A common misconception among Project Managers is that billing and revenue are the same. While both are key drivers to a Project Manager’s success, the financial principles behind the two are completely different and should never be interchanged.

**Important Distinctions**

**Billing**

Billing is the cash flow that allows companies to keep their doors open and includes all account receivables (invoices sent to the customer). Once these invoices are paid, the amount is converted to cash and used to pay bills, employees, etc. Projects are evaluated according to costs, budget, timeline, and scope. It is important to note that cash flow should never be lumped into budget and costs, but considered a separate entity to a project.

For example, your company can order products through PSA Security Network by submitting a PO, but the only way you can charge material to the job is through proof of receipt (packing slips). If you do not receive the material (packing slips), you cannot earn the costs and take it as revenue to the job.

**Revenue**

Revenue is how much is earned on a project and accounts for labor, materials, and subcontractor costs. You have to spend money on a job (costs) in order to earn money on a job (profit) – a concept referred to as earned revenue.

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**Example Calculations**

The Percent Complete is an important tool for determining minimum project billing amount and job revenue to date.

**Project Sales Price** = $300,000
**Total Estimated Cost** = $150,000
**Month (1) Job Costs-To-Date**:
- Labor = $30,000
- Materials = $45,000

% Complete = Job Costs-To-Date / Total Estimated Cost
($30,000 + $45,000) / ($150,000) = 50% Percent Complete

Using the above example, the job revenue-to-date would need to be:

**Revenue (Month 1)** = .5 x $300,000 = $150,000

Job Revenue-To-Date (JRTD)

Using the above example, the job revenue-to-date would need to be:

**JRTD** = % Complete x Sales Price

Remember, billing represents cash flow, and should be greater than your project revenue by as much as 5-10%.

Using the above example, the minimum project billing amount would need to be:

Sales Price x % Complete = Minimum Required Billings
$300,000 x .5 = $150,000

Therefore, the client should be invoiced at least $150,000, but to adequately fund the project, opt for a 5-10% over billing at $157,500 ($150,000 x 1.05 = $157,500).

**Summary**

Revenue earned is where you make your profit on your projects. Billing is for cash flow and is necessary to keep your company working. As a Project Manager, you need to understand the difference between revenue and billing and keep track of both in the management of your projects.

Source: [http://www.psasecurity.com/education/committees/project-management](http://www.psasecurity.com/education/committees/project-management)