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**WORK IN PROGRESS SCHEDULE (WIP)
JUST HOW IMPORTANT IS THIS CONTRACTOR
WIP SCHEDULE?**

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WIP

Just How Important Is It?

(Can it just be close?)

A short Anecdote about Lee Trevino.

Some years ago Ray Sanchez, a local sports historian and writer, related a story about Lee Trevino, a famous golfer who used to live in El Paso.

Ray spoke about walking up on the practice tee where Lee was hitting balls. Lee must have had several hundred golf balls scattered about. Lee would reach over with whatever club he was using and slide a ball over to the hitting area. After taking his stance, getting his grip, making sure he was lined up, Lee would do his “waggle”, take his backswing, and hit the ball. Then he’d do it again, and again, and again, and again.

Ray commented, “You’re not even following the ball. You don’t watch it at all after you hit it?”

Lee said, “I know where it went. If I get everything right, right here, it’ll be just fine down there.”

In other words, IT’S IN THE DETAILS DUDE!

Role of the Accounting Department

A famous Marine general, when asked about his hatred of communism and communists, responded, "I don't hate communism or communists. My job is to be always ready to saddle up and ride when the Commander in Chief says, "saddle up and ride".

Likewise, the primary role of the accounting department is to be always ready, whenever the owner, the bonding company, the bank who extended credit or whomever is being asked to extend credit, or any other appropriate user of the company's financial information, asks for the status of any job, or all jobs, or the company as a whole, to provide that information. **ACCURATELY AND TIMELY!**

Roles in the Accounting Department

1. One (or maybe more) person(s) may fly along at 40,000 feet, looking over the landscape, making sure the roads look OK, watching for large obstacles.
2. One (or maybe more) person(s) may stay at ground level with an eye to every detail.
3. Others fall somewhere in between.

Just a quick note.

Sometimes after a comptroller has been with a contractor for awhile and has been through a couple of year end audits or reviews or compilations, and they've heard the outside CPA make comments such as, "it's not material", the comptroller gets the wrong impression. The comptroller's job is not to get it "close enough". His/her job is to get it correct, every time.

Materiality is an auditor thing.

THE SINGLE MOST IMPORTANT ACCOUNTING SCHEDULE IN ANY CONSTRUCTION COMPANY!!

What's the most important schedule to be used in the preparation of financial statements in any construction company?

****THE WIP SCHEDULE****

1. The WIP schedule is the most important summary schedule produced by the accounting department in a construction company.
2. It is critical.

Who is Responsible for Preparing the Schedule? (2)

THE ACCOUNTING DEPARTMENT CAN'T PREPARE THE WIP SCHEDULE IN A VACUUM.

IT REQUIRES INPUT FROM LOTS OF OTHER PEOPLE IN THE COMPANY.

IF YOU DON'T HAVE ACCURATE AND TIMELY INFORMATION FOR THE WIP, THEN DON'T PREPARE IT!!

DON'T PREPARE A WIP UNLESS IT'S CORRECT TO THE BEST OF YOUR KNOWLEDGE!!

It's worse to produce an incorrect WIP schedule and give it to someone who's going to rely on it than it is to just tell them you can't produce it.

A USELESS DOCUMENT?

The very worst thing you can do with a WIP schedule is furnish one, monthly or quarterly, to your bonding company that shows everything is hunky dory only to find out at year end that all those WIP schedules were incorrect.

In fact, a “useless document” is better than a document that produces “negative utility”. An incorrect WIP schedule is worse than useless.

There is no quicker way to lose the trust of your bonding agent, banker, shareholders.

And who’s going to be blamed when people start losing trust? That’s right.

The accountant who prepares the WIP schedules.

REMEMBER! The WIP schedule is not just a function of the accounting department.

The accounting department is the last stop before it is delivered to the user, eg., the owner, shareholders, bonding company, bank, etc. But almost all the information on the WIP is furnished by someone else.

Who is Responsible for Preparing the Schedule?

EVERYONE!

