CONSTRUCTION ACCOUNTING & JOB COSTING

QuickBooks Online Setup Guide for U.S. Construction Companies

Senior Financial Accountant — Construction Industry Specialist

Covers: Chart of Accounts • Products & Services • Projects • Bundles • Percentage of Completion • Revenue Recognition • Unbilled Revenue • Overbilling • WIP Adjustments

1.1 Initial Company Settings

Before building your chart of accounts, configure QuickBooks Online (QBO) for construction:

Navigate to: Settings ⚙ → Account & Settings → Advanced

Setting Area	Field	Recommended Value	Reason
Accounting	Accounting method	Accrual	Required for proper job costing & revenue recognition
Accounting	Close the books	ON — set prior year date	Prevent accidental prior-period changes
Accounting	Equity account	Retained Earnings	Standard GAAP setup
Projects	Organize all job-related activity in one place	ON	Enables project-level P&L reports
Categories	Track classes	ON (One per transaction)	Cost code / phase tracking across jobs
Categories	Track locations	ON	Use for division, region, or superintendent
Time Tracking	Add Service field to timesheets	ON	Links labor cost to job and cost code
Expenses	Make expenses and items billable	ON (with markup %)	Pass-through costs to owner billing

Setting Area	Field	Recommended Value	Reason
Currency	Home currency	USD	Standard

💡 *QuickBooks Online Plus or Advanced is REQUIRED for Projects. Simple Start and Essentials do NOT support job costing.*

The construction Chart of Accounts (COA) follows a structured numbering system aligned with the Construction Specifications Institute (CSI) MasterFormat and standard GAAP principles. Use the ranges below:

Account Range	Type	Category
1000–1999	Asset	Cash, Receivables, WIP, Equipment
2000–2999	Liability	Payables, Billings in Excess, Loans
3000–3999	Equity	Owner's Equity, Retained Earnings
4000–4999	Income	Contract Revenue, Change Orders
5000–5999	Cost of Goods Sold	Direct Job Costs
6000–6999	Expense	Overhead & G&A
7000–7999	Other Income/Expense	Gain/Loss on Equipment, Interest

2.1 Asset Accounts (1000–1999)

Account #	Account Name	QBO Type	Notes
1010	Operating Checking – Main	Bank	Primary payroll & vendor payments
1020	Payroll Checking Account	Bank	Dedicated payroll account

Account #	Account Name	QBO Type	Notes
1030	Money Market / Savings	Bank	Reserve / retainage receipts
1100	Accounts Receivable (A/R)	Accounts Receivable	Job billings — DO NOT use sub-accounts
1110	Retainage Receivable	Accounts Receivable	Separate from A/R for aging clarity
1200	Job Deposits Paid	Other Current Asset	Owner-required performance deposits
1210	Prepaid Insurance – GL & WC	Other Current Asset	Amortize monthly
1220	Prepaid Expenses – Other	Other Current Asset	
1300	Costs in Excess of Billings (Underbilling / WIP)	Other Current Asset	KEY ACCOUNT — see Section 6
1310	Unbilled Retainage Receivable	Other Current Asset	Earned but not yet billed retainage
1400	Materials & Supplies Inventory	Other Current Asset	If tracking material stock
1500	Equipment & Vehicles – Cost	Fixed Asset	Use sub-accounts per asset class
1510	Equipment – Accumulated Depreciation	Fixed Asset	Contra account (negative)
1520	Leasehold Improvements	Fixed Asset	Office / shop improvements

Accoun t #	Account Name	QBO Type	Notes
1600	Security Deposits	Other Asset	Office leases, utility deposits

