

Work-in-Progress Schedules

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Intros and Agenda

WIP overview, essential columns, and what auditors look for



Using the WIP as a tool for management decisions



Overhead cost allocation to jobs



Retainage accounting under ASC 606 for revenue recognition

What Is a WIP Schedule?

A WIP schedule is a contractor's real-time financial report of all active contracts, showing:

- ✓ How much revenue has been earned
- ✓ How much has been billed to the customer
- ✓ Whether you are over- or under-billed
- ✓ Total estimated profit on each job
- ✓ Retainage held by customers

Why Sureties & Lenders Care

Surety underwriters use the WIP to evaluate:

- Financial health of ongoing jobs
- Cash flow requirements
- Concentration of risk
- Retainage collectibility
- Ability to complete contracts

Essential WIP Schedule Columns

Contract Value	Costs to Date	Est. Total Cost 	% Complete
Original contract + approved change orders	Actual costs incurred on the job so far	Best estimate of costs to complete the job	Costs to Date ÷ Est. Total Cost
Revenue Earned	Total Billings	Under/Over Billing	Gross Profit/Loss
% Complete × Contract Value	All amounts invoiced to customer to date	Revenue Earned minus Total Billings	Revenue Earned to Date Less Cost to Date

Recommended WIP Schedule Columns

- Job / contract number
- Customer / project name
- Contract type
- Original contract amount
- Approved change orders
- Revised contract amount
- Estimated total cost
- Cost incurred to date
- Estimated cost to complete
- Percent complete

- Revenue earned to date
- Gross profit or loss to date
- Billings to date
- Underbilling / contract asset
- Overbilling / contract liability
- Current-period revenue
- Current-period cost
- Current-period gross profit or loss
- Backlog / remaining revenue

*See example WIP

Sample WIP Schedule

Interactive Example — Identify the underbilled and overbilled contracts

Contract	Contract Value	Costs to Date	Est. Total Cost	% Comp	Revenue Earned	Total Billings	Under/(Over) Billing	Est. Gross Profit
Office Complex A	\$2,500,000	\$900,000	\$2,000,000	45%	\$1,125,000	\$950,000	\$175,000	\$500,000
Highway Ramp B	\$5,800,000	\$3,200,000	\$4,800,000	67%	\$3,880,000	\$4,100,000	(\$220,000)	\$1,000,000
School Renovation C	\$1,200,000	\$480,000	\$960,000	50%	\$600,000	\$600,000	\$0	\$240,000
Warehouse D	\$3,100,000	\$2,480,000	\$3,100,000	80%	\$2,480,000	\$2,945,000	(\$465,000)	\$0
TOTAL	\$12,600,000	\$7,060,000	\$10,860,000	65%	\$8,085,000	\$8,595,000	(\$510,000)	\$1,740,000

 Underbilling (asset)

 Overbilling (liability)

 Warn: Zero profit on Warehouse D — possible loss job!

Key Elements of an Accurate WIP Schedule

- Include all jobs that had activity during the year (activity includes labor hours, other job costs, and customer billings).
- Exclude prior years' closed jobs with no current year activity.
- Reflect the most up-to-date job contract value (including approved change orders) and accurate estimates of "costs to complete" for each job.
- Include cumulative billings to date for each job and reconcile to the accounting ledger.
- Include cumulative job costs charged to each job and reconcile to the accounting ledger.
- Reflect accurate calculations by job for gross profit percentage, percentage of completion, and earned revenue to date.

What will the auditors look at?

- Are there jobs on the current year's schedule that were closed in the prior year?
- Are there jobs that are showing as more than 100% complete?
- Are there jobs that are showing as more than 100% billed?
- Are there jobs that were 100% complete, but not 100% billed?
- Are there excessive overbillings or underbillings on jobs?

What will the auditors look at?

- Are there jobs sitting at close to 100% complete that should be showing 100% complete?
- Is the job's gross profit far above or below the typical gross profit?
- Has the job gross profit significantly gained or faded since last year/quarter/month (depending on how often the WIP schedule is reviewed)?
- Is there a job at a loss? If so, has an accrual for anticipated losses been made? The required entry will debit a special loss account, such as *Provision for Losses on Contracts in Progress*, with a corresponding credit to an accrued liability, such as *Accrued Losses on Contracts in Progress*.

