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Management Accounts and Job Costing Systems - How Much Detail Do You Need?

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Creative businesses that implement an integrated job costing system often have vast lists of GL accounts. The reason for that is that historically as they have only had an accounting system, any easy to access analysis had to be done based on this accounting system. Therefore it is not uncommon to have an account for each client, sometimes even for each job or at least for the type of income (e.g. fee or recharged cost) for each client. This enabled the management to easily and quickly ascertain for example how much fee income a particular client account generated for the business in a certain period of time. Although this system works fine from an interrogation point of view it also means that there are usually many "dead" account codes on the system as for example past clients are no longer clients at present.

The introduction of the integrated new job costing system will enable the business to have fewer GL codes and get all the analysis regarding client turnover etc. from the job costing side of the software. However, as the system is fully integrated, it has the potential to also post details through to the GL accounts. A question that then often comes up is: How much of that job costing information does need to be mirrored on the accounting level?

Being used to rely on the GL to get all the detailed analysis about the business, it requires a big change of mind to let go those accounts and trust that the same information can be obtained from the job costing system. On the other hand - despite knowing that most of the details will be recorded and can be analysed on the job level - it may still considered desirable to get details to some extent in a traditional accounting report format like the GAAP income statement, that is required for reporting anyway. But how much should be in there?

A very basic ledger might just have revenue and selling expenses. A more complex one might have fee income, recharges income, cost of sales and direct costs to arrive at the gross profit. Any more details are then accessed via job reports.

Many businesses on the other hand decided to have a little bit more details on the accounts and analyse it down to the level of revenue streams and cost types, e.g. design fees, management fees, support fees and cost of print, cost of couriers, cost of freelance design. In some companies, where there are different teams that may run their own jobs, it is then even possible to get profit and loss reports by department or team.

This last solution with income and cost types on the GL appears to offer the best value from the new integrated system. Anybody who looks at the business's accounts and income statement from a pure management or auditing point of view gets a snapshot of information regarding the performance of the enterprise without knowing all the job details of it. If those details are required, the management report is backed up easily by the project management reports. In bigger companies and corporations it also provides a good way to give shareholders an understanding of the business without giving them access to all the project management details.

© 2008 Volker Bendel - 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

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