

Stop WIP Surprises: Strengthen ASC 606 Controls and Documentation to Stabilize Earnings



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Margins in construction remain tight. And too often, a breakdown in financial controls, job cost reporting, or revenue recognition undermines profitability, and confidence with lenders, sureties, and owners.

The causes are rarely surprising:

- Inaccurate WIP schedules
- Misapplied ASC 606
- Weak internal controls
- Incomplete documentation
- Misclassified costs

The good news? These issues are fixable with **disciplined processes, stronger communication, and systems that enforce consistency at the point of entry.**

When the foundation is solid, firms don't just reduce audit adjustments – they gain clearer visibility into project performance, cash flow, and margin risk.

Start Where Risk Shows Up First: WIP

Inaccurate WIP schedules are one of the most common and preventable sources of financial volatility.

We consistently see:

- Cost-to-complete estimates that aren't updated
- Change orders impacting costs but not contract value
- Percentage-of-completion driven by billings instead of costs

The result is uneven earnings, with profit spikes or drops at project close that distort financial performance.

What leading firms do differently:

- Hold monthly WIP review meetings with both project managers and accounting
- Require regular updates to cost-to-complete estimates
- Incorporate approved (and probable) change orders into contract value
- Use cost-to-cost methods consistently
- Flag anomalies before closing the period

A disciplined WIP process turns reporting into a **forward-looking management tool, not a backward-looking exercise.**

Apply ASC 606 With Consistency

Revenue recognition errors often stem from inconsistent applications, not lack of knowledge.

Common issues include:

- Missing separate performance obligations
- Recognizing profit on uninstalled materials
- Misaligned cost and revenue timing

The key is translating ASC 606 into **practical, repeatable policies.**

Focus areas:

- Clearly define performance obligations within contracts
- Separate revenue and cost tracking when required
- Cap revenue on uninstalled materials at cost until installed
- Strengthen cutoff procedures across field and accounting teams

For complex contracts or nonstandard terms, proactive accounting review before billing can prevent costly corrections later.

Strengthen Controls Without Slowing the Business

Internal control challenges are often driven by lean teams, not intent, but the risk remains significant.

A practical approach includes:

- Separating authorization, recording, and custody where possible
- Implementing dual approvals for vendor setup and payment changes
- Routing bank statements directly to leadership for review
- Restricting access through role-based permissions

Equally important: **documenting controls and revisiting them regularly.**

Strong controls don't have to create bottlenecks – they should support accountability while fitting your team's structure.

Make Documentation and Coding Work for You

Incomplete or inconsistent documentation slows close cycles and creates audit friction.

Common gaps include:

- Missing or unsigned contracts and change orders
- Weak payroll or job cost support
- Inconsistent job and cost code usage

Best practices to reduce risk:

- Centralize documentation in a searchable system
- Establish naming conventions and retention policies
- Require job and cost codes on all transactions
- Return incomplete submissions to the source
- Standardize close checklists with clear cutoff procedures

When documentation and coding discipline improve, WIP accuracy improves with it, along with decision-making and audit outcomes.

Scale With Strong Systems and Processes

As complexity increases, manual processes become a limiting factor.

High-performing construction finance teams rely on systems that:

- Enforce WIP workflows and automate over/under-billing entries
- Support controlled WIP relief and clean project closeouts
- Enable structured GL reconciliations with full audit trails
- Provide drill-down visibility from financials to source transactions

This replaces spreadsheets and manual reconciliation with **repeatable, auditable processes**.

The Result: More Predictability, Less Risk

When firms standardize WIP governance, apply ASC 606 consistently, strengthen controls, and centralize documentation, the impact is clear:

- Fewer audit adjustments
- Faster, cleaner closes
- Better visibility into margins and cash flow
- Stronger conversations with lenders and sureties

Just as important, finance teams can shift focus from fixing issues to **providing insight and supporting growth**.

Final Thought

Audit readiness isn't built at month-end – it's created in the way work happens every day.

By embedding discipline into WIP processes, revenue recognition, controls, and documentation, construction firms can reduce surprises, stabilize earnings, and operate with greater confidence.