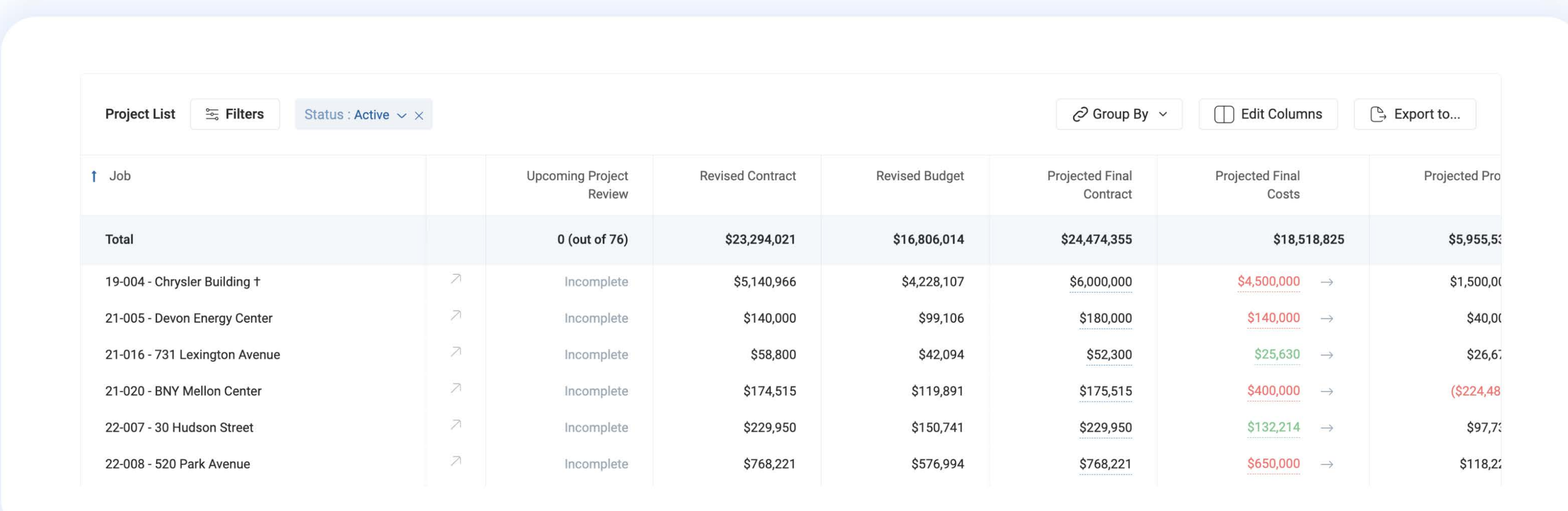
PRONOVOS® | CHECKLIST

The 10 Essential KPIs to Include on Every WIP Report

A well-crafted and timely Work in Progress (WIP) report is essential for effective project management and financial oversight in the construction industry. Knowing which Key Performance Indicators (KPIs) to include can transform your WIP report from a simple progress tracker into a powerful tool for informed decision-making.

This checklist will guide you through the crucial financial KPIs that should be included in every construction business's WIP report. These KPIs will enhance your internal project management while providing your external stakeholders with the necessary insights.

To develop this checklist, we consulted with a network of CPA firms that serve construction clients, business advisors, and construction executives to pinpoint the most critical KPIs for your WIP report. We've distilled their expertise into a list of essential KPIs, ensuring that your report offers the financial clarity and project insights necessary for your team and the financial professionals who rely on it.



Project List | Filters | Status : Active | Group By | Edit Columns | Export to...

Job	Upcoming Project Review	Revised Contract	Revised Budget	Projected Final Contract	Projected Final Costs	Projected Pro
Total	0 (out of 76)	$23,294,021	$16,806,014	$24,474,355	$18,518,825	$5,955,5
19-004 - Chrysler Building †	Incomplete	$5,140,966	$4,228,107	$6,000,000	$4,500,000	$1,500,0
21-005 - Devon Energy Center	Incomplete	$140,000	$99,106	$180,000	$140,000	$40,0
21-016 - 731 Lexington Avenue	Incomplete	$58,800	$42,094	$52,300	$25,630	$26,6
21-020 - BNY Mellon Center	Incomplete	$174,515	$119,891	$175,515	$400,000	($224,48
22-007 - 30 Hudson Street	Incomplete	$229,950	$150,741	$229,950	$132,214	$97,7
22-008 - 520 Park Avenue	Incomplete	$768,221	$576,994	$768,221	$650,000	$118,2