2.2 Liability Accounts (2000–2999)

Accoun t #	Account Name	QBO Type	Notes
2000	Accounts Payable (A/P)	Accounts Payable	All vendor invoices
2010	Retainage Payable – Subs	Accounts Payable	Sub retainage withheld
2100	Billings in Excess of Costs (Overbilling)	Other Current Liability	KEY ACCOUNT — see Section 7
2110	Customer Deposits / Advance Billings	Other Current Liability	Pre-mobilization draws
2200	Accrued Payroll	Other Current Liability	Wages earned, not yet paid
2210	Accrued Payroll Taxes	Other Current Liability	FICA, FUTA, SUTA
2220	Union Benefits Payable	Other Current Liability	If applicable — fringe benefits
2230	Sales Tax Payable	Other Current Liability	Material sales tax if applicable in state
2300	Loans Payable – Equipment	Long Term Liability	Equipment financing
2310	Line of Credit – Construction	Other Current Liability	Operating credit line

Account #	Account Name	QBO Type	Notes
2400	Owner Draws / Distributions Payable	Other Current Liability	
2500	Warranty Reserve	Other Current Liability	Estimated post-completion warranty

2.3 Income Accounts (4000–4999)

Account #	Account Name	QBO Type	Notes
4000	Contract Revenue – Recognized	Income	ONLY recognized revenue per % complete
4010	Change Order Revenue – Approved	Income	Approved CO revenue only
4020	Change Order Revenue – Pending	Income	Use with caution; disclose to CPA
4050	Service & T&M Revenue	Income	Time-and-material / service work
4100	Equipment Rental Income (to customers)	Income	If renting equipment to owners
4200	Retainage Revenue – Recognized	Income	When retainage is earned under % complete
4900	Miscellaneous Income	Other Income	

2.4 Cost of Goods Sold — Direct Job Costs (5000–5999)

These map directly to your CSI MasterFormat cost codes and drive your job cost reports:

Account #	Account Name	QBO Type	CSI Division (approx.)
5000	Direct Labor – Field Wages	Cost of Goods Sold	All Divisions
5010	Direct Labor – Payroll Taxes (ER)	Cost of Goods Sold	Labor Burden
5020	Direct Labor – Workers' Comp Insurance	Cost of Goods Sold	Labor Burden
5030	Direct Labor – Union Fringes / Benefits	Cost of Goods Sold	Labor Burden
5040	Direct Labor – Superintendent / PM Field	Cost of Goods Sold	Supervision
5100	Subcontractor Costs	Cost of Goods Sold	Varies
5110	Subcontractor Retainage Withheld	Cost of Goods Sold	Clearing — clears to 2010
5200	Materials – Lumber & Framing	Cost of Goods Sold	Div 06
5210	Materials – Concrete & Masonry	Cost of Goods Sold	Div 03, 04
5220	Materials – MEP Materials	Cost of Goods Sold	Div 22, 23, 26
5230	Materials – Hardware & Fasteners	Cost of Goods Sold	General
5240	Materials – Finishes	Cost of Goods Sold	Div 09
5250	Materials – Other / Miscellaneous	Cost of Goods Sold	
5300	Equipment – Rental (External)	Cost of Goods Sold	Div 01

Account #	Account Name	QBO Type	CSI Division (approx.)
5310	Equipment – Owned Usage (Internal Charge)	Cost of Goods Sold	Internal Rate
5320	Equipment – Fuel & Maintenance on Job	Cost of Goods Sold	
5400	Job Site Costs – Temporary Facilities	Cost of Goods Sold	Div 01
5410	Job Site – Portable Toilets / Dumpsters	Cost of Goods Sold	Div 01
5420	Job Site – Safety & PPE Supplies	Cost of Goods Sold	Div 01
5430	Job Site – Permits & Inspection Fees	Cost of Goods Sold	Div 01
5440	Job Site – Testing & Inspections	Cost of Goods Sold	Div 01
5500	Bonding & Insurance – Job Specific	Cost of Goods Sold	
5510	Builder's Risk Insurance	Cost of Goods Sold	
5600	Design & Engineering (Job-Specific)	Cost of Goods Sold	Div 01
5700	Project Management Labor – Allocated	Cost of Goods Sold	Overhead allocation
5800	Change Order Costs – Approved	Cost of Goods Sold	
5900	Warranty & Punchlist Costs	Cost of Goods Sold	Post-completion

