



VARZA SCHOOL · THE FOUNDATIONAL 100

Project Billing and Collection: Advances, Progress Invoices, Retention, Claims, and Final Settlement

Chapter 75 · Track 8 — Project, Service, Labor, and Contract Finance

THE QUESTION IT ANSWERS

How can a project convert contractual entitlement and verified progress into timely cash while preserving deductions, retention, claims, and final rights?

CONCEPTS DEFINED

Advance payment · Progress invoice · Retention · Project claim · Final settlement · Contract value · Accounts receivable · Collection

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track treats projects, services, labor, and contracts as time-based financial systems. Scope, schedule, cost, billing, cash, obligations, and performance must be integrated; otherwise a project can appear successful in one view while failing in another.

Central question: How can a project convert contractual entitlement and verified progress into timely cash while preserving deductions, retention, claims, and final rights?

Project billing is a contract administration process, not an accounting afterthought. Advances finance mobilization, progress invoices follow certification, retention postpones settlement, claims require entitlement and evidence, and final settlement resolves the complete commercial account.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish advance payment in plain and professional language.
- Define and distinguish progress invoice in plain and professional language.
- Define and distinguish retention in plain and professional language.
- Define and distinguish project claim in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Advance payment

Working definition. Advance payment is consideration paid or received before related delivery, performance, or final settlement.

Advances affect liquidity and exposure but require clear contract allocation, security, tax, and recovery treatment. The concept should be measured at the smallest level that still supports a real action.

Simple example. A customer pays 20% on contract signing before mobilization.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Progress invoice

Working definition. Progress invoice is a billing document issued for work completed, milestones achieved, quantities certified, or time elapsed under a project contract.

Progress billing follows contract evidence and may differ from revenue recognition. Preserve certification, deductions, tax, retention, and prior billing. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. The monthly certificate approves CU 400,000 gross work less retention and advance recovery.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Retention

Working definition. Retention is a portion of payment withheld under a contract until specified completion, defect, or warranty conditions are met.

Retention is not a discount. Track receivable or payable, release conditions, aging, security alternatives, and collectability. This is where operational activity and financial reporting meet.

Simple example. Five percent of each certified amount is withheld until final completion.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Project claim

Working definition. Project claim is a formal assertion of entitlement to additional time, money, relief, or other remedy under a contract.

A claim requires notice, contractual basis, cause, evidence, quantum, schedule effect, status, and probability. Submitted value is not automatically recognized revenue. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A contractor claims cost and time caused by late customer access.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Final settlement

Working definition. Final settlement is the controlled resolution of remaining contract amounts, claims, variations, retention, defects, obligations, and releases at project close.

Physical completion is not financial close. Reconcile contract value, billing, cash, cost, assets, warranties, and open risks. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. The final account resolves pending variations and releases remaining retention.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Contract value

Working definition. Contract value is the consideration stated or expected under a contract, adjusted for approved variations and governed by contract terms.

Contract value is not automatically revenue, billing, cash, or profit. Variable consideration, claims, taxes, financing, and scope changes may require separate analysis. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. An original CU 5 million contract plus CU 300,000 approved variation produces CU 5.3 million current contract value.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Accounts receivable

Working definition. Accounts receivable is amounts due from customers for goods or services supplied in the ordinary course of business.

Receivables require customer-level settlement, aging, dispute status, credit monitoring, expected-loss analysis, and reconciliation to the ledger. The concept should be measured at the smallest level that still supports a real action.

Simple example. An issued and earned invoice remains open until paid, credited, written off, or otherwise settled.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Collection

Working definition. Collection is the controlled process of obtaining settlement of amounts due while preserving evidence, rights, and appropriate customer relationships.

Collection begins before an invoice becomes overdue through correct terms, documentation, delivery, billing, and dispute prevention. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. The collector records promises to pay, disputes, contacts, escalation, and settlement results.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Advance payment, Progress invoice, Retention, Project claim, Final settlement, Contract value, Accounts receivable, and Collection describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Progress invoice net before tax

Net progress amount = Current certified gross work - Prior certified work - Advance recovery - Retention withheld ± Approved adjustments

The formula prevents cumulative double billing and shows contract deductions.

