

How A Business Services SAAS Company Automated Commissions Accounting Under ASC 606

SITUATION

This Business Services SAAS company is a leader in cloud-based supply chain management solutions, delivering proven integrations and comprehensive retail performance analytics to thousands of customers worldwide.

Before ASC 606, they managed their sales compensation plans in Excel spreadsheets. Supporting approximately 300 sales reps worldwide, they maintained separate compensation documents for all sales groups within the organization.

By building out massive Excel formulas, the company could automate to a small extent, but it was primarily a manual process. The company's manual compensation processes did not provide sales reps with timely access to their commissions data, as well as lacked cross-functional transparency.

According to their Senior Manager, Financial Reporting the company's commissions plans were also increasing in complexity prior to ASC 606. As a result, Excel had become inadequate for the company even under the prior guidance.

“The biggest challenge with 340-40 is that you're carrying data for a lot longer. In the past, companies used to expense and pay in the same period. From a tracking perspective, you didn't have much carry forward. With 340-40, you have this long tail, requiring you to track and keep your data for years.”

– Senior Manager, Financial Reporting

CHALLENGE

Like most companies, this firm initially focused its efforts on the revenue recognition requirements of the new standard. However, when the company reviewed the guidance for deferred costs under Subtopic 340-40, it quickly realized that it also needed a new approach for commissions accounting.

Although the company already deferred some commissions costs, they were not material. In general, the company expensed all commissions upon payment. Under ASC 606, they would need to defer and amortize all commission costs over its recognition period (or the life of the contract).

Additionally, ASC 606 included a look-back period. The company chose the modified retrospective approach to restate prior years. Nonetheless, since they managed commissions manually, capturing the large amounts of historical data that this entailed presented significant challenges. Yet doing so was critical to prove to auditors that the company's records were complete and accurate.

SOLUTION

This SAAS company knew it needed an automated solution. Since the company didn't have a system in place, it initially hired a contractor to build a Microsoft Access database as a short-term fix until they could implement a better solution

The company ultimately selected and adopted Xactly Incent incentive compensation management software, integrated with Xactly Commission Expense Accounting (CEA), as its end-to-end commissions management system.

Xactly Incent with Xactly CEA has given the company a clear and auditable system of record to document sales commissions under ASC 606. By implementing Xactly Incent with Xactly CEA, they could automate, simplify, and ensure compliance with ASC 606 340-40.

RESULTS

According to their Sr. Manager of Financial Reporting, using Xactly Incent and Xactly CEA made it easier for the company to ensure ASC 606 compliance because of the following core capabilities:

Customizability: With Xactly CEA, the company could set up and capture granular insights into commissions data. With visibility into the payment, expense and net, for example, they could more easily see how the accrual and deferral interacted with each other.

Automated True-Ups: Under ASC 606, when a contract changes (due to, for example, an employee leaving or a customer churning), it impacts the accounting treatment. The commission is no longer an asset, and companies must redo their calculation for the expense. Doing this manually was a huge pain point for this company. With Xactly CEA, they could easily monitor, track, and automate these contract adjustments.

Commissions Auditability: Reviewing commissions is much easier with Xactly Incent and Xactly CEA. According to their Sr. Manager Financial Reporting:

“It's much easier to audit Xactly CEA than it is to audit 10 spreadsheets that have thousands of lines in them. You don't need to worry about somebody picking a random cell in Excel and entering something hard coded.”

METRICS



- Lowered regulatory risks by automating processes
- Streamlined reporting requirements - saving 2-3 days in journal creation alone
- Increased commissions transparency – saving days of administrative time spent previously answering questions
- Improved commissions auditability – making it easier to support audits with improved data access and integrity

PRODUCTS DRIVING SUCCESS



Incent



CEA