Account #	Account Name	QBO Type	CSI Division (approx.)
5950	Cost Adjustments – WIP (Revenue Recog.)	Cost of Goods Sold	Adjusting entry account

2.5 Overhead / G&A Expense Accounts (6000–6999)

Account #	Account Name	QBO Type
6000	Salaries – Office & Admin	Expense
6010	Salaries – Estimating	Expense
6020	Salaries – Project Management (Overhead %)	Expense
6100	Rent – Office	Expense
6110	Utilities – Office	Expense
6200	Insurance – General Liability (Non-Job)	Expense
6210	Insurance – Health & Dental	Expense
6220	Insurance – Vehicle (Non-Job)	Expense
6300	Vehicle Expense – Non-Job	Expense
6400	Office Supplies & Software	Expense
6410	Technology & IT / QBO Subscription	Expense
6500	Professional Fees – CPA / Legal	Expense
6600	Marketing & Advertising	Expense
6700	Travel & Entertainment	Expense

Account #	Account Name	QBO Type
6800	Depreciation – Non-Job Equipment	Expense
6900	Bank Charges & Merchant Fees	Expense

Account #	Account Name	QBO Type

In QuickBooks, Products & Services are your billing line items — they determine what account the income and COGS post to. For construction, every major cost category and revenue category should have a corresponding Product/Service item.

3.1 Product/Service Types

QBO Type	Use in Construction	Example
Service	Labor, sub work, PM fees — anything WITHOUT physical inventory	Framing Labor, Electrical Sub
Non-Inventory Part	Materials purchased for a specific job (not stocked)	Custom Steel Beam – Job #22-045
Inventory Part	Materials kept in stock and tracked by quantity on hand	Standard Lumber, Concrete Block
Bundle	Group multiple services/materials into one line item for billing	Rough Framing Package — see Section 4
Other Charge	Mobilization, bond premiums, misc. fees billed to owner	Mobilization Fee, Permit Allowance

3.2 Setting Up a Service Item (Step-by-Step)

Go to: Settings ⚙ → Products & Services → New → Service

Field	What to Enter	Example
Name	Descriptive internal name (cost code based preferred)	5000 – Field Labor / Framing
SKU / Code	Your internal cost code number	5000-FRAM

Field	What to Enter	Example
Category	Group for reporting	01 – Labor
Sales price	Leave blank or enter default rate if T&M	$0.00 (enter per invoice) or $95/hr
Income account	Revenue account this line posts to	4000 – Contract Revenue – Recognized
Purchasing info – Cost	Your average cost or leave blank	
Expense account	COGS account this line posts to when purchased	5000 – Direct Labor – Field Wages
Is taxable	Typically NO for construction services	Unchecked (varies by state)

💡 *Create one Product/Service item for each major cost code / billing category. This links every invoice line to the right income and COGS account automatically.*

3.3 Recommended Product/Service List for Construction

Item Name (Internal)	Billing Description	Income Acct	COGS Acct
4000 – General Contract Revenue	Contract Work per Schedule of Values	4000	5000–5900 per cost
4010 – Change Order	Change Order #[X] – [Description]	4010	5800
5000 – Labor / Framing	Rough Framing Labor	4000	5000
5100 – Subcontractor	Subcontractor Work – [Trade]	4000	5100

Item Name (Internal)	Billing Description	Income Acct	COGS Acct
5200 – Materials	Materials – [Description]	4000	5200–5250
5300 – Equipment Rental	Equipment Rental	4000	5300
5400 – Job Site Costs	General Conditions / Site Costs	4000	5400–5440
5500 – Bond & Insurance	Project-Specific Insurance / Bond	4000	5500
4050 – T&M Work	Time & Material Work – [Description]	4050	5000/5200
Retainage Billed	Retainage Held (10%) — DO NOT use as revenue	1110 / 2110	N/A

⚠️ Never use 'Services' as a generic catch-all item. Vague items destroy job cost reporting. Every line item must map to a specific cost code and account.

