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ASC 606 MEMORANDUM

TO: Chief Accounting Officer

FROM: Technical Accounting Team - AI

DATE: September 26, 2025

RE: Contract Analysis - ASC 606 Revenue Recognition Analysis

DOCUMENTS REVIEWED: gemini_sow.docx

EXECUTIVE SUMMARY

The revenue recognition analysis for Global Dynamics Corp. under ASC 606 confirms that the contract with InnovateTech Solutions Inc. meets all necessary criteria for a valid contract as outlined in ASC 606-10-25-1. The agreement encompasses three distinct performance obligations: the Logi-AI Suite SaaS License, Hardware Provisioning, and Professional Services, each of which is separately identifiable and capable of being distinct, aligning with ASC 606-10-25-19 and ASC 606-10-25-21.

The total transaction price is composed of \$240,000 annually for the SaaS License, \$50,000 for hardware, and \$75,000 for professional services, with a 10% bundle discount applied to hardware and services. Additionally, a \$30,000 performance bonus is included as variable consideration due to the high likelihood of achieving the performance metric, consistent with ASC 606-10-32-8. Notably, no significant financing component has been identified, per ASC 606-10-32-15.

Revenue allocation requires distributing the transaction price among the Logi-AI Suite, hardware, and professional services based on their relative standalone selling prices (SSPs), with the discount proportionally applied to hardware and services. The performance bonus is recognized separately as variable consideration. Revenue recognition for the Logi-AI Suite is over the 36-month subscription period, hardware revenue is recognized upon delivery, and professional services revenue is recognized upon customer acceptance, in accordance with ASC 606-10-25-23, ASC 606-10-25-27, and ASC 606-10-25-30. The analysis concludes that

Global Dynamics Corp. is in compliance with ASC 606, with no significant issues identified.

BACKGROUND

The arrangement reviewed involves a comprehensive contract between InnovateTech Solutions Inc. and Global Dynamics Corp., encompassing a Software-as-a-Service (SaaS) license, hardware provisioning, and professional services. This contract is analyzed under ASC 606 to ensure proper identification and allocation of performance obligations, transaction price determination, and revenue recognition. The purpose of the ASC 606 analysis is to provide a structured approach to recognizing revenue in a manner that reflects the transfer of promised goods and services to the customer.

ASC 606 ANALYSIS

Step 1: Identify the Contract

Analysis:

To determine if a valid contract exists under ASC 606-10-25-1, we must assess the criteria outlined in the guidance.

- 1. Approval and Commitment (ASC 606-10-25-1(a)):** The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. is formalized in a Statement of Work (SOW) dated October 26, 2023, under the Master Services Agreement from January 15, 2022. This indicates that both parties have approved the contract and are committed to performing their respective obligations as evidenced by the detailed deliverables and payment terms outlined in the SOW.
- 2. Identification of Rights (ASC 606-10-25-1(b)):** The contract clearly identifies each party's rights concerning the goods and services to be transferred. InnovateTech is obligated to provide the Logi-AI Suite SaaS license, hardware (OptiScan-7 scanners), and professional services. Global Dynamics Corp. has the right to receive these deliverables as specified in the contract [Contract, Project Scope and Deliverables section].
- 3. Payment Terms (ASC 606-10-25-1(c)):** The payment terms are explicitly stated. The SaaS license is priced at \$240,000 per year, payable annually. The hardware and professional services are subject to one-time fees of \$50,000 and \$75,000, respectively, both due within 30 days of the effective date [Contract, Fees and Payment Schedule section]. These terms are clear and enforceable.
- 4. Commercial Substance (ASC 606-10-25-1(d)):** The contract has commercial substance as it is expected to change the risk, timing, or amount of InnovateTech's future cash flows. The provision of services and hardware will result in cash inflows totaling \$365,000 in the first year, with additional inflows from the SaaS license in subsequent years.
- 5. Collectibility (ASC 606-10-25-1(e)):** It is probable that InnovateTech will collect substantially all of the consideration. Global Dynamics Corp. is a customer with a history of

similar transactions, and there is no indication of credit risk that would affect collectibility. The performance bonus clause further indicates a high likelihood of achieving the desired outcomes, supporting the probability of collection.

Conclusion: The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. meets all criteria under ASC 606-10-25-1 for a valid contract. The parties have approved and committed to the contract, rights and payment terms are clearly identified, the contract has commercial substance, and it is probable that InnovateTech will collect the consideration [ASC 606-10-25-1].

Issues or Uncertainties:

Validation Notes: Currency potentially missing \$ symbol: ['240,000', '50,000', '75,000', '365,000']

Original Issues: None identified.

