Sage Intacct Contract Manager

Part I	Part II	Part III	Part IV
MEETING CONTRACT STANDARDS	THE REV REC STORY	TRANSACTION VS. CONTRACT BASED ERP	THE INTACCT CONTRACT SOLUTION

Topic Details I	Topic Details II	Topic Details III	Topic Details IV
MODIFICATIONS TO YOUR SYSTEMS	ADDRESSING ASC 606 ONE PART AT A TIME	REPORTING DETAIL	CFO PREPAREDNESS

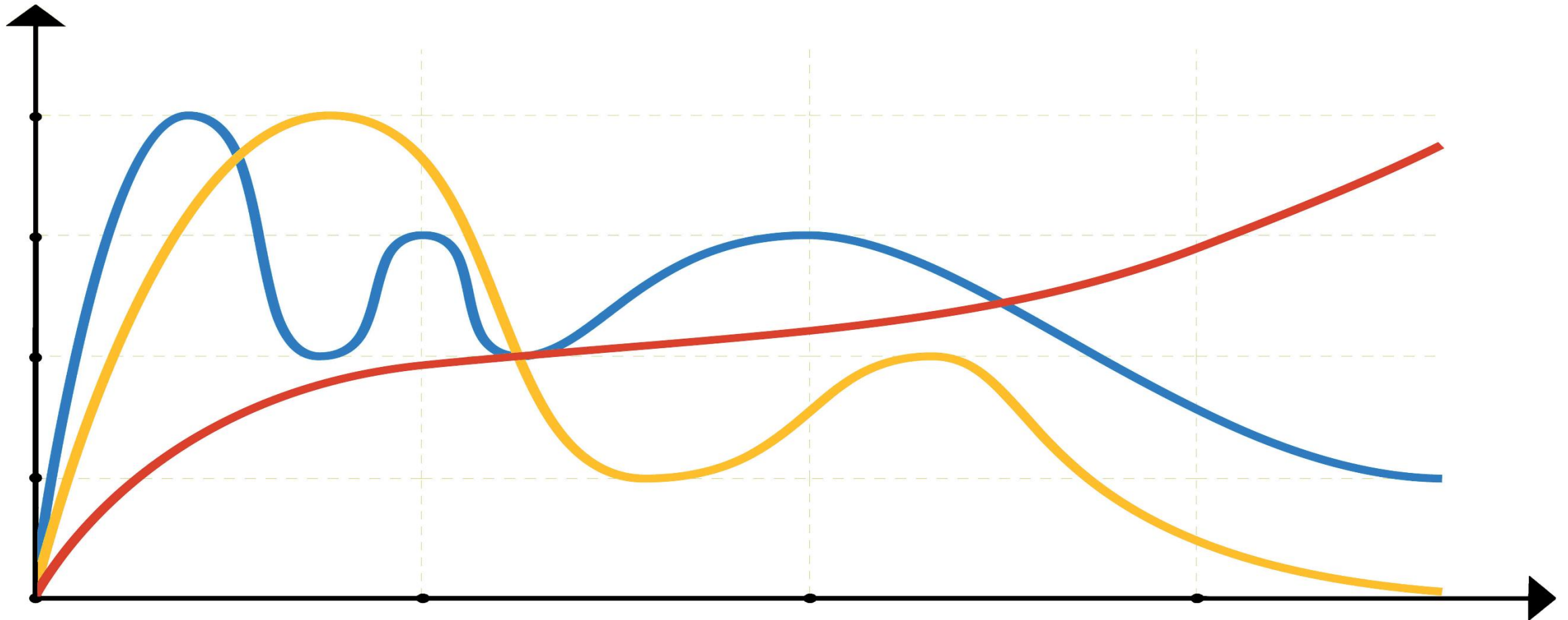For above topics click on cell to navigate to section

To meet sweeping changes in rev rec standards you look for ways to modify your ERP system.
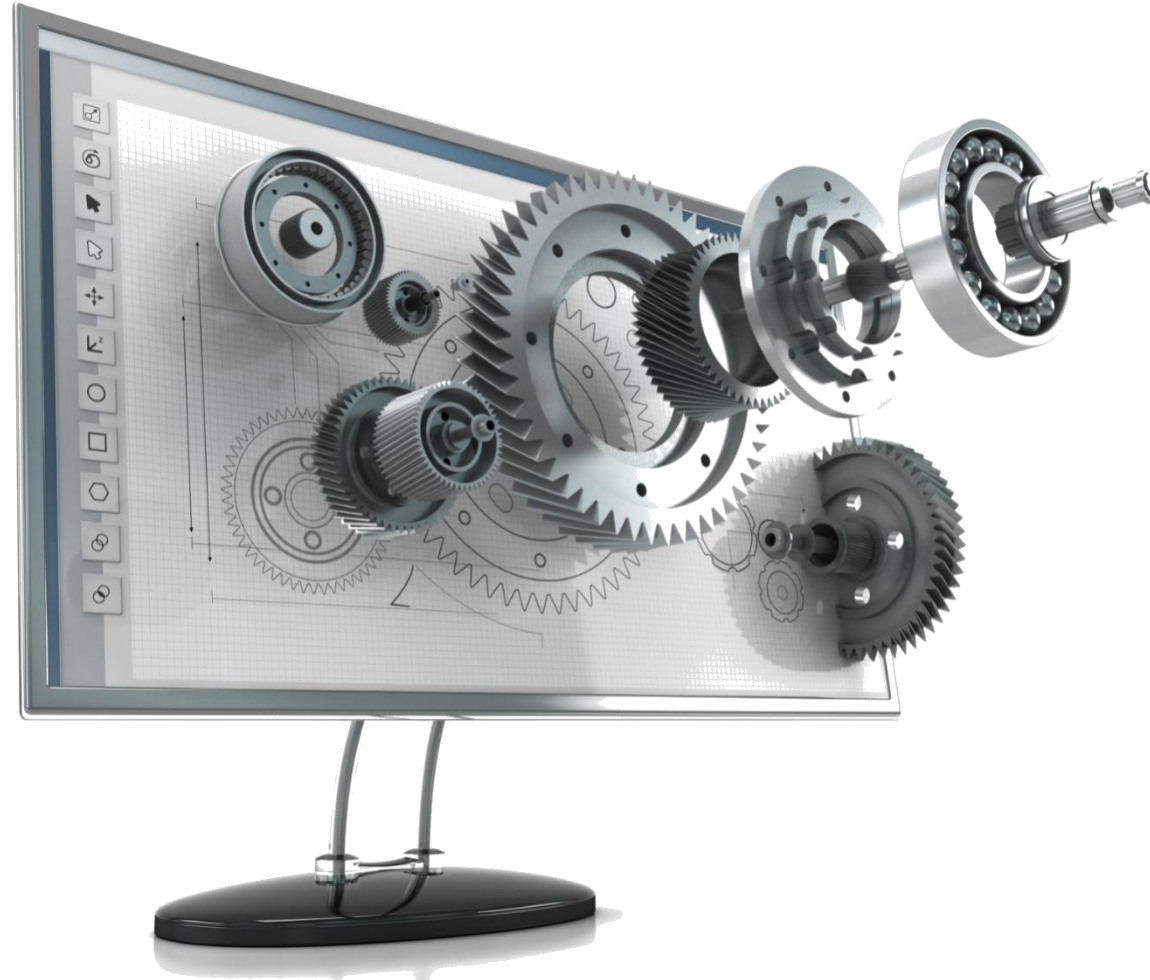
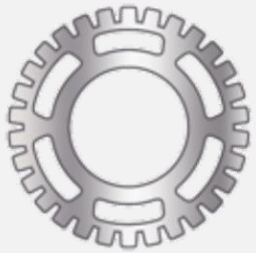# You've also recognized the need for better financial metrics –especially related to your contracts.

A crossover point is here, where holding on to the "As Is" could imperil your financial operations.

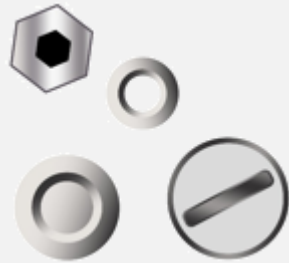# Your options include retrofitting your current ERP with new "parts" that can help address the new standards.

