Today's Webcast Presentation

Accounting for Sales-Related Costs under ASC 606

Presented by Obero &
Financial Executives International (FEI)

November 7, 2017

will begin shortly …

CPE Credits

Today's webinar is worth 1 Continuing Professional Education (CPE) credit.

To be eligible for CPE credit, you must:

- Answer **at least 3 of the 4** polling questions (during the webinar) and have a total viewing time of **at least 50** minutes.
- Participants will have the opportunity to download their CPE certificate immediately following the webinar if above requirements are met.
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Tuesday, November 7, 2017

ACCOUNTING FOR SALES-RELATED COSTS UNDER ASC 606

Presented by

CHRISTOPHER LI
Chief Product Officer
cli@oberospm.com

DAVE CONTE
Chief Financial Officer
dconte@oberospm.com

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ABOUT OBERO

- Global company headquartered in Toronto, Canada with offices in the US & Europe.
- Uniquely designed to support the complexities of subscription businesses.
- Fully-integrated Sales Performance Management solution designed to support the requirements of ASC 606.
- Dedicated team of full-time consultants and customer success managers to maximize customer satisfaction.

TODAY'S PRESENTERS

CHRISTOPHER LI

Chief Product Officer

As the Chief Product Officer, Christopher is responsible for developing the product vision and strategy to execute with the product management team and for managing the team of solutions engineers and sales engineers. Prior to Obero, Christopher served as the Client Director of IBM's Performance Management Professional Services organization where he was responsible for managing commercial and public sector accounts in North America.

TODAY'S PRESENTERS

DAVE CONTE

Chief Financial Officer

In his role as CFO, Dave will continue to accelerate Obero's growth as a leader in the Sales Performance Management space and develop and maintain sustainable operations. Dave has a wealth of experience in the software and consulting industries and has worked with companies like Ernst and Young, Dell, Camilion Solutions and Mercatus Technologies. Dave is a Chartered Accountant and holds a Bachelor's Degree in Mathematics, Chartered Accountancy from the University of Waterloo.

