



QCommission

Pay People Properly

www.qcommission.com

Overview

The new ASC 606 standard for revenue recognition will change how companies book revenue and expenses. This came into effect for private companies in the US beginning December 15th, 2018. In the past, revenue recognition standards differed between US and international organizations. These rules needed to be updated due to the varying ways they were being implemented.

The objective of the new ASC 606 revenue recognition standard was to adopt an international standard and outline a common way to recognize the revenue. The new standard provides framework to drive consistency in financial reporting, improve comparative analysis, and reporting.

These accounting standards provide guidelines for revenue processes such as contracts, quotes, orders, etc. The primary changes related to this standard occur, when there is a contract involved with long duration or with performance obligations. This results in many companies needing to re-evaluate when and how they account their revenue and whether sales and its related expenses need to be booked differently.

ASC 606 breaks down the contract process into the following 5 steps:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price
- Recognize revenue and expense when or as the entity satisfies a performance obligation

The new standard impacts various costs associated with contracts such as legal fees, preparation costs etc. More importantly for us, the new standard directly impacts sales commissions. Companies paying sales commissions implement the following changes in order to remain ASC 606 compliant:

- **Sales Commissions Tracking:** Previously, keeping track of commissions at the rep level was enough. With the new standard, the transaction level as well as the customer level need to be tracked as well.
- **Commissions Expense Timing:** Previously, commission used to be tagged as an expense when it was paid out. With the new standard, commissions need to be tagged as an expense over a time period matching the delivery of services to customers.
- **Types of Commissions and Capitalization:** Not all sales commissions/incentives qualify for capitalization. The pre-condition for capitalization is that associated costs should be 'incremental' and 'recoverable'.
- **Contract Duration and Amortization:** The sales commissions should be amortized based on the entire expected duration of the contract (not just initial period). This requires an estimation of the average lifetime of the contract.

- **Recognizing as Immediate Expense:** Commissions for the contracts that have a duration of one year or less can be booked for immediate expense rather than as an amortization.

Sales Commission Expense Recognition

Sales Commission expenses are recognized based on a few models:

- **Immediate Expense recognition** – for immediate and full sale of products or contracts below one year
- **Monthly amortization recognition** – for longer service contracts providing regular recurring service
- **Milestone-based recognition** – for milestones specified in contract and achieved
- **Services as rendered recognition** – for contract where services are rendered variably month to month

Immediate Expense recognition

This is very simple and is essentially the same as how sales commission is recognized today. Hard goods commissions and contracts within one year will be recognized this way.

Monthly amortization recognition

This recognition is common for contracts more than one year in duration for services that generally are consistent month to month. The monthly recognition is typically:

Total commission against contract / number of months

Maintenance contracts and subscription license contracts will typically be recognized this way.

Example:

Expense Recognition Amortization			
Contract Type:		Maintenance Contract	
Commission Paid out		\$ 240	
Contract Period	Date	Amortized Recognition	Balance
1	4/1/2021-4/30/2021	\$ 20	\$ 220
2	5/1/2021-5/31/2021	\$ 20	\$ 200
3	6/1/2021-6/30/2021	\$ 20	\$ 180
4	7/1/2021-7/31/2021	\$ 20	\$ 160
5	8/1/2021-8/31/2021	\$ 20	\$ 140
6	9/1/2021-9/30/2021	\$ 20	\$ 120
7	10/1/2021-10/31/2021	\$ 20	\$ 100
8	11/1/2021-11/30/2021	\$ 20	\$ 80
9	12/1/2021-12/31/2021	\$ 20	\$ 60
10	1/1/2022-1/31/2022	\$ 20	\$ 40
11	2/1/2022-2/28/2022	\$ 20	\$ 20
12	3/1/2022-3/31/2022	\$ 20	\$ -

Milestone-based recognition

This recognition is used for contracts more than one year in duration where services are committed and rendered by milestones. The commission is prorated by the percentage of revenue recognized per milestone.

Implementation and construction contracts will typically be recognized this way.

Example:

Expense Recognition Proration by Milestone				
Customer:		ABC Inc		
Job:		Job1		
Contract Type:		Development Contract		
Commission Paid out		\$ 74.50		
Customer Job	Milestone	Offset Months from Start	Recognition Percentage	Recognized Expense
Job1	Started	0	30%	\$ 22.35
Job1	Requirement	3	20%	\$ 14.90
Job1	Development	9	10%	\$ 7.45
Job1	Implementation	12	20%	\$ 14.90
Job1	Went Live	14	20%	\$ 14.90
Total				\$ 74.50

Services as rendered recognition

This recognition is used for contracts more than one year in duration where services are largely time and material-based. The commission is based on periodic invoice amounts.

