The Concept of "Work in Progress" in the Creative Industry - Part 2/2

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Recording and tracking the value of Work in Progress is not as straight forward as recording and tracking the value of material stock. Materials in the manufacturing or retail industry are commonly delivered with a delivery note, making it easy to register their arrival in the warehouse and their value on the stock account. Once they have been "counted in", regular inventory procedures ensure that they are valued at the correct amount taking into account the use of goods for production or other purposes (e.g. in-house), shrinkage or deterioration. They are then "counted out", when they have been used for the final delivered product of manufacturing or when they are sold on.

In the Creative Industry as in other service based industries, with work in progress being a non-material value, delivery notes are usually, inventories are generally out of question.

The one thing however that incorporeal WIP and material Stock bought-ins have in common is a purchase invoice. Yet even a vendors invoice does not necessarily mean that those values are still work in progress as the final service they are being used for (e.g. an advertising campaign) might have already been invoiced to the customer, creating income.

Many businesses therefore record any incoming purchase invoices as costs straight away and the finance department does regular (monthly) manual adjustment journals between work in progress and cost of sales depending on the sales turnover value for the same month. Ideally records of which projects the costs have been incurred for will enable them to base their adjustments on an allocation of costs and turnover for the same projects. Even if the latter allocation is applied a lump-sum-adjustment-journal is not a scientific way to link the right costs to the right revenues. If at any time a report is required detailing which projects have which potential costs sitting in work in progress at a specific point in time, this cannot easily be seen from the journal entry. A further interrogation of the job bags or other records on which the journal was based is necessary.

A different approach is undertaken by other companies. They calculate for WIP in exactly the opposite way: Every incoming project related invoice is by default treated as work in progress. Adjustment journals out of work in progress to cost of sales are made when these costs are charged on to the client. If AR invoices have already been issued for costs and cost of sales accruals have been generated, then incoming purchase invoices are processed straight through WIP into cost of sales reversing the previous accruals at the same time.

This second approach tends to be a more scientific way to calculate the profit (or loss) of the enterprise at any given time. Comparing it back to stock and warehouses, when materials are involved, it also seems to be a much more natural way to account for costs of ongoing work. Where integrated project management, job costing and accounting systems are in place, this may even be an automated procedure working on a job by job basis with the added convenience that incoming AP invoices that relate to more than one job will be correctly allocated to either WIP or Cost of Sales depending on the state of the respective job. Businesses who have opted for the second approach and have implemented software solutions to deal with it have found that they improve their reporting, from the project status reporting to the reporting of invoice scheduling right through to the management profit and loss report. They can at any point in time get an analysis of their WIP, cost of sales and hence profit without having to go through paper records or spreadsheets to get detailed information. Along with the improvement of the reporting accuracy comes for most of these enterprises better scheduled workflow and a better profitabilitiy in the short and long term.

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