

Welcome, we'll begin shortly.

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Download our ultimate guide to construction accounting transformation.

[info.deltek.com/ultimate-construction-accounting-guide](http://info.deltek.com/ultimate-construction-accounting-guide)



**Deltek + ComputerEase**

# Make Work-in-Progress Work for You

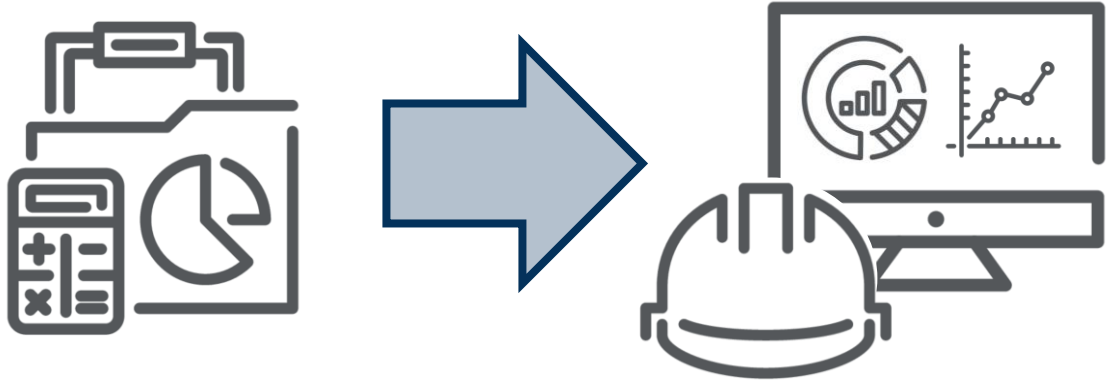


Construction  
Accounting  
University



# Construction Accounting University

- » The *Construction Accounting University* consists of several video classes that are designed to guide contractors through the transformation from standard accounting methods to construction accounting methods





**John Meibers**  
VP/GM at Deltek +  
ComputerEase

## Led by Industry Expert, John Meibers

- » Over 32 years of experience serving the construction industry
- » Started in construction working for a large mechanical contractor in various roles (e.g. Controller) for over 10 years
- » Has spent the last 22 years serving over 4,500 contractors nationwide as the leader of Deltek + ComputerEase
  - » Focused on equipping contractors with the tools they need to manage profitability, drive growth, and meet construction requirements

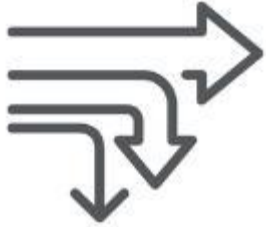
# What You'll Learn in This Webinar

- » What Work-in-Progress reporting is and why it's important for contractors
- » How frequently and how detailed WIP reports should be for your particular business
- » The different types of WIP calculation methods and when they are applicable
- » How to avoid common WIP mistakes
- » How to get started with WIP if implementing for the first time



Construction  
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# Challenges By the Numbers



**60%**

More than 60% of small construction companies fail within the first five years



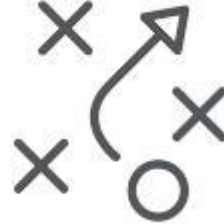
**25%**

Just 25% of projects came within 10% of their original deadlines in the past 3 years



**45%**

of construction professionals report spending more time than expected on non-optimal activities



**52%**

of rework is caused by poor project data and miscommunication



**9%**

on average is the cost of rework on a project

# Poll Question

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What is your current accounting or construction ERP system?

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Foundation

Jonas

QuickBooks

Sage

ViewpointOther

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# Work-in-Progress Overview

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## Are You Playing to Win?

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- » Imagine playing a game and not knowing the score of the game until after the game is over
  - » How can you make the right decisions during the game so that you end up ahead?