Boundary: Contract terms, tax, material on site, security, and certification structure vary.

Worked case — From gross progress to cash due

A project has CU 500,000 cumulative certified work. CU 300,000 was previously certified. Current terms withhold 5% retention on current gross progress and recover CU 20,000 advance this period.

Item	Amount or observation
Cumulative certified work	CU 500,000
Prior certified work	CU 300,000
Current gross progress	CU 200,000
Retention 5%	CU 10,000
Advance recovery	CU 20,000
Current net before tax	CU 170,000

Calculation and reasoning

1. Current gross progress is CU 500,000 – CU 300,000 = CU 200,000.
2. Retention is CU 10,000 under the simplified current-period rule.
3. After CU 20,000 advance recovery, net current billing before tax is CU 170,000.
4. Track CU 10,000 retention as a separate contractual balance and update the advance schedule.
5. Issue invoice and collection task with certification evidence and due date.

What the result means

A CU 200,000 month of progress does not produce CU 200,000 immediate cash. Contract deductions and timing must be visible before management forecasts liquidity.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Extract billing events, documentation, notice, certification, retention, tax, and payment terms from contract.** Define the owner, required evidence, status, date, and exception route. Do not

allow the next step to erase the record of the previous one.

3. **Prepare complete progress evidence before the billing date.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Reconcile gross work, previous billing, advance recovery, retention, tax, credits, and certified amount.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Track collection, dispute, claim, retention release, and final settlement to closure.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes contract, advance, billing_milestone, progress_certificate, progress_invoice, retention, deduction, claim, receivable, collection_case, final_account. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.
3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.
- Use automation to strengthen evidence and consistency, never to remove accountability.
- Turn information into a decision, a control, or a question; otherwise it is only decoration.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Contract billing schedule with responsible owner.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Invoice amount independently reconciled to certificate and prior billing.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Claims ledger separate from approved contract value.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Retention aging and release-condition monitoring.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Waiting for finance to discover that a milestone was completed

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Billing cumulative work again without deducting prior certificates

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Treating retention as lost margin

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Recording the full submitted claim as receivable without recognition and collectability assessment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain advance payment in plain language and in professional terms?
- ☐ Can I explain progress invoice in plain language and in professional terms?

- ☐ Can I explain retention in plain language and in professional terms?
- ☐ Can I explain project claim in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Advance payment to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Progress invoice. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Retention could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Retention: a portion of payment withheld under a contract until specified completion, defect, or warranty conditions are met.",
    "Project claim: a formal assertion of entitlement to additional time, money, relief, or other remedy under a contract.",
    "Final settlement: the controlled resolution of remaining contract amounts, claims, variations, retention, defects, obligations, and releases at project close.",
    "Contract value: the consideration stated or expected under a contract, adjusted for approved variations and governed by contract terms.",
    "Accounts receivable: amounts due from customers for goods or services supplied in the ordinary course of business.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.

- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S114 — IFRS Foundation, *IFRS 15 Revenue from Contracts with Customers*.** 2026 standards set. Principles for recognizing revenue from customer contracts. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-15-revenue-from-contracts-with-customers/>
- **S117 — IFRS Foundation, *IFRS for SMEs Accounting Standard*.** third edition 2025; effective 2027. Simplified global reporting framework for eligible small and medium-sized entities. Source: <https://www.ifrs.org/issued-standards/ifrs-for-smes/>
- **S208 — U.S. Government Accountability Office, *Cost Estimating and Assessment Guide*.** 2020-03-12. Reliable estimating, work breakdown structures, assumptions, risk and estimate updates. Source: <https://www.gao.gov/products/gao-20-195g>
- **S203 — Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control — Integrated Framework*.** 2013 framework; accessed 2026-08-31. Control environment, risk assessment, control activities, information and monitoring. Source: <https://www.coso.org/internal-control>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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