

AUTOMATING COMPLIANCE FOR COMMISSIONS ACCOUNTING UNDER ASC 606

SITUATION

Like most companies facing the new accounting changes under ASC 606 (IFRS 15), Xactly initially prioritized the revenue recognition side of the standard. Because Xactly is a pure software-as-a-service (SaaS) company, accounting for sales commissions seemed as though it would be a straightforward process.

However, as Finance began to look more closely at the requirements to account for the “incremental cost of obtaining a contract,” or sales commissions, the team quickly realized they were more complex than anticipated.

CHALLENGES

Xactly’s Assistant Controller, Tom Stehno, who led Xactly’s compliance efforts under ASC 606, said that discussions with auditors brought up new and unexpected issues in regards to commissions accounting. Key among them were:

- **Managing Impairments** – How did Xactly plan to track and account for specific impairments due to changes made to contracts before end of life? Under ASC 606, customer churn and other contract changes may impact how long a company amortizes its commission costs, and capitalized balances need to be appropriately modified.
- **Aligning Expense Accounting with Revenue Methodology** – How did Xactly plan to allocate commission expense across the various products and services sold? Under ASC 606, capitalized commissions related to products or services delivered at a point-in-time are amortized differently than those related to products or services delivered over-time.

According to Tom, tracking capitalized commissions at a detailed level and updating for constant payout adjustments within spreadsheets would be extremely time-consuming and prone to mistakes. Over an extended period, the data would be too voluminous to easily manage and analyze.

“If we had to do this in a spreadsheet, we’d have a monster of a model that was manually maintained and fraught with errors,” he explained.



Headquartered in San Jose, California, with offices worldwide, Xactly is a provider of cloud-based sales performance management (SPM) software. Xactly has been recognized six times as a Leader in the Gartner Magic Quadrant for Sales Performance Management, as well as a Leader in the 2019 Forrester Wave™ for Sales Performance Management.

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With the integration of a purpose-built solution into our ICM system, my anxiety level with commission expense accounting went way down. Without Xactly CEA, I would be scrambling to find some way to manually structure and track the necessary data. It would be a time-consuming and error-prone ordeal every month.

– Tom Stehno, Xactly

SOLUTION AND LESSONS LEARNED

Prior to ASC 606, Tom had no visibility into Xactly's compensation plans or how the company calculated commissions. The accounting team simply took the upstream commissions output, recorded it in the general ledger, and forwarded it to payroll,

Since different nuances have different accounting impacts under ASC 606, he suddenly needed to be an expert in the compensation plans. Additionally, he needed a way to efficiently manage different accounting outcomes for different plans.

Luckily, as the result of a technology acquisition in 2018, Xactly had integrated its flagship incentive compensation management software, Xactly Incent, with a solution to manage commissions expense accounting. Called Xactly CEA, the product provides an end-to-end solution to efficiently capture, track, and adjust data required to account for commissions under ASC 606

As a private company with a fiscal year ending January 31, 2019, Xactly adopted ASC 606 on February 1, 2019. Although many private companies will not have a GAAP financial reporting obligation until after the end of the current year, Tom noted that the ASC 606 impact on commissions can be underestimated, and compliance takes significant time and effort.

“Companies need to figure out how to solve this now – well before its time to produce GAAP financial statements.”

Xactly's finance team worked closely with its financial statement auditors to ensure the accounting conclusions were appropriate. Tom cautioned companies to have robust discussions with auditors prior to implementing ASC 606 – “You should know where you're going before you start.”

RESULTS

One of Tom's favorite product features is the ability to automatically true-up capitalized commissions for various adjustments. For example, when a specific customer is flagged as churned, Xactly CEA will automatically impair everything that's left on the customer's capitalized commission schedule. No impairment estimates are needed.

With an automated solution, Xactly's finance team was able to significantly cut the time and effort it would have taken to manage its commissions accounting manually. With Xactly CEA, the company can manage the process with a single person.

Moreover, because Xactly CEA is seamlessly integrated with Xactly's ICM solution, all the required commissions data is available and easily accessible. Organizations can see who was commissioned at what rate at any time.