

Method 2 - FP Revenue Recognition "% Complete" - Example 2 - DETAILED

Percentage of estimated labor (forecast via Unanet plans)

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Overview

This is a best practice if fixed price projects recognize revenue based on milestone delivery. This process supports a variable recognition of revenue based on the estimation of labor (Unanet plans) applied to the project over time. Recognized revenue will adjust in accordance to how resources are loaded on the project and project tasks.

Definitions

To understand how to configure and manage fixed price projects, the project manager must be familiar with a few elements of the Unanet product.

- A Financial Post will record a point in time record of key task attributes, including period of performance dates and cost budgets.
- **Fixed Price Element** - A fixed price element represents a fixed price dollar value associated with a task. This document addresses customers that recognize revenue associated with fixed price elements based on the % Complete of the associated task. For example, if a task is 50% complete and a fixed price item associated with that task is \$1,000, the recognized revenue is \$500.
- **Labor Plan** - A labor plan in Unanet is the soft-booking forecast in hours of a resource (person) to a task.
- **Expense Plan** - An expense plan in Unanet is the allocation of non-labor costs to a project over a specified period of time. Travel expenses for the month of January are an example of an expense plan.

Step 1 - Project Setup

There are a number of project attributes that must be set to enable fixed price projects. This section describes how to configure fixed price projects.

Billing Type

The Billing Type for the project is set to FP for fixed price projects (select from the dropdown menu). (**Project > List > +Project link > Accounting tab**)

Project Budget Completed Percent

Determine the method you wish to use for completed percent, whether manually input by the project manager or estimated automatically by the system. *Often this is set to "Total Cost," which is how the example below has been structured.* Note that this may also be set up at the task level.

COMPLETED DATE: 12

COMPLETED PERCENT: Estimate from **Total Cost** ▼

PROJECT DATES:

When the COMPLETED PERCENT field is blank, Unanet will estimate based on what is chosen from the dropdown menu for the *Estimate from* field. If the COMPLETED PERCENT field is populated, the *Estimate from* setting is ignored.

Profile **Budget** Accounting Access

COMPLETED DATE: 12

COMPLETED PERCENT: Estimate from **Total Cost** ▼

PROJECT DATES:

Tasks

Tasks are created to represent deliverables for the project. For each task, the Begin and End dates, total labor, and expense cost budgets are set. It is critical to set each of these attributes because they are used to calculate when and how much of the fixed price revenue is recognized.

Projects – Task List for CUSTOMER-1 FP-DEMO

Search **List** [Save Criteria](#)

					REV. BEGIN DATE	REV. END DATE	LABOR COST BUDGET	EXPENSE COST BUDGET		
					1. Deliverable 1	Y	10/1/2019	10/31/2019	9200	2000
					2. Deliverable 2	Y	11/1/2019	11/30/2019	8400	1000
					3. Deliverable 3	Y	12/1/2019	12/31/2019	8800	3000

Total Rows: 3

Dependent task dates are displayed in light gray text.

Fixed Price Items

One or many fixed price items may be associated with each task based on the terms of the contract. These elements are configured to recognize a percentage of the revenue as the task is worked. The amount recognized at any point in time is calculated as the amount of the fixed price item multiplied by the % Complete of the task. The % Complete of the task is calculated as the cost incurred for the task divided by the total cost budget for the task. Costs incurred are calculated from a summation of labor and expense costs. These costs are derived from timesheets and expense reports for actual costs and labor plans and expense plans for forecasted costs.

For example, if John Smith's hourly rate is \$50/hour and he works for 10 hours, the total labor cost is calculated as \$50 * 10 or \$500. If John Smith also incurs travel costs of \$400, the total cost for his labor and expenses is \$900. John may also be forecasted to continue to work on the project for future weeks. Costs are derived from the labor and expense plans and added to the actual costs to determine future percent complete.

In the following example, note how the actual costs from the first two weeks of October (blue) are added to the forecasted costs from the last three weeks of the month (yellow) to contribute to the calculation of % Complete. Assume the total cost budget for the task is \$10,700.

	Actuals from Timesheets and Expense Reports		Forecasts from Labor and Expense Plans		
John Smith	Oct 1 – 6	Oct 7 – 13	Oct 14 – 20	Oct 21 – 26	Oct 26 - 31
Hours	32	40	40	40	40
Cost @ \$50/hr	\$1,600	\$2,000	\$2,000	\$2,000	\$2,000
Travel	\$100	\$300	\$200	\$100	\$400
Total	\$1,700	\$2,300	\$2,200	\$2,100	\$2,400
% Comp Calc	\$1,700/\$10,700	\$4,000/\$10,700	\$6,200/\$10,700	\$8,300/\$10,700	\$10,700/\$10,700
% Complete	16%	37%	58%	78%	100%

Create Initial Budget Snapshot (if needed)

It is not required to take budget snapshots to forecast revenue, if you follow the steps in the parent page of this guide [Method 2 - FP Revenue Recognition and Forecasting - "% Complete](#). Before deciding to use budget snapshots, you should note that once you use budget snapshots, you will need to continue using budget snapshots for the life of the project. Budget snapshots also can only be performed one project at a time. Depending on how many fixed price projects you have, and who you would like to control revenue recognition, you may opt out of using budget snapshots.