Contract Dimension

GL Accounts

Contract Transaction
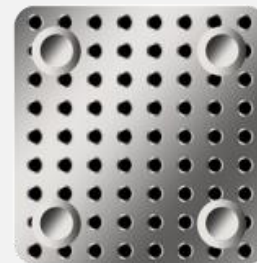
Items (mirroring POs)

MEA Price List

Revenue Templates

Expense Templates

Dual Books
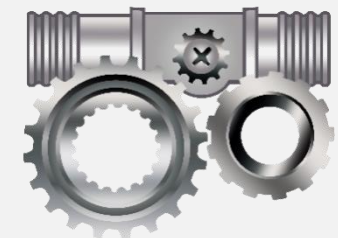
But adding these "parts" may involve repurposing your system, leaving you with a "Frankenstein" solution.
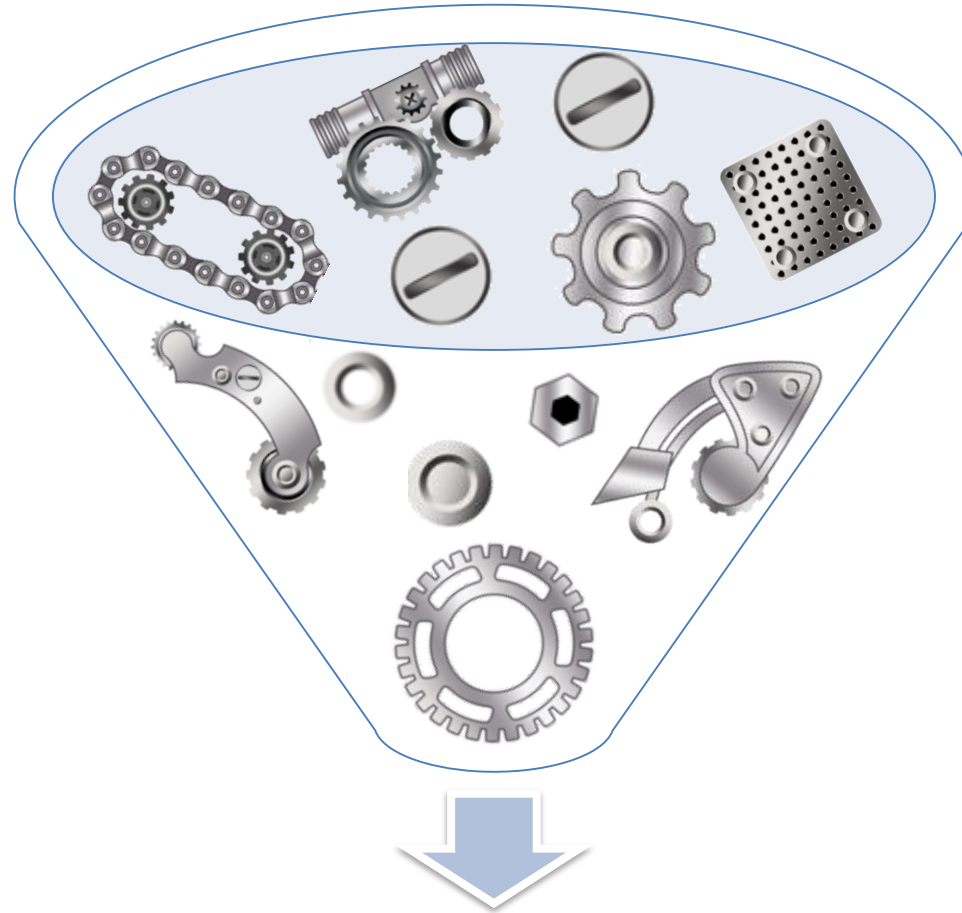
Alternatively, a better "machine" exists for meeting the new contract-based standards –Sage Intacct.

Intacct meets the new standards, and gives you a system for managing a dynamic contract portfolio.

Transaction Requirements: Managing Contracts with Customers

- ✓ Scope and Price Modifications
- ✓ Multi-Element Arrangements
- ✓ Revenue and Expense Matching
- ✓ Non-Linear Pricing & Billing
- ✓ Backlog & Contract Reporting

External Requirements

- ✓ ASC 606 & IFRS 15 Compliance

With powerful contract metrics and reporting to meet ASC 606 & IFRS 15 disclosure requirements.
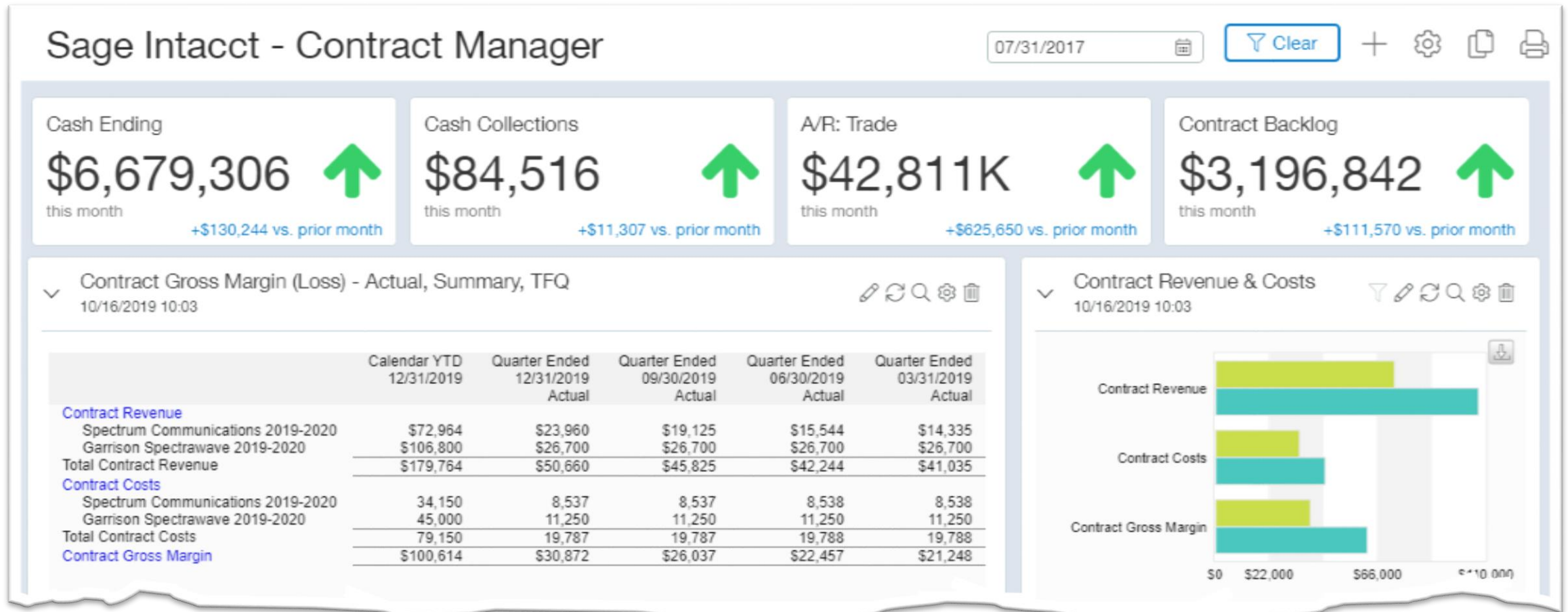
As always, accounting for revenue is a consideration of: When? How Much?

When?

Now   Point-in-Time

When?

