

WHITE PAPER

Progress Billing

Effectively Invoice Clients so You Get Paid





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Getting billing right is critical because the stakes are so high. Billing errors are bad for business. They damage customer relationships and can hurt your reputation. They also result in delayed payments, which impacts cash flow—something many businesses are already struggling with.

But 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 based on completion percentage, at designated milestones or simply billing for time and materials.

Companies in construction, engineering and other services-based industries where progress billing is common, can find this process especially challenging.

Common Billing Challenges

Project Tracking and Billing

Contracts that include progress billing agreements pose several unique challenges. It's important to make sure all parties to the agreement fully understand the work that is being performed and what the billing criteria are. This information should be included in the contract. To reduce the

risk of billing disputes, frequently review project deliverables and billing milestones with the customer.

Even with regular reviews, getting customers to approve invoices and pay them on time is never easy. Minor invoice discrepancies can lead to major disputes that stall projects in their tracks. These situations can be avoided by providing a detailed description of every charge on the invoice. Depending on the billing criteria, this may include a list of completed tasks, the number of hours worked by each resource assigned to the project and/or an itemized list of all passthrough charges.

To provide this level of detail, companies must maintain an accurate record of all project activities. This requires careful tracking, a time-consuming activity that clients aren't necessarily willing to pay for. As a result, the job often falls on the project manager, or in some cases a project accountant.

While challenging, recording project details consistently can pay huge dividends. It can be used to demonstrate that the work required to complete a billing milestone has been performed or to determine what percentage of a project has been completed.

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, revenue timing decisions 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 Processes Are Bad for Business

As important as project tracking is, both for progress billing and revenue recognition, many companies still struggle to maintain accurate records due to manual, paper-based process and inefficient spreadsheet applications.

Paper records were once a staple of project management. Handwritten timesheets, printed invoices and receipts, project updates and myriad other documents would be organized in project folders and filing cabinets. This approach, which some companies still use, has many flaws.

First, printed documents are easily lost or misplaced. If the only version of an important file goes missing, the information it contained may be gone forever. Misplacing a vendor invoice can lead to missed payments, late fees and delay receipt of critical materials. And while losing a receipt for a few dollars might not be a problem, losing one for a large purchase can result in hundreds or thousands of dollars that can't be billed to the client.

What Is Progress Billing?

Progress billing, also referred to as phased billing, is the process of invoicing customers for a portion of the work completed for a larger project during a given time period. This billing model is often used for long-term projects and can be structured in a number of ways. Examples include invoicing customers based on the percentage of a project completed during the billing period or for reaching specific project milestones.

Manual, paper-based project tracking is also time-consuming and error prone. Not everyone writes clearly, for instance, and sloppy handwriting can lead to miscommunication. Someone's quickly scrawled "1" may look like a "7" to another person. If this mistake is made by a billing clerk reading a timesheet, a client may be charged for too many hours. This minor discrepancy can cause an invoice to be rejected, delaying payment and potentially holding up the project.

Many companies now use spreadsheet applications to track project costs, progress and other details. While eliminating paper forms is a good start, relying on spreadsheets is still a manual process with many of the same (or similar) problems. Instead of errors being caused by sloppy handwriting, sloppy data entry is the culprit.

While spreadsheets may be easier to keep up with than paper documents, 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