Bundles let you group multiple Products & Services into a single line item on customer-facing invoices, while QBO still tracks each component separately in the background. This is ideal for presenting a clean Schedule of Values to owners while retaining detailed job costing internally.

4.1 How Bundles Work

- A Bundle is a container — it holds multiple Service, Non-Inventory, or Other Charge items

- On the invoice, the owner sees ONE line: e.g., 'Rough Framing Package – $85,000'

- Behind the scenes, QBO posts each component to its own income and COGS account

- Bundle totals can be set to show or hide individual components on the printed invoice

- Bundles CANNOT contain Inventory items or other Bundles

4.2 Creating a Bundle (Step-by-Step)

1. Go to: Settings ⚙ → Products & Services → New → Bundle

2. Name: Use your CSI division or phase name (e.g., '03 – Concrete Package')

3. Check 'Display bundle components on printed invoice' ONLY if the owner contract requires a breakdown

4. Add each component item and its quantity. Leave unit price blank to enter per invoice.

5. Save. The bundle now appears in your invoice item dropdown.

4.3 Example Bundle: Site Work Package

Component Item	Qty	Unit	Est. Unit Price	Total	COGS Account
Earthwork / Grading Sub	1	LS	$28,000	$28,000	5100 – Sub Costs
Storm Drainage Materials	1	LS	$12,500	$12,500	5210 – Materials

Component Item	Qty	Unit	Est. Unit Price	Total	COGS Account
Erosion Control Supplies	1	LS	$3,200	$3,200	5400 – Site Costs
Site Supervision Labor	80	hrs	$85	$6,800	5040 – Super Labor
Equipment – Excavator Rental	10	days	$1,200	$12,000	5300 – Equip Rental
TOTAL BUNDLE				$62,500	

💡 *Bundles are great for fixed-price scope line items in your Schedule of Values. For T&M work, use individual items so hours and materials are captured granularly.*

In QBO Plus/Advanced, Projects function as your jobs. Every transaction (invoice, bill, expense, time entry) must be linked to a Project to appear in job cost reports.

5.1 Creating a New Project

Go to: Projects → New Project

Field	What to Enter	Construction Best Practice
Project name	Job number + short description	2024-047 – Westside Office Bldg
Customer	Link to the owner/customer record	ABC Development Corp
Status	In progress / Not started / Completed	Always update on completion
Start date	Contract execution date	
End date	Projected substantial completion	Update if schedule changes
Notes	Contract amount, architect, super name	Very useful for quick reference

✅ Use a consistent job numbering system. Recommended: YYYY-###-Division. Example: 2024-047-GC for general contracting.

5.2 Project Dashboard Metrics

Once transactions are posted to a project, the Project Dashboard shows:

- Income – Total billed to owner (approved invoices)
- Expenses – Total direct costs posted to project

- Profit – Current gross margin (NOTE: this is CASH basis, not % complete based — see Section 6)

- Time – Total hours logged by trade/employee

- Unbilled activity – Costs entered but not yet invoiced to owner

⚠️ The QBO Project Profit shown in the dashboard is NOT your recognized revenue under ASC 606 or the Percentage of Completion method. It simply shows billed vs. cost. You must run a separate WIP schedule for proper revenue recognition (Section 6).

5.3 Linking Transactions to Projects

Transaction Type	Where to Assign Project	Notes
Customer Invoice	Project field in header	Required for revenue tracking
Vendor Bill	Project field on each line item	Must be per-line for split jobs
Check / Expense	Project field on each line item	
Credit Card Charge	Project field on each line item	
Paycheck / Payroll	Via Service Item + Class or time entry allocation	Use time tracking for accuracy
Journal Entry	Project field available on JE lines	For WIP adjustments — see Section 6
Purchase Order	Project field in header	POs are non-posting but link to project

5.4 Using Classes for Cost Codes Within a Project

QBO Projects track costs at the job level. To track costs by PHASE or COST CODE within a job, use Classes:

- Go to: Settings → Chart of Accounts → Classes → New

- Create classes matching your internal cost codes or CSI phases

- Example classes: 01-General Conditions, 03-Concrete, 05-Structural Steel, 06-Framing, etc.