The WIP Report within ProNovos offers up-to-date insights into every KPI in this checklist and more with dynamic filtering capabilities

Metrics That Need to be in Your Work-in-Progress Report

This list is in alphabetical order

Billed-to-Date (AKA Billed Amount)

= the total amount invoiced to the customer on the project

Bob Biehl, CPA, CCIFP with GBQ, explains that the Billed-to-Date metric represents the total amount billed on a project up to a specific date. It is one of four key components used to determine over/under billings on the contracts in the process schedule, alongside the total contract value, estimated cost at completion, and project cost-to-date. The billed-to-date figure includes retainage and is subtracted from earned revenue to calculate whether a project is over or under-billed. The billed-to-date amount should align with the company's most recent AIA billing or its equivalent.

> **EXPERT INSIGHT**
>
> “Represents the cumulative amount billed to the project along with unbilled retainage. It is important to bill as aggressively as possible on the jobs to help improve the cash inflows to the company, to try to stay ahead of cash outflows.”
>
> — Paul Atkinson, CPA, *Smith + Howard*

Earned Revenue (AKA Recognized Revenue)

= (Job Costs-to-Date ÷ Projected Final Cost) × Projected Final Contract OR (Job Cost-to-Date ÷ Estimated Job Cost at Completion) × Total Contract

Earned Revenue (also known as Recognized Revenue) on a WIP report represents the amount of revenue recognized for the work completed on a project based on the percentage of completion method. It is calculated by multiplying the percentage of the project completed (job costs-to-date divided by estimated job cost at completion) by the total contract value. This reflects the revenue a company has earned, independent of actual billings to the client.

Bob Biehl emphasizes that earned revenue is not the same as billings—it’s purely based on the percentage of completion calculation. He notes that "earned revenue from open and closed jobs should reconcile into total contract income on a company’s financial statement."

EXPERT INSIGHT

"When utilizing the percentage of completion method, this is typically calculated based on the cumulative contracts costs to date divided by the revised budgeted costs to get to the percentage of completion and then multiplied by the current contract amount to get to the Earned Revenue. Since earned revenues are based on the calculation of inputs into the job schedule and have nothing to do with actual billings to the client, the estimated costs must be updated periodically (monthly is a best practice) to get to an accurate amount of earned revenue to date."

— Paul Atkinson, CPA, *Smith + Howard*

Job Cost to Date

= the total of all costs on a project

Bob Biehl describes Job Cost-to-Date as the total of all costs incurred on a project up to a specific date, including direct and indirect project costs. It is one of the four key components used to calculate over/under billings on the contracts in the process schedule, alongside total contract value, estimated cost at completion, and billed-to-date. Biehl emphasizes that "the cost-to-date amount comes right off a company's ERP system and should be reviewed by a Project Manager for accuracy."

Overbilling

= Billed to Date on a project > Earned Revenue

Within financial statements, overbilling can be found as "billings in excess of costs."

Overbillings occur when the billed-to-date amount on a project exceeds the earned revenue, meaning that the total amount invoiced to a client is greater than the revenue recognized for the work completed. This situation is classified as a current liability and is included in the contract liabilities section of a company's balance sheet. Overbillings typically arise from billing for work that has not yet been completed or from optimistic estimates of project costs and completion, and they need to be monitored to ensure accurate financial reporting and effective cash flow management.

EXPERT INSIGHT

"It is generally a good practice to be in an overbilling situation to positively impact cash flows to the company. While underbillings are sometimes the result of a billing schedule in the contract, significant underbillings on a job could be a leading indicator that the revised budgeted costs are understated and could ultimately lead to profit fade on a job."

— Paul Atkinson, CPA, *Smith + Howard*

Bob Biehl highlights a few key reasons why a job may be overbilled:

- One prevalent scenario occurs when a general contractor or owner permits overbilling to finance the project.
- Another factor contributing to overbilling is setting the estimated cost to complete too high. This leads to deferred profit and creates a temporary discrepancy between actual progress and billings.

