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Out of Pocket Expenses As a Job Cost

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One of the points quoted by many agencies, when asked what difference their new integrated job costing system has made to their business, is an increased transparency of costs on projects. Prior to having the new software they had to wait for purchase invoices to come in and then manually allocate them to the jobs they were used for. With the new system costs are recorded to jobs when they are ordered*, thus giving a better insight in how they are spread over different jobs at a much earlier point in time.

This system will work fine for costs that are ordered from outside. But what about costs incurred on jobs, not from an outside source? What about out of pocket expenses incurred by members of staff working on jobs? Traditionally, where a pure accounting system without integrated job costing was used, expense claims have been raised outside of the accounts software on manual expenses sheets or on spreadsheets. After having checked them some finance departments would then post them as bank journals to an overhead account (e.g. staff subsistence) or allocate the costs to different cost of sales codes (e.g. client entertainment, rechargeable taxi etc). Others would set claimants up as suppliers on the system and enter their expense claim form as a purchase invoice. At this point different receipts would be allocated to different cost of sales or subsistence accounts and payment would either happen in form of a one-off reimbursement or added on to the payroll at the end of the month.

Having a new integrated job costing system offers a completely different approach for recording those costs. Rather than the finance team having to enter them on to the system, the claimants themselves are able to enter their claims straight into the job costing software. As long as they are setup as suppliers on the system they can create a PO and submit that together with their receipts to the accounts department for processing. It is much easier for them than for the finance team to allocate their receipts to the right jobs. This way there is a much improved visibility of project costs much earlier.

If - in addition - the system is able to offer an interface for out of pocket costs different from the normal purchase order interface that allows to print an expense claim form to which receipts can be stapled and that is linked into an electronic approval procedure, even better. There won't be any reluctance from staff members to use this system-integrated PO or expense claim procedure to record their costs as this administrative work replaces the expense claim sheet they used to use and therefore there is no duplication of administrative work for them. They also realise that this is the basis and the trigger for them to get reimbursed and that by saving the finance department to re-enter all the expense claim details the whole process of reimbursement will be accelerated. The payment procedure will be smoother as well as in system terms an expense claim will after it's approval just become another supplier invoice. The settlement of this invoice can be undertaken as part of the normal payment run and automatically print a cheque or create an electronic bank transfer file.

Agencies who have introduced such an expense claim procedure as an integral part of their job costing system, have not only found that it was well received by staff members, but also that it massively increased the cost transparency on their projects. More out of pocket costs have been allocated to jobs allowing the agency to recharge them to clients and therefore the amount of costs having to be swallowed as overheads has been reduced. SMEs have experienced savings of several hundred dollars per month, whilst for bigger practices with more staff members claiming expenses, savings have been even bigger, making the integrated expense claim a small but

valuable tool in the struggle against the credit crunch.

* (see <http://www.volker-bendel.co.uk/articles/Electronic%20Purchase%20Order%20System.html>)

© 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> . 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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