

REVENUE RECOGNITION AUDIT WORKPAPERS

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Polar Dynamics Robotics, Inc.

Fiscal Year 2023

Prepared: January 15, 2024

1. EXECUTIVE SUMMARY

This document contains the revenue recognition audit workpapers for Polar Dynamics Robotics, Inc. ("Company") for the fiscal year ending December 31, 2023. These workpapers document the Company's revenue recognition

methodologies, and compliance with ASC 606 - Revenue from Contracts with Customers.

2. REVENUE STREAMS ANALYSIS

2.1 Primary Revenue Categories

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Hardware Sales (AMR Units): 65% of revenue

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Maintenance & Support Services: 20% of revenue

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Software Licensing (BlueCore(TM)): 10% of revenue

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Professional Services: 5% of revenue

2.2 Contract Types

- a) Direct Sales Agreements
- b) Subscription-Based Services
- c) Software License Agreements
- d) Maintenance Service Contracts

3. REVENUE RECOGNITION CRITERIA

3.1 Hardware Sales (AMR Units)

Revenue recognition criteria for autonomous mobile robot units:

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Transfer of control to customer has occurred

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Delivery and installation completed

- - 3 -

Customer acceptance received

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Payment terms: Net 45

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Recognition point: Upon customer acceptance

3.2 Maintenance & Support Services

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Recognition method: Straight-line over service period

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Service period: 12-36 months

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Billing: Quarterly in advance

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Deferral of unearned revenue recorded

3.3 Software Licensing

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Recognition basis: Usage-based

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License term: Annual with automatic renewal

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Usage metrics: Number of robots connected

-

Revenue recognized monthly based on actual usage

4. PERFORMANCE OBLIGATIONS

4.1 Distinct Performance Obligations

Hardware delivery and installation

Software license access

Maintenance services

Training and implementation

Extended warranty services

4.2 Allocation Methodology

Transaction price allocated based on:

-

Standalone selling prices

-

Observable market data

-

Cost-plus margin approach where applicable

5. CONTRACT MODIFICATIONS

5.1 Types of Modifications

-

Scope changes

-

Price adjustments

-

Service level modifications

-

Term extensions

5.2 Accounting Treatment

-

Prospective treatment for additional goods/services

-

Cumulative catch-up adjustments where required

-

Contract modification documentation requirements

6. VARIABLE CONSIDERATION

6.1 Forms of Variable Consideration

-

Volume discounts

-

Performance bonuses

-

Service level credits

- - 8 -

Early payment discounts

6.2 Estimation Method

-

Expected value method for recurring variations

-

Most likely amount for binary outcomes

-

Quarterly review of estimates

-

Constraint application documentation

7. SIGNIFICANT JUDGMENTS

7.1 Stand-alone Selling Price

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Hardware: Market comparison approach

-

Software: Residual approach

-

Services: Cost-plus margin

7.2 Performance Obligation Satisfaction

-

Installation completion criteria

-

Customer acceptance terms

-

Service delivery measurements

- - 10 -

Progress measurement methods

8. DISCLOSURES AND PRESENTATION

8.1 Required Disclosures

-

Disaggregation of revenue

-

Contract balances

-

Performance obligations

-

Significant judgments

-

Practical expedients applied

8.2 Financial Statement Impact

-

Balance sheet classification

-

Income statement presentation

-

Notes to financial statements

-

Segment reporting considerations

9. CONTROL PROCEDURES

9.1 Revenue Recognition Controls

Contract review process

Price approval workflow

Customer acceptance documentation

Revenue recognition checklist

Monthly close procedures

9.2 System Controls

-

BlueCore(TM) usage tracking

-

Billing system integration

-

Contract management system

-

Revenue recognition software

10. AUDIT TESTING PROCEDURES

10.1 Substantive Testing

-

Contract review sampling

-

Cut-off testing

-

Revenue recognition timing

-

Variable consideration estimates

-

System configuration review

10.2 Analytical Procedures

-

Trend analysis

-

Margin analysis

-

Revenue by customer type

-

Contract renewal rates

-

Service utilization metrics

11. FINDINGS AND CONCLUSIONS

11.1 Key Observations

Revenue recognition policies comply with ASC 606

Adequate documentation maintained for judgments

Appropriate controls in place

System configurations support recognition criteria

11.2 Recommendations

Enhanced automation of usage-based billing

Additional documentation for variable consideration

Improved contract modification workflow

Quarterly review of stand-alone selling prices

12. CERTIFICATION

The undersigned hereby certifies that these revenue recognition audits have been prepared in accordance with applicable accounting standards and internal control procedures.

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13. DISCLAIMER

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