Percentage Complete

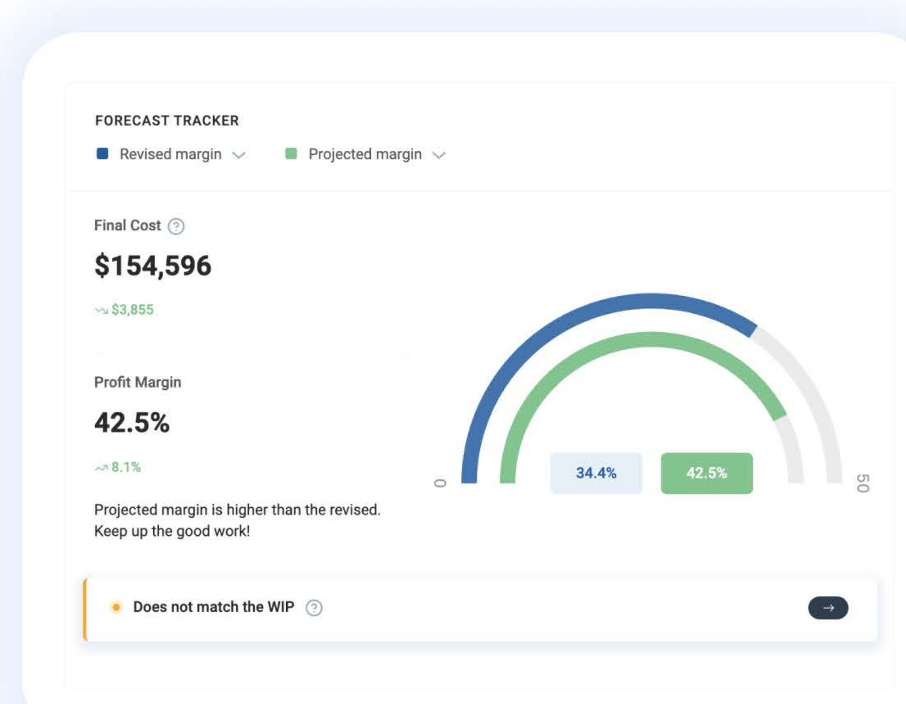
= Job Cost to Date ÷ Projected Final Cost

This percentage indicates how much of the project has been completed based on the costs incurred to date compared to the estimated costs required to finish the project. The % Complete metric is essential for recognizing earned revenue, determining over/under billings, and providing insights into project performance.

Projected Profit (AKA Profit Margin)

= Projected Final Contract – Projected Final Costs

Project profit is the financial gain (or loss) from a construction project after accounting for all associated costs and expenses. It serves as a crucial indicator of the project's financial performance and overall success and indicates where the project might end up with profitability. Understanding project profit enables project managers to make informed decisions regarding budgeting, resource allocation, and future projects. Understanding projected profit lets PMs understand the overall financial health of the project.



Projected Final Cost (AKA Estimated Final Costs or Estimated Costs at Completion)

= the projected estimated cost at completion

Projected Final Cost refers to the predicted total cost of a project at its completion. This estimate takes into account the actual costs incurred so far and the estimated costs remaining to finish the project. It is a critical metric used in financial reporting and project management, and it is essential to have a correct percentage complete for revenue recognition purposes. Accurate estimation of the Projected Final Cost is essential for ensuring that the project remains on track financially and can be completed within budget.

Revise Contract (AKA Current Contract)

= Original Contract Amount + Change Order Contract Amount

The Revised Contract on a WIP report represents the most up-to-date version of the construction contract, incorporating any modifications, changes, or amendments made since the original agreement. This may include adjustments for change orders that include scope modifications or other contractual updates that affect the project's financials and timeline. Keeping the contract updated ensures all stakeholders are informed of current financial obligations and expectations, facilitating better decision-making and resource allocation throughout the project lifecycle.

Revised Budget (AKA Current Budget)

= Original Budget Amount + Change Order Budget Contract Amount

The Revised Budget on a WIP (Work-in-Progress) report represents a new estimate of the project's total cost, taking into account approved change orders that were not included in the original budget. This updated budget reflects adjustments due to changes in project scope, unexpected expenses, and any other factors affecting the financial plan. It is crucial to accurately track project performance, compare actual costs against the revised estimates, and ensure that the project remains financially viable.

Underbilling

= Billed to Date – Earned Revenue

Within Financial Statements, underbillings can be found as “Earnings in Excess of Costs.”