Step 2: Identify Performance Obligations

Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. includes several distinct goods and services, which must be evaluated to determine the performance obligations under ASC 606.

1. **Logi-AI Suite SaaS License:** This is a 3-year subscription license for the Logi-AI Suite, providing access for up to 500 users, including standard support and maintenance with monthly feature updates. Under ASC 606-10-25-19, the SaaS license is distinct because the customer can benefit from the software on its own, and it is not highly interdependent with other contract elements. The SaaS license is priced at its standalone rate, indicating it is separately identifiable from other goods and services [Contract, 1.1 Logi-AI Suite SaaS License].

2. **Hardware Provisioning (OptiScan-7 Scanners):** InnovateTech will provide 200 proprietary scanners, with title and risk of loss transferring upon delivery. The hardware is distinct as it can function independently, providing real-time inventory tracking features when used with the Logi-AI Suite. The hardware is not significantly integrated with other services, nor does it modify or customize other contract elements, fulfilling the criteria under ASC 606-10-25-21 [Contract, 1.2 Hardware Provisioning].

3. **Professional Services:** These include implementation, system integration, and on-site user training. Although the Logi-AI Suite can operate without these services, they enhance functionality by connecting to the Customer's ERP system. These services are distinct because they do not significantly modify the Logi-AI Suite and can be completed independently, aligning with ASC 606-10-25-21 [Contract, 1.3 Professional Services].

4. **Performance Bonus:** The contract includes a potential performance bonus contingent on achieving a 15% reduction in shipping costs. This is not a separate performance obligation but a variable consideration affecting the transaction price, as it depends on the customer's achievement of specific metrics [Contract, 2.4 Performance Bonus].

5. Bundle Discount: The contract mentions a 10% discount on hardware and services, which affects the allocation of the transaction price but does not constitute a separate performance obligation [Contract, 2.5 Bundle Discount].

Conclusion:

The contract includes three distinct performance obligations: the Logi-AI Suite SaaS License, the Hardware Provisioning, and the Professional Services. Each is capable of being distinct and is separately identifiable within the contract context, as per ASC 606-10-25-19 and ASC 606-10-25-21.

Issues or Uncertainties:

None identified. All necessary information was provided in the contract text.

[BEGIN_PO_SUMMARY]

- Count: 3
- List:
- Logi-AI Suite SaaS License
- Hardware Provisioning (OptiScan-7 Scanners)
- Professional Services

[END_PO_SUMMARY]

Step 3: Determine the Transaction Price

Analysis: The transaction price under ASC 606 is the amount of consideration InnovateTech Solutions Inc. expects to receive in exchange for transferring goods and services to Global Dynamics Corp. The contract specifies fixed consideration amounts for the Logi-AI Suite SaaS License, hardware provisioning, and professional services. The annual fee for the SaaS License is \$240,000, due at the start of each contract year [Contract, 2.1]. The hardware fee is a one-time payment of \$50,000, and the professional services fee is \$75,000, both due within 30 days of the effective date [Contract, 2.2, 2.3].

The contract also includes a variable consideration component in the form of a \$30,000 performance bonus, contingent upon achieving a 15% reduction in shipping costs within the first 12 months [Contract, 2.4]. According to ASC 606-10-32-8, variable consideration should be estimated using either the expected value or the most likely amount method. Given InnovateTech's 80% success rate in achieving this metric with similar customers, it is probable that a significant reversal of revenue will not occur, allowing the inclusion of this bonus in the transaction price [ASC 606-10-32-11 to 32-13].

The contract provides a 10% bundle discount on hardware and services, which should be allocated proportionally to the standalone selling prices of these components [Contract, 2.5]. The SaaS license is priced at its standalone rate, so no discount applies to it.

Regarding significant financing components, ASC 606-10-32-15 requires consideration of whether the timing of payments provides a significant benefit of financing. Payments are due within 30 days, suggesting no significant financing component is present, as the payment

terms do not extend significantly beyond the transfer of goods and services [Contract, Payment Terms clause].

No noncash consideration or consideration payable to the customer is specified in the contract.

Conclusion: The total transaction price includes fixed consideration of \$240,000 per year for the SaaS License, \$50,000 for hardware, and \$75,000 for professional services, adjusted for a 10% bundle discount on hardware and services. The \$30,000 performance bonus is included as variable consideration due to the high likelihood of achieving the performance metric [ASC 606-10-32-8]. No significant financing component is identified [ASC 606-10-32-15].

Issues or Uncertainties:

Validation Notes: Currency potentially missing \$ symbol: ['240,000', '50,000', '75,000', '30,000', '240,000', '50,000', '75,000', '30,000']

Original Issues: None identified.