1. The owner.
2. All project managers.
3. All supervisors.
4. All estimators.
5. All bookkeepers.
6. The CFO.
7. EVERYONE!

What information is provided by the owner?

It depends on the size of the company and the business model.

If it's a small to medium size company the owner must let the accounting department know when there's a new contract.

OR CHANGE ORDER!

If you don't have current accurate information regarding contract amounts or **CHANGE ORDERS**, then don't bother preparing a WIP.

Why not, you ask?

BECAUSE IT WILL BE A WORSE THAN USELESS DOCUMENT WHEN YOU'RE FINISHED. IT WILL HAVE "NEGATIVE UTILITY".

What information is provided by the owner? (2)

If it's a small to medium size company the owner must provide
"Estimated Cost to Complete".

If it's a larger company, it may be the project manager, working with
the estimator, providing *Estimated Cost to Complete*.

But whoever provides it,

***ESTIMATED COST TO COMPLETE IS NOT A NUMBER CALCULATED ON
THE WIP SCHEDULE!!! IT'S A JUDGMENT!!!***

More later.

What Information is Provided by Project Managers?

Project managers, depending on the size of the company and the business model, are sometimes charged with ordering goods and materials, generating contracts with subs (AND HAVING THEM APPROVED BY THE OWNER BEFORE THE WORK IS DONE), ensuring that all sub billings are promptly delivered to accounting, and myriad other tasks.

If the project manager doesn't perform these tasks, accurately and timely, don't bother preparing a WIP schedule.

Why not? Why not at least prepare the WIP, you ask?

BECAUSE IT WILL BE A WORSE THAN USELESS DOCUMENT WHEN YOU'RE FINISHED. IT WILL HAVE "NEGATIVE UTILITY".

It will be incorrect!

What is the CFO's responsibility?

The CFO is responsible for ensuring that the accounting department runs like a well oiled clock.

The CFO establishes deadlines for submission of paperwork and follows up on slacking.

The CFO, once paperwork is received, ensures that everything, everything, is entered, reviewed, and balanced daily.

What if a bookkeeper receives a \$200K invoice from a supplier late one Friday afternoon. But due to a liaison later that evening, slides the invoice in the bottom drawer for input next week. But then forgets about it. Imagine the error on the next WIP.

Calculation of the WIP

For years, GAAP required that long-term contracts be accounted for under SOP 81-1 and the related literature.

For reporting periods beginning after December 15, 2017 we will use ASC606.

I assume, however, that most will continue to report under the percentage of completion as before and draft their contracts accordingly.

<https://www.mossadams.com>

My WIP

- Keep in mind that this is my WIP schedule. Over the past 23 years I've added to this workbook, changed it, and made it into something that works for me. And when I was with a large firm, if someone was working on an engagement for me, I'd insist that they also use it. There's nothing more maddening, for me, in public accounting, than staff people creating their own workpaper masterpieces that no one has seen before and trying to figure out what they're doing. So I used it, still use it, and it has made my life much easier.

Best Practices (One of them according to Bob)

One thing I do, not sure I'd call it "the best practice" because I'm not sure there is one best practice, but when I have the WIP schedule in agreement with the annual audited/reviewed/compiled/tax return, I protect it and start a new one for the new year. And the only numbers on the new one from prior years are the prior year revenue, prior year expenses, billings to date as of prior year per the audited or reviewed or compiled or tax return financial statements.

And, and this is very important, the only prior year jobs that should be on this year's WIP are those that were **in progress at the end of the prior year**.

I believe that's the "best practice".

