

How Work in Progress (WIP) Can Work for You

Maintaining profits and keeping jobs on track is not easy in the construction industry. There are bills to pay, materials to order, teams to manage, and everything else in between. That's why you need accurate, real-time Work in Progress (WIP) reports to keep projects running smoothly—and to grow your bottom-line profit.

So, how does it all work? We'll deep-dive into all there is to know about WIP reporting and how you can set your projects and business up for success.





What is Work in Progress (WIP)

Work in Progress (WIP) is an essential part of [construction accounting](#). It calculates the progress of all ongoing work, allowing you to see what's been done and what's left to do—helping you manage budgets effectively. This information can then be used to generate reports and track project development using “percentage complete” figures.

If, for example, a WIP report shows that a project is 30% complete but has used up 70% of its budget, you can likely predict it'll go over budget. As such, this encourages a more proactive than reactive approach to project management allowing companies to take action before it is too late.

In addition, WIP reporting enables you to create accurate financial statements, outlining exactly what was spent on individual projects and where. This can then be used to inform wider decision-making, especially concerning the business's overall financial health and growing bottom-line profits.

Overbilling Versus Underbilling

Calculating WIP allows you to see whether a project has been over or underbilled.

Overbilling happens when you've charged more than needed for the work completed. While this can positively impact cash flow, it could also mean that the work is being completed slower than expected, rather than just being billed in advance. It may also leave contractors out of pocket further down the line if they're unable to finance jobs later in the project.

Underbilling occurs when contractors bill for less money than what was earned for the work completed to date. This can be problematic for negative cash flow and can leave you in charge of financing the rest of the project.

In order to calculate whether a project is over or underbilled, you'll need to know the projected cost at completion or revised estimate. Once you calculate your projected cost you can calculate the percentage of work completed to date and the earned revenue to date.

What Should a WIP Report Include?

So, we know that WIP reports show a construction project's status, but what information do you need? Generally, WIP reports should include:

- » The total current value of the contract
- » The amount of revenue received to date
- » The total original estimated costs
- » The amount billed to date
- » Revised estimated costs
- » Percentage completion of the project
- » The total costs to date
- » Whether a project is currently over or underbilled

How Often Should You Run a WIP Report?

In terms of how often you need to run WIP, it all depends on your business goals. If you run regular financial reports and have a lot of ongoing projects, you may decide to create WIP reports monthly or weekly. Other businesses may opt for quarterly WIP reports, while some only run them at the end of projects. However, if you run a WIP report based off of the previous week or month's data, your decisions are already a week or month behind actual costs—giving you the inability to make critical decisions in a time-sensitive matter.

It's best practice to create a company-wide WIP report and a WIP report for each job to give you greater oversight of the well-being of your company as a whole, and of individual project progress.

Automation of Work in Progress

Construction projects are notoriously difficult to manage because of the long lead times associated with most large-scale building projects. A [recent study](#) found that large construction projects typically take 20 percent longer than planned to complete and cost 80 percent more than initially projected.

Many companies rely on spreadsheets to prevent these problems in tracking their projects' [work in progress \(WIP\) inventory](#). However, these spreadsheets often become

outdated, inaccurate, and hard to maintain due to the ever-changing nature of construction projects.

In addition, many construction companies still use paper forms to record information about their projects. Paper forms don't provide much insight into how well their projects are progressing, making it difficult to identify bottlenecks and opportunities for improvement.

A better approach is to use construction-management software solutions that track the status of each task in real-time. These tools enable accurate measurement and performance monitoring of every aspect of your construction project, including the number of hours spent on each job and whether the materials required for each task are available. These financial solutions allow you to highlight opportunities to improve efficiency and reduce costs.

How to Create an Accurate WIP Report

Real-time capturing, processing and sharing of construction data is the key to strong, accurate WIP reports. Efficient, accurate, and timely field management and data collection help reduce errors, improve financial reporting, allocate resources efficiently, and prevent loss of profits.

An accurate WIP report indicates whether a project is over or under budget via a precise picture of the balance sheet.



What steps do you need to take to achieve accurate WIP Reporting?

1

ACCESS TO REAL-TIME DATA

To accurately report your WIP, you need accurate, timely data.

Manually updating spreadsheets is time-consuming and prone to human error. Successful construction companies use cloud-based accounting solutions for their projects and contracts to ensure that they receive timely financial updates and accurate cost estimates.

2

WORK COMPLETED VS. HOURS OR LABOR COSTS

A successful aspect of any WIP process involves knowing how much effort has already gone into any construction project.