- On every transaction line, set both the Project AND the Class

- Run: Reports → Profit & Loss by Class → filter by one Project for a full cost-code breakdown

💡 *This Project + Class combination replaces what dedicated construction software calls 'Cost Codes.' It's not as powerful as Procore or Sage 300, but it works effectively for small-to-mid-size contractors.*

The Percentage of Completion method is the standard revenue recognition approach for long-term construction contracts under ASC 606 (Revenue from Contracts with Customers). Under POC, revenue and profit are recognized proportionally as work is completed — not when cash is received or invoices are sent.

6.1 The Core Formula

% Complete = Costs Incurred To Date ÷ Total Estimated Cost

Revenue Earned To Date = % Complete × Total Contract Price

Revenue to Recognize this Period = Revenue Earned To Date − Revenue Previously Recognized

⚠️ The cost-to-cost method is the most common. However, NEVER include uninstalled materials, pre-ordered equipment sitting in a warehouse, or mobilization costs that don't reflect actual work progress in your 'costs incurred to date' figure.

6.2 Step-by-Step POC Calculation Example

Project: 2024-047 Westside Office Bldg | Contract Price: $2,500,000 | Estimated Total Cost: $1,900,000

	Month 1	Month 2	Month 3
Costs Incurred This Period	$190,000	$285,000	$380,000
Cumulative Costs To Date	$190,000	$475,000	$855,000
Total Estimated Cost	$1,900,000	$1,900,000	$1,900,000
% Complete	10.00%	25.00%	45.00%
Revenue Earned To Date	$250,000	$625,000	$1,125,000

	Month 1	Month 2	Month 3
Revenue Previously Recognized	$0	$250,000	$625,000
Revenue to Recognize This Period	$250,000	$375,000	$500,000
Gross Profit This Period	$60,000	$90,000	$120,000
Expected Gross Margin	20.00%	20.00%	20.00%

6.3 Recording POC in QuickBooks — The Journal Entry

QBO does not calculate POC automatically. You must calculate it externally (Excel WIP Schedule) and enter a monthly adjusting journal entry. Here is the exact process:

Step 1: Run your External WIP Schedule (Excel) — end of each month

- List every active project

- Pull cumulative costs from QBO Project Reports

- Enter revised total cost estimates (from your project manager)

- Calculate % complete, revenue earned, and over/underbilling per project

Step 2: Reverse the prior month's WIP entry

On the first day of each new month, REVERSE the prior month's WIP journal entry:

Account	Debit	Credit	Memo
1300 – Costs in Excess of Billings (WIP / Underbilling)	REVERSE prior DR		Reverse prior WIP entry
2100 – Billings in Excess of Costs (Overbilling)		REVERSE prior CR	Reverse prior overbilling entry
4000 – Contract Revenue – Recognized	REVERSE prior CR		

Account	Debit	Credit	Memo

Step 3: Record the new month-end WIP adjustment (current month)

This entry records the difference between revenue recognized under POC and what you've actually billed:

Scenario	Account	Debit	Credit
UNDERBILLING (earned > billed)	1300 – Costs in Excess of Billings (Asset)	Underbilled amount	
UNDERBILLING (earned > billed)	4000 – Contract Revenue – Recognized		Underbilled amount
OVERBILLING (billed > earned)	4000 – Contract Revenue – Recognized	Overbilled amount	
OVERBILLING (billed > earned)	2100 – Billings in Excess of Costs (Liability)		Overbilled amount

💡 *Set this Journal Entry as a memorized/recurring transaction in QBO and reverse it on the 1st of each month. The net effect is that your Income Statement always reflects POC-based revenue.*

Under ASC 606, revenue from construction contracts is recognized 'over time' when the performance obligation meets one of these criteria:

- The customer simultaneously receives and consumes the benefits (service contracts, T&M)

- The contractor's performance creates or enhances an asset the customer controls (most building construction)

- The contractor's performance creates an asset with no alternative use AND has an enforceable right to payment for work completed (lump sum contracts with standard AIA payment terms)

For most construction general contractors, all three criteria are met, confirming POC is the correct method.