# What is Work-in-Progress?

- » Work-in-Progress identifies the value of the work that has been completed
- » The following 5 values are needed:
  - » The contract price for the job
  - » The total cost estimate for the job
  - » The cost-to-date
  - » The billed-to-date
  - » The projected cost-to-finish



# What Jobs are Winning?

Work in Progress Report - WIP or Get Whipped

Drill-down Edit View Tools

Job	Contract Amount	Estimated Cost	Billed To Date	Cost To Date	Est. Cost Remaining	Revised Estimate	Final Profit	Over Billed	Under Billed	Pct Cmp	Earned Income	Contract Balance
M1 Mistake #1	125,000.00	100,000.00	62,500.00	50,000.00	75,000.00	125,000.00	0.00	12,500.00		40	0.00	62,500.00
M2 Mistake #2	36,000.00	28,750.00	0.00	16,250.00	15,520.83	31,770.83	4,229.17		18,413.11	51	2,163.11	36,000.00
M3 Mistake #3	36,000.00	30,000.00	0.00	17,500.00	14,500.00	32,000.00	4,000.00		19,687.50	55	2,187.50	36,000.00
	<u>197,000.00</u>	<u>158,750.00</u>	<u>62,500.00</u>	<u>83,750.00</u>	<u>105,020.83</u>	<u>188,770.83</u>	<u>8,229.17</u>	<u>12,500.00</u>	<u>38,100.61</u>	<u>44</u>	<u>4,350.61</u>	<u>134,500.00</u>
Labor		87,000.00		47,000.00								
Burden		21,750.00		11,750.00								
Material		50,000.00		25,000.00								



# Why are WIP Reports Essential?

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- » Better management of your jobs
  - » Make smarter day to day decisions
  - » Be proactive instead of reactive
- » Accurate financial statements
  - » The over/under billing from the WIP is key to an accurate financial statement
  - » Companies should use this data to help grow their bottom-line profits

# Poll Question

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» Do you use your current software to prepare Work In Progress reports?

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# WIP Fundamentals

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## Common Mistakes

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- » Not tracking committed costs
- » Confusing margin with markup
- » Confusing % spent with % complete
- » Not running frequent WIP reports
- » Not making WIP adjustments in the P&L



# Frequency of WIP Reporting

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- » Some only run a WIP report when absolutely required
  - » Others run a WIP report monthly or weekly
- » The frequency of your reporting will be based on the specific parameters of your unique business





# Poll Question

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» How often do you run a Work in Progress report?



# Just How Detailed Do I Need to Be?

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- » Cost to complete is the key
- » Timely updates of projected cost, by activity, are critical
- » There are three common methods to calculate cost to complete
- » Company wide WIP report
  - » Stability of the company
  - » Financial Statement
  - » Bonding Agent & Bank
- » Job by job WIP report
  - » Details of the specific tasks

# Overbilling vs. Underbilling

## » Overbilling

- » Occurs when a contractor bills ahead of work completed
- » If managed properly, overbilling can positively affect cash flow
- » If unmanaged, it can be problematic because contractors will not have the available cash to fund the remaining work
- » *Common mistake:* Confusing overbillings with profit

## » Underbilling

- » Occurs when a contractor bills for less money than what was earned for work completed
- » This can be problematic as well because underbilling can result in negative cash flow and numerous other issues



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# WIP Calculation Methods

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# Method 1: Percent Complete

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- » When you don't have a measurable unit
- » Your best estimate of progress on a job
  - » An educated guess is still better than “I don't know”



# Are you asking the right questions?

Work in Progress Report												
Job	Contract Amount	Estimated Cost	Billed To Date	Cost To Date	Est. Cost Remaining	Revised Estimate	Final Profit	Over Billed	Under Billed	Pct Cmp	Earned Income	Contract Balance
M1	125,000.00	100,000.00	62,500.00	50,000.00	50,000.00	100,000.00	25,000.00	—	0.00	50	12,500.00	62,500.00
	125,000.00	100,000.00	62,500.00	50,000.00	50,000.00	100,000.00	25,000.00	0.00	0.00	50	12,500.00	62,500.00
Labor		40,000.00		20,000.00								
Burden		10,000.00		5,000.00								
Material		50,000.00		25,000.00								