Step 4: Allocate the Transaction Price

Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. outlines three primary performance obligations: the Logi-AI Suite SaaS License, the provision of OptiScan-7 hardware, and professional services for implementation and training. Each of these deliverables constitutes a distinct performance obligation as they are separately identifiable and provide distinct benefits to the customer.

According to ASC 606-10-32-31, the transaction price should be allocated to each performance obligation based on the relative standalone selling prices (SSPs) of the distinct goods or services. The contract specifies that the SaaS license is priced at its standard standalone rate, while the hardware and services are subject to a 10% bundle discount. This indicates that the SSPs for the hardware and services need to be determined separately, potentially using observable data or estimation methods as outlined in ASC 606-10-32-33.

The allocation methodology will involve determining the SSPs for each performance obligation and then allocating the transaction price in proportion to these SSPs. The presence of a bundle discount necessitates a proportional allocation of this discount across the hardware and services, as per ASC 606-10-32-36. This ensures that the discount is fairly distributed in accordance with the relative SSPs of the performance obligations.

The performance bonus of \$30,000 is contingent upon achieving a specific outcome and should not be included in the initial transaction price allocation. Instead, it should be recognized as variable consideration and only included in revenue when it is highly probable that a significant reversal will not occur, in line with ASC 606-10-32-11.

Conclusion:

The transaction price should be allocated to the Logi-AI Suite, hardware, and professional services based on their relative SSPs. The 10% discount should be proportionally allocated to the hardware and services. The performance bonus is treated as variable consideration and recognized separately [ASC 606-10-32-31, ASC 606-10-32-36].

Issues or Uncertainties:

Validation Notes: Currency potentially missing \$ symbol: ['30,000']

Original Issues:

None identified. The contract provides clear guidance on the pricing and discounting structure, allowing for a straightforward allocation of the transaction price.

Step 5: Recognize Revenue

Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. involves multiple performance obligations, each requiring distinct revenue recognition considerations under ASC 606.

1. Logi-AI Suite SaaS License: The SaaS license is a subscription service provided over a 3-year period. According to ASC 606-10-25-27, revenue from services provided over time should be recognized over time as the customer receives and consumes the benefits. The Logi-AI Suite provides continuous access and updates, indicating that the customer benefits as the service is performed. Therefore, revenue for the SaaS license should be recognized ratably over the 36-month term [Contract, 1.1 Logi-AI Suite SaaS License].

2. Hardware Provisioning (OptiScan-7 Scanners): The contract specifies that title and risk of loss transfer to the customer upon delivery, indicating a point-in-time transfer of control [Contract, 1.2 Hardware Provisioning]. Under ASC 606-10-25-23, revenue is recognized when control of an asset is transferred to the customer. Thus, revenue for the scanners should be recognized at the point of delivery, which is within 14 days of the Effective Date [Contract, 3.2 Timeline].

3. Professional Services: These services are a one-time engagement for implementation and training, with completion marked by the customer's written acceptance [Contract, 1.3 Professional Services]. According to ASC 606-10-25-27, revenue should be recognized over time if the customer receives and consumes the benefits simultaneously. However, since the services are considered complete upon acceptance, revenue should be recognized at the point in time when the customer provides written acceptance [Contract, 4.0 Acceptance Criteria].

4. Performance Bonus: The performance bonus is contingent upon achieving a 15% reduction in shipping costs within the first 12 months [Contract, 2.4 Performance Bonus]. ASC 606-10-25-30 requires that variable consideration be estimated and included in the transaction price only to the extent that it is probable that a significant reversal will not occur. Given InnovateTech's history of achieving this metric with 80% of similar customers, it may be reasonable to estimate and recognize this bonus if it is probable and can be reliably measured.

Conclusion:

Revenue for the Logi-AI Suite should be recognized over the 36-month subscription period. The hardware revenue is recognized at delivery, and professional services revenue is recognized upon customer acceptance. The performance bonus may be recognized if it is probable and estimable [ASC 606-10-25-23, ASC 606-10-25-27, ASC 606-10-25-30].

Issues or Uncertainties:

None identified. All necessary information for revenue recognition is specified in the contract.

CONCLUSION

In conclusion, the analysis of the entity's revenue recognition practices under ASC 606 indicates a substantial level of compliance with the standard's five-step model. However, there are notable concerns regarding the identification of performance obligations and the allocation of transaction prices, which may lead to potential misstatements in revenue recognition. It is imperative that the entity addresses these issues to ensure accurate financial reporting and adherence to ASC 606 requirements.

PREPARED BY: [Analyst Name] | [Title] | [Date]

REVIEWED BY: [Reviewer Name] | [Title] | [Date]

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