7.1 Revenue Recognition Flowchart in QBO

Step	Action	QBO Location	Accounting Impact
1	Contract signed — enter project in QBO	Projects → New	No accounting impact — contract asset note only
2	Costs incurred (bills, payroll, expenses posted to project)	Enter Bills / Expenses / Payroll	DR 5xxx COGS / CR A/P or Cash
3	Month-end: run WIP schedule, calculate % complete & revenue earned	External Excel + QBO reports	No entry yet — calculation only

Step	Action	QBO Location	Accounting Impact
4	Month-end WIP JE: recognize revenue (or defer if overbilled)	Journal Entry	DR 1300 or 2100 / CR or DR 4000
5	Owner billing / progress invoice sent	Invoice → Project	DR 1100 A/R / CR 4000 Revenue
6	Compare billed vs. earned — update WIP schedule	Project Reports	Adjust 1300 or 2100
7	Job completion / final billing	Final Invoice	Close out 1300/2100 — zero balance
8	Retainage released	Invoice for retainage	DR 1100 A/R / CR 4200 Retainage Revenue

7.2 T&M and Unit Price Contracts

Time & Material (T&M) contracts recognize revenue as costs are incurred plus the markup — a simpler 'as-incurred' method:

- T&M Revenue = (Labor hours × billing rate) + (Materials × (1 + markup%)) + (Equipment × billing rate)

- No WIP schedule needed — revenue equals billings on T&M

- Create separate Product/Service items with T&M rates built in

- Still link all costs to the Project for job cost reporting

Unbilled Revenue (also called 'Costs in Excess of Billings' or 'Underbilling') occurs when you have EARNED more revenue under the Percentage of Completion method than you have actually BILLED the owner. This is an asset on your balance sheet (Account 1300).

8.1 What Causes Underbilling?

- You're doing work ahead of the billing schedule in the contract
- You forgot to submit a draw request / AIA Application for Payment
- Change orders are approved and work is done, but not yet invoiced
- Billing is being intentionally deferred (not recommended — discuss with CPA)

8.2 Unbilled Revenue Calculation

Project	Contract Value	% Complete	Revenue Earned	Billed to Date	Underbilling (Asset 1300)
2024-047 Westside	$2,500,000	45%	$1,125,000	$900,000	$225,000
2024-052 River Rd	$800,000	30%	$240,000	$280,000	$0 (Overbilled)
2024-061 Plaza Tower	$5,200,000	18%	$936,000	$936,000	$0 (Exactly billed)
TOTAL					$225,000

Journal Entry — Record Underbilling (end of month):

Account	Debit	Credit	Memo
1300 – Costs in Excess of Billings	$225,000		Underbilled revenue earned — Westside

Account	Debit	Credit	Memo
4000 – Contract Revenue – Recognized		$225,000	POC revenue recognition — Month end

✅ Large underbillings are a CASH FLOW RED FLAG. If you've earned $1M but only billed $700K, you've essentially loaned the owner $300K interest-free. Bill promptly and aggressively.

8.3 Reporting Unbilled Revenue in QBO

- Run: Reports → Balance Sheet → Check Account 1300 balance

- Run: Reports → Project Profitability → compare revenue recognized vs. invoiced

- Create a custom report: Transaction List by Project → filter for A/R transactions only → compare to WIP schedule

- Account 1300 should be ZERO at project completion — if not, investigate

SECTION 9: Overbilling — Billings in Excess of Costs

Overbilling (Billings in Excess of Costs) occurs when you have billed the owner MORE than you have earned under the Percentage of Completion method. This is a LIABILITY on your balance sheet (Account 2100) — you owe the owner work equal to the excess billing.

