

Important Distinctions Billing vs. Revenue

Brought to you by the PSA Project Management Committee



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.

Billing

VS

Revenue

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.

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.

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.

Work In Progress

Most companies manage their revenue with a Work In Progress (WIP) which identifies the value of current projects based on the following:

1. Sales Price
2. Total Estimated Cost
3. Job Costs-To-Date
4. Percentage Complete
5. Job Revenue-To-Date
6. Billing-To-Date

One way to look at the WIP is that it allows you to earn revenue on your projects as you incur the costs, even if you haven't billed anything.

Example Calculations

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

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

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

Minimum Project Billing Amount

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

$$\$300,000 \times .5 = \$150,000$$

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).

Job Revenue-to-Date (JRTD)

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

$$\text{JRTD} = \% \text{ Complete} \times \text{Sales Price}$$

$$\text{Revenue (Month 1)} = .5 \times \$300,000 = \$150,000$$

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.