

# PROCEDURE FOR PAYING COMMISSION

As orders and invoices are entered into the system, the commission is automatically posted to the commission file at the appropriate time. Periodically, the commission that has been accumulated is reviewed, the commission is paid and the corresponding entries are marked as "paid".

## Reviewing Commissions to be Paid

The first step is to review the commissions that are ready to be paid. The easiest way to do this is to print the Commissions to be Paid report. This lists all the commission entries that are due to be paid.

If you pay commission when the customer pays the related invoice and the commission entry is marked as "hold until customer pays", the Accounts Receivable file will be checked to see if the invoice has been paid. If it has, the hold status will be removed and the entry will be marked as "ready to pay".

If you pay commission when the order is entered if there is a deposit with the order and the commission entry has been on hold because no deposit has been received, the order is rechecked. If a deposit has now been received, the commission entry is cleared to be paid.

You should review the detail on the report for excessively large or small commission amounts, gross profit percentages that are out of the normal range, and other exceptions. If you need to correct any of the entries, you may go to the following function

Sales Commission  
Update commission detail

This transaction will let you make changes to the entry or to delete it.

You may also change the commission status this this function. For example, if you don't want to pay the commission at this time, you can put the entry on an indefinite "hold" status. When you are ready to pay the commission entry, change the status back to "ready to pay".

## Closing Commission Period

When you have reviewed the commission and are ready to close, you can print a final copy of the Commissions to be Paid for your salesmen if you wish. There is also a variation of this report called the Commissions to be Earned report that does not show the gross profit information if you prefer that format.

Then, go to the following function to close the commission period and mark the entries as "paid".

Sales Commission  
Close commission period

The close process will do the following steps:

- Mark all the entries that are marked "ready to pay" AND are less than or equal to the close date as "closed".
  - For entries that are set up to be paid when the customer pays, the date the A/R was cleared is the date that is compared to the close date.
- Mark all the reserve entries that are less than or equal to the closed date as "closed".

## PROCEDURE FOR PAYING COMMISSION

- If you have set up an automatic reserve function for a salesman, an entry will be added to the reserve balance.
- The net commission paid will be added to a commission summary record associated with the close date
- A close report will be printed. This report is archived along with your other journals.

You may close for one salesman, a range of salesman numbers, or all salesmen.

The report will give you a net commission figure calculated as follows:

Total commission earned  
minus Draw (if any)  
minus Deposit to reserve account (if any)  
= Net commission for the period

Read more about the commission reserve account under the section on Using the Commission Reserve account.

### Paying the Salesman

The commission close process does not make any journal entries or use the net commission amount in any way except as noted below in option 3. You will need to take the commission due and use one of the following options to actually generate the payment to the salesman.

**Payroll** - If you consider the salesman an employee and pay him or her through your Payroll system, set up a special pay called "Commission" and enter the net amount due as the Commission amount on your next payroll.

**Accounts Payable** - If you consider the salesman as an independent contractor, you should assign the salesman a vendor number. Generate a vendor's invoice in your Accounts Payable file under that vendor number. You will need to "create" an invoice number. Most people use something like "COMMIS 12/31/09". The G/L distribution on the invoice will be to Commissions. If you are deducting for samples using the reserve account, you may want to split those out to the Samples account.

**Automatic Accounts Payable Invoice** - If you pay the salesman through Accounts Payable and want the system to automatically generate the vendor invoices for you, you can set up your Commission system options to make an automatic entry for you. You also have to record the vendor number assigned to this salesman on the salesman set up screen. When you close commission, the vendor's invoice will be automatically posted to A/P. The accounting entry will appear on your next Purchases Journal.

# **PROCEDURE FOR PAYING COMMISSION**

## **USING THE RESERVE ACCOUNT**

A reserve fund can be used to set aside money for each salesman to purchase samples or for other expenses. Money can be "deposited" on a regular basis and "withdrawals" made for expenses.

You may set up your salesman's commission basis so that a small percentage of his or her commission is deposited into the reserve fund each commission period. You may set a maximum on the reserve balance so that no further deposits are made until some withdrawals have reduced the balance.

Another way the reserve fund can be used is to track commission advances (withdrawals) against commissions earned (deposits).

This feature is completely optional. There's no accounting involved. It just offers you a "ledger" so that you and the salesman can keep track of the fund.

All transactions in the commission period as well as opening and closing balances are included on several key reports such as the Commissions to be Paid report.

To add a reserve transaction, go to

Sales Commission  
Update reserve balances

You can also go to this transaction to change or delete any previous reserve balances.

# PROCEDURE FOR PAYING COMMISSION

## SALES COMMISSION REPORTS

There are several reports available for reporting commission information. This discussion recaps what is available and how you might use each of them.