Now   Period of Time
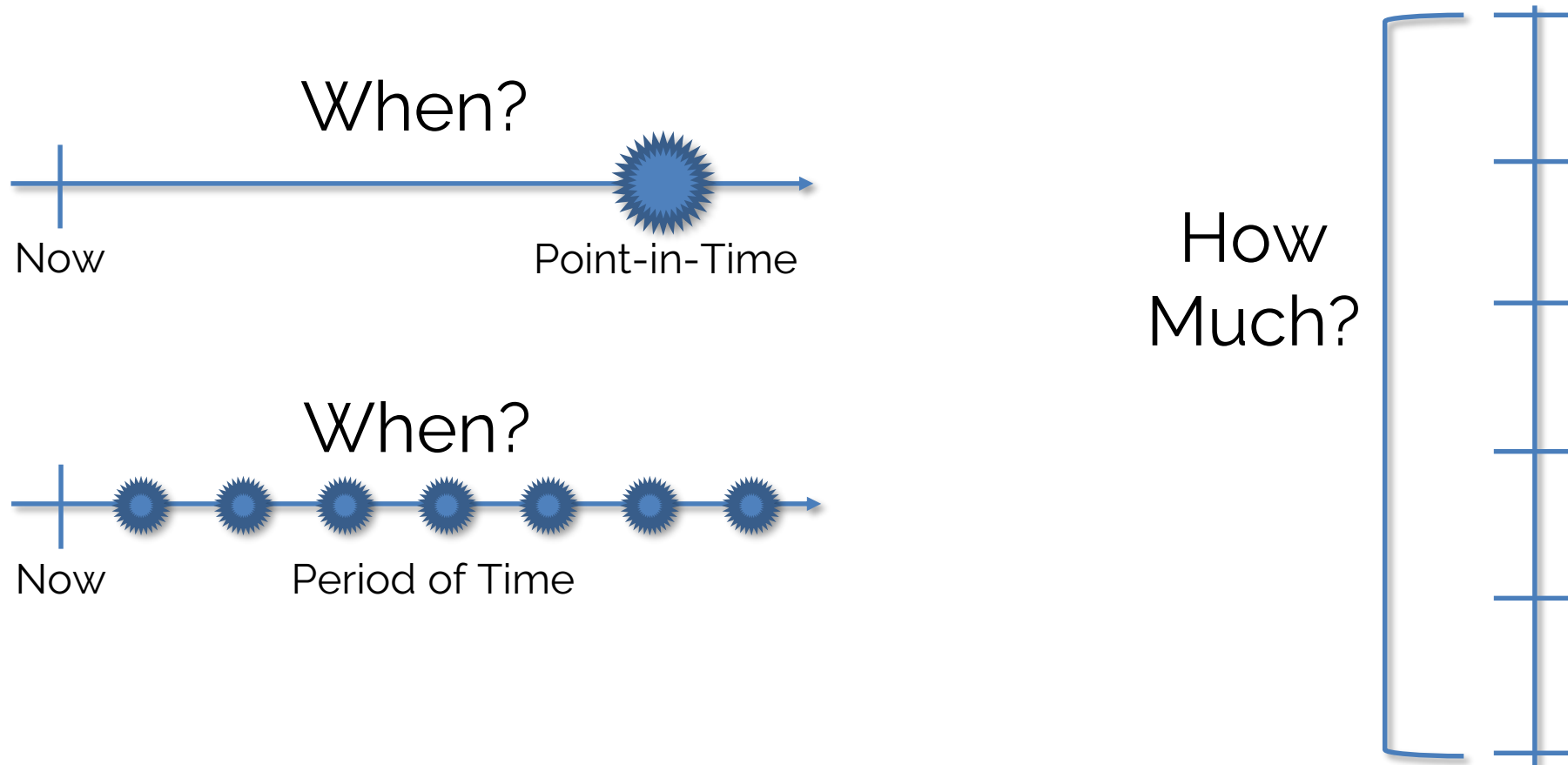
How Much?

For the new rev rec standards the application of when and how much is specific to contracts with customers.
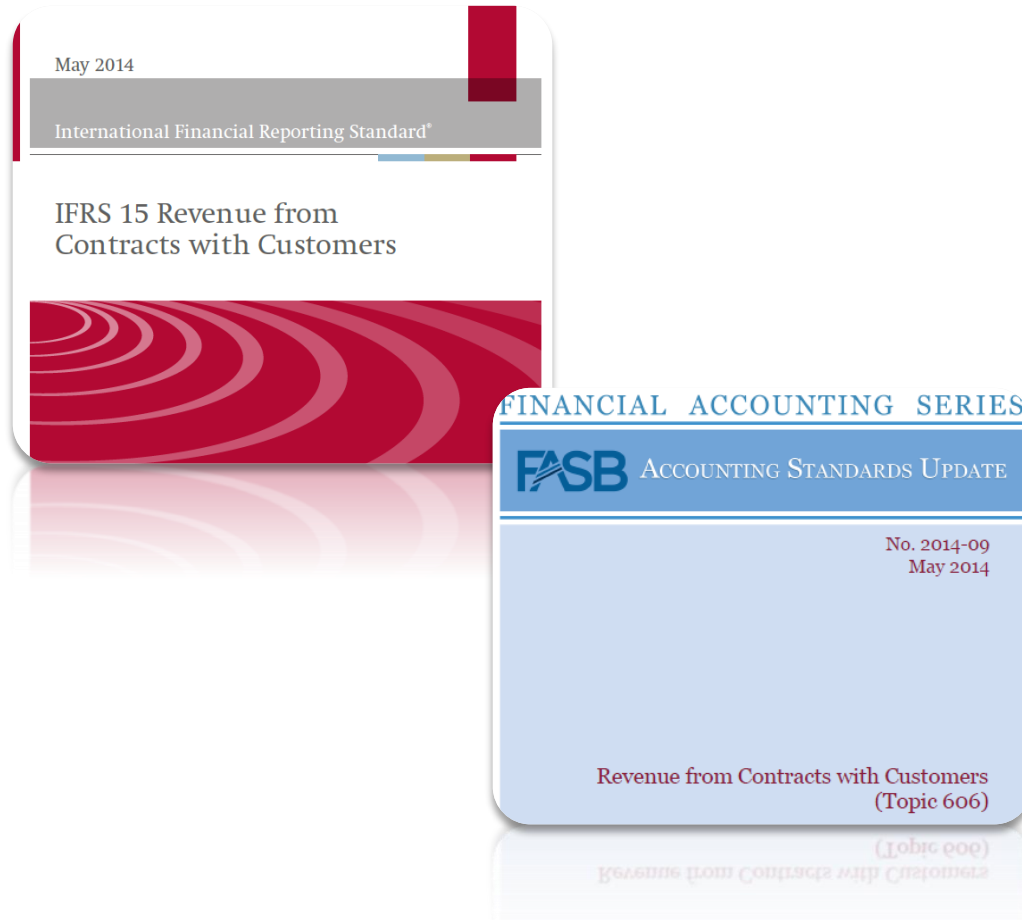
FASB's Accounting Standards Update 2014-09, or Topic 606 & IFRS 15 is: Revenue from Contracts with Customers

In summary, the new standards measure revenue by performance and entitlement at the contract level.

ASC 606	IFRS 15	ASPE (Canada GAAP)	ASPE (Canada GAAP)

Performance Model

Answers "When" to recognize revenue

- Revenue recorded when the entity performs.
- Performance aligns with control; when the entity performs, customer controls.

Entitlement Model

Answers "How Much" revenue to recognize

- Revenue recorded to the extent of entitlement.

Difference exists between ASC 606 and IFRS 15 for the recording of variable consideration. IFRS 15 specifies a "highly probable" standard for the reversal of VC, where ASC 606 only "probable."

Control Model

For ASPE, the control model applies provided there's no conflict with §3400. In this case, revenue is recognized similar to the standards applied under IRFS 15. Examples: variable consideration, IP, software, construction.

Risk & Reward Model

§3400 As Per *Goods*

- The seller has transferred to the buyer the significant risks and rewards of ownership.
- Reasonable assurance of measurement of the consideration derived, and the extent of returns.

To meet the new rev rec standards, and manage your contract portfolio, an ERP must meet these 5 objectives:

1. Allow modifications to scope and price

2. Allocate and reallocate revenue

3. Schedule non-linear billing and revenue recognition

4. Match contract expenses with revenues

5. Report on contract renewals, backlog, and cash flows

Typical transaction-based systems need to be modified to meet these five objectives, and track the contract.