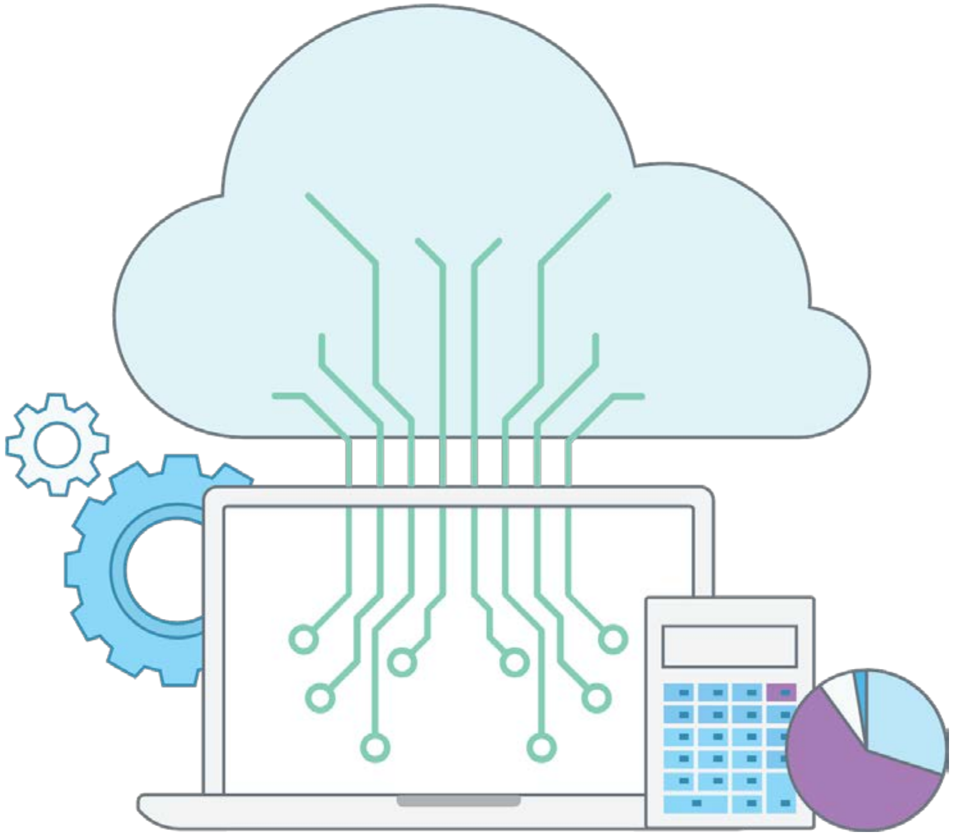
AGENDA

- About Obero
- How compensation accounting is impacted by ASC 606
- How the market is preparing for ASC 606
- The different approaches to adopting ASC 606
- Questions and Answers

HOW COMPENSATION ACCOUNTING IS IMPACTED BY ASC 606

WHAT'S CHANGING WITH ASC 606?

- The new standards come into effect by the end of 2017 for public companies and the end of 2018 for private companies.
- The new standards not only impact how you account for revenue from contracts, but also changes how you account for the incremental costs of acquiring customer contracts.
- Commissions directly associated with securing contracts need to be capitalized as an asset and amortized over the period the service is provided to the customer.



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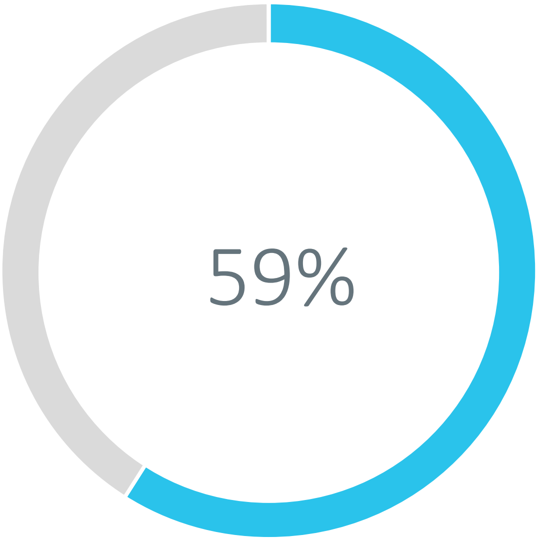
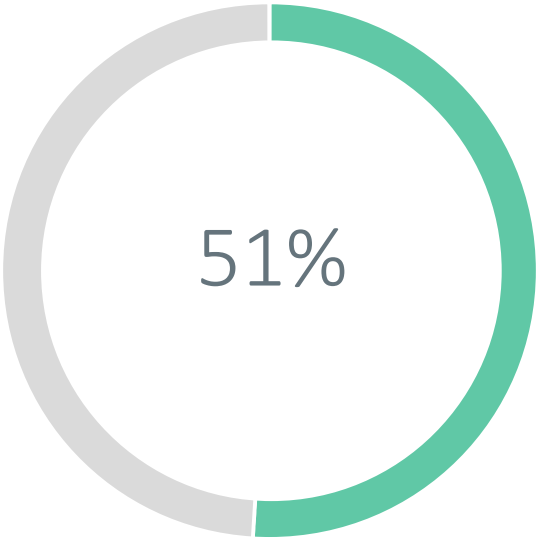
THE LARGEST EXPECTED CHALLENGES

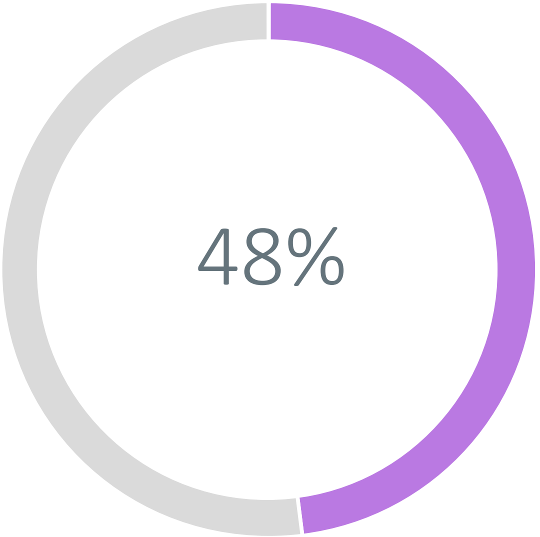
A survey conducted by Intacct and completed by finance executives revealed the following largest expected challenges introduced by the new revenue standards:



Accounting for variable consideration in customer contracts



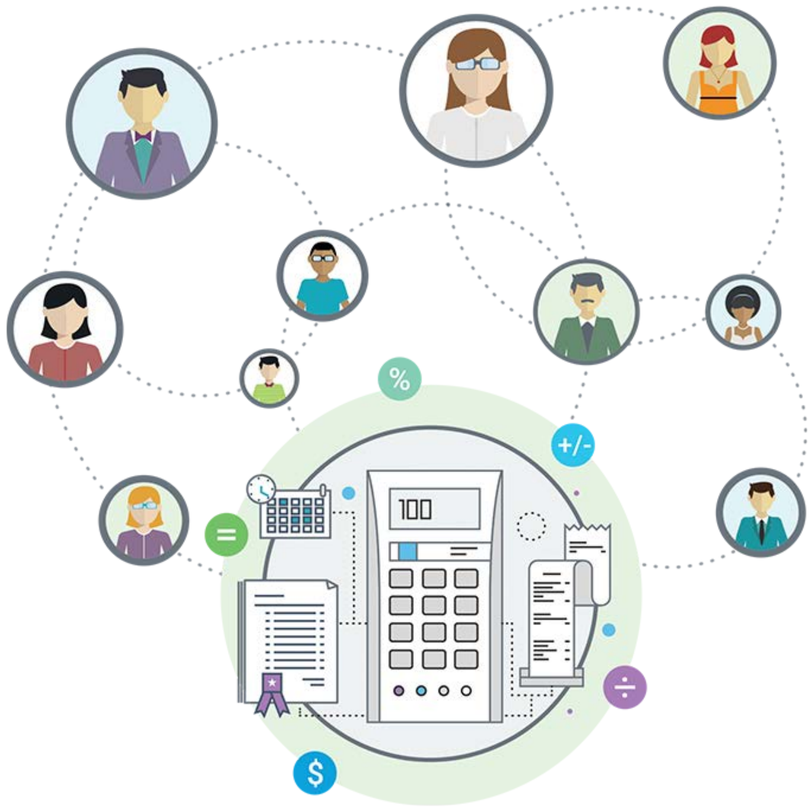
Dual reporting during the transition phase



Accounting for costs to obtain/fulfill customer contracts

KEY CHALLENGES

- High volume, low granularity, rules based amortization and capitalization schedules.
- Ability to manage multiple accounting books for both ASC 605 and ASC 606.
- Accommodating retrospective and prospective changes to commission earnings, contract cancellations and early renewals.
- Holistic view of commission and accounting reporting at various levels.



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THE FINANCIAL CLOSE PROCESS IS EVOLVING

1

RECONCILE BALANCE SHEET ACCOUNTS

- Manage Cash Balances to Trigger Commission Releases and Commission Accrual Reversals
- Calculate Capitalized Commissions Based on Existing and Future Contracts

2

RECORD FINANCIAL TRANSACTIONS

- Manage Performance Obligations for Existing Contracts to Trigger Commission Earnings
- Calculate Recurring and Non-Recurring Sales and Revenue Forecast to Drive Commission Accruals

3

PREPARE FINANCIAL STATEMENTS

- Manage Prior and Current Period Contract and Commission Adjustments Impacting the Financial Statements
- Compile Multi-Book Comparative Financial Statements

4

REVIEW INCOME STATEMENT ACCOUNTS

- Amortize Capitalized Commissions Based on Customer Life Assumptions
- Recognize Commission Expenses Based on Practical Expedient

5

CONDUCT FINAL REVIEW

- Analyze Financial Profitability Across Business Segments and Refine Optimal Accounting Treatment
- Update Disclosures Based on Material Events Impacting Commissions

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POLLING QUESTION #1

Has your organization completed its assessment of how ASC 606 will impact your compensation accounting process?

