JOBRUNNER WIP REVIEW

Work in Process Accounting Method Explained
In construction accounting, revenue is recognized on a percent of completion basis. The actual cost of each job is compared to the estimated cost of each job to determine the percent complete. The computed percent complete is then multiplied by the contract price to determine the amount of revenue that can be recognized for the job at any point in time. For example:

- Projected Cost (Col B) $80,000
- Cost to Date (Col D) $60,000
- Percent Complete (Col E) \((\frac{60,000}{80,000}) = 75\%\)
- Contract Amount w/o Tax (Col A) $100,000

In the above example, the amount of Revenue Earned (Col F) would be $100,000 x .75 = $75,000. The $75,000 would show in the income statement at the end of the period in the above example, after the proper WIP Adjustment is recorded by the Controller.

The $75,000 of computed revenue is compared to actual billings to determine if the job is Billings in Excess of Cost (Col I) or Cost in Excess of Billings (Col H). Billings in Excess of Cost means that a job is Overbilled. Cost in Excess of billings means that a job is Underbilled. Any Over or Under Billed amount is recorded on the balance sheet and recognized in a future period. Continuing with the above example:

- If Billed w/o Tax (Col G) is $80,000, job would show Billings in Excess of Cost (Col I) of $5,000. $75,000 - $80,000 = $(5,000)
- If Billed w/o Tax (Col G) is $70,000, job would show Cost in Excess of Billings (Col H) of $5,000. $75,000 - $70,000 = $5,000

Any Billings in Excess of Cost amount is a credit on the balance sheet and indicates that you have billed the customer in excess of the cost of actual work performed. Any Cost in Excess of Billings amount indicates that you have incurred more cost on the job than you have billed to the customer.

Each job should be reviewed twice a month to assure that the above figures are correct, and the job has been billed to the maximum extent possible. The first review should be completed near the 15th of each month, to assure that any billings can be completed and submitted to the GC to meet the GC’s 20th or 25th billing cutoff to the owner. The second review is completed as part of the month end closing process.
Over / Under Billing Review

The first step in the process is to run a WIP report in Floor Manager / Job Runner. Review the report for significant (> $1,000) amounts in the “Cost in Excess” and Billings in Excess” columns. This is a good first indication that the job needs to be investigated.

If the Job shows Billings in Excess of Cost:

Verify if you have billed a large deposit to the customer. If you have billed for a deposit, the Billings in Excess of Cost (Col I) amount is likely correct.

Verify that all Costs To Date (Col D) have been charged to the correct job. Sometimes a large overbilling will indicate that costs were incurred for a job, but charged to a different job in error. Also, some items in inventory may have been used and not been properly charged to the job.

Determine if the Billed w/o Tax amount (Col G) > Contract Amount w/o Tax (Col A). The job will show as Billings in Excess of Cost in this case. Determine if you have received change orders that equal the Billed w/o Tax amount. If you have approved change orders, adjust the Contract Amount w/o Tax to equal the Billed w/o Tax amount. This will reduce the Billings in Excess of Cost amount to -0-. If the Billed w/o Tax amount is a clerical error, adjust the billing to the correct amount.

Determine if job is complete and actual costs are under budget. In this case, job will show as overbilled because job has been fully billed and only 80 - 90% of cost budget has been incurred. If job has been completed and all costs are in, adjust Estimated Cost down to equal Actual Cost. This will allow Floor Manager / Job Runner to then recognize 100% of the Actual Revenue and adjust the Over / Under Billing to -0-.

If job is Cost in Excess of Billings:

Verify that Costs to Date (Col D) charged to job are correct, and Projected Cost (Col B) are correct. Non AIA jobs should be billed based on percent of actual costs incurred plus percent of profit margin. (ie, if job is 50% complete, 50% of profit margin should be billed). AIA jobs must be billed according to the schedule of values.

Sometimes a job shows as Cost in Excess of Billings because costs were charged to the job in error. If so, move costs to correct job. This will correct the Cost in Excess of Billings calculation.