DEEP SPACE™

WIP and earned margin: formula reference

Percentage of completion on a cost-to-cost basis. Every input is derived from live project data.

Inputs and sources

Term	Definition	Source
Forecast Contract	Original contract sum + approved variations	Head Contract register
Actuals	Cost invoiced to date	Budget Register
Committed	Executed POs and subcontracts + approved sub VOs	Budget Register
Outstanding Commitments	Committed − Actuals (floored at zero)	Calculated
FTC	Forecast to Complete, for work not yet committed	Entered monthly, per cost code
Claim Total	Certified progress claims to date	Head Contract claims

Cost and margin

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Forecast Final Cost (FFC/EAC)  =  Actuals + Outstanding Commitments + FTC
Forecast Margin                =  Forecast Contract − FFC
R&O Adjust                     =  −(Risks ML − Opportunities ML), open entries only
Margin incl R&O                =  Forecast Margin + R&O Adjust
Margin %                       =  Margin incl R&O / Forecast Contract
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Earned margin and WIP

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% complete            =  Total Cost / FFC
Margin Realised       =  (Total Cost / FFC) × Margin incl R&O
Billing less Cost     =  Claim Total − Total Cost
WIP (over claim)      =  Claim Total − (Total Cost + Margin Realised)
                      =  Billing less Cost − Margin Realised
Margin to Earn        =  Margin incl R&O − Billing less Cost
WIP Movement          =  WIP Current − WIP Prior
Nett Retention        =  Sub retention held − Client retention held
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Sign conventions

Condition	Journal
WIP positive (billed ahead of earned)	Dr Revenue / Cr Billings in excess of costs and earnings
WIP negative (billed behind earned)	Dr Costs and earnings in excess of billings / Cr Revenue

Claim Retention is shown negative (held from us), Sub Retention positive (held by us). Retention is reported but not netted into WIP.

Worked example

Contract 10,000,000. FFC 9,200,000. Margin 800,000. Cost to date 3,680,000. Claimed 4,500,000.

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% complete       =  3,680,000 / 9,200,000   =  40%
Margin Realised  =  40% × 800,000           =  320,000
Earned to date   =  3,680,000 + 320,000     =  4,000,000
WIP              =  4,500,000 − 4,000,000   =  500,000 over-claimed
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Two notes for your review

Loss-making contracts

Where Forecast Margin is negative, the full expected loss is provided for immediately rather than recognised by percentage of completion. The basis used is stated on the report and in the journal export, currently Forecast Margin (excluding R&O). Worth confirming this matches your policy.

Margin to Earn

Inherited terminology. It is not remaining profit. It measures how far the Billing less Cost position must unwind to reach the forecast margin at completion. Remaining profit is Margin incl R&O less Margin Realised. On a job billing broadly in line with cost the two look similar; on a front-claimed job they diverge sharply.