems is the ability to track internal costs incurred against jobs. For postage and courier costs, that were historically also often treated as internal overheads and not allocated to individual projects, it has in most agencies been good practise in more recent times to attribute them to individual jobs. Doing so is quite easy as there will be franking machine/postal receipts or external invoices coming in. These costs can thus, on a line-by-line basis, be allocated to projects. It is more difficult for costs, that don't come with a receipt, when incurred on a job:

Fax, phone and other telecommunication costs such as ISDNs, that have in the past played a big part in particular where international work was undertaken have nowadays a smaller impact, as a lot of the communication can be performed via unrestricted internet connections and voice over IP. Colour laser printouts, plottings and dvd or blue ray media production costs on the other hand, amassed during work on a project can significantly influence the profitability of a job. Although these costs might - viewed individually - account for only a small part of the total value of a job, looking at them in total and over the live time of a bigger project, they often represent a considerable factor of the profitability of the work. This is even more important in the current credit crunch climate.

So, what is the best way to get those costs into the job costing system? For some internal costs, in particular printing costs, depending on the hardware used, the cost recording might happen via the printer and be loaded into the job costing system electronically. If that is not possible a different solution needs to be found:

One way practised by some agencies, is to setup dummy internal cost suppliers and treat these costs like purchase invoice costs. The disadvantage of that is, that the users most likely to incur these types of costs during their project work, the creatives, would need to be enabled to have access to and training for purchase entry programs and might find it a difficult and cumbersome task to have to create a manual purchase order record whenever they for example run a colour laser printout. Some systems will also require a different software access level at a higher price where cost recording in addition to fee time recording is desired.

Other companies have sometimes setup different rated "types of time" for different costs and asked their users to not only enter e.g. two hours of production type time against a job but also 10 "hours" of "A3 colour laser type time" for the number of A3 colour laser pages they run out, where a fixed price is assigned to every one of those "hours". A manual accounting journal then transfers the value of this "time" from the e.g. office consumables overhead account to the job, it was used for. Although this procedure will produce the desired end results it is again only a workaround and not an ideal and user-friendly way to achieve the goal.

The best solution seems to have been come up with by systems that give the creative users access to a non-purchase-order cost recording tool, where they are able to add the number of different types of predefined costs to a job, often at the same time when they record their own time. Thus, there is no additional purchase training required nor is there a need for more expensive purchase entry software licences. At the same time there is a very clear

differentiation between the recording of - to stay in the above example - two hours of production time, plus 10 pages of A3 colour laser costs. In accounting terms the costs are then automatically treated by the software in a predefined way journalising them from the overhead cost area into the cost of sales area without any additional user interaction required.

Although this solution stems back from the time of paper based time recording where there was a column on the timesheet to record costs in addition to one's time, it still proves the most user friendly and work effective way to achieve the purpose in today's computerised environment. Agencies that have implemented such a procedure, have not only experienced a huge user acceptance in the creative department, but - depending on the types of projects they are engaged in - an improvement in cost reporting, budgeting and overall profitability at no extra software cost.

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Volker Bendel is manager of the training department of Agency Software Worldwide, the producers of the "Paprika/Rebus" job costing software (<http://www.paprika-software.com>) (<http://www.rebus-software.com>). Originally from a legal background, he has several years experience in planning and implementing Job Costing and Accounting Software Systems in the Creative Industry. He has also delivered training courses in the UK, Europe, Dubai, the US, China and Australia. Prior to that he worked as a senior business consultant in Hong Kong and as a department manager of a design department in Hong Kong.

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