### **Paying Commission**

These reports are used to help you decide what commission needs to be paid. Read the section on Paying Commission for more information on this process.

|                        |  |
|------------------------|--|
| Commissions to be Paid | This reports lists all the commission that is ready to be paid for each salesman. If you use the reserve account feature, it will also recap the reserve entries entered since the last commission period.           |
| Commission Earned      | This format provides the same information as the Commissions to be Paid report except that it does not show gross profit information.  |
| Commissions On Hold    | This report lists any commission entries that have been put on indefinite hold. You may want to review it to see if any of the entries listed are now ready to be paid.  |
| Commission Close       | This report lists all the commission entries that were paid for the commission period just closed. It also recaps any reserve account entries. This report is archived along with your other journals and registers. |

### **History**

There are several reports that give you historical information.

|                           |  |
|---------------------------|--|
| Commission Detail         | This report lists commission entries based on the date they were added to the commission file, regardless of commission status.  |
| Commission History        | This report summarizes the commission information on each commission close. There will be one record per commission period which can be monthly, semi-monthly, or whatever time period you use.  |
| Commission History Detail | This report lists detail of commission earned during a commission period for a requested date range. The dates refer to the date the commission was closed, not when it was posted. You may also specify a minimum percentage of gross profit so that only orders which exceed this profit level are included. This allows you to use this report for accumulating data on which to calculate bonuses based on minimum profit level. |

# PROCEDURE FOR PAYING COMMISSION

## Reports you may need for accounting

There are several reports that you may need to print to do journal entries so that your commission expenses are correctly matched to the correct book period. Read the discussion on Charging commission expense to the correct book period for more information.

|                                |   |
|--------------------------------|---|
| Prepaid Commission             | This report lists commission entries that have been paid but the corresponding order has not yet been invoiced to the customer. |
| Accrued Commission             | This report lists commission entries based on invoices that are on hold because the customer has not yet paid them.             |
| End of Month Commission report | This report lists both prepaid and accrued entries on a single report.  |

## Miscellaneous

|                           |  |
|---------------------------|--|
| Future Commissions Due    | This report lists open orders for which no commission entry has been generated. This will give the salesman some idea of future commissions he or she can expect.  |
| Commission Summary report | This report summarizes the salesman activity during each month of the requested year. It shows commission earned from orders placed, posted during invoicing, and awaiting payments from customers. It projects total commission due to the salesman if outstanding orders, invoices and payments are completed. |

# PROCEDURE FOR PAYING COMMISSION

## CHARGING COMMISSION TO THE CORRECT BOOK PERIOD

Commission expense should be charged to the same accounting period as the sale on the customer invoice. If you invoice a customer in a given month, all the commission on that sale should appear in commission expense for that month. If you pay commissions when the customer pays, you owe the salesman commission at the time you invoice the customer (accrued commission). If you pay commissions when the order is entered you have an asset until the customer is invoiced (prepaid commission).

Here is an easy procedure to use to charge the expense to the correct month:

Charge payments to a salesman for commissions to the book period that coincides with the "through" date on the Commissions to be Paid Report. If the report has a "through" date of September 4, use the September book period. The remaining steps depend on the point at which you pay commission.

### If you pay commission when the salesman turns in the order

- At the end of the month, request the Prepaid Commission report.
- Make the following manual journal entry to the book period coinciding with the month just ended (month on the report).
  - Debit - Prepaid Commissions
  - Credit - Commission Expense
  - The amount should be equal to the total of the commission amount column of the report.
- Make the following manual journal entry to the book period coinciding with the current month (month after the month on the report).
  - Debit - Commission Expense
  - Credit - Prepaid Commissions
  - The amount should be equal to the total of the commission amount column of the previous month's report. The effect of this entry is to reverse the entry made the previous month.
  - If you wish, you may indicate when you enter the first entry that the journal entry is to be reversed in the next period (Answer "Yes" to the REVERSE? prompt). The reversing entry (the second entry) will be made automatically.

### If you pay commissions when the customer is invoiced

- No additional journal entries are needed.

### If you pay commission when the customer pays the invoice

- At the end of the month, request the Accrued Commission report.
- Make the following manual journal entry to the book period coinciding with the month just ended (month on the report).
  - Debit - Commission Expense
  - Credit - Accrued Commissions
  - The amount should be equal to the total of the commission amount column of the Accrued Commission Report.
- Make the following manual journal entry to the book period coinciding with the current month (month after the month on the report).

## **PROCEDURE FOR PAYING COMMISSION**

- Debit - Accrued Commissions
- Credit - Commission Expense
- The amount should be equal to the total of the commission amount column of the previous month's report. This entry will reverse the effect of an entry similar to step 2 made the previous month.
- If you wish, you may indicate when you enter the first entry that the journal entry is to be reversed in the next period (Answer "Yes" to the REVERSE? prompt). The reversing entry (the second entry) will be made automatically.

### **Combination of methods**

- If you pay your salesman a portion of the commission when the order is placed and part on payment from the customer, pull the End of Month Commission report. Do both the prepaid and the accrued entries.