## Method 2: Units Complete

- » Units complete in conjunction with % of budget spent
  - » There are 100 light fixtures to install and we have installed 50 of them
    - » The project is 50% completed
  - » However if 80% of the budget has been spent, we have a problem



# Again, Are You Asking the Right Questions?

Work in Progress Report												
<u>Job</u>	<u>Contract Amount</u>	<u>Estimated Cost</u>	<u>Billed To Date</u>	<u>Cost To Date</u>	<u>Est. Cost Remaining</u>	<u>Revised Estimate</u>	<u>Final Profit</u>	<u>Over Billed</u>	<u>Under Billed</u>	<u>Pct Cmp</u>	<u>Earned Income</u>	<u>Contract Balance</u>
M2												
	Mistake #2											
	36,000.00	28,750.00	0.00	16,250.00	12,500.00	28,750.00	7,250.00		20,347.83	57	4,097.83	36,000.00
	36,000.00	28,750.00	0.00	16,250.00	12,500.00	28,750.00	7,250.00	0.00	20,347.83	57	4,097.83	36,000.00
Labor		23,000.00		13,000.00								
Burden		5,750.00		3,250.00								

# Communicate Productivity by Units or % Complete

Percent Completed Report											
Job: M2		Mistake #2		Est.	Actual	Percent	Estimated	Cost	Proj. Cost	Projected	Cost
<u>Cat.</u>	<u>Description</u>	<u>Unit of Measure</u>	<u>Units</u>	<u>Units</u>	<u>Complete</u>	<u>Cost</u>	<u>To Date</u>	<u>Remaining</u>	<u>Cost</u>	<u>Overrun</u>	
20	Excavate	LS	1,000	800	80.0F	8,750.00	8,750.00	2,187.50	10,937.50	2,187.50	
30	Form	SF	1,000	600	60.0F	10,000.00	5,000.00	3,333.33	8,333.33	-1,666.67	
40	Pour	CY	1,000	200	20.0F	10,000.00	2,500.00	10,000.00	12,500.00	2,500.00	
Job M2 Totals					51.1	28,750.00	16,250.00	15,520.83	31,770.83	3,020.83	

# The Reality

Work in Progress Report												
<u>Job</u>	<u>Contract Amount</u>	<u>Estimated Cost</u>	<u>Billed To Date</u>	<u>Cost To Date</u>	<u>Est. Cost Remaining</u>	<u>Revised Estimate</u>	<u>Final Profit</u>	<u>Over Billed</u>	<u>Under Billed</u>	<u>Pct Cmp</u>	<u>Earned Income</u>	<u>Contract Balance</u>
M2	36,000.00	28,750.00	0.00	16,250.00	15,520.83	31,770.83	4,229.17		18,413.11	51	2,163.11	36,000.00
	36,000.00	28,750.00	0.00	16,250.00	15,520.83	31,770.83	4,229.17	0.00	18,413.11	51	2,163.11	36,000.00
Labor		23,000.00		13,000.00								
Burden		5,750.00		3,250.00								



## Method 3: Cost-to-Finish

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- » What do I need to finish the job?
- » I already know what we have spent to date

**Cost to Date + Cost-to-Finish =  
My Revised Estimate**

# Is This Job Really 58% Complete?

Work in Progress Report												
Job	Contract Amount	Estimated Cost	Billed To Date	Cost To Date	Est. Cost Remaining	Revised Estimate	Final Profit	Over Billed	Under Billed	Pct Cmp	Earned Income	Contract Balance
M3	36,000.00	30,000.00	0.00	17,500.00	12,500.00	30,000.00	6,000.00	—	21,000.00	58	3,500.00	36,000.00
	36,000.00	30,000.00	0.00	17,500.00	12,500.00	30,000.00	6,000.00	0.00	21,000.00	58	3,500.00	36,000.00
Labor		24,000.00		14,000.00								
Burden		6,000.00		3,500.00								

