All About SaaS: ASC 606 Challenges and Pain Points

Meet Our Guests

Chris Weber

SaaSOPTICS®

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TechCXO®

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About SaaSOptics

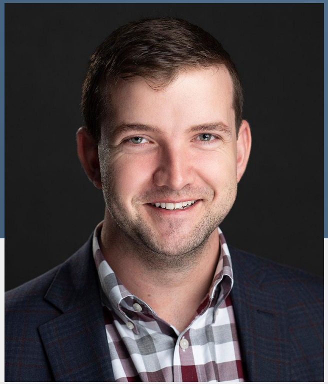
500+
Customers
& Growing

$4.1B
Customer Revenue
& Invoicing

$9B
Aggregate Invested
Capital

DUO schoology SalesLoft crunchbase

Oversight MasteryConnect SYNTHio Driven Insights



Chris Weber
VP of Operations

About TechCXO

TechCXO provides high potential companies with proven, interim executives.

- Finance & Operations
- Strategy, Sales & Marketing
- Product & Technology

Herman Moncrief
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Today’s Agenda

- ASC 606 background and deadlines
- Top 12 changes that could affect your SaaS businesses
- Implications for SaaS
- Q&A

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Background

ASC 606 Background

- SaaS growth isn't slowing
- Needed consistency in revenue recognition
- FASB saw need for new standards (ASC 606)
- Standards go into effect Dec. 15, 2018

The Top 12 Changes That Could Affect Your SaaS Business

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1. Amortizing commissions

Past: Pay expense as incurred or amortized over the legal term of the contract.

ASC 606: Now a two-step process. Amortize over longer period; estimate customer life and anticipate renewals.

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2. Setup/conversion costs

Past: Capitalizable and amortizable over the contract term.

ASC 606: Amortize over customer life and anticipate renewals. Capitalize and amortize equipment, reimbursable travel, allocated overhead.

3. Setup/conversion costs

(Part 2)

Past: Subject to impairment of contractual revenues.

ASC 606: Subject to impairment, including anticipated renewal revenues.

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4. Contract term

Past: Same as legal contract term.

ASC 606: Accounting contract term must be truncated if a termination for convenience clause is present without a corresponding termination penalty (20% of total fees over remaining term).

5. Direct allocation of proceeds

Past: Not permitted.

ASC 606: Direct allocation of variable consideration may be permitted to allow revenue recognition to approximate invoicing. Estimation and re-allocation may be required, resulting in straight-line recognition and quarterly true-ups.

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6. Nonrefundable upfront fees

Past: Recognized over current customer relationship period.

ASC 606: One-time fees are recognized over accounting contract term (after truncation consideration) because no material right.

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Questions?

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7. Gross vs net

Past: Followed EITF 99-19, which allowed for gross and net indicators.

ASC 606: Certain revenue streams previously considered gross may now be presented as net, as new guidance relies heavily on the transfer of control. Credit risk criterion eliminated.

8. Discounts on options

Past: Option accounting provided three criteria to avoid treating option as an element of deferral.

ASC 606: Option accounting is treated as a separate performance obligation if material right exists.

1. Priced below ESSP
2. Not matched with a similar class of customer.

9. Combining Contracts

Past: Presumption - contracts signed within 30 days are combined.

ASC 606: Presumption to combine is eliminated unless signed within 30 days AND also interrelated commercially, through cross-payment or functional interdependence (i.e. not distinct).

10. Collectability

Past: Recognition threshold.

ASC 606: Establish model for revenue recognition and whether a contract exists. If no contract exists, it may result in recognizing revenue later than money is received.

11. Incentive payments

Past: Capitalize and amortize over contract term.

ASC 606: Amortizable over longer period (including anticipated renewals) as contra revenue.

12. Incentive payments

(Part 2)

Past: Subject to impairment of contractual revenues.

ASC 606: Subject to impairment including anticipated renewal revenues.

So what does this mean?

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Next Steps

- Audit your current practices against ASC 606 changes
- You have until the end of the year to comply with new standards
- Consider automation/subscription management to save time/headache

Questions?

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