Workshop Technicians - Workshop Labour In Progress/Inventory

We often get asked about the Asset "Workshop Labour Inventory", which sometimes goes by the name "Workshop Labour In Progress".

Our system is designed to work the same way as all of the Automotive Software Systems that I am familiar with in Australia (Which is nearly every system)

The logic is that you buy the services of technicians each week and put that value into an Asset which you intend to sell to service customers. Because your technicians will usually have different pay rates you use an estimated average of the cost of an hour's labour at each individual business.

When you invoice a service job you charge out the sale hours at whatever is an appropriate charge to the customer. The cost hours should be the time spent by the technician actually doing the work. If you are using bar-code scanners the invoicing screen with cost times will be filled in for you. If you are doing it manually, you need to get technicians to write down how long they took on the actual job card (repair order)

If you tell the computer the truth and keep up to date, come month end you will have a balance in the Asset account, it should represent work in progress that has not been finished or invoiced. There is a report in service called "Repair Order Summary" which details the as yet not invoiced jobs. (If you select the status of In Progress) the dollar value of the Asset account should nearly match the un-invoiced labour, they will never be exactly the same. When you invoice the jobs in the new month the value is removed from the Asset.

If the Asset is significantly higher than the as yet not invoiced jobs, you need to move the offending amount (by journal) to either cost of sales or an expense account in cost of sales, commonly called "Unapplied labour Costs" – the amount actually represents the wages you have paid your staff that you have not on-charged to customers.

There are two measures in any workshop, **Productivity** - which is defined as the hours at work and paid (usually a 38 hour week) compared as a percentage to the hours clocked on to jobs. In a perfect scenario, a technician would be at work for 38 hours and clocked on to jobs for 38 hours therefore being 100% productive. (if this is the case over time the Asset account will always eventually balance to zero)

The second measure in a workshop is **Efficiency,** this is the percentage comparison between the time it takes a technician to do a job and the time you are able to charge a customer. It is quite common during service jobs where a manufacturer specifies a charge time for a service, that a technician can do the work in less time. It is quite common, particularly in vehicles and motorbikes for technicians to be more than 100% efficient.

If you don't use the system this way there are a couple of other alternatives:

Alternative 1. – Don't post technician wages to the Asset account, don't estimate the average cost of an hour's labour simply post technician wages to cost of sales

This can be done if you don't ever want any analysis of productivity or efficiency. It will get you by, make it simpler and not potentially be confusing. If you have a workshop with just a couple of staff and can't live without those staff members, analysis becomes a bit academic anyway.

Alternative 2. – Change the Asset to an Expense and position it directly below wages and call the account something like "Technician Wages in Cost of Sales" The wages to technicians get posted to wages with everyone else and this account is to stop wages being counted twice.

This will allow the normal reporting, but Unapplied time losses will not be easily identifiable

Alternative 3. – Have zero as the cost for an hour of labour and just put technician wages to either cost of sales or wages expense

This is the simple way of doing things but will not yield any analysis data.

We recommend that dealers use the system in the way the automotive industry generally operates, however, it is the dealers business and he can use our software whichever way he or she chooses.