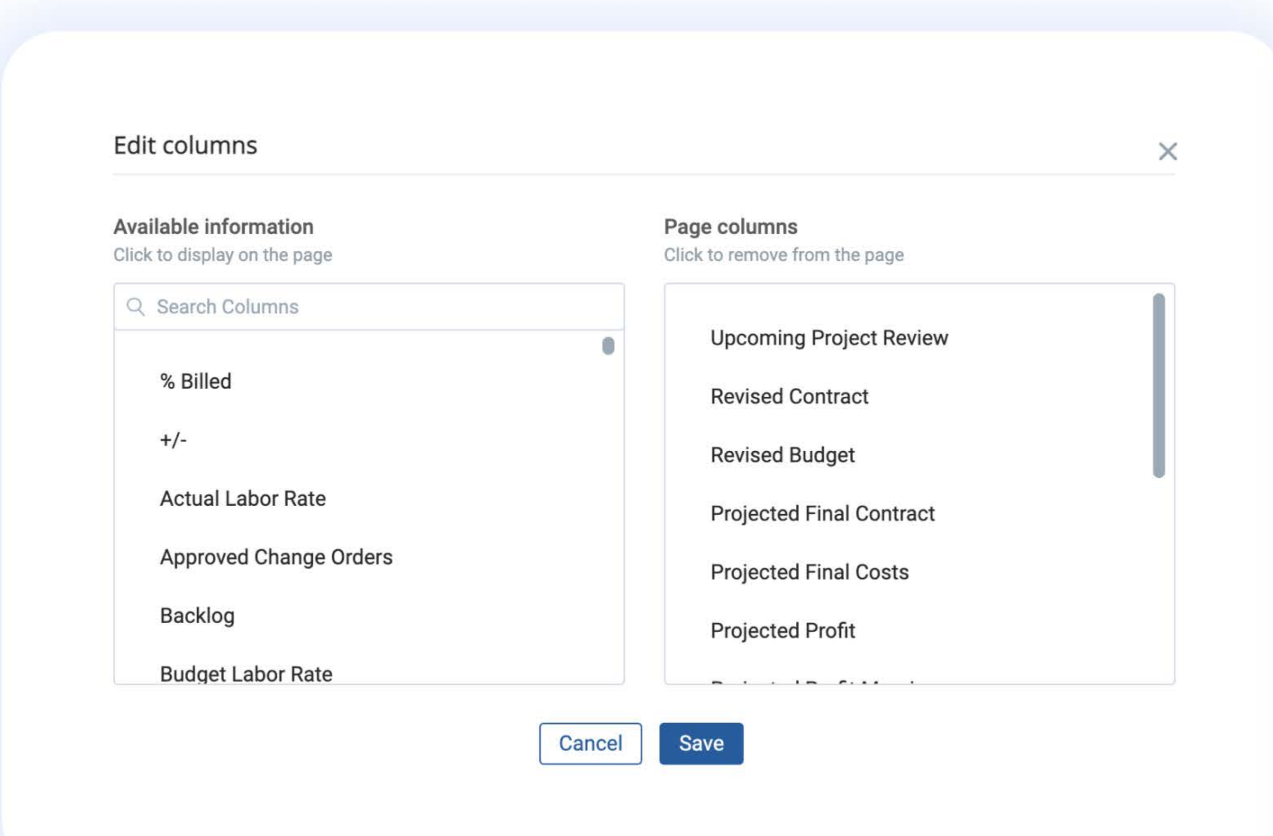
Underbilling on a WIP (Work-in-Progress) report occurs when the billed-to-date amount on a project is less than the earned revenue. In this situation, the project has generated more revenue than what was invoiced to the client, resulting in underbilling being classified as a current asset on the company's balance sheet, specifically under contract assets. Addressing and reducing underbilling is critical for businesses, as it indicates potential cash flow challenges and reflects that the project may not fully capture its earned revenue. As Paul notes, "When earned revenues are greater than the billed-to-date amount, you are in an underbilling situation (contract asset)." Effectively managing underbillings helps ensure financial stability and supports better cash flow management throughout the project lifecycle.