Overbillings & Underbillings

How contract positions flow into your financial statements

Underbillings vs. Overbillings

UNDERBILLING

Revenue Earned > Billings to Date

= CONTRACT ASSET

What it means:

You've done the work but haven't billed for it yet. The money is owed to you.

Balance Sheet Impact:

Recorded as a current asset (Contract Asset)

Watch out for:

Large underbillings may indicate billing delays, disputes, or poor billing practices

OVERBILLING

Billings to Date > Revenue Earned

= CONTRACT LIABILITY

What it means:

You've billed the customer more than you've earned. You owe future performance.

Balance Sheet Impact:

Recorded as a current liability (Contract Liability)

Watch out for:

Large overbillings may indicate front-loaded billing schedules or cash flow problems on other projects

Practical Considerations for Utilizing Your WIP Schedule

To catch errors and avoid surprises and swings in your job results

QUESTION



Are you utilizing your WIP Schedule as a PM tool *as the job progresses,*

or

Has it simply been a way to calculate adjustments at the end of a reporting period because they are required?



By the time the job is done,
it's **too late** to adjust.

How often should it be reviewed and updated?

- It depends.....
- How rapidly do your projects typically progress? Are they at high risk of losing money? Do they have tight cash flow restraints?
- The minimum is monthly, for accurate financial statement reporting
- Conditions change over time
- Labor & material costs may increase or decrease for various reasons (Your denominator in the % complete calculation).
- If Gross Margin is not updated as significant changes occur, interim period financials will not accurately reflect the job's true progress.

Utilizing your WIP Schedule

- Bridges the gap between field ops and financial oversight
- Transform your WIP from a static accounting department document into a dynamic PM tool
- Hold regular WIP review meetings
- Proactively spot red flags like margin erosion early before they burn through your budgets
- Requires consistent, honest review and updating

Why does the WIP need to stay current & be reviewed regularly?

Internal Tool for Management Decision Making

Tool for:	What you see or things to ask:	Results or actions to take:
Project Tracking and Monitoring	Managers get a clear visual on what has been completed and what remains to be completed	• Identify potential deviations from planned finish • Take corrective action to avoid higher costs and a later delivery date of the project
Budget Management and Cash Flow	Is the project on track financially; track how much has been billed vs. spent to manage liquidity	• Make needed adjustments
Proactive Risk Management	Identify potential issues early such as delays in material delivery or labor shortages before they escalate	• Minimize disruption to the project timeline
Standardized Reporting & Facilitation of Meetings	Provides a project status for each job with a reference point for discussions; facilitates project meetings (usually held weekly) with a central agenda	• Stakeholders can refer to the same document • All jobs are reviewed in the same format to minimize miscommunication on progress and challenges

Why does the WIP need to stay current & be reviewed regularly?

Internal Tool for Management Decision Making

Tool for:	What you see or things to ask:	Results or actions to take:
Improved Communication & Collaboration	Regular updates & review of the data promote proactive management of the jobs leading to more focused & productive conversations in areas such as specific job tasks to be completed, changes in timelines or resource allocation	• PMs keep stakeholders informed about changes & delays • Helps manage expectations & reduces uncertainty
Promotes Accountability	Can be used to clarify responsibilities	• Hold stakeholders accountable for their commitments & goals
Provides Documentation	Record of project progress	• Supports decisions made



EXAMPLE | Stale WIP & The Cost-to-Complete Effect

When the PM Doesn't Update the ETC

How a stale cost-to-complete inflates percent complete, overstates revenue, and creates a fictitious asset on the balance sheet

EXAMPLE | Importance of keeping the estimated total cost updated as the job progresses

Office Building Renovation | Month-End: June 30

Contract Value

\$12,000,000

Original Est. Total Cost

\$9,600,000

Costs Incurred to Date

\$6,720,000

Billings to Date

\$7,800,000

% Complete = Cost Incurred ÷ (Cost Incurred + Estimated Cost to Complete)