The budget snapshot identifies a point-in-time record of task dates and budgets. A snapshot is taken at the beginning of the project and again at the end of every month to record the changes in either the task dates or task budgets.

1. Edit the project. Select **Budget Snapshots > Add** from the left menu.
2. In the *Effective Through Date* field, choose the first day of the project for the initial snapshot.
3. Select the check box for *Task* under METRIC TO SAVE.
4. Click **Snapshot**.

Note: Navigate to **Budget Snapshots > Manage** to search for and list existing snapshots.

Step 2 - Creating Your Labor Forecasts

Labor and expense forecasts are created using the planning grids. The forecasts establish future anticipated costs on the project and are used to automatically calculate future % Complete on task milestones so that future revenue can be determined. You may recall from the **Fixed Price Items** section above that % Complete is calculated by dividing accumulated costs on task deliverables by the total budget for those tasks. Unanet has the ability to calculate % Complete from actual costs against budget or a combination of actual and forecasted costs against budgets.

In the simple example below, the budget for the task deliverable is \$500. The task is scheduled to run for 5 weeks and we have just completed the second week of the project (blue section of the table). For the two first weeks, we have incurred \$100 a week against a total budget for the task of \$500. Since weeks 3, 4, and 5 (yellow) are in the future, we can leverage the forecasted or planned costs to calculate future % Complete.

	Actuals from Timesheets and Expense Reports		Forecasts from Labor and Expense Plans		
Period	Week 1	Week 2	Week 3	Week 4	Week 5

Cost for Period	\$100	\$100	\$100	\$100	\$100
Total Budget	\$500	\$500	\$500	\$500	\$500
% Complete	20%	40%	60%	80%	100%

Create the forecast using the planning grid for labor and expenses. Your goal is to create the plans to represent the anticipated costs on the project. While planning in the grid, you will have another tab open that displays the forecasted costs on the project. Prior to beginning the planning process, you should have an idea of total anticipated costs based on how the contract is structured. The figure below shows the planning grid for a project titled FP-DEMO for three deliverables, "Deliverable 1, 2 and 3." The people - "Person One, Two and Three" - are planned on each of the three tasks over the three month duration of the project.

Projects – Grid Planning for CUSTOMER-1 FP-DEMO

Search **Plan**

[Save Criteria](#)

Plan Set: Baseline (v1) - active
Plans for: October 2019 – December 2019 (528)

	OCT-19 (184)	NOV-19 (168)	DEC-19 (176)	TOTAL (528)
<input type="checkbox"/> PERSON				
<input type="checkbox"/> PERSON, ONE				
<input type="checkbox"/> 1. Deliverable 1	92			92
<input type="checkbox"/> 2. Deliverable 2		84		84
<input type="checkbox"/> 3. Deliverable 3			88	88
<input type="checkbox"/> PERSON, THREE				
<input type="checkbox"/> 1. Deliverable 1	184			184
<input type="checkbox"/> 2. Deliverable 2		168		168
<input type="checkbox"/> 3. Deliverable 3			176	176
<input type="checkbox"/> PERSON, TWO				
<input type="checkbox"/> 1. Deliverable 1	138			138
<input type="checkbox"/> 2. Deliverable 2		126		126
<input type="checkbox"/> 3. Deliverable 3			132	132
Total	414	378	396	1188

Additional details can be entered for one or many cells by double clicking on a single cell, a row or column heading or the column label in the upper left.
 Number of periods to shift selected items left or right:

The costs associated with the planned resources are viewed by running the Periodic Cost Summary and Status report. Note the impact of the planned hours in the grid above on the labor costs as they accumulate on the project in the report below.