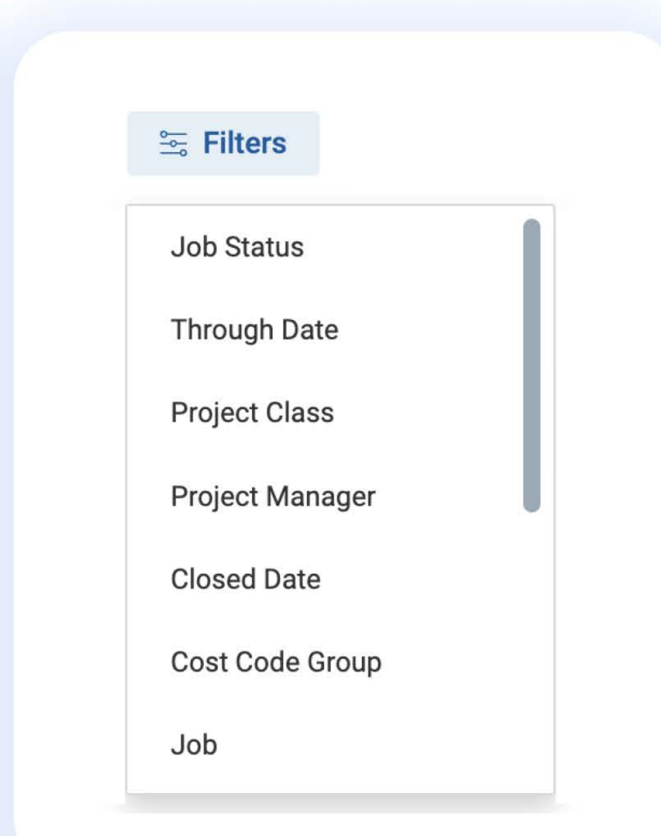
Bob Biehl highlights several reasons why a job may be underbilled. Poor billing practices can cause delays or inaccuracies in invoicing, leading to an underbilled project. Additionally, cost overruns that can't be billed—such as future losses—or unapproved change orders can result in billings lagging behind actual project costs. Another reason is if estimated costs are too low, creating hidden losses that aren't immediately reflected in the billing cycle, further contributing to underbilling.

Want to learn more about Over and Under billings? Download our eBook Financial Fluency: Conquering Over and Under Billings in Construction.

Do More Than Just Have These KPIs; Filter Through Them Dynamically

Using ProNovos WIP, you can customize your reporting experience with dynamic filtering capabilities, allowing you to analyze key performance indicators (KPIs) effectively. You can filter projects by their job status—active, inactive, closed, or bid—and apply custom time periods, such as year-to-date or previous months. With access to over 70 KPIs, you can edit columns to focus on the most relevant data and create multiple versions of the report tailored to your specific needs. This functionality enhances your ability to assess past performance and forecast future outcomes, providing deeper insights into your projects.





Add all the relevant KPIs your business needs

Summary of Key Insights:

FINANCIAL HEALTH

KPIs like Earned Revenue, Job Cost to Date, and Project Profit offer a snapshot of whether the project is profitable and on budget.