Original estimate: 20% gross margin

✓ Correct — Estimated Total Cost was Updated

Costs Incurred to Date \$6,720,000

Revised Estimated Cost to Complete \$3,680,000

Revised Est. Total Cost \$10,400,000

% Complete 64.6%

= \$6,720,000 ÷ \$10,400,000

✗ Stale — ETC Untouched Since May

Costs Incurred to Date \$6,720,000

PM's ETC (stale, May) \$2,880,000

Implied Est. Total Cost \$9,600,000

% Complete 70.0%

▲ 5.4 points overstated

EXAMPLE (continued) – Importance of updating estimated total cost as the job progresses

Income Statement impact - inflated Revenue and Gross Profit

Same costs, same contract — but the percent complete changed because the denominator, total est. costs, was not updated

✓ Correct — 64.6% Complete

Revenue Recognized (64.6% x \$12M) **\$7,752,000**

Cost of Revenue (\$6,720,000)

Gross Profit **\$1,032,000**

✓ Reported Correctly

✗ Stale — 70.0% Complete

Revenue Recognized (70.0% x \$12M) **\$8,400,000 ▲**

Cost of Revenue (\$6,720,000)

Gross Profit **\$1,680,000**

▲ Revenue and gross profit inflated

The stale ETC overstates revenue by **\$648,000** and gross profit by **\$648,000** — a 5.4-point swing

EXAMPLE (continued) – Importance of updating estimated total cost as the job progresses

Balance Sheet impact - Creates a Fictitious Asset

Billings to Date = \$7,800,000 in both scenarios

✓ Correct — 64.6% Complete

Revenue Earned \$7,752,000

Less: Billings to Date (\$7,800,000)

Billing Status (\$48,000)

Real overbilling — a liability

✗ Stale — 70.0% Complete

Revenue Earned (overstated) \$8,400,000 ▲

Less: Billings to Date (\$7,800,000)

Billing Status \$600,000

▲ Fictitious under-billed asset

A **\$648,000** swing — from a real \$48K overbilling liability to a fictitious \$600K under-billed asset

Overhead Allocation to Jobs

Overall methodologies typically used in construction

Overhead Cost Allocation

What Is Overhead? Why Does It Belong on Your Jobs?

1. Overhead costs are indirect expenses that are not directly attributable to a specific job but are necessary for the overall operation and management of your construction business
2. Gross margin alone doesn't tell the true story. Besides direct costs, you have other costs that indirectly support the jobs. You need to use an OH allocation method to assign overhead costs to each job because:

$$\text{True job profitability} = \text{Earned Revenue} - \text{Direct Costs} - \text{Allocated Overhead}$$

3. This helps you make informed pricing decisions
4. Satisfies GAAP cost allocation requirements for long-term contracts (ASC 606 / PCM)

Determine What Goes In the Overhead Pool

There is no one-size fits all approach, but exclude costs that are directly attributable to a specific project (Direct)

✓ All Other Costs

- Executive & management salaries (apportioned)
- Project management salaries (time not job-coded)
- Estimating & proposal costs
- Company vehicle costs (not job-assigned trucks)
- Office lease, utilities, phone, internet
- Accounting, legal, HR costs
- General liability & umbrella insurance premiums
- Equipment depreciation (shop/yard equipment)
- Small tools (<\$500 threshold, not job-coded)
- Software licenses (accounting, estimating tools)

✗ EXCLUDE (These Are Direct Costs)

- Direct labor wages coded to jobs
- Materials purchased for specific jobs
- Subcontractor costs billed to jobs
- Job-specific equipment rentals
- Job site trailers, temp utilities on job
- Workers comp premium on direct labor (if job-coded)
- Travel directly reimbursable per contract
- Permits & inspections for specific projects
- Bond premiums charged per job
- Owner-required safety training per project

Three Common Allocation Methodologies

1

Percent of Direct Labor Hours or Direct Labor Costs

Take the Overhead Pool divided by Total Direct Labor Hours or Labor Costs to get your rate, then multiply that rate by each job's direct labor hours or costs.

2

Percent of Total Direct Cost

Take the Overhead Pool divided by Total Direct Costs to get your rate, then multiply that rate by each job's total direct costs.

3

Equipment usage or depreciation

Take the Overhead Pool divided by the Total Hours of Equipment Usage or the Equipment Depreciation Expense for the period to get your rate, then multiply that rate by the equipment hours spent on each job.

Bottom line: pick a base that best reflects what drives your overhead costs.