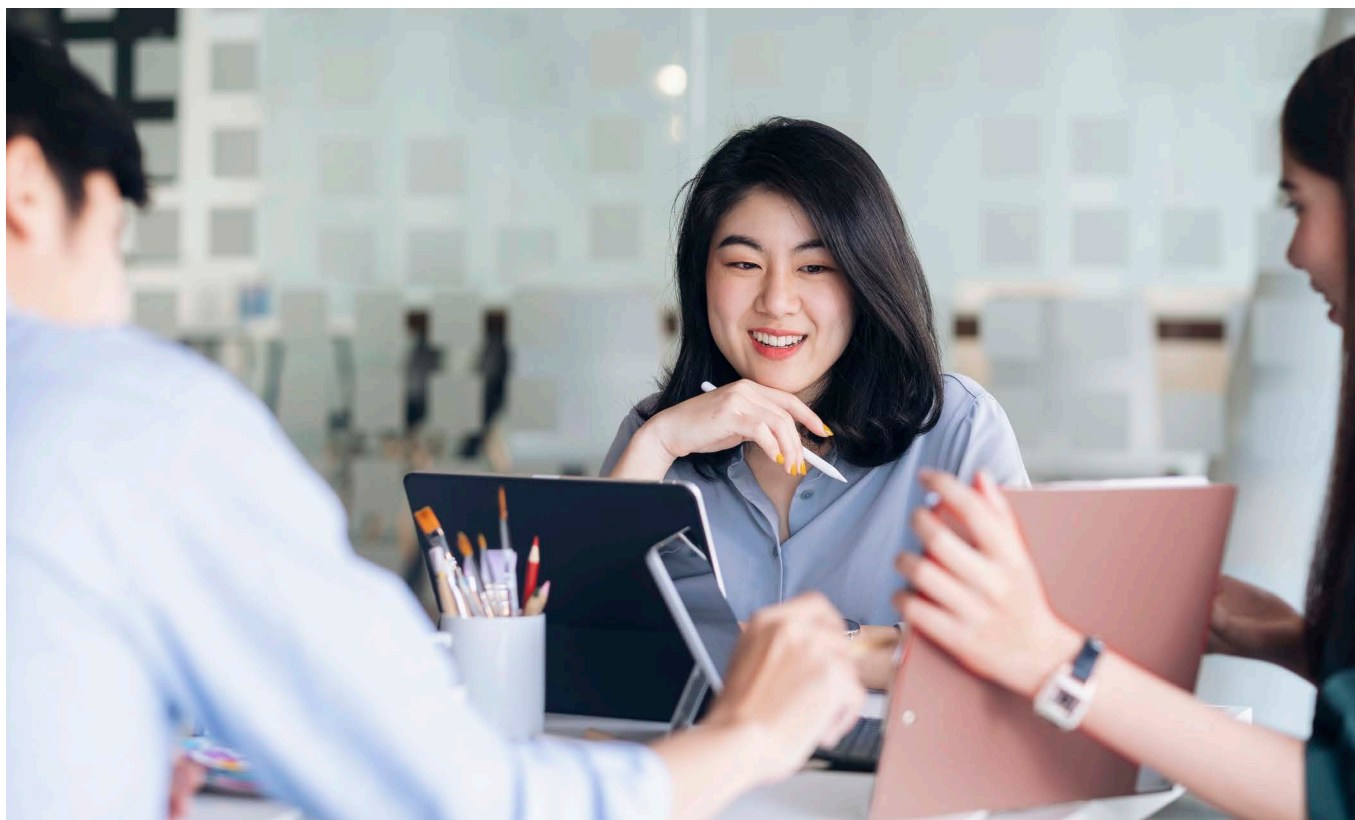
NetSuite overcomes these challenges with a comprehensive solution that automates project tracking, billing and revenue recognition. NetSuite's cloud-based platform gives you complete visibility into current project status and completion percentage. Track budgets, tasks, costs, billing milestones and other details in real time. NetSuite makes it easy to maintain an accurate and up-to-date record of all project activity.

Manual billing typically requires numerous calls and emails between accounts receivable and project management to ensure invoices are accurate. This wastes time and delays the billing process. With NetSuite, project management is fully integrated with accounting, saving time by eliminating the back-and-forth exchange of information. AR staff have direct access to the data they need for timely,

accurate billing. And because NetSuite provides a comprehensive record of all project activity, customers are less likely to delay payment, which improves cash flow.

NetSuite project accounting and management capabilities work with NetSuite Advanced Revenue Management, functionality designed for 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 and requirements of each project.

NetSuite provides a unified platform that connects company accounting processes with project management activities for improved project tracking, timely, accurate progress billing and automated revenue recognition.





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