Project Periodic Cost Summary & Status

Run Date: 2/19/2020
 Cost Report Name: Default JSR
 Current Period: 10/1/2019 - 12/31/2019
 Using Provisional Rates
 Plans
 Reporting on Active Plan Sets

Project Owning Organization: MYCO **Project Date Range:** BOT - EOT **Fee Factor:** —
Project Organization: CUSTOMER-1 **Project Manager:** Controller, Frank T. **Fee Calculation Method:** —
Project Code: FP-DEMO **Project Lead:** — **Status:** 2-Open
Project Title: — **Total Project Value:** — **Condition:** Green ●
External System Code: — **Funded Value:** — **Billing Type:** FP

		CURRENT PERIOD			TOTAL 10/1/2019 - 12/31/2019	PRIOR FISCAL YEARS BOT - 9/30/2019	FUTURE FISCAL YEARS 10/1/2020 - EOT	TO-DATE BOT - 12/31/2019	TOTAL			
		OCT-19 (184)	NOV-19 (168)	DEC-19 (176)					ACTUALS & ALLOCATED BOT - EOT	BUDGETED	BACKLOG	UNALLOCATED BUDGET
Direct Labor	Plans	9,200.00	8,400.00	8,800.00	26,400.00	0.00	0.00	26,400.00	26,400.00			
Subcontractor Labor	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Labor Total	Plans	9,200.00	8,400.00	8,800.00	26,400.00	0.00	0.00	26,400.00	26,400.00	24,600.00	(1,800.00)	(1,800.00)
Total Hours Worked	Plans	414.00	378.00	396.00	1,188.00	0.00	0.00	1,188.00	1,188.00	0.00	(1,188.00)	(1,188.00)
Average Labor Rate	Plans	22.22	22.22	22.22	22.22	—	—	22.22	22.22			

Step 3 - Creating Your Expense Forecasts

Similar to labor forecasts, expense forecasts are created using the expense planning grid. Your goal is to create the plans to represent the anticipated expense costs on the project. While planning in the grid, you will have another tab open that displays the forecasted expense costs on the project. Prior to beginning the planning process, you should have an idea of total anticipated costs based on how the contract is structured. The figure below shows the planning grid for a project titled FP-DEMO for three deliverables, "Deliverable 1, 2 and 3." Travel expenses are planned on each of the three tasks over the three month duration of the project.

Projects – Expense Grid Planning for CUSTOMER-1 FP-DEMO

Search **Plan** Summary

Save Criteria

Plan Set: Baseline (v1) - active
Plans for: October 2019 – December 2019 (528)

TASK	EXPENSE TYPE	DESCRIPTION	OCT-19 (184)	NOV-19 (168)	DEC-19 (176)	TOTAL (528)
1. 1. Deliverable 1	Travel - General	Travel Expenses	2000.00			2000.00
2. 2. Deliverable 2	Travel - General	Travel Expenses		1000.00		1000.00
3. 3. Deliverable 3	Travel - General	Travel Expenses			3000.00	3000.00
4.						0.00
Total:			2000.00	1000.00	3000.00	6000.00

Entries linked to Project/Task Dates or entries that do not align with the selected period ranges are not editable.
Number of periods to shift selected items left or right: 1

Save **Budget** **Shift Left** **Shift Right**

The costs associated with the planned expenses are viewed by running the *Periodic Cost Summary & Status* report. Note impact of the expense costs in the grid above on the same costs as they accumulate on the project in the report below.

Project Periodic Cost Summary & Status

Run Date: 2/19/2020
Cost Report Name: Default JSR
Current Period: 10/1/2019 - 12/31/2019
Using Provisional Rates
Plans
Reporting on Active Plan Sets

Project Owning Organization: MYCO Project Date Range: BOT - EOT Fee Factor: —
Project Organization: CUSTOMER-1 Project Manager: Controller, Frank T. Fee Calculation Method: —
Project Code: FP-DEMO Project Lead: — Status: 2-Open
Project Title: — Total Project Value: — Condition: Green ●
External System Code: — Funded Value: — Billing Type: FP

		CURRENT PERIOD			TOTAL 10/1/2019 - 12/31/2019	PRIOR FISCAL YEARS BOT - 9/30/2019		FUTURE FISCAL YEARS 10/1/2020 - EOT		TO-DATE BOT - 12/31/2019	TOTAL		
		OCT-19 (184)	NOV-19 (168)	DEC-19 (176)		ACTUALS & ALLOCATED BOT - EOT	BUDGETED	BACKLOG	UNALLOCATED BUDGET				
Direct Labor	Plans	9,200.00	8,400.00	8,800.00	26,400.00	0.00	0.00	26,400.00	26,400.00				
Subcontractor Labor	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
Labor Total	Plans	9,200.00	8,400.00	8,800.00	26,400.00	0.00	0.00	26,400.00	26,400.00	24,600.00	(1,800.00)	(1,800.00)	
Total Hours Worked	Plans	414.00	378.00	396.00	1,188.00	0.00	0.00	1,188.00	1,188.00	0.00	(1,188.00)	(1,188.00)	
Average Labor Rate	Plans	22.22	22.22	22.22	22.22	—	—	22.22	22.22				
Materials	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
Travel	Plans	2,000.00	1,000.00	3,000.00	6,000.00	0.00	0.00	6,000.00	6,000.00				
Subcontractor	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
Other	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00				
Total ODC	Plans	2,000.00	1,000.00	3,000.00	6,000.00	0.00	0.00	6,000.00	6,000.00	6,000.00	0.00	0.00	

Step 4 - Understanding the Relationship Between % Complete and Revenue

What is the purpose of forecasting labor and expenses? Forecasting provides a future view of both anticipated costs and revenue for a project.