As Is System
Transaction-Based ERP
Staged Workflow

Transition

To Be System
Contract-Based ERP
Continuous Workflow
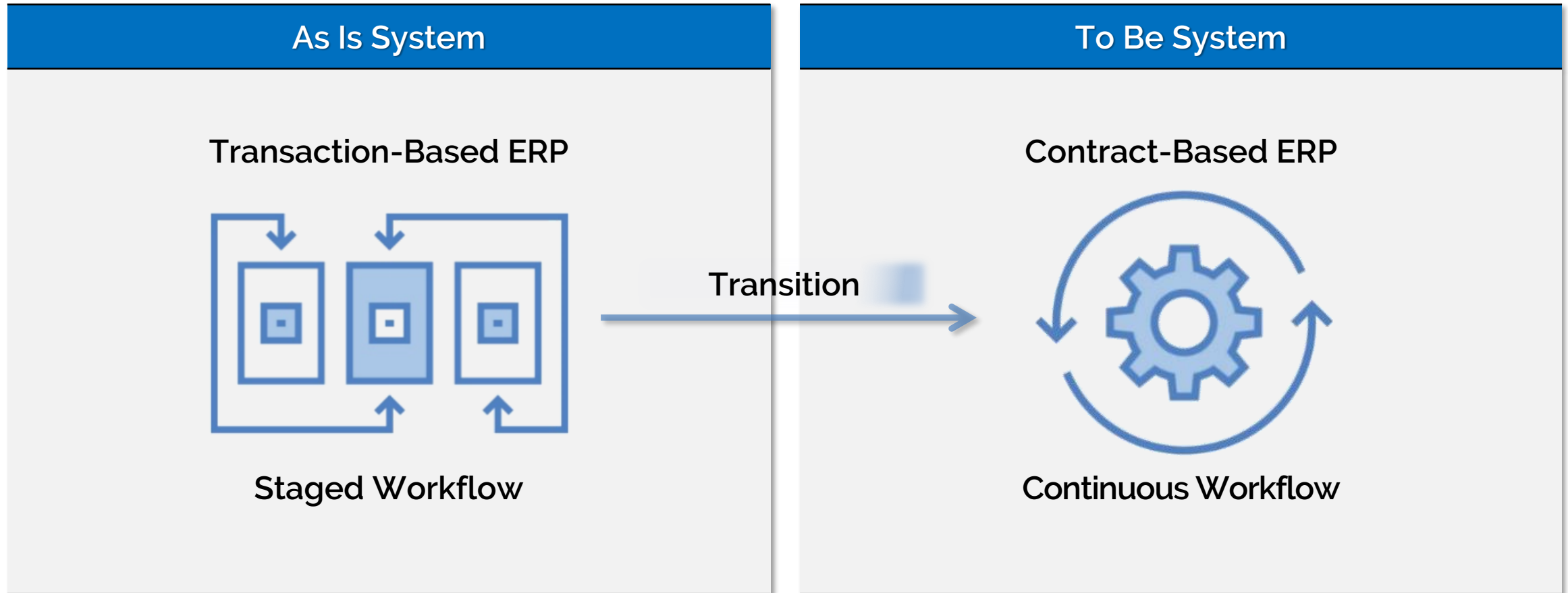
These modifications are difficult as most systems aren't architected for dynamic contract management.

Transaction-Based ERP Systems: Managing Contracts with Customers

- ✘ Scope and Price Modifications
- ✘ Multi-Element Arrangements
- ✘ Revenue and Expense Matching
- ✘ Non-Linear Pricing & Billing
- ✘ Backlog & Contract Reporting

External Requirements

- ✘ Contract Dimension for Compliance

Built for contracts, Intacct allows you to manage the new rules, and the dynamics of your portfolio.

Contract Lifecycle

Intacct

CRM
(Salesforce)

Dynamic Contract Management

Multi-Element Arrangement

Revenue & Expense Matching

Non-Linear Pricing & Billing

Contract Metrics
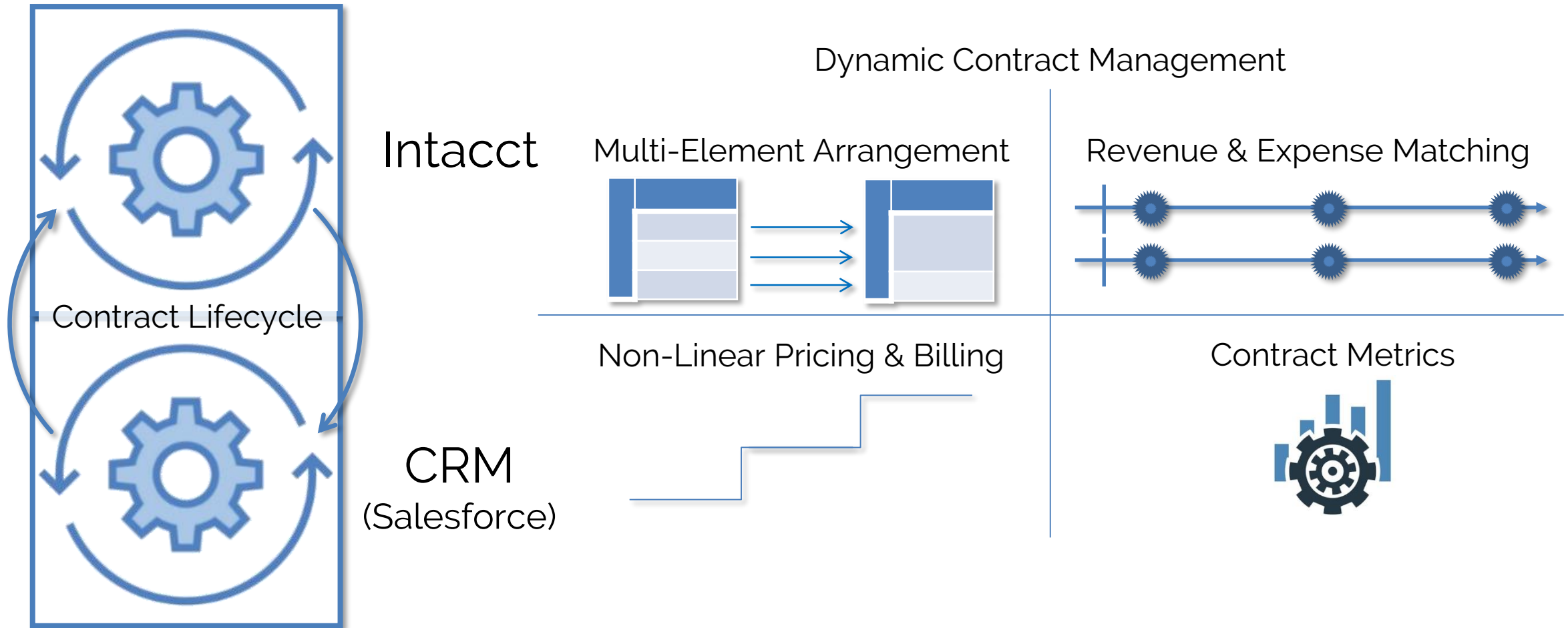
Contracts allows modifications in the contract lifecycle.

Contract modifications involve a change in price or scope. Intacct allows these changes, reflecting updates to revenue recognition.

Add, change contract line items as required

Options to hold, resume, cancel

Empower expedient updates and standards compliance.

Manages the complexity of multi-element arrangements.

Multi-Element Arrangement

In a multi-element arrangement (MEA) related items are bundled. Intacct does the heavy lifting behind the price allocation, and/or reallocation for these bundles.