HOW THE MARKET IS PREPARING FOR ASC 606

WHAT THE ACCOUNTING FIRMS ARE SAYING

- The majority of the guidance has been focused on how to transition to the new revenue standards from a revenue recognition perspective. Very little support has been offered on how to manage the commissions capitalization and amortization process.
- For those companies which have not been capitalizing and amortizing their commissions, only a small percentage of companies have a defined strategy in place regarding how they will adjust their compensation accounting process.
- Whether a company adopts the full retrospective or modified retrospective transition approach, there is almost always a need to amortize the commissions associated with historical contracts – not enough time has been spent analyzing and preparing those amortization schedules.
- A company has two major options regarding their capitalization and amortization approach – they can bundle their contracts into "portfolios" based on similar characteristics and manage the capitalization and amortization at an aggregate level or they can manage the capitalization and amortization at an individual contract level.

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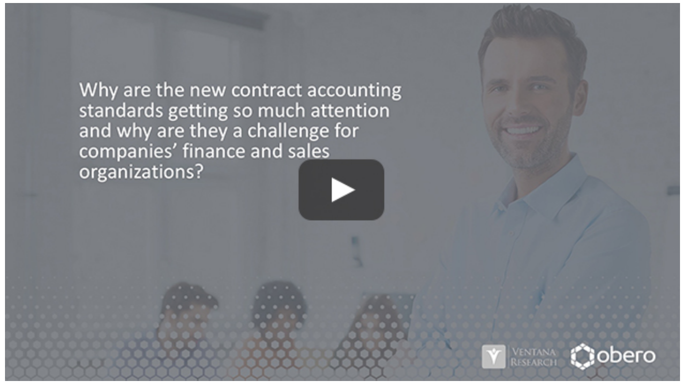
MISCONCEPTIONS ABOUT COMPENSATION ACCOUNTING UNDER ASC 606

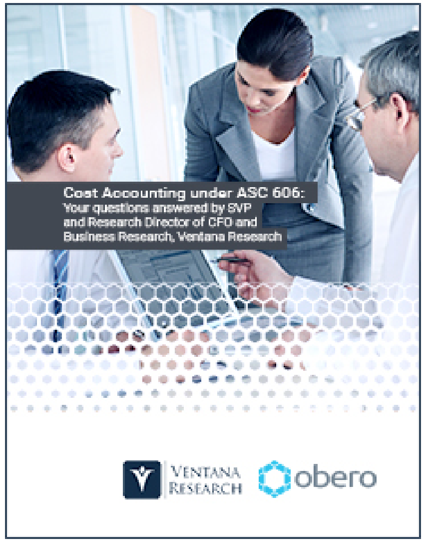
Your ERP system can address the requirements

Creation of amortization schedules = 20x to 100x the data

Change, it's always happening!

OBERO HAS BEEN TRACKING ASC 606 SINCE 2015





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POLLING QUESTION #2

Does your organization currently capitalize and amortize your sales-related (commissions) costs?

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THE DIFFERENT APPROACHES TO ADOPTING ASC 606

OUR CUSTOMERS

TECHNOLOGY, SOFTWARE & INTERNET

- acxiom
- ALERT LOGIC Security. Compliance. Cloud.
- appfolio
- avtex
- Applied Software
- APPTIO
- BASE
- BLACKLINE
- Symantec + BLUE COAT
- brightcove
- busbud
- COMPUGEN
- Cytel
- DEMANDBASE
- dsi
- DSS INCORPORATED
- DOMO
- Edgenuity
- EPICOR
- ePlus Technology
- HAWK RIDGE SYSTEMS
- HotSchedules
- LogicMonitor
- Model N More Revenue. Made Simple.
- ncino
- nlyte
- numerix
- On Center SOFTWARE
- OPENTEXT
- ost Open Systems Technologies
- Percolate
- PROCORE
- Pulse Secure
- RogueWave SOFTWARE
- rubrik
- SEISMIC
- ServiceChannel
- SMARTBEAR
- spōk
- TASKTOP
- Trams INC. RAPID GROUP & TRAMSCOM
- TRITECH
- TypeCoach
- upland
- vht Virtual Hold Technology
- VERACODE
- voalté