PROGRESS TRACKING

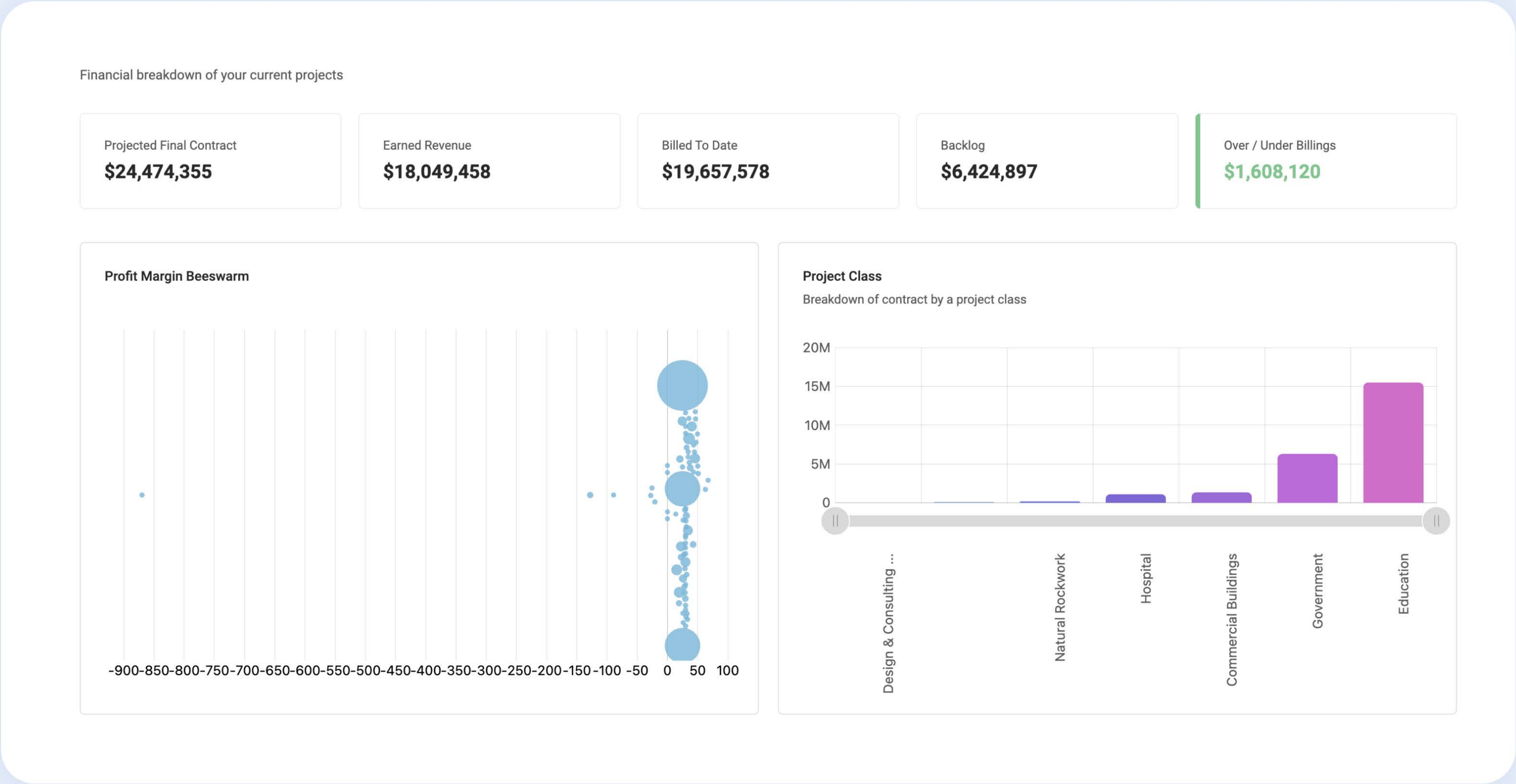
KPIs such as Percentage Complete and Projected Final Cost help track whether the project is progressing according to the plan and budget.

CASH FLOW MANAGEMENT

Billed-to-date, Overbilling, and Underbilling reveal cash flow trends and highlight billing efficiency, ensuring that cash is flowing in accordance with project progress.

CONTRACT AND BUDGET CONTROL

Revise the Contract and Revised Budget to ensure the project's financials are in sync with any changes in scope or unforeseen costs, helping to maintain profitability and avoid surprises.



Say goodbye to rear-view mirror insights and embrace the future of financial reporting! ProNovos provides construction businesses with the financial workflows and tools to improve cash flow and enhance profit margins.

See ProNovos For Yourself!

Acknowledgments

We'd like to send a special thanks to the industry veterans who contributed.

Paul Atkinson
Partner and Head of the Construction Group,
Smith + Howard

SMITH+HOWARD

Paul is a seasoned professional with over 25 years of experience serving the construction industry. As the Partner and Head of the Construction Group at Smith + Howard, he brings extensive expertise in public accounting, specializing in audits and reviews of privately held middle-market companies across the southeast. Paul actively engages with industry peers as a member of the AGC of GA and the Construction Accounting Network, showcasing his commitment to industry knowledge and excellence in financial advisory for construction businesses.

Bob Biehl, CPA, CCIFP
Director, Construction Industry Services,
GBQ Partners

GBQ

Bob is an accomplished professional with extensive construction industry experience, joining GBQ in 1987. As the Director of Construction Industry Services, he provides audit, accounting, litigation support, and management consulting to over 75 construction-related entities. His expertise spans various contractors, including industrial, residential, heavy highway, and specialty trades, specializing in designing accounting procedures, job cost consulting, and quantifying damage and delay claims. Bob has also served as a two-time chairperson for the Ohio Society of Certified Public Accountants Construction Industry Conference Planning Task Force and has spoken for numerous construction trade and educational associations.

ProNovos is a premier cloud-based construction financial workflows and analytics solution. Leveraging existing enterprise resource planning (ERP) systems, we streamline complex data into user-friendly workflows accompanied by easy-to-read charts and graphs. Visit pronovos.com to learn more.