Manual Excel MEA Calculation

Allocation Base	MEA Percent	MEA Amount
	19.34066	$77,226
$399,300	71.96401	$287,352
	2.298801	$9,579
	6.296852	$25,143

Automate fair value calc., allocations, reallocations

Contract MEA Allocation Scheme

Done   Help   More actions ∨

Allocations

Bundle#	Line no	Item	Rate ❓	Quantity	Multiplier	Incl with every inv	Ext txn value	Fair value price	Ext fair value price	MEA percent	MEA amount
1	1	DATMGR	8,600.00	1	1	12.00	103,200.00	9,675.00	116,100.00	19.34033	77,225.94
1	2	DATUSR	1,025.00	20	1	12.00	246,000.00	1,800.00	432,000.00	71.964018	287,352.32
1	3	STORGE	0.12	10000	1	12.00	14,400.00	0.12	14,400.00	2.398801	9,578.41
1	4	DATSUP	2,975.00	1	1	12.00	35,700.00	3,150.00	37,800.00	6.296852	25,143.33
Total							399,300.00	14,625.12	600,300.00		399,300.00

Reduce the risk of manual errors from price allocations.

Supports quantity-based pricing for variable agreements.

Non-Linear Pricing & Billing

The new rev rec rules require Co.'s to record variable consideration, including quantity-based. Intacct gives you options to accurately reflect this variable revenue.

Quantity-Based Pricing Options				
Tiered Pricing	Range Pricing	Flat Price Fee	Base Units Included	Cumulative Counting

Sample Tier Pricing		
Tier	Begin Quantity	Tier Rate
1	0	$5.00
2	1001	$4.00
3	2001	$3.00

Revenue calc per tiered price rates

Quantity-Based Contract Revenue ($,000)
10/03/2019 08:13
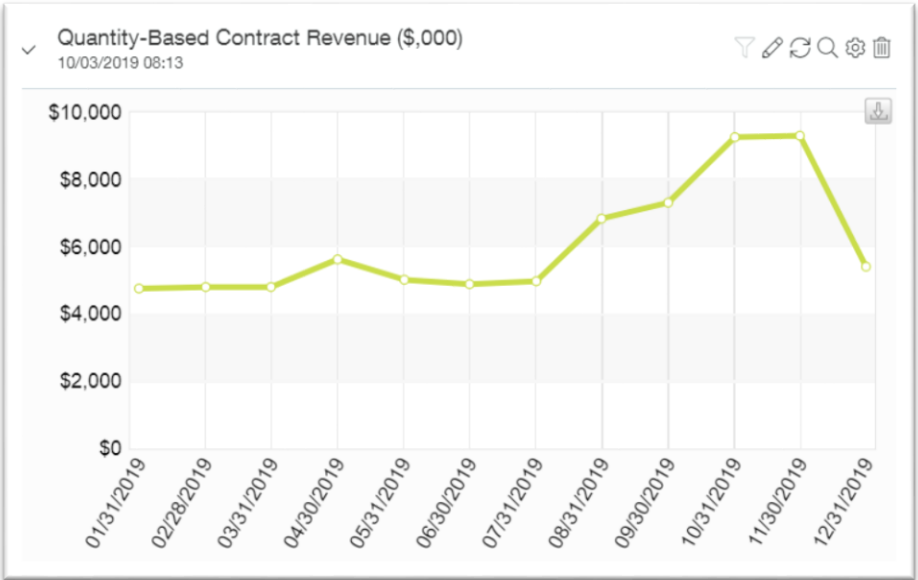
Eliminate billing leakage by automated price calculation.

Amortizes contract expenses with related revenues.

Revenue & Expense Matching
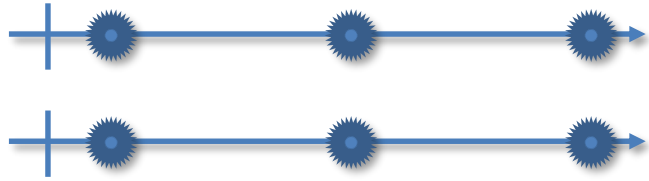
New Standards require the capitalization of certain contract costs. Intacct allows you to amortize these costs consistent with the life of the contract.

Revenue and costs managed within same contract booking

	Calendar YTD 12/31/2019	Quarter Ended 12/31/2019 Actual	Quarter Ended 09/30/2019 Actual	Quarter Ended 06/30/2019 Actual	Quarter Ended 03/31/2019 Actual
Contract Revenue					
Spectrum Communications 2019-2020	$72,964	$23,960	$19,125	$15,544	$14,335
Garrison Spectrawave 2019-2020	$106,800	$26,700	$26,700	$26,700	$26,700
Total Contract Revenue	$179,764	$50,660	$45,825	$42,244	$41,035
Contract Costs					
Spectrum Communications 2019-2020	34,150	8,537	8,537	8,538	8,538
Garrison Spectrawave 2019-2020	45,000	11,250	11,250	11,250	11,250
Total Contract Costs	79,150	19,787	19,787	19,788	19,788
Contract Gross Margin	$100,614	$30,872	$26,037	$22,457	$21,248

Contract Gross Margin (Loss) - Actual, Summary, TFQ
10/10/2019 12:37

Revenue & Costs
10/10/2019 12:37

Increase the accuracy of contract margin analysis.

Reports on contract renewals, backlog, and cash flows.

Contract Metrics

New disclosure requirements include reporting the nature, timing, and uncertainty of revenues and cash flows. Intacct's backlog and paid reporting follow suit.

Certainty of Cash flows →

Cash Collections

$84,516

this month

+$11,307 vs. prior month

Contract Backlog

$3,196,842

this month

+$111,570 vs. prior month

Timing of Cash flows

606 - Unbilled Def Revenue
10/12/2019 13:09

| | $356,176 | | $14,114 | $329,387 |

$400,000
$320,000
$240,000
$160,000
$80,000
$0

$(40,903)

$0 $25,500 $(8,500) $(8,500) $(8,500)

01/01/2017   02/28/2017   04/30/2017   06/30/2017
   01/31/2017   03/31/2017   05/31/2017   07/31/2017   Total
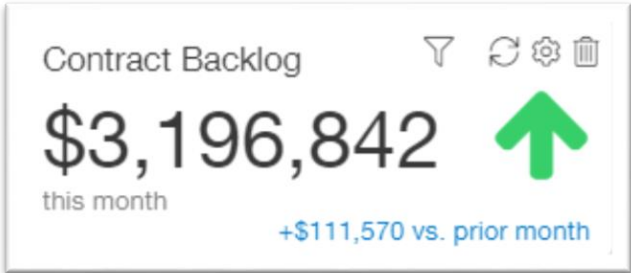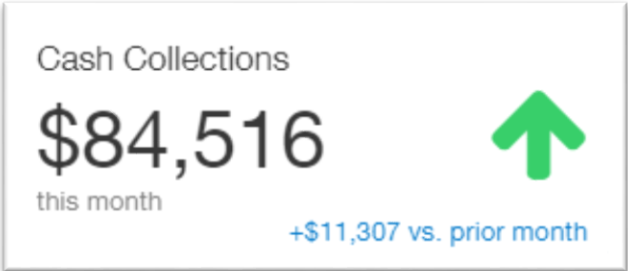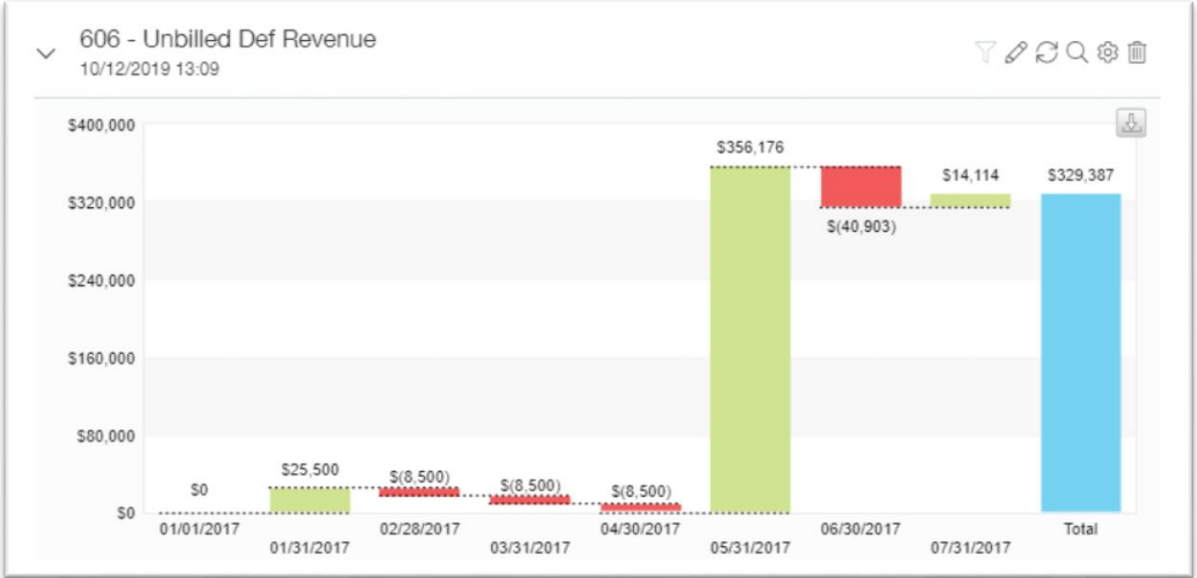
Uncover trends in your contracts for proactive response.