BANKING, FINANCIAL SERVICES & INSURANCE

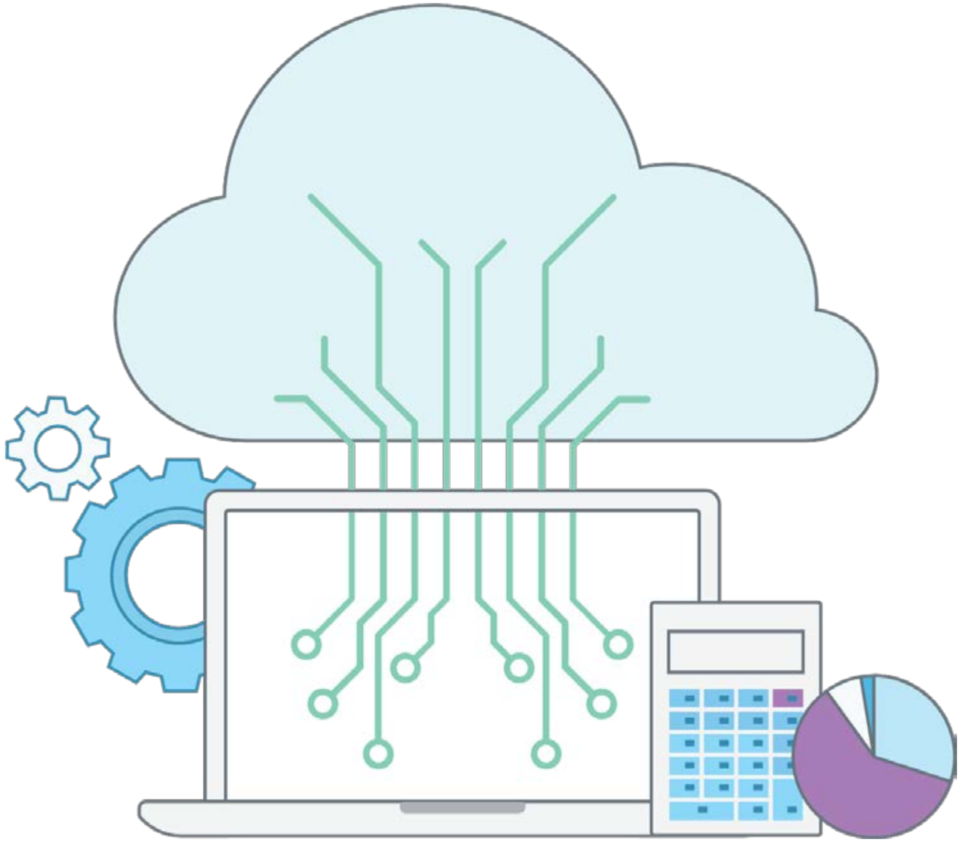
- A10 CAPITAL
- Bupa
- CAA
- DBSI Banking Redefined
- loanDepot
- MACKENZIE Investments
- Prudential
- TwinStar CREDIT UNION
- Walker & Dunlop

OTHER

- CHOICE HOTELS
- DuChâteau
- ENTERCOM
- EMPIRE TODAY 800 588 2300
- Life Fitness
- MesaLabs
- MONDO
- MultiChoice
- NAMSA
- npd
- REFINERY29
- Soligent
- SPACELABS HEALTHCARE
- TurnKey VACATION RENTALS
- wenzel spine

WHAT ARE THE MAJOR DECISIONS?

- Full vs. Modified Retrospective?
- Portfolio vs. Contract Level Amortization?



FULL VS. MODIFIED RETROSPECTIVE

- Under the full retrospective approach, two years of historical financial statements need to be restated under the new standard. This is only feasible if a company has access to the contract and commission details at a granular enough level to support the restatement process.
- Under the modified retrospective approach, the financial statements need to be reported under the old and new standards during the adoption year; with an adjustment being made to the retained earnings balance under the new standard. This approach limits the amount of year over year trend analysis that can be conducted.
- For those companies which have been deferring their commissions for some time, the compensation accounting impact of ASC 606 is not contributing to their decision to follow the full retrospective or modified retrospective approach as much as those companies which have been expensing their commissions as a period cost.
- For subscription-based businesses, the revenue recognition impact of ASC 606 hasn't been too significant so most of those companies have elected the full retrospective approach if they've already been deferring their commissions.