The Basic WIP

A	B	C	D	E	G	H	I	J	K	L	M
Line No.	Job No	Code	Loc	Job Name	Adjusted Contract Amt	Est Total Costs	Estimated Gross Profit	Est GP Pcnt	P.Y. Costs	C.Y. Costs	Total Costs to Date
18	R2017.17	0	0	CAPITAL BUILDING, WASHINGTON.	0.00	0.00	0.00	0.00%	0.00	0.00	0.00
1	R2017.01	0	0	CAPITAL BUILDING, WASHINGTON.	627,552.64	629,515.27	-1,962.63	-0.31%	232.00	344,128.86	344,360.86
15	R2017.14	0	0	CAPITAL BUILDING, WASHINGTON.	363,489.80	328,127.63	35,362.17	9.73%	0.00	105,354.21	105,354.21
37	R2017.36	0	0	CAPITAL BUILDING, WASHINGTON.	417,494.00	322,556.32	94,937.68	22.74%	0.00	207,345.48	207,345.48
14	R2017.13	0	0	CAPITAL BUILDING, WASHINGTON.	765,555.67	502,028.25	263,527.42	34.42%	182,979.16	256,951.24	439,930.40
38	R2017.37	0	0	CAPITAL BUILDING, WASHINGTON.	116,797.75	114,419.50	2,378.25	2.04%	0.00	109,755.46	109,755.46
4	R2017.04	0	0	CAPITAL BUILDING, WASHINGTON.	1,151,847.00	840,460.55	311,386.45	27.03%	787,861.18	52,599.37	840,460.55
5	R2017.05	0	0	CAPITAL BUILDING, WASHINGTON.	1,085,139.64	442,208.78	642,930.86	59.25%	335,847.94	106,360.84	442,208.78
26	R2017.25	0	0	CAPITAL BUILDING, WASHINGTON.	10,650.00	5,679.58	4,970.42	46.67%	0.00	5,679.58	5,679.58
28	R2017.27	0	0	CAPITAL BUILDING, WASHINGTON.	4,000.00	3,272.89	727.11	18.18%	0.00	3,272.89	3,272.89
31	R2017.30	0	0	CAPITAL BUILDING, WASHINGTON.	750.00	694.79	55.21	7.36%	0.00	694.79	694.79
2	R2017.02	0	0	WARRANTY WORK	0.00	253.32	-253.32	#DIV/0!	0.00	253.32	253.32
3	R2017.03	0	0	WARRANTY WORK	0.00	0.00	0.00	0.00%	0.00	0.00	0.00
10	0	0	0	0	0.00	0.00	0.00	0.00%	0.00	0.00	0.00
24	R2017.23	0	0	CAPITAL BUILDING, WASHINGTON.	0.00	850.64	-850.64	#DIV/0!	0.00	850.64	850.64
41	R2017.40	0	0	YARD IMPROVEMENTS	0.00	0.00	0.00	0.00%	0.00	0.00	0.00
42	R2017.41	0	0	YARD	0.00	0.00	0.00	0.00%	0.00	0.00	0.00
43	R2017.42	0	0	OTHER YARD	0.00	0.00	0.00	0.00%	0.00	0.00	0.00
44	0	0	0	Accrued Loss on CIF	0.00	800.00	-800.00	#DIV/0!	0.00	800.00	800.00
						2200.15			2200.15	2200.15	
					6,578,329.86	5,081,421.33	1,496,908.53		2,032,785.75	2,358,735.02	4,391,520.77