# Let's Find Out

## Percent Completed Report

Job: M3

Mistake #3

<u>Cat.</u>	<u>Description</u>	<u>Unit of Measure</u>	<u>Est. Units</u>	<u>Actual Units</u>	<u>Percent Complete</u>	<u>Estimated Cost</u>	<u>Cost To Date</u>	<u>Proj. Cost Remaining</u>	<u>Projected Cost</u>	<u>Cost Overrun</u>
20	Excavate	LS	1,000	0	100.0C	10,000.00	10,000.00	0.00	10,000.00	0.00
30	Form	SF	1,000	0	41.7R	10,000.00	5,000.00	7,000.00	12,000.00	2,000.00
40	Pour	CY	1,000	0	25.0C	10,000.00	2,500.00	7,500.00	10,000.00	0.00
Job M3 Totals					54.7	30,000.00	17,500.00	14,500.00	32,000.00	2,000.00

# With Thin Margins, You Can Win or Lose by 3%

Work in Progress Report												
Job	Contract Amount	Estimated Cost	Billed To Date	Cost To Date	Est. Cost Remaining	Revised Estimate	Final Profit	Over Billed	Under Billed	Pct Cmp	Earned Income	Contract Balance
M3	36,000.00	30,000.00	0.00	17,500.00	14,500.00	32,000.00	4,000.00		19,687.50	55	2,187.50	36,000.00
	36,000.00	30,000.00	0.00	17,500.00	14,500.00	32,000.00	4,000.00	0.00	19,687.50	55	2,187.50	36,000.00
Labor		24,000.00		14,000.00								
Burden		6,000.00		3,500.00								

# Recap: Commonly Used WIP Methods

- » Units complete, percent complete, cost-to-finish
- » Better than just comparing the estimated cost to the actual costs
- » \$100K budgeted job, \$50K has already been spent
  - » Worst assumption would be that the job is 50% complete
  - » Odds are against you that you will spend exactly \$100,000





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# Common WIP Mistakes

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# What's the Difference Between Then and Now?

Profit Variance Report - WIP or Get Whipped

Print-down Edit View Tools

Profit Variance Report

Job #	Job Name	----- Prior Period -----			----- Current Period -----			----- Gain / (Fade) -----		Estimated Profit
		Contract Amount	Estimated Cost	Estimated Profit	Contract Amount	Estimated Cost	Estimated Profit	Contract Amount	Estimated Cost	
M1	Mistake #1	125,000	100,000	25,000	125,000	125,000	0	0	25,000	(25,000)
M2	Mistake #2	36,000	31,771	4,229	36,000	31,771	4,229	0	0	0
M3	Mistake #3	36,000	30,000	6,000	36,000	32,000	4,000	0	2,000	(2,000)
		<u>197,000</u>	<u>161,771</u>	<u>35,229</u>	<u>197,000</u>	<u>188,771</u>	<u>8,229</u>	<u>0</u>	<u>27,000</u>	<u>(27,000)</u>

# Common WIP Mistake

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- » Using a percent complete, which is based on actual to estimated costs for WIP reporting
  - » Cost incurred often has nothing to do with how far along a job is
    - » False assumption that all is well, everything is on track
    - » Not having a full picture of the job and where it stands
- » **Recommendation:** Use other methods!
  - » Add actual costs to date to the projected cost to complete
  - » Units in place
  - » Estimate of percent complete

# Common P&L Mistake

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- » Not properly recognizing revenue
  - » Profit projections without projected job costs are *always wrong*
- » **Recommendation:** Use accurate projected job costs
  - » The importance of job cost projections cannot be overstated
  - » You can do it the easy way or the hard way
  - » Investing in the easy way is recommended

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# WIP Starter Guide

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# Work-in-Progress Starter Guide



## Start Small

Start WIP on one job and use a minimal amount of job codes



## Champion a Team

Pick a team with a PM that gives you the best chance of success



## Pick the Right Job

Pick a job that is representative of the average job



## Pick a Method

Pick between units complete, % complete, or cost-to-finish



## Meet, Measure, Adjust

Stick to a cadence to meet with your team to evaluate progress



## Learn, Improve, Expand

Learn from mistakes and success alike to take to the next job or jobs

# Questions?

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Contact Us:

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