With a single dashboard view of your contract portfolio.
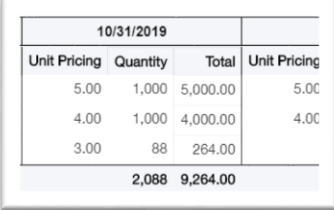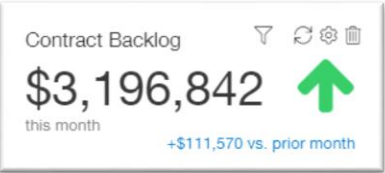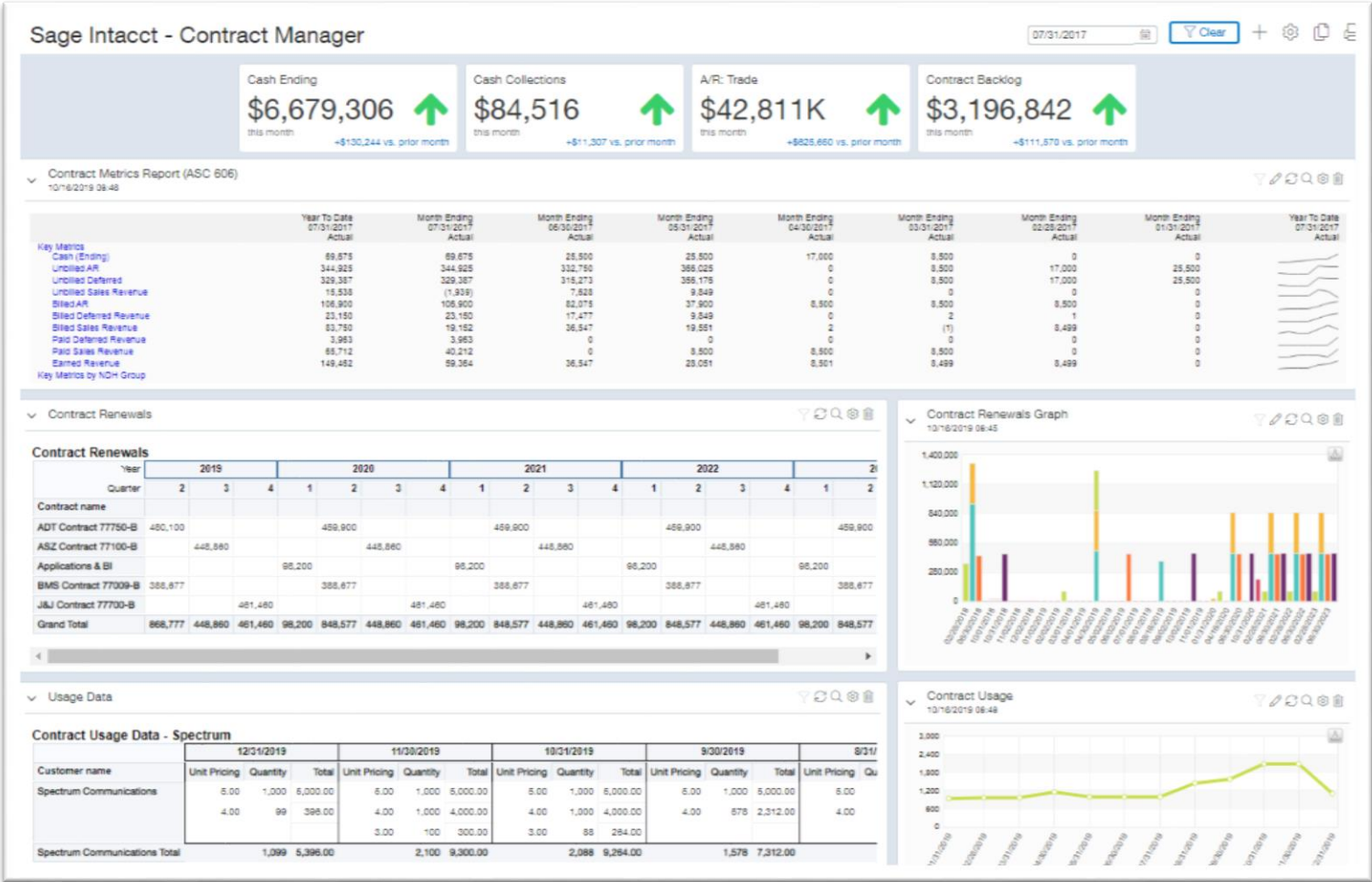
Performance Cards

Metrics Scorecards

Renewal Schedules

Quantity Pricing

Sage Intacct Contract Manager
Topic Details

The extent of modification to your systems will depend on the type of contracts you manage.

ASC 606 & IFRS 15 Impact on Co.'s Managing Standardized Agreements

Legacy systems will likely support managing:

- Ship & Bill Contracts – Standardized goods shipment, where performance is coincident with benefit.

- T&M Arrangements – Time of performance is coincident with benefit of service.

- Simple Subscription Agreements – Delivery of independent performance obligations.

⇨ Caveat: For new standards auditability is per contract, not invoice or customer! Thus, contract report segmentation is absent.

ASC 606 & IFRS 15 Impact on Co.'s Managing Variable Agreements

Legacy systems need modification for managing:

- Long-term contracts

- Interdependent performance obligations

- Variable pricing

- Agreements subject to modification

⇨ Because the new standards force a match between performance and benefit, systems will need greater flexibility for managing price allocation, and the timing of recognition.

Comparing systems illustrates the gaps, and setups a roadmap for transitioning to the "To Be" ERP system.

As Is System	To Be System
Transaction-Based ERP	**Contract-Based ERP**
• Staged Workflow – Series of transactions ending as invoice. Contract mod. result in new workflow.	• Continuous Workflow – Single transaction resulting in invoice(s). Contract mod. internal.
• No contract ID/dimension for related transactions	• Contract ID/dimension for related transactions
• Billing items are not consistent with performance	• Billing items represent performance obligations
• For bundle, price is typically allocated to the entire transaction, deferred, then recognized.*	• For bundle, price is allocated to each PO based on standalone selling price, then recognized.
• Revenue, or deferral, sourced to invoice object; rev rec as invoice issued or scheduled (deferral).	• Revenue, or deferral, sourced to contract object; rev rec as entity performs, customer controls.
• Costs are not aligned/allocated to contract	• Costs are aligned/allocated to contract
• Results presented are per existing standards	• Results presented per existing, new standards*
*Per VSOE (Vendor Specific Objective Evidence) typical of software sales	*Full and modified retrospective methods require comparability of results

Q: What's a "Frankenstein?" A: A system that's been repurposed to comply with ASC 606 one part at a time.

Contract Dimension

GL Accounts

Contract Transaction
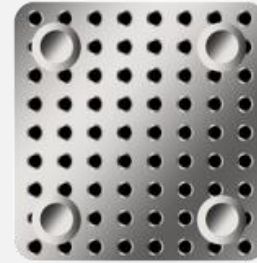
Items (mirroring POs)

MEA Price List

Revenue Templates

Expense Templates

Dual Books
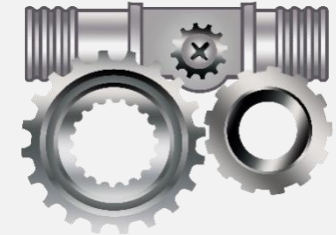
The contract dimension serves as the new primary transaction ID, and links all postings unique to a contract.