The Basic WIP

N	O	P	R	S	T	U	V	W	X	Y
Est Cost to Compl	Stage of Comp	Earned Revenues	(From billing requests) Billed To Date	26000 (Over) Billings	14005 Under Billings	14050 Unbilled Receivables	Revenue Earned Per Books P.Y.	Revenue Earned Per Books Current Year	Total Revenues Earned Per Books	Billed to Date <= Contract Amt
0.00	0.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
285,154.41	54.70%	343,287.00	325,589.51	0.00	17,697.49	0.00	-320.00	-342,967.00	-343,287.00	OK
222,773.42	32.11%	116,708.00	76,545.65	0.00	40,162.35	0.00	0.00	-116,708.00	-116,708.00	OK
115,210.84	64.28%	268,373.00	308,814.00	40,441.00	0.00	0.00	0.00	-268,373.00	-268,373.00	OK
62,097.85	87.63%	670,861.00	689,355.87	18,494.87	0.00	0.00	-233,568.00	-437,293.00	-670,861.00	OK
4,664.04	95.92%	112,037.00	110,970.66	0.00	1,066.34	0.00	0.00	-112,037.00	-112,037.00	OK
0.00	100.00%	1,151,847.00	1,151,846.00	0.00	0.00	1.00	-1,000,278.00	-151,569.00	-1,151,847.00	OK
0.00	100.00%	1,085,140.00	1,085,139.64	0.00	0.00	0.36	-921,846.00	-163,294.00	-1,085,140.00	OK
0.00	100.00%	10,650.00	10,650.00	0.00	0.00	0.00	0.00	-10,650.00	-10,650.00	OK
0.00	100.00%	4,000.00	4,000.00	0.00	0.00	0.00	0.00	-4,000.00	-4,000.00	OK
0.00	100.00%	750.00	750.00	0.00	0.00	0.00	0.00	-750.00	-750.00	OK
0.00	100.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
0.00	0.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
0.00	0.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
0.00	100.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
0.00	0.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
0.00	0.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
0.00	0.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
0.00	100.00%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	OK
2200.15										
689,900.56		5,798,706.00	5,797,456.86	58,935.87	58,926.18	1,260.84	-2,522,226.00	-3,276,480.00	-5,798,706.00	

The Basic WIP

A The reason I had enter the integer in column A is so that I can sort this worksheet on any other column and then reset it by sorting on column A.

B Column B is the job number you use to identify your jobs. There should be one job number per job.

C and D Put anything you want in C. D helps for out of state jobs (Tax purposes)

E Job name

F Not important unless you're the outside accountant

The Basic WIP

G Column G is the "Adjusted Contract Amount" as of RIGHT NOW. Not as of the date of the financial statement. Because, since you're on POC, if this number changes, up or down, it will also change revenue earned to date. There's been much discussion about which number to use here. "What if I have an unapproved change order?" Well, I've always used, and I've heard this at one AICPA Construction conference after another, the amount from the latest change order, even if it's not approved, but it has been signed by our contractor and submitted to the owner/GC. For an extra degree of conservativeness (is this a word?), you can eliminate any profit from the change order and only consider the amount that is equal to costs. But that's an accounting policy and must be disclosed.

The Basic WIP

Columns H,K,L,M have to do with job costs. ALL JOB COSTS!! What are job costs? What do you mean ALL JOB COSTS?

1. Direct costs include labor, materials, subcontractors directly related to the installation and preparation of materials and services incorporated into the final project.
2. Overhead and Indirect Costs Based on Some Consistent and Defensible Basis. (OAICBOSCADB)

It is not the owner's Mercedes or his daughter's "Sweet 16" or "Quinceanera".

The Tricky Part is Allocating Overhead and Indirect Costs!

Indirect costs include indirect labor, contract supervision, tools and equipment, supplies, quality control and inspection, insurance, repairs and maintenance, depreciation on construction equipment. The list is not exhaustive and may include others.

You must have some consistent and defensible method of allocating indirect and overhead (OAICBOSCADB). It can't be which job is losing money and which isn't. One method in wide use is to calculate the ratio of direct labor dollars/by job to total direct labor dollars and no one, not the bonding company, not the IRS, no one has ever challenged that method so far as I know.

But the operative thought here is, if you haven't been allocating OAICBOSCADB, you have not included all costs and your WIP is INCORRECT!

Note to Overhead and Indirect

If you don't want to allocate OAICBOSCADB and you're only preparing the WIP for internal use and no one outside the company will use the WIP as a decision making tool, and the owner is OK with the information presented, then all is well. But if the WIP will be used by the bonding company to make risk management decisions, or the bank to make lending decisions, or potential investors, it has to be correct. And it will only be correct if indirect and overhead is properly allocated.

Column K, Prior Year Costs

These are historical costs! ALL COSTS FOR PRIOR YEAR(S) AS REPORTED!! These are the costs as per your prior year audited/reviewed/compiled financial statements or tax returns. No changes.

Column L, Current Year Costs

“Current Year Costs” is historical. It is ALL costs for the current year through the period you're reporting on.