Overhead Allocation: Step-by-Step

Using the % of Direct Cost method as our example

1

Build Your Overhead Pool

Total all indirect costs for the period: salaries, rent, insurance, depreciation, etc.
Exclude direct job costs.

e.g. \$480,000 / year

2

Determine Your Allocation Base

Sum the total direct costs across ALL active jobs for the period.

e.g. \$4,800,000 total direct cost (YTD)

3

Calculate the Rate

Overhead Pool ÷ Allocation Base = Overhead Rate

$\$480,000 \div \$4,800,000 = 10.0\%$

4

Apply to Each Job

Multiply each job's direct cost by the rate to get allocated overhead for that job.

Job X: \$320,000 direct cost × 10% = \$32,000 overhead

5

True Job Profitability

Net Margin = Earned Revenue – Direct Cost – Allocated Overhead

Job X: \$400K rev – \$320K cost (20% GM) – \$32K OH = \$48K (12% net margin)

Overhead Allocation

Best Practices

1. Start simple and evolve as operations become more sophisticated. The key is understanding the costs of your company and what drives those costs.
2. Document the methodology you choose and the rationale behind allocation decisions to ensure transparency, facilitate auditing processes and enable future analysis & improvement of allocation methods
3. Apply the calculated rate consistently (or rates if you are allocating more than one cost pool)
4. Review overhead rates periodically and update them when labor volume or operating expenses change significantly

Key Takeaways

 Every job should absorb a fair share of overhead. Accurate job costing leads to better bids and higher profitability.

 Estimated Cost to Complete is a forward-looking forecast, not a budget remainder. Update it every month, minimum — and whenever scope or conditions change.

 Your WIP schedule is only correct & meaningful if it is reviewed and updated as the jobs progress. Think of it as a communication tool, not just a report.

 Pick an overhead allocation method, document it, and stick to it. Consistency matters more than perfection.

 Monthly WIP reviews with PMs are your single best tool. Ask hard questions. The WIP should never surprise you at job close.

Retainage Accounting Under ASC 606

Conditional vs. Unconditional · Balance Sheet Presentation · AICPA & FASB Guidance

Based on FASB Staff Educational Paper (2025) & AICPA CPEA Report (March 2025)

What Is Retainage?

"Contracts that allow the customer to withhold a portion of the consideration billed by the entity until certain project milestones are met or the project is completed."

— AICPA CPEA Report, March 2025

Typical Amount

5% to 10% withheld on each progress billing until job reaches agreed completion state

Purpose

Ensures performance meets quality standards. Protects owner if contractor fails to complete work.

When Released

Upon project completion OR milestone achievement, depending on contract terms.

The Critical Distinction: Conditional vs. Unconditional

UNCONDITIONAL RETAINAGE

Definition:

Only the PASSAGE OF TIME is required before payment is due.

Example:

Work is complete. Owner accepted the job. All retainage conditions met. Payment will be made in 30 days.

Classification:

✓ RECEIVABLE (contracts receivable)

ASC 910-10-50-7 Disclosure Required:

- Amount of retainage receivable
- Portion expected after 1 year
- Year(s) expected to collect

CONDITIONAL RETAINAGE

Definition:

Payment is conditioned on something OTHER than passage of time (future performance, milestones).

Example:

Job is 70% complete. Owner is holding 10% retainage pending final completion and punchlist sign-off.

Classification:

✓ CONTRACT ASSET or LIABILITY
(netted at contract level)

Source:

FASB ASC 606-10-45-4
FASB Staff Educational Paper (2025)

How ASC 606 Changed Retainage Accounting

BEFORE ASC 606

Balance Sheet Line Item	Treatment
Conditional Retainage	Receivable ✗
Unconditional Retainage	Receivable
Under-billings	Presented separately
Over-billings	Presented separately
Retainage & Under/Overbilling	NOT netted together

⚠ Result: Diversity in practice and potential misrepresentation of financial position



AFTER ASC 606

Balance Sheet Line Item	Treatment
Conditional Retainage	Contract Asset/Liability ✓
Unconditional Retainage	Receivable ✓
Under-billings + Cond. Retainage	NET = Contract Asset
Over-billings - Cond. Retainage	NET = Contract Liability
Same contract positions	MUST be netted

✓ Result: More transparent presentation of contract economics and performance risk