Contract Dimension

According to Standard

"An entity shall account for a contract with a customer…" (606-10-25-1) The contract acts as the primary identifier of transactional activity.
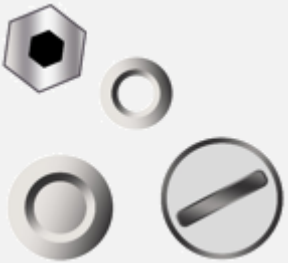
System Update

Create a custom field or dimension, which generates a unique contract identifier for each contract transaction, and related rev and exp posting.
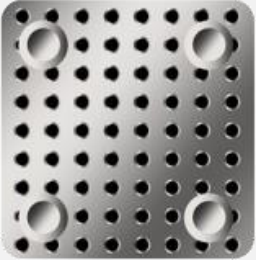
System Use

Associate the contract ID with each contract transaction created and dependent invoice, and expense postings. ID can be queried in the GL.

New GL accounts for unbilled, billed, and paid balances allow for disclosure requirements, and better metrics.

GL Accounts

According to Standard

"[606] requires an entity to provide information about: Contract balances, including …contract assets and contract liabilities." (606-10-05-5)

System Update

Update the chart of accounts to include accounts for unbilled, billed, and paid status; for unbilled, determine on or off BS presentation.

System Use

System posting, or transaction flow, should follow the life of the contract from earned but not billed, to billed, and then to a final paid status.

A contract transaction allows modeling actual contracts: scope and price changes, variable consideration, etc.

Contract Transaction	According to Standard
	"Some contracts…may have no fixed duration and can be terminated or modified by either party at any time. Other[s]…" (606-10-25-3)

System Update	System Use
Create an AR transaction or contract proxy; this is the initiating transact-tion of the AR workflow, and can be updated for contract changes.	Associate items (POs) with a con-tract transaction. Process invoices from the transaction, and update for changes to the contract.

Items need to be updated to reflect the underlying performance obligations, leading to accurate rev rec.

Items (mirroring POs)	According to Standard
	"A good or service (or a bundle of goods or services) that is distinct." (606-10-25-14) "Per-formance obligation," or primary unit of account.

System Update	System Use
Review existing items to determine alignment with contractual obliga-tions, or performance obligations. Ensure harmonization, or update.	Use updated items (representing POs) as line items of the contract transaction. This will aid in the correct recognition of revenue.

An MEA price list represents FV for items in a bundle; FV is compared to the contract price, with reallocation.

MEA Price List

According to Standard

"For a contract that has more than one PO, an entity should allocate the transaction price to each PO [according to its FV]" (FASB 2014-09, 4)

System Update

Create a price list which represents the fair value of POs delivered as a bundle. Compare to contract prices, and reallocate accordingly.

System Use

Compare contract to fair value prices, and reallocate according to fair value. This reallocated price will be used for revenue rec purposes.

Revenue templates defer the recognition of revenue until the transfer of the item (PO) is complete.

Revenue Templates

According to Standard

"A PO may be satisfied at a point in time [typically for transfer of goods] or over time [typically for transfer of services]." (606-10-05-4)

System Update

Create revenue templates that gate the recognition of revenue over a period of time, or set to "delivered" for point-in-time recognition.

System Use

Associate revenue templates with items (POs) within the contract transaction. Trigger recognition over a period of time, or at a point-in-time.

Expense templates defer the recognition of contract related costs over the length of the contract.

Expense Templates

According to Standard

"An entity shall recognize as an asset the incremental costs of obtaining a contract [if recoverable], [and to] fulfill a contract." (340-40-25-1,-5)

System Update

Create expense templates that gate the recognition of expenses over a period of time, or allow immediate expense recognition when impaired.

System Use

Associate expense templates within the contract transaction, or with expense items. Trigger recognition over period of time, or point-in-time.

Dual books allow an entity to determine, and present, a transition method from existing to new standards.

Dual Books
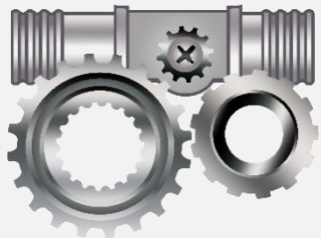
According to Standard

"[for transition reporting]: Retrospectively to each prior reporting period, *or* retrospectively with the cumulative effect." (FASB 2014-09, 10)

System Update

Create secondary book, or journal, which captures revenue and expen-se template postings per prior/existing standards.

System Use

Use results posted to secondary book or journal as comparative for either full retrospective, or, modified retrospective approach.

With transition to the "To Be System" two broad sets of contract-based reporting can be addressed.

Disclosures: Support for New Standards

Metrics: Support for Prescriptive Assessment

Enterprise Visibility: Position & Performance

Disclosure requirements related to the nature, timing, and uncertainty of revenues and CF from contracts.

Disclosure Schedule	Schedule Requirement	Non-Public Practical Expedient
Disaggregation of revenue from contracts	Reconciliation of contract rev rec according to product line, market vertical, geography, and timing.	Yes, but must present revenue by point-in-time (goods) vs. period of time (services).
Opening and closing balances of contract assets and liabilities	Presentation of contract assets and liabilities with opening, closing, and net changes over multi-year period.	None
Revenue recognized from past performance	Reconciliation of "out of period" adjustments due to a change in estimates of contract values.	Yes
Transaction price allocated to remaining POs	Presentation of contract backlog with schedule for fulfillment and recognition of remaining POs.	Yes. Also practical expedient for public entities with contracts less than one year.

Disclosure requirements drill down: capturing data to support details for contract assets, liabilities, etc.

Contract Metric	Definition	Where	Normal Balance
Unbilled Accounts Receivable	Contracted Backlog Not Billed	Face of BS*	Debit
Unbilled Deferred Revenue	Contracted Backlog Not Earned	Face of BS*	Credit
Unbilled Sales Revenue	Amounts Earned Not Billed	Face of P&L*	Credit
Billed Accounts Receivable	Amounts Billed Not Paid	Face of BS	Debit
Billed Deferred Revenue	Amounts Billed Not Earned	Face of BS	Credit
Billed Sales Revenue	Revenue Earned Not Paid	Face of P&L	Credit
Paid Deferred Revenue	Amounts Billed and Paid, Not Earned	Face of BS	Credit
Paid Sales Revenue	Revenue Earned and Paid	Face of P&L	Credit
*Either all three are presented on face of financial statements or posted to non-GAAP GL accounts			

Data for contract disclosures also supports analysis of enterprise-wide financial performance and operations.

Contract Metric	Prescriptive Meaning
Unbilled Accounts Receivable*	⇧ Inefficiency in billing process (if unbilled A/R > unbilled def. revenue)
Unbilled Deferred Revenue*	⇩ Inefficiency in billing process (if unbilled def revenue < unbilled A/R)
Unbilled Sales Revenue*	⇧ Inefficiency in billing process; revenue earned but not billed
Billed Accounts Receivable	⇧ Inefficiency in collections process (if billed A/R > cash)
Billed Deferred Revenue	⇧ Inefficiency in service process (if billed def revenue > billed sales rev)
Billed Sales Revenue	⇧ Inefficiency in collections process (if billed sales rev > paid sales rev)
Paid Deferred Revenue	⇩ Inefficiency in collections process
Paid Sales Revenue	⇩ Inefficiency in collections process (if billed sales rev > paid sales rev)
*Either all three are presented on face of financial statements or posted to non-GAAP GL accounts	

For visibility, dashboards present contract metrics for update of financial position and performance.

