

How to Use WIP Reports to Improve Construction Cash Flow

In construction, a project may be moving forward every day, but the financial picture isn't always easy to see. Materials are being purchased, labor is being used, and subcontractors are completing work. But from an accounting standpoint, the question is: How much work has actually been completed? How much revenue has been earned? And how does that compare to what has been billed? That is where work in progress, or WIP, comes in.

WIP represents the value of construction work that has started but isn't finished yet. It helps contractors connect project costs, estimated costs, billing, and revenue recognition into one clearer view. For example, if a project is worth \$1 million and is estimated to be 60% complete, the contractor has earned about \$600,000 of that contract value. That amount can then be compared to what has already been billed. If the contractor has completed more work than they had billed for, the project may be underbilled. That can create cash flow pressure because money is lagging behind the work performed. If the contractor has billed more than the work completed, the project may be overbuilt. That can help short-term cash flow, but it also means there is still work left to complete.

WIP reporting helps contractors understand where each job really stands. It can show whether a project is on budget, billing is accurate, and financial statements reflect the true progress of ongoing work. But WIP reports are only useful if the data is accurate. Job costs need to be tracked closely. Estimated costs should be updated regularly, and accounting teams and project managers need to communicate often.

Reviewing WIP schedules monthly can help catch problems early, especially when there are change orders, rising costs, or delays. At the end of the day, WIP is more than an accounting term. It's a tool that helps construction companies protect cash flow, monitor profitability, and make better decisions before small issues become bigger problems.

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