Unanet has the capability of looking at actual costs and revenue up to a specified date and then merging future costs and revenue from forecasts. This view anticipates both costs and revenue throughout the life of the project and when combined with other projects can establish a portfolio or corporate view of project performance.

For fixed price projects, revenue is recorded based on % Complete. You may recall from prior sections of this document, that % Complete is derived by dividing accumulated costs on a project against budgeted costs. This percentage is then multiplied by fixed price elements associated with task deliverables to determine the revenue for a given period.

In the test example used in this document, each of the three task deliverables is associated with a \$15,000 fixed price element for a total revenue for the project of \$45,000. If each of the tasks is completed on time, then \$15,000 of revenue will be recorded, as noted in the figure below.

Project Periodic Cost Summary & Status													
Run Date: 2/19/2020 Cost Report Name: Default JSR Current Period: 10/1/2019 - 12/31/2019 Using Provisional Rates Plans Reporting on Active Plan Sets													
Project Owning Organization: MYCO			Project Date Range: BOT - EOT			Fee Factor: —							
Project Organization: CUSTOMER-1			Project Manager: Controller, Frank T.			Fee Calculation Method: —							
Project Code: FP-DEMO			Project Lead: —			Status: 2-Open							
Project Title: —			Total Project Value: —			Condition: Green ●							
External System Code: —			Funded Value: —			Billing Type: FP							
		CURRENT PERIOD			TOTAL	PRIOR FISCAL YEARS		FUTURE FISCAL YEARS	TOTAL				
		OCT-19 (184)	NOV-19 (188)	DEC-19 (178)	10/1/2019 - 12/31/2019	BOT - 9/30/2019		10/1/2020 - EOT	TO-DATE BOT - 12/31/2019	ACTUALS & ALLOCATED BOT - EOT	BUDGETED	BACKLOG	UNALLOCATED BUDGET
Direct Labor	Plans	9,200.00	8,400.00	8,800.00	26,400.00	0.00	0.00	0.00	26,400.00	26,400.00			
Subcontractor Labor	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Labor Total	Plans	9,200.00	8,400.00	8,800.00	26,400.00	0.00	0.00	0.00	26,400.00	26,400.00	0.00	(26,400.00)	(26,400.00)
Total Hours Worked	Plans	414.00	378.00	396.00	1,188.00	0.00	0.00	0.00	1,188.00	1,188.00	0.00	(1,188.00)	(1,188.00)
Average Labor Rate	Plans	22.22	22.22	22.22	22.22	—	—	—	22.22	22.22			
Materials	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Travel	Plans	2,000.00	1,000.00	3,000.00	6,000.00	0.00	0.00	0.00	6,000.00	6,000.00			
Subcontractor	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Other	Plans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			
Total ODC	Plans	2,000.00	1,000.00	3,000.00	6,000.00	0.00	0.00	0.00	6,000.00	6,000.00	0.00	(6,000.00)	(6,000.00)
Fringe	Plans	3,082.00	2,814.00	2,948.00	8,844.00	0.00	0.00	0.00	8,844.00	8,844.00			
Overhead	Plans	786.05	717.70	751.87	2,255.62	0.00	0.00	0.00	2,255.62	2,255.62			
G&A	Plans	1,536.94	1,319.03	1,580.99	4,436.96	0.00	0.00	0.00	4,436.96	4,436.96			
Total Indirect	Plans	5,404.99	4,850.73	5,280.86	15,536.58	0.00	0.00	0.00	15,536.58	15,536.58	45,000.00	29,463.42	29,463.42
Total Project Cost	Plans	16,604.99	14,250.73	17,080.86	47,936.58	0.00	0.00	0.00	47,936.58	47,936.58	45,000.00	(2,936.58)	(2,936.58)
Total Revenue	Plans	15,000.00	15,000.00	15,000.00	45,000.00	0.00	0.00	0.00	45,000.00	45,000.00	0.00	(45,000.00)	(45,000.00)

Step 5 - Posting

On a periodic basis, you need to Post to record any changes to task deliverable budgets and task dates. Cost budgets and task dates will inevitably change.

When budgets or dates are changed, it impacts the revenue associated with a project by moving revenue earlier or later based on delays or accelerations in project deliverables. For example, if Deliverable 2 were to be moved out to mid-December from the original date of the end of November, the delay would cause additional labor costs to be incurred to complete the deliverable. Project costs would change and revenue would be deferred into December due to the increased labor and delays on the project.