

The Linking programs and the problem with contract installments and payments

Or

How do I track both the Charge per Job and the Installments for my Contract customers when I use either QBLink or Clinker with CLIP?

Over the years we have tried numerous approaches to the idea of linking contract installments over to the General Ledger along with the amounts we charge for each job when the job is performed.

Lets delineate the challenge:

Customer Jones pays me \$100/month for 8 months in exchange for me servicing his property.

What do I place in the charge per job of the service?

The formula for this is \$100 times 8 months = \$800 divided by the total number of services in the year (30) equals the charge per job.

$$100 \times 8 = 800 / 30 = \$26.67$$

I would place \$26.67 into the charge per job field.

Now, what would I place in the Credit and Debit account numbers for linking purposes?

Our first decision has to be, which amount would I want to track as my sales amount, the installment or the job?

The customer pays me the installment (\$100) each month so that would seem to be what I want to track, but we end up with false or at least misleading information if we track only the installment. Lets take a simple example:

Tracking the installment:

Month: May

Sales	\$100.00	(from the installment)
Expenses	\$120.00 (from my labor, supplies and overhead)	
Profit	(\$20.00)	A net loss for the month

By using this P&L I would start to make decisions to reduce my expenses and panic, since I will soon be out of business. This is a false impression because our expenses were higher than normal because we had to service the property 5 times instead of the usual three or four due to weather conditions. Since our obligation to the client is 30 visits per year, we have really performed \$133.35 worth of work for the customers (26.67 Times 5). We know that the customer has not paid us for the extra services yet, but we also know that he will pay us later when we slow our services down but he still pays us the \$100.00/month that we are due.

If we were to track the charge per job instead of the installment in the link program, the P&L for the same month would look more like this:

Tracking the Charge per Job

Month: May

Sales	\$133.35	(from the charge per job)
Expenses	\$120.00	(from my labor, supplies and overhead)
Profit	\$ 13.35	A profit for the month

This scenario is much more realistic. We did not receive \$133.35 in cash but we did do the work worth that and our expenses reflect that we incurred that in costs. This P&L will give us less indigestion and will help us build our company on a better basis.

To see this even more starkly, lets look at the two scenarios when the work slows down and we only visit the property once in a month:

Tracking the installment:

Month: August

Sales	\$100.00	(from the installment)
Expenses	\$ 20.00	(from my labor, supplies and overhead)
Profit	\$80.00	An unrealistic profit since we only serviced the customer once.

Tracking the Charge per Job

Month: August

Sales	\$ 26.67	(from the charge per job)
Expenses	\$ 20.00	(from my labor, supplies and overhead)
Profit	\$ 6.67	A realistic profit for the month

Now we can see by this example that the best way to track the sales, are by using the Charge per Job and not the Installments. But it goes against common sense not to track the actual money that came into the company as the sale. So, wouldn't it be nice to track them both?

If we track the installments as installment sales and the charge per job as sales, our numbers could be way off. For the month of May, we would end up with \$233.35 in sales, \$133.35 from the charge per job and the \$100.00 from the installment. We know that this is wrong, so there must be another way.

Since we want to track both the installments and the Charge per Job and we do not want them to "add up" in our sales figures, lets come up with a new method.

In the Job Credit account number we could have a GL account that would be "Contract Sales". Our Debit account number would be the Accounts Receivable (AR) account. This would cause the \$133.35 to be placed as a sale in our P&L. When we received the \$100.00 payment it would reduce the Accounts Receivable and increase the cash account. Since the AR account went up

by 133.35 and then was reduced by 100 because we received a check, we would correctly see on our Balance sheet that there is still \$33.35 in AR. This is the amount that the Charge per Job has exceeded the monthly installment. Our P&L would still be correct.

But we still want to track the installment itself. One way to do this would be to create two sales accounts, one called Sales Installments Credit and the other called Sales Installments Debit. We could place these into the installment screens of our contract customers. Since CLIP will credit one account and debit the other we would see the two accounts with exactly the same amount in them, one a positive number the other negative. When they are added together they produce 0.00 which will keep our numbers from being untrue and yet give us the numbers for the installment amounts so that we will be able to see our installments in the P&L. It would look like this:

Tracking the Charge per Job and the monthly installments
Month: May

Sales	\$133.35 (from the charge per job)
Sales Installments Debit	\$100.00 (from the installment)
Sales Installments Credit	-100.00 (from the installment)
Expenses	\$120.00 (from my labor, supplies and overhead)
Profit	\$ 13.35 A profit for the month

As we get nearer to the end of they year, we will be able to compare the YTD installment amounts with the Sales from Contract jobs and see how close we are. If we have estimated our Charge per Jobs correctly the two sets of numbers should be very close.