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PORFOLIO VS. CONTRACT LEVEL AMORTIZATION

CHANGE TYPE	CHANGE EXAMPLE	PORTFOLIO LEVEL	CONTRACT LEVEL
Contract	The ACV for a deal changes or the services versus subscription mix changes	• A portfolio allocation factor can be used to allocate to various performance obligations in a bundled arrangement. This is useful when contracts and promotional offers are not rapidly changing. • The portfolio method must have enough precision such that there aren't significant reversals in the future. • It's not possible to accommodate changes to a single contract so the level of precision will never match that of the contract method.	• Commissions are capitalized and expensed at the performance obligation level so changes to a given contract can easily be pushed down to the performance obligations associated with it. • Capitalization and amortization is tracked at the performance obligation level which makes it easy to identify the net impact and source of a change. • Companies that record capitalized costs on a contract-by-contract basis will have to monitor and record impairment as customers terminate and allow services to lapse.
Account	The customer life for an account changes or the customer churns	• Individual cancellations do not necessarily result in an immediate adjustment since overall estimates account for a level of cancellation. • If the cancellation pattern of the overall portfolio changes then it can lead to a portfolio being materially different from the contract method which contradicts the criteria permitting the use of the portfolio method. • It's not possible to accommodate changes to a single account, so the level of precision will never match that of the contract method.	• Commissions are capitalized and expensed at the performance obligation level so changes to a given account can easily be pushed down to the performance obligations associated with it. • Capitalization and amortization is tracked at the performance obligation level which makes it easy to identify the net impact and source of a change.
Payee	The quota for a payee changes	• Portfolio composition needs to be carefully constructed since quota changes to a payee can lead to a portfolio not being properly aligned to the payee's quota structure. • i.e.; quotas are set based on products, but portfolios are aligned by account type.	• Commissions are capitalized and expensed at the performance obligation level so payee changes such as changing a quota can always be applied. • Capitalization and amortization is tracked at the performance obligation level which makes it easy to identify the net impact and source of a change.
Plan	There is a retroactive change to the plan mechanics	• Portfolio composition needs to be carefully constructed since plan changes can lead to a portion of a portfolio not being applicable to a given plan. • i.e.; payment rates are set based on products, but portfolios are aligned by account type.	• Commissions are capitalized and expensed at the performance obligation level so changes to plan mechanics can always be applied. • Capitalization and amortization is tracked at the performance obligation level which makes it easy to identify the net impact and source of a change.

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DATA VOLUME CONSIDERATIONS

METRIC	START-UP	GROWTH	MATURITY
Monthly Sales Transactions	500	10,000	50,000
Payees Credited per Deal	3.00	5.00	10.00
Sales Metrics per Plan	1.00	2.00	3.00
Compensation Payout Results	1,500	100,000	1,500,000
Compensation Payout Data Growth	***3%***	***10%***	***30%***
Amortization Duration	24	36	60
Accounts to Manage	3	3	3
Compensation Accounting Results	108,000	10,800,000	270,000,000
Compensation Accounting Data Growth	***72%***	***108%***	***180%***

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POLLING QUESTION #3

If your organization has completed its compensation accounting impact assessment, are you planning to implement a portfolio or contract level amortization?

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HOW OBERO SPM CAN HELP

- Seamless integration with your core applications (ERP / RBM / CRM) to capture all revenue events in an accurate and automated manner.
- Calculation of 100% of your compensation expenses directly tied to the customer contracts / invoices.
- Automate the maintenance of your commission capitalization and amortization balances; according to ASC 605 and ASC 606.
- Dynamically adjust / change amortization schedules and rules based on contract, account, payee and/or plan changes changes.
- Incorporate accrual accounting into the end to end process.

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POLLING QUESTION #4

Has your organization automated the administration of sales-related (commission) costs?

QUESTIONS?

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LinkedIn
http://www.linkedin.com/company/obero-inc-

Electronic Mail
info@oberospm.com

All available resources
www.oberospm.com/newrevenuestandard

ARE THERE ANY QUESTIONS FOR TODAY'S PRESENTERS?

FOR YOUR PARTICIPATION
DURING THIS WEBCAST