Contract Reporting

07/31/2017 ▾ | ▽ Clear | + | ⚙ | ⧉ | 🖨

Cash Ending	Cash Collections	A/R: Trade	Contract Backlog
$346,844 ⬆	**$84,516** ⬆	**$250,580** ⬇	**$2,037,722** ⬆
this month	this month	this month	this month
+$131,769 vs. prior month	+$11,307 vs. prior month	-$11,139 vs. prior month	+$30,770 vs. prior month

⌄ Contract Metrics Report (ASC 606)
08/26/2019 14:15

	Year To Date 07/31/2017 Actual	Month Ending 07/31/2017 Actual	Month Ending 06/30/2017 Actual	Month Ending 05/31/2017 Actual	Month Ending 04/30/2017 Actual	Month Ending 03/31/2017 Actual	Month Ending 02/28/2017 Actual	Month Ending 01/31/2017 Actual	Year To Date 07/31/2017 Actual
Key Metrics									
Cash (Ending)	69,675	69,675	25,500	25,500	17,000	8,500	0	0	
Unbilled AR	344,925	344,925	332,750	366,025	0	8,500	17,000	25,500	
Unbilled Deferred	329,387	329,387	315,273	356,176	0	8,500	17,000	25,500	
Unbilled Sales Revenue	15,538	(1,939)	7,628	9,849	0	0	0	0	
Billed AR	106,900	106,900	82,075	37,900	8,500	8,500	8,500	0	
Billed Deferred Revenue	23,150	23,150	17,477	9,849	0	2	1	0	
Billed Sales Revenue	83,750	19,152	36,547	19,551	2	(1)	8,499	0	
Paid Deferred Revenue	3,963	3,963	0	0	0	0	0	0	
Paid Sales Revenue	65,712	40,212	0	8,500	8,500	8,500	0	0	
Earned Revenue	149,462	59,364	36,547	28,051	8,501	8,499	8,499	0	
Key Metrics by NDH Group									

ASC 606 & IFRS 15 Disclosure Requirements Sample Presentation: Disaggregation of Revenue

Disaggregation of Revenue from Contracts						
Segment		**Consumer**	**Transport**	**Energy**		**Total**
North America	$	1,155	8,971	9,874	$	20,000
Europe		4,155	10,578	12,457		27,190
Major Goods or Services						
Appliances		2,411	13,438	7,697		23,546
Plant Feasibility Study		2,899	6,111	14,634		23,644
Timing of Rev Rec						
Goods Xfer'd at Point-in-Time		714	11,293	5,310		17,318
Services Xfer'd Over Time	$	4,596	8,256	17,021	$	29,872
Source: IFRS Taxonomy 2017, example 41						

ASC 606 & IFRS 15 Disclosure Requirements
Sample Presentation: Opening and Closing Balances

Opening and Closing Balances of Contract Assets and Liabilities						
Year of Posting		**Contract Receivables**	**Contract Assets**	**Contract Liabilities (ST)**		**Contract Liabilities (LT)**
2018						
Opening: 01/01/18	$	13,788	9,565	13,013	$	1,978
Closing: 12/31/18		14,138	9,978	13,477		2,176
2018 Inc / (Dec)		350	413	464		189
2017						
Opening: 01/01/17		12,465	9,178	12,788		1,778
Closing: 12/31/17		13,788	9,565	13,013		1,978
2017 Inc / (Dec)	$	1,323	387	225	$	209

ASC 606 & IFRS 15 Disclosure Requirements
Sample Presentation: Rev Rec from Past Performance

Revenue Recognized from Past Performance				
Consideration	**Original Amount**		**Adjusted****	**Recognized**
Fixed	$	23,000	23,000	$ 11,500
Variable*		4,800	4,800	2,400
Total Potential Consideration	$	27,800	27,800	$ 13,900
Cumulative Adj. for Earning Variable Consideration (remaining variable)				$ 2,400

*Contract calls for bonus/variable consideration for meeting performance qualifications.
**Adj to total potential as Co. looks to rec. all var. consideration for meeting agreed upon performance qualifications.

Type	Fixed Consideration	Variable Consideration
Definition	Future cash flows are known and predictable, with no enhancements or reductions from expected collections.	Future cash flows are uncertain; circumstances may either enhance, or reduce, from expected collections.

ASC 606 & IFRS 15 Disclosure Requirements
Sample Presentation: Transaction Price Allocated to POs

| Transaction Price Allocated to Remaining POs (AKA Backlog)					
Contract Type Grouping		**2018**	**2019**	**2020**	**Total**
Appliances	$	7,800	4,550	1,345	$ 13,695
Plant Feasibility Study		8,950	6,475	3,575	19,000
Consumer Products		1,225	975	445	2,645
Manufactured Parts		2,775	2,600	1,350	6,725
Total Contract Groupings	$	20,750	14,600	6,715	$ 42,065
Reported backlog is for contracts greater than one year that are unsatisfied or partially satisfied. Contract presentation per major good or service category.					

Building a better machine: CFOs need to consider a migration path to running the new rev rec standards.

Checklist for the To Be ERP System

- Roadmap detailing transition of systems and processes
- ERP architected for contract and 606 management
- CRM and ERP integration for joint contract management
- Revised data model to support contract reporting
- Conversion of legacy transactions into contract balances
- Coordination with auditors for 606 transition approach
- Legal review of contracts for determination of POs

Thank you for your participation. For future contact.
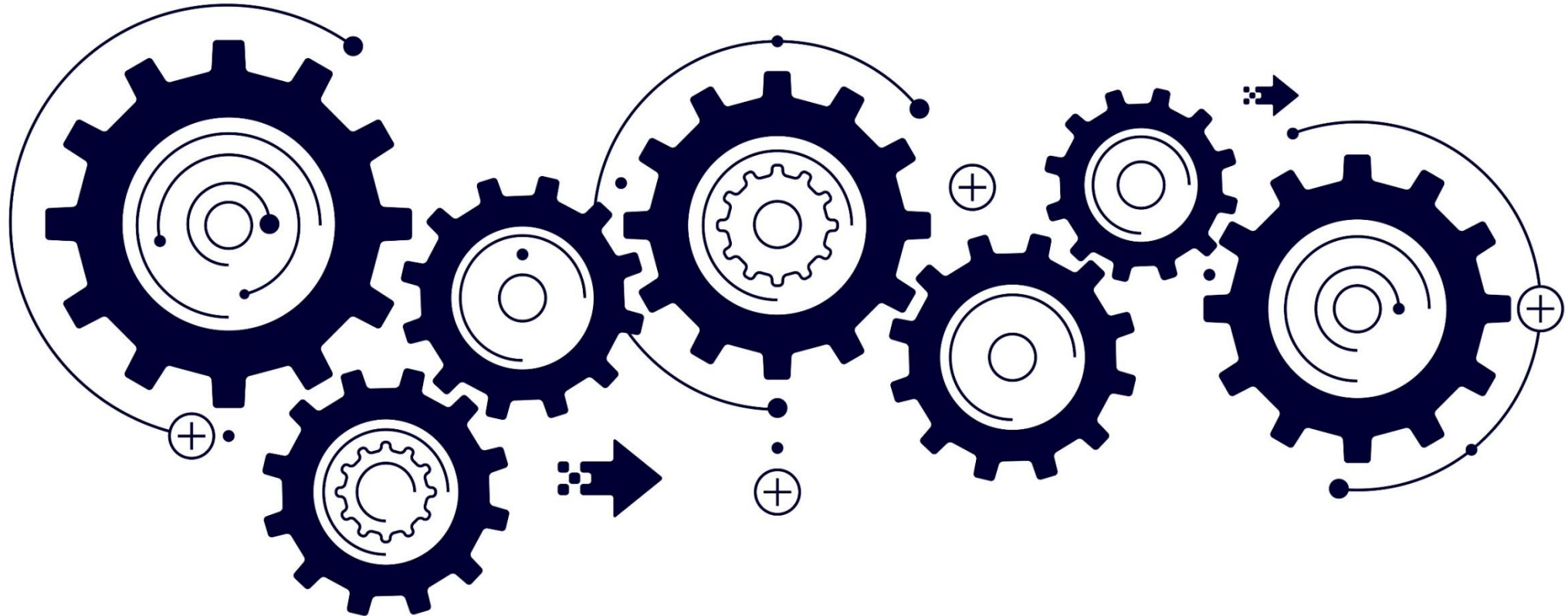
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