

BUSINESS GUIDE

Project Accounting: Effectively Invoice Clients for Better Cash Flow and Customer Experience





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The success of a project in a services-based business depends on accurate time and expense inputs, billing rules, workflows and processes. Inaccuracies introduce billing errors and those, no matter how large the project, are bad for business. These mistakes damage customer relationships, impact your reputation and put future business at risk. Inaccurate or late billing also results in delayed or disputed payments, which impacts cash flow—something many businesses already struggle with.

Knowing the correct amount to bill isn't always easy. Billing for projects with multiple deliverables spread over weeks, months or even years requires detailed

project tracking. Keeping an accurate record of tasks completed, hours worked, pass-through costs and other details is essential whether your invoicing is based on milestones, completion percentage, fixed fee, or simply billing for time and materials.

Companies in industries like consulting, software, engineering, construction and other services-based and project-based organizations, where project billing is common, can find this process especially challenging when employees are working in simple spreadsheets or when project and financial systems are disconnected.



Common Billing Challenges

Project Tracking and Visibility

Projects require frequent reporting to ensure they are on track financially and meeting contract-specific billing deliverables. In a project-based organization, contracts can range from fixed price, time and materials, not-to-exceed, retainer-based or even a combination of several. The billing, if executed using an entry-level project application or spreadsheets, can be the primary cause of why projects run over budget and why project managers don't have a clear understanding of project status. As a result customer invoices can be error-filled or delayed. Manual processes also introduce discrepancies with project tracking and data entry. The countless hours spent running through line items and calculations in spreadsheets to reconcile month-end close, or the administrative work that comes with fixing errors at the completion of the project can become a burden.

Establishing a single data source is difficult for many companies, because they're operating their business with multiple, disconnected applications. For example, when a project manager updates a project management application but fails to make corresponding changes to a different application that manages project financials like added costs or utilization, the effects of that missing financial information can snowball. This ultimately leaves finance and operational teams that may be tracking the project budget with unreliable information, leading to an unrealistic view of project health.

Project managers and financial leaders need to work together with clearly defined processes to better track the time and expenses that go along with working tasks and completing projects. To provide this level of detail, companies must

Project Accounting

Project accounting focuses on the financial transactions related to managing a project: This includes project costs, billing and revenue. Project managers and accountants rely on those financial transactions and metrics to evaluate and measure the project's progress and success, and to inform stakeholders on direct costs, overhead costs and any revenue generated.

maintain an accurate record of all project activities throughout the project lifecycle. This requires careful tracking, a time-consuming activity. While challenging, recording project details consistently can pay huge dividends. Otherwise, managers will waste time trying to correct and fill in the missing pieces, leading to wasted resources, unbilled hours and more risk.

Revenue Recognition

Detailed project records are also essential for accurate revenue recognition. Under U.S. and international accounting standards (ASC 606/IFRS 15), revenue from contracts should be recognized as each performance obligation within the contract is completed. Public companies are required to comply with these standards and investors and creditors of private companies often expect it as well.

As with billing discrepancies, decision over the timing of revenue can lead to serious disagreements. And in the case of public companies, recognizing revenue before it has been earned can result in legal penalties. Because of this, auditors pay extra attention to how and when contract revenue is recognized.

Manual Billing Processes Are Bad for Business

As important as project tracking and visibility is, both for project billing and revenue recognition, many companies still struggle to maintain accurate records due to manual data entry, whether it's into spreadsheets or disconnected entry-level applications or both. These billing discrepancies can also stem from not setting up projects correctly with proper processes in place, like approval chains and workflows, or from long hours spent entering and re-entering project and financial data.

Manual billing typically requires numerous calls and emails between accounts receivable and project management to ensure invoices are accurate, wasting time and delays the billing process.

It's also error-prone. If timesheets and expenses are not accurately recorded into the project, unreported

costs can add up, especially if someone misses a large expense from a vendor or overlooks a block of time. If this mistake is made by a billing administrator reading a timesheet or expense report half-filled out or inaccurately represented, a client may be charged for too many or too few hours. This discrepancy can cause an invoice to be rejected, delaying payment and potentially holding up the project, and damaging the customer relationship.

While spreadsheets may seem easy to keep up with, they're also easier to modify. A minor change to a single formula can affect project billing and revenue recognition schedules. And because spreadsheet formulas are typically hidden, the change may go undetected for weeks or months. Once discovered, fixing such a problem means issuing customer credits and potentially restating earnings.



Connect and Automate Project Activity and Accounting With NetSuite

NetSuite overcomes these challenges with comprehensive bid-to-bill solutions that automate project tracking, time and expenses, resources and revenue recognition.

NetSuite's cloud-based Professional Services Automation (PSA) solution gives you complete visibility into current project status and completion percentage, forecasts and budgets, billing milestones and other details in real time.

Updates are automatically made as the project progresses, so that organizations can accurately invoice customers at the right time. NetSuite PSA makes it easy to maintain an accurate and up-to-date record of all project time and expenses utilization and statuses, minimizing revenue leakage, and produces accurate and timely project invoices that connect to the general ledger.

With NetSuite, project accounting processes are fully integrated with accounting and PSA,

eliminating the back-and-forth exchange of information and manual data inputs so that AR staff have direct access to the data they need for timely, accurate billing. And, because NetSuite PSA provides a comprehensive record of all project activity, finance and operations teams share a unified source of data and customers are less likely to delay payment, which improves cash flow and customer service.

Additionally, NetSuite's Advanced Revenue Management feature is designed to handle complex revenue allocations, to ensure project revenue is recognized accurately and in compliance with current accounting standards (ASC 606/ IFRS 15). Revenue managers can create custom rules, so revenue is recognized according to the unique schedule, contract or requirements of each unique project.

NetSuite connects accounting processes with project management activities for improved project tracking, timely and accurate progress billing, and automated revenue recognition.