For example, many labor-heavy companies base the percentage of job completion on actual work done in the labor hours and field costs. If work-in-progress reporting is based on the amount of time spent working rather than the amount of time left to complete the project, it can be used as an early warning sign of productivity and cost overruns.

Find connected, cloud-based building management and accounting software to help you manage your modern-day projects.

3

COMPARE UNITS COMPLETED TO THE PERCENTAGE OF THE BUDGET SPENT

A cost increase is when something unexpected happens that increases the project's overall cost. Pinpointing potential cost overruns through construction project management solutions is vital to understanding the profitability feasibility of current and future projects.

Construction businesses need to track work completed against money spent accurately.

4

ESTIMATE THE COST TO COMPLETE

Estimating the cost to complete (CTC) is essential to the WIP schedule. CTC is a manager's best estimate of each project's future costs.

Suppose you don't know exactly how much time and money you've spent on a particular project. In that case, you can use real-time and historical information to help you better estimate the percentage of the total project that has been completed.

Implement construction accounting solutions to help you more accurately estimate the project's performance to date and avoid surprises hurting your profitability. By getting a handle on your CTC early in a construction project, you have an opportunity to address issues that are hindering your productivity or increasing costs.

5

COST TO FINISH

How much money will be required to complete the project? Include labor, material costs, and other expenses related to completing the project. Don't neglect to include a margin for error and unexpected project changes.

Accurate, timely project status reports help teams understand where they stand financially and plan their next steps accordingly. They also clarify the profitability of projects and aid accurate financial reporting. Using advanced, connected construction management software with integrated WIP tools helps companies pinpoint potential problems before they become significant issues.



Common WIP Report Mistakes to Avoid

WIP reports are only reliable when used correctly. It's easy to simply compare the total costs spent to date with your estimated budget and assume that a project is running smoothly if your cost spent to date has not exceeded your budget. But, using multiple calculations, you can see a more accurate picture of a project of where the job stands, including if it's been over or underbilled.

For instance, you may assume that a project is 60% complete simply by comparing the costs to date with your estimated budget. But the percentage spent doesn't mean the percentage complete. While you may have spent 60% of your budget, the work could be only 40% finished.

Keeping on top of your WIP report using multiple calculation methods is therefore crucial for accurately scoping projects. This allows you to identify potential problems early, such as chasing invoices for payments or re-evaluating budgets where costs are adding up.

Here are some other WIP pitfalls to avoid:

Not tracking committed costs: Committed costs are those you are committed to paying, such as employee wages or material or subcontract costs that you have committed to with a purchase order or subcontract agreement. These need to be accurately tracked to ensure your project remains profitable and the WIP report is accurate.

Entering figures incorrectly: It's easy to miss an extra zero or enter a "4" rather than a "5." Incorrect figures caused by human error can greatly impact the WIP data and subsequent calculations.

Not running regular WIP reports: WIP reports need to be created regularly to keep up to date with the progress of jobs and ensure they run efficiently. Otherwise, budgets may be exhausted before you even have a chance to rectify the issue.

Using overbilling as profit: Overbilling is not profit; it's cash flow to be used for future scheduled work. If businesses use this for a profit, it may leave projects without funds to continue.

Not linking the WIP with P&L statements: Using WIP reports allows you to identify over and underbilling amounts. These must be reflected in the business's profit and loss statement and balance sheet to provide an accurate snapshot of its financial health.

Delayed tracking of expenses and costs: Tracking expenses and costs in real-time makes your WIP more accurate. Otherwise, the budget may show a profit, but you're forgetting to account for expensive bills that haven't been added yet.

How to Compare and Analyze WIP Reports from Different Time Periods

If you don't have a lot of background in accounting but need to make business decisions based off of your WIP reports, it's important to understand how to compare and analyze WIP reports from different time periods. When looking at your reports, there are five main items you should be looking at.

1. Determine if there are any jobs that are underbilled
2. Check if there are any jobs that are overbilled
3. Review job cost reports
4. Look at actual costs versus the budget, along with the billing process
5. Review status of change orders

If you find major discrepancies in any of these items, then you should look deeper into the operations of your business to find the cause. This will allow you to correct the discrepancies moving forward.

How Construction Accounting Software Can Help

Manual data entry and calculations are time-consuming and leave plenty of room for error. Investing in construction accounting software such as Deltek ComputerEase will help things run smoothly and avoid errors because it is automatic.

Construction-specific software like Deltek ComputerEase will provide you with real-time updates on project progress, so you can accurately keep track of jobs and budgets. Importantly, construction accounting software allows you to identify problems before they affect the progress of a job and eat away at your profit margins.



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