Consulting contracts will typically be recognized this way.

QCommission application

QCommission is a powerful, flexible sales commission software. It calculates salespeople's compensation accurately and in timely manner. QCommission, the sales commission software, offers a commission expense recognition process and ensures compliance under the new ASC 606 revenue recognition standard.

QCommission handles all the various models of ASC 606 recognition required by the standards. QCommission provides the ability to define the contract terms such as contract start date, duration of the contract, renewable frequency, etc.

Customer Job - Edit

Save Cancel Search for: []

Contract Info

Contract Signed Date	Contract Signed Date	Master Contract	<input type="checkbox"/>
Asset ID	Asset ID	Purchase Order ID	Purchase Order ID
Contract Start Date	1/1/2019	Contract End Date	Contract End Date
Commission Amt	Commission Amt	Amortizable Commission Amt	36,000.00
Contract Duration - Months	24	Contract Duration Frequency	Contract Duration Frequency
Contract Value	Contract Value	Contract Terms	Contract Terms
Contract Status	New	Account Number	Account Number

Billing details

Job Duration	Job Duration	Sales Tax Item	Sales Tax Item
Sales Tax Code	Sales Tax Code	Price Level	Price Level
Resale Number	Resale Number	Preferred Payment Method	Preferred Payment Method
Credit Limit	Credit Limit	Name On Card	Name On Card
Expiry Date	Expiry Date		
Owner	ca20@insurance_medicare.com		

Fields marked with * are required.

Capitalization Options

QCommission provides the ability to define which incentive payouts can be capitalized/amortized.

Product - Edit

Save Cancel

Product ID *	PPO	Product Name	PPO
Product Description	Product Description	Product Level *	Product level 2
Sub Product Of	Individual	Full Product Name	Individual-PPO
Product Cost	0.00	Product Price	0.00
Product Type	Product Type	Account Name	Account Name
Commission Rate	2.00	Commission Amount	0.00
IsActive	<input checked="" type="checkbox"/>	Discount Amount	0.00
Discount Percentage	0.00	Preferred Vendor	Preferred Vendor
Expenses to be Amortized	<input type="checkbox"/>		

Flexible Fields

Flexi Text 1	Flexi Text 1	Flexi Text 2	Flexi Text 2
Flexi Amount 1	0.00	Flexi Amount 2	0.00
Flexi Amount 3	0.00		
Owner	ca20@insurance_medicare.com		

Fields marked with * are required.
Created By: ca20@insurance_medicare.com
Last updated at: 10/2/2019 07:36 PM

Amortization Schedule Report

Calculate detailed amortization schedules based on contract terms and dynamically/automatically adjust the balances.

Show/Hide Export E-mail

ASC606 MONTHLY EXPENSE AMORTIZATION REPORT

CUSTOMER ID	JOB ID	CONTRACT DURATION IN MONTHS	AMORTIZABLE AMOUNT
101-02-0102A	102A		24 36000
CUSTOMER NAME	JOB NAME	PERIODS	AMORTIZED AMT
Anna Alters	102A - Anna Alters	Jan - 2019	1,500.0
Anna Alters	102A - Anna Alters	Feb - 2019	1,500.0
Anna Alters	102A - Anna Alters	Mar - 2019	1,500.0
Anna Alters	102A - Anna Alters	Apr - 2019	1,500.0
Anna Alters	102A - Anna Alters	May - 2019	1,500.0
Anna Alters	102A - Anna Alters	Jun - 2019	1,500.0
Anna Alters	102A - Anna Alters	Jul - 2019	1,500.0
Anna Alters	102A - Anna Alters	Aug - 2019	1,500.0
Anna Alters	102A - Anna Alters	Sep - 2019	1,500.0
Anna Alters	102A - Anna Alters	Oct - 2019	1,500.0
Anna Alters	102A - Anna Alters	Nov - 2019	1,500.0
Anna Alters	102A - Anna Alters	Dec - 2019	1,500.0
Anna Alters	102A - Anna Alters	Jan - 2020	1,500.0
Anna Alters	102A - Anna Alters	Feb - 2020	1,500.0
Anna Alters	102A - Anna Alters	Mar - 2020	1,500.0
Load More...			Showing 15 of 24
101-02-0105A	105A		12 24000
101-02-0106A	106A		36 18000
201-02-0204A	204A		12 72000
201-02-0204A	204B		12 36000

QCommission helps compensation administrators and finance teams by providing the right options and tools to automate the approaches needed to be compliant with the ASC 606 Revenue Recognition Standards.