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TO ASK

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The good news: you've landed a huge contract with a ton of potential for profit and growth. The bad news: it requires AIA billing, and you haven't a clue where to start. You might be asking yourself, "what is AIA billing?" and "how do I do it?" and "do I need specialized AIA billing software?"

First, don't panic.

While AIA billing has a bad rap for being confusing, cumbersome, and time consuming, it is a manageable process. In addition, because it is a form of *progress*

billing, there are a lot of benefits to it. In this three-part series, we'll provide all the

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and are.

The biggest benefit of progress billing is that you don't have to wait for arbitrary milestones (or even the end of the job) to bill. Instead, you bill to receive cash on a regular basis. That allows you to more easily control budgets, pay laborers and subcontractors, purchase materials, and manage other debts.

But there are other benefits. Paying in smaller installments is often easier on the customer and allows you to increase the likelihood you'll be able to collect. It forces regular communication on the progress of a job, and requires you to have a good understanding of what might be going wrong.

The downside is that it's not as simple as printing a deposit invoice and billing the remainder at the end of the job. Progress billing in any form requires quite a bit more math and accounting. And AIA billing is even more complex.

So, What Is AIA Billing?

The term "AIA" stands for the "[American Institute of Architects](#)." The AIA is a professional organization of more than 90,000 architects, which creates standards for the industry. One of those standards is a set of forms used for a specific style of progress billing plus the practices around them. That's what we call "AIA billing." More accurately, AIA billing is the use of forms G702 and G703 to provide detailed information about the progress on a job.

As a form of progress billing, AIA billing is especially helpful because it standardizes how you bill, what the invoices look like, and the language that's used. It can expedite payments and reduce the possibility of errors, while helping to ensure that you're fully compliant with industry standards. Being able to follow AIA billing standards opens opportunities to work on larger projects and bid on government-funded projects.

If you work with forms G702 and G703, there are a few important terms you'll hear.

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What Is Retainage?

Also called “retention,” retainage is a percentage of a contract, often 5-10%, that can't be billed until the entire project is complete and the client has approved the work. Its purpose is to give the client recourse if they aren't satisfied with the work.

What Is a Schedule of Values

The schedule of values on an AIA form is the detail of work that is planned and completed. You might think of it the same way you'd think of the line items on a detailed invoice. There are lines for each task or type of work involved. Each line item displays the “scheduled value,” (i.e., the cost for that line item agreed upon in the contract) along with how much work has been done to-date on that line item. “Schedule of Values” is often shortened to “SOV.”

What Is Stored Material?

Ordering materials is a tricky part of budgeting. You need to have the materials on site when they're needed, but you don't want to order them too early and tie up cash unnecessarily. In AIA billing, you can bill for materials you've purchased for the job even if they haven't been used yet. Those costs — and the billings for them — are referred to as “stored material.” Sometimes retainage is held on stored materials at a different percentage than the rest of the job.

Sounds Easy Enough. What's All the Fuss About?

Completing the first AIA billing form on a job is really pretty simple with the right tools. The schedule of values was created during contracting. Afterward, you purchase some materials for the job and complete some of the work. You enter those

percentages of completion, do some quick math, and get a total. That doesn't seem so

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If not, they may “red line” the AIA form. In red lining, they'll make adjustments to your amounts and return the forms to you. You'll need to make adjustments to your billing system, produce another version of the application, and re-submit it. If you had “posted” the original application as accounts receivable in your accounting system, you're going to need to deal with the change there.

This gets more complex as the job continues, because your estimated percentage of completion may vary from the project owner's each time. You'll need to keep track of the amounts you originally applied for, what you actually billed, and what you got paid for. In addition, you'll need to update the “previous applications” amount every time you bill and add the new application amount.

What About Stored Material and Retainage?

If you bill for stored materials, you'll need to remember not to double-bill. For example, let's say your scheduled value for an item was \$10,000 and your first application billed for \$2000 in stored materials, Later, an application that shows 100% complete for that line item wouldn't mean billing \$10,000 that time. It actually means billing \$8,000 (100% of the remaining total).

Obviously, you don't usually go from 0% to 100% on a single billing, so that same principle applies regardless of what percentage of completion you are using.

Retainage is a bit more complicated. Even though you don't bill retainage until the very end, you should recognize it as a separate receivable amount while the job progresses. That means that you're “holding” retainage on an ongoing basis. Take our \$10,000 line-item example and assume there is 5% retainage on it. If you're 10% complete with that item, you would bill \$950 and hold \$50 in retainage.

If you were to bill another 10% of that line item on each application, another \$50

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Armed with this basic knowledge about the principles of AIA billing, it's certainly possible to purchase forms from the AIA and start filling them out. However, a AIA billing software system that is fully **integrated with your accounting software** can certainly make things easier. In part two of this series, we'll show you exactly what an AIA form looks like and how to fill it out. In part three, we'll walk you through how to do it in FOUNDATION® and show you the benefits of using construction accounting software that has built-in AIA billing tools.

So, In the mean time, congratulations on winning that job that requires AIA billing software! You've got this!

Accounting

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