The Netting Rule: A Worked Example

Contract A — Office Building (Single contract, presented on a net basis per ASC 606-10-45-1)

Item	Amount	Note
Contract Value	\$3,000,000	
Revenue Earned to Date (75% complete)	\$2,250,000	
Billings in Excess of Revenues	\$60,000	
Conditional Retainage Held	\$210,000	← Still subject to completion
Total Billed	\$2,310,000	

Under/Overbilling:

Revenue Earned:	\$2,250,000
Less: total billed	(2,310,000)
Billings in excess of revenues	\$ (60,000)

Balance Sheet Classification

Billings in excess of revenues	\$ (60,000)
Conditional retainage	210,000
Contract ASSET	\$150,000

The Netting Rule: A Worked Example

Contract A — Office Building (Single contract, presented on a net basis per ASC 606-10-45-1)

Item	Amount	Note
Contract Value	\$3,000,000	
Revenue Earned to Date (75% complete)	\$2,250,000	
Billings in Excess of Revenues	\$260,000	
Conditional Retainage Held	\$210,000	← Still subject to completion
Total Billed	\$2,510,000	

Under/Overbilling:

Revenue Earned:	\$2,250,000
Less: total billed	(2,510,000)
Billings in excess of revenues	\$ (260,000)

Balance Sheet Classification

Billings in excess of revenues	\$ (260,000)
Conditional retainage	210,000
Contract LIABILITY	\$ (50,000)

FASB Exhibits: Official Illustration Examples

From FASB Staff Educational Paper on Topic 606 — Retainage for Construction Contractors (2025)

EXHIBIT A — Parenthetical Disclosure

Current Assets	20X1	20X0
Contract assets, including conditional retainage of \$[] and \$[] at Dec. 31, 20X1 and 20X0, respectively ¹	XXX	XXX
Total Current Assets	\$X,XXX	\$X,XXX
Current Liabilities		
Contract liabilities, net of conditional retainage of \$[] and \$[] at Dec. 31, 20X1 and 20X0, respectively ¹	XXX	XXX
Total Current Liabilities	\$X,XXX	\$X,XXX

EXHIBIT B — Subtotal Disaggregation

Current Assets	20X1	20X0
Contract assets ¹		
Revenue in excess of billings	XXX	XXX
Conditional retainage	XXX	XXX
Total contract assets	XXX	XXX
Current Liabilities		
Contract liabilities ¹		
Billings in excess of revenue	XXX	XXX
Less: conditional retainage	(XXX)	(XXX)
Total contract liabilities	XXX	XXX

¹ Contracts presented contract-by-contract as either an asset or a liability; cannot present both for same contract.

? Can You Spot the Errors?

Common retainage accounting mistakes — discuss with the group

Scenario 1

ABC Plumbing books all retainage — including job-completion retainage — to 'Accounts Receivable' on the balance sheet.

WRONG: Conditional retainage must be a contract asset, not A/R. A/R requires unconditional right to payment.

Scenario 2

XYZ General has Job 101 with \$50K underbilling and \$30K conditional retainage. They present both separately: \$50K contract asset AND \$30K retainage receivable.

WRONG: Same contract — must be netted. Presents as a single \$80K contract asset (or net of any overbilling).

Scenario 3

DEF Electrical completes a job, owner signs off on all work, retainage payment due in 45 days. They keep it as a contract asset.

WRONG: Conditions are met. Only passage of time remains. This is now an unconditional receivable under ASC 606.

Scenario 4

Surety asks GHI Masonry for retainage detail. GHI's balance sheet shows only 'Contract Liabilities: \$425,000' with no breakdown.

OPPORTUNITY: Compliant, but voluntarily disclosing retainage components (FASB Exhibits A or B) would better serve the surety relationship.

Key Takeaways

1 Your WIP schedule drives your financial statements — keep it current, accurate, and reconciled every period.

2 Underbillings = Contract Asset. Overbillings = Contract Liability. Know your net position on each job.

3 Conditional retainage is NOT a receivable under ASC 606 — it must be included in the contract asset or liability balance.

4 Contract positions are netted at the individual contract level — you cannot show both an asset and a liability for the same contract.

5 Consider voluntary disclosures (FASB Exhibits A or B) to provide sureties and lenders with retainage detail — it strengthens relationships.

Q&A

Questions & Discussion