ALL COSTS! What do we mean when we say ALL COSTS? That's right! ALL COSTS is all direct costs plus your allocation of OAICBOSCADB.

The total of this column MUST AGREE WITH YOUR COST OF GOODS SOLD accounts per your GL.

Column N, Estimated Cost to Complete

This is most difficult to obtain accurate data. The information in this column is NOT CALCULATED ON YOUR WIP SCHEDULE BY SUBTRACTING COSTS TO DATE FROM TOTAL ESTIMATED COSTS. This is the project manager's and the owner's best calculation, based on adjusted job cost data including goofs and changes, of remaining work to be done and its cost. And the only accurate (sometimes) method of obtaining this is to look at each of the phases of the job carefully to determine remaining work and cost.

ESTIMATED COST TO COMPLETE MUST INCLUDE AN ESTIMATED ALLOCATION OF OAICBOSCADB.

Everyone (owner, project managers, CFO) should review these numbers at the job completion to determine how well the job was estimated.

The result might be just a little shocking.

Column H, Estimated Total Costs

THIS IS A CALCULATED NUMBER! IT IS NOT A SWAG!

The calculation is;

Prior Year Costs (Including allocation of OAICBOSCADB) plus

Current Year Costs (Including allocation of OAICBOSCADB) plus

Estimated Cost to Complete (Including allocation of OAICBOSCADB) equals

Estimated Total Costs (Including allocation of OAICBOSCADB)

Column R, Billed to Date

This includes all amounts billed and of course posted to the GL as of the period ended reporting date.

Billed to Date is no different than any other accounting amount. The “matching principle” is at play.

If you receive any invoice on January 15 from a sub for work performed for you in December, you post it to December.

If you bill an owner on January 15 for work you performed for him/her through December, you post it to December.

That simple.

Another Best Practice

I like to set up one GL revenue account for billings and post all billings to that account. Then, you can have a second GL revenue account that you use to post your over/under billings adjustments as made. By doing so, you can check the logic of your WIP schedule by tying the total of your current year billings to the GL revenue account for billings. You can then check Column W, Revenue Earned per Books Current Year to the net of your two GL revenue accounts. **IT HAS TO AGREE!!**

Column O, Stage of Completion

Column O is calculated.

It is;

Total costs to date/Total Estimated Costs

That's the percentage of your contract you're entitled to recognize if you're using POC under the new ASC and your contracts are structured accordingly.

Column P, Earned Revenues

This is calculated.

It is your stage of completion which represents, in percent, how much of the contract you're entitled to at that moment in time, multiplied by the total adjusted contract amount.

It's the dollars you're entitled to recognize, for that contract, if you're using POC under the new ASC and your contracts are structured accordingly.

The total of Column P must equal, if you decide to use the Best Practice described above, your two revenue accounts.

Column Y, Another Best Practice

This column is a logic test.

If you somehow enter a number in Column R, Billed to Date, that is greater than your adjusted contract amount, then this column will return "Error".

How can you bill more than the contract amount?

Columns S and T, Over/Under Billings

These are calculated columns.

If Column R, Billed to Date, is greater than Column P, Earned Revenues, then you've billed the owner more than you're entitled to recognize and you now have a liability. You owe the owner some work for the money you've billed.

If Column R, Billed to Date, is less than Column P, Earned Revenues, then you've not billed the owner what you entitled to recognize and you have an asset, a "receivable" if you will.

However, according to Robert Davidson, "You never have an underbilling. What you have is an error, probably in your Estimated Cost to Complete."

And by the way, most bonding companies feel the same way. They're just not quite so blunt about it.

Thank you for listening (hopefully)
Questions?

There are two files that may be of interest.

Moss Adams New Revenue Recognition for Contractors

<https://1drv.ms/b/s!AuDZOJdMUgpUiTVit1EGHIqXqSKA>

Corecon Should Company Overhead Expenses be Included in Job Cost Reports

<https://1drv.ms/b/s!AuDZOJdMUgpUiTSctyHb8kT34vSa>