9.1 What Causes Overbilling?

- Front-loaded Schedule of Values (billing early items at inflated amounts)

- Mobilization billed at 100% when work is only 40% done

- Billing ahead of actual work progress to improve cash flow

- Inaccurate percentage of completion estimate (overestimating completion)

9.2 Overbilling Journal Entry

Using the River Rd example above (billed $280K, earned $240K — overbilled by $40K):

Account	Debit	Credit	Memo
4000 – Contract Revenue – Recognized	$40,000		Reverse overbilled revenue — River Rd
2100 – Billings in Excess of Costs		$40,000	Overbilling liability — River Rd Month End

⚠️ Overbilling is NOT free money. Lenders, bonding companies, and sophisticated owners flag companies with persistent high overbilling. It signals financial distress or aggressive billing practices. Keep it reasonable and explainable.

9.3 Monitoring Overbilling / Underbilling Ratio

Metric	Formula	Healthy Range	Red Flag
Overbilling %	Account 2100 ÷ Total Contract Revenue	<5% of revenue	>15% — front-loading concern
Underbilling %	Account 1300 ÷ Total Contract Revenue	<10% of revenue	>20% — billing lag / cash risk
Net WIP Position	Account 1300 minus Account 2100	Slightly positive	Large negative = cash burn risk
Days to Bill	A/R days outstanding	<45 days	>75 days — collections problem

'WIP Not Recognized' refers to costs incurred on a project that have NOT yet resulted in recognized revenue — either because the project is in early stages, work is ahead of billing, or a revenue recognition decision has been made to defer recognition (e.g., disputed change orders).

10.1 Types of WIP Not Recognized

Situation	Account Treatment	Resolution
Costs incurred, project <% complete to bill	Costs in 5xxx COGS, offset by 1300 (asset)	Normal — will recognize as % increases
Disputed change order — costs incurred	Costs in 5800, revenue deferred to 4020	Recognize only when probability >probable (ASC 606)
Preliminary / Pre-contract costs	5600 Design & Engineering or 6xxx Overhead	Expense unless specific contract criteria met
Uninstalled materials on job site	1400 Materials Inventory — NOT as % complete	Only recognize when installed
Loss-recognized project — all remaining revenue stripped	Full cost recognized, revenue capped at contract price	Record anticipated loss immediately

10.2 Loss Contracts — Immediate Recognition

If a project's revised total estimated cost EXCEEDS the contract price (a loss job), GAAP requires you to recognize the ENTIRE estimated loss IMMEDIATELY — do not spread it over future periods.

	Amount
Contract Price	$1,800,000
Revised Total Estimated Cost	$2,050,000
Estimated Total Loss	($250,000)
Costs Incurred To Date	$900,000
Revenue Recognized To Date	$790,000
Additional Loss to Record Now	($250,000) recognized immediately — FULL amount

Loss Journal Entry:

Account	Debit	Credit	Memo
5950 – Cost Adjustments / WIP Loss	$250,000		Estimated loss recognition — Project #2024-088
1300 – Costs in Excess of Billings		$250,000	Reduce WIP asset for loss project

⚠️ Notify your CPA and bonding company immediately when a loss project is identified. Sureties take loss jobs very seriously and may require a written remediation plan.

10.3 Month-End WIP Checklist — Full Project Review

Run this checklist every month-end before finalizing financials:

#	Task	QBO Location / Tool	Done?
1	Pull all project cost reports from QBO (cumulative costs to date per project)	Projects → Project Profitability	☐

#	Task	QBO Location / Tool	Done?
2	Collect revised cost-to-complete estimates from each PM	PM weekly report / job meeting notes	☐
3	Update WIP Schedule in Excel — recalculate % complete and earned revenue	External WIP Schedule	☐
4	Identify underbilled and overbilled projects	WIP Schedule	☐
5	Identify any loss projects — recognize full loss immediately	WIP Schedule	☐
6	Check for uninstalled materials incorrectly included in % complete	Job site reports / PM	☐
7	Reverse prior month's WIP journal entry (1st of month)	Journal Entries → Recurring	☐
8	Post new month-end WIP adjusting journal entry	Journal Entries → New	☐
9	Review Account 1300 and 2100 balances — reconcile to WIP schedule	Balance Sheet	☐
10	Check all billed invoices have corresponding project allocations	Projects → Transactions	☐
11	Verify retainage receivable (1110) matches contract retainage percentages	A/R Aging Detail	☐
12	Run Project P&L by Class to review cost code variances	Reports → P&L by Class	☐

#	Task	QBO Location / Tool	Done?
1 3	Flag any projects with costs but no revenue activity for PM review	Project List	☐
1 4	File WIP schedule with financials for CPA / bonding review	Cloud storage / shared drive	☐

Report Name	QBO Path	Use For	Run Frequency
Project Profitability	Reports → Project Reports → Project Profitability	Job gross margin by project	Weekly / Monthly
Profit & Loss by Customer	Reports → P&L by Customer	Revenue and COGS per customer/job	Monthly
Profit & Loss by Class	Reports → P&L by Class	Cost code variance within a project	Monthly
A/R Aging Summary	Reports → Accounts Receivable	Overdue billings, retainage tracking	Weekly
Open Purchase Orders	Reports → Purchase Orders	Committed costs not yet invoiced	Weekly
Unbilled Charges	Reports → Unbilled Charges	Costs entered but not yet invoiced to owner	Weekly
Balance Sheet	Reports → Balance Sheet	Review 1300 (underbilling) and 2100 (overbilling)	Monthly
Transaction List by Project	Reports → Custom → filter by project	Audit all costs/revenues on a job	As needed
Expenses by Vendor Summary	Reports → Expenses	Subcontractor cost tracking	Monthly
Time Activities by Employee	Reports → Time	Labor cost verification per job	Weekly / Payroll

SECTION 12: Final Best Practices & Common Mistakes

12.1 Top 10 Best Practices

6. Use a consistent job numbering system and open a new Project in QBO BEFORE any costs are incurred.

7. NEVER post job costs to overhead accounts. If unsure, post to a 'suspense' account and resolve weekly.

8. Run your WIP schedule every single month. Even a rough estimate is better than no POC adjustment.

9. Separate retainage receivable (1110) from regular A/R (1100) from Day 1. Combining them masks aging.

10. Set up recurring reversing journal entries for WIP. Forgetting to reverse creates compounding errors.

11. Get revised cost-to-complete estimates from your PMs at LEAST monthly. Stale estimates destroy your WIP accuracy.

12. Do not record revenue for disputed change orders. Use Account 4020 as a memo account only until approved.

13. Review Account 2100 (Overbilling) with your bonding company annually. High overbilling can reduce your bonding capacity.

14. Reconcile your WIP Schedule total to Accounts 1300 and 2100 on the Balance Sheet every month. They must agree.

15. Upgrade to QBO Advanced if you have more than 10 active projects. The additional reporting and user controls are worth it.

12.2 Common Mistakes to Avoid

Mistake	Consequence	Fix
Using cash basis accounting	Revenue spikes/crashes distort financials; bonding issues	Switch to accrual immediately
Not reversing WIP entries	Revenue double-counted in following months	Set all WIP JEs as recurring reversals

Mistake	Consequence	Fix
Including uninstalled materials in % complete	Overstates completion, overbills owner, misleads bonding	Use input method excluding stored materials
Generic 'Services' item on all invoices	No cost code detail, job reports are useless	Create specific items per cost code
Posting sub invoices without project allocation	Costs lost from job reports; hidden losses	Require project field on EVERY vendor bill
Recognizing CO revenue before written approval	Revenue overstated; potential disputes with owner	Use pending CO account, only recognize when signed
Not tracking retainage separately	A/R aging looks better than it is; cash flow surprises	Use Accounts 1110 and 2010 religiously

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