

**MEMO ID: 288d456e**

*Disclaimer Version: v1.0 (Effective 08/23/2025)*

*This memorandum was generated by VeritasLogic.ai using artificial intelligence based solely on information provided by management as of the date of generation. Management is solely responsible for the accuracy and completeness of all inputs and for the accounting judgments, conclusions, and disclosures adopted. The AI may provide incorrect interpretations of nuanced or complex standards, provide incomplete or imprecise citations, rely on outdated guidance, or contain extraction and calculation errors. VeritasLogic.ai makes no representations or warranties and assumes no responsibility for any errors, omissions, or the outcome of any decisions made in reliance on this memorandum. This is not an audit, review, assurance, legal, tax, or valuation opinion and is not intended for third-party reliance. VeritasLogic.ai employs industry-standard security controls (e.g., encryption in transit and at rest, role-based access controls, logging). No system can guarantee absolute security.*

## **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**

In the ASC 606 revenue recognition analysis for Global Dynamics Corp., we have determined that a valid contract exists with InnovateTech Solutions Inc., meeting all necessary criteria under ASC 606-10-25-1. The contract includes three distinct performance obligations: the Logi-AI Suite SaaS License, the Hardware Provisioning of OptiScan-7 Scanners, and Professional Services for implementation and training. Each obligation is distinct and can function independently, aligning with ASC 606-10-25-19 and ASC 606-10-25-21.

The total transaction price comprises fixed considerations of \$240,000 per year for the SaaS license, \$50,000 for hardware, and \$75,000 for professional services, with a 10% bundle discount applied to hardware and services. A variable consideration of \$30,000 is also present, requiring constraint evaluation. The transaction price allocation will be based on relative standalone selling prices, with the SaaS license allocated at its standard rate, and the hardware and services sharing the discount proportionately. This allocation is in compliance with ASC 606-10-32-31 and ASC 606-10-32-37.

Revenue recognition for the SaaS license will occur over the 3-year period, reflecting the ongoing benefit to the customer, while hardware revenue will be recognized upon delivery, and professional services revenue upon customer acceptance. The performance bonus's inclusion in the transaction price will depend on the likelihood of achievement, as per ASC 606-10-32-5. No significant financing component or noncash consideration was identified, ensuring compliance with ASC 606 standards.

## 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. The ASC 606 analysis aims to ensure proper revenue recognition by identifying distinct performance obligations, determining the transaction price, and allocating it appropriately across these obligations. This analysis is critical to ensure compliance with revenue recognition standards and to reflect the economic substance of the contractual arrangement accurately.

## ASC 606 ANALYSIS

### Step 1: Identify the Contract

#### Analysis:

To determine if a valid contract exists under ASC 606-10-25-1, we must evaluate several criteria:

- 1. Approval and Commitment (ASC 606-10-25-1(a)):** The contract is entered into by InnovateTech Solutions Inc. and Global Dynamics Corp. as of October 26, 2023, under the terms of a Master Services Agreement (MSA) dated January 15, 2022. This indicates that both parties have approved the contract and are committed to performing their respective obligations. The explicit mention of the effective date and reference to the MSA supports this conclusion.
- 2. Identification of Rights (ASC 606-10-25-1(b)):** The contract clearly outlines the rights of each party regarding the goods and services to be transferred. InnovateTech is to provide the Logi-AI Suite SaaS license, hardware (OptiScan-7 scanners), and professional services for integration and training. The customer's rights include receiving these deliverables as specified in the project scope and deliverables section.
- 3. Payment Terms (ASC 606-10-25-1(c)):** The payment terms are explicitly defined. The Logi-AI Suite SaaS license is priced at \$240,000 per year, with the first year's fee due within 30 days of the effective date. The hardware and professional services each have a one-time fee of \$50,000 and \$75,000, respectively, also due within 30 days. These terms are clear and enforceable [Contract, Payment Schedule].
- 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 a SaaS license, hardware, and professional services will result in cash inflows of \$365,000 within the first year, altering InnovateTech's financial position.
- 5. Collectibility (ASC 606-10-25-1(e)):** It is probable that InnovateTech will collect substantially all of the consideration. The payment terms are standard, and there is no indication in the contract that Global Dynamics Corp. lacks the ability or intention to pay. The history of achieving performance metrics with similar customers further supports this probability.

**Conclusion:** Based on the analysis, a valid contract exists between InnovateTech Solutions Inc. and Global Dynamics Corp. under ASC 606-10-25-1. All criteria for contract identification, including approval, rights, payment terms, commercial substance, and collectibility, are satisfied [ASC 606-10-25-1].

**Issues or Uncertainties:** None identified.

## Step 2: Identify Performance Obligations

### Analysis:

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

1. **Logi-AI Suite SaaS License:** The contract provides a 3-year subscription license for the Logi-AI Suite, including standard support and maintenance with monthly updates. This service is capable of being distinct because Global Dynamics Corp. can benefit from the SaaS license on its own, as it provides access to the platform's functionalities independently of other resources [Contract, 1.1]. According to ASC 606-10-25-19, a good or service is distinct if it can be used on its own or with other readily available resources.

2. **Hardware Provisioning (OptiScan-7 Scanners):** The provision of 200 proprietary scanners is a separate deliverable. The scanners are distinct because they are tangible goods that Global Dynamics Corp. can use independently, even though they enhance the functionality of the Logi-AI Suite [Contract, 1.2]. The transfer of title and risk upon delivery further supports their distinct nature [ASC 606-10-25-19].

3. **Professional Services:** These services include implementation, system integration, and on-site user training. While the Logi-AI Suite can operate without these services, the integration enhances its functionality by connecting to the Customer's ERP system [Contract, 1.3]. However, these services are distinct within the context of the contract because they do not significantly modify or customize the SaaS or hardware, nor are they highly interdependent with other elements [ASC 606-10-25-21].

4. **Performance Bonus:** The performance bonus is contingent upon achieving a 15% reduction in shipping costs. This is not a distinct good or service but a variable consideration affecting the transaction price [Contract, 2.4].

5. **Bundle Discount:** The contract includes a 10% discount on hardware and services, reflecting a bundled pricing strategy. However, the SaaS license is priced at its standalone rate, indicating separate pricing for each obligation [Contract, 2.5].

### Conclusion:

We identify three distinct performance obligations in the contract: (1) the Logi-AI Suite SaaS License, (2) the Hardware Provisioning of OptiScan-7 Scanners, and (3) the Professional Services for implementation and training. Each is distinct because they can be used independently or with other resources, and are not highly interdependent or integrated with one another [ASC 606-10-25-19, ASC 606-10-25-21].

**Issues or Uncertainties:**

None identified. All necessary information for determining distinct performance obligations is specified in the contract.

**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 promised goods or services to Global Dynamics Corp. The contract specifies fixed consideration amounts for the Logi-AI Suite SaaS License, hardware provisioning, and professional services. The SaaS License is priced at \$240,000 per year for three years, with the first year's fee due 30 days from the Effective Date, and subsequent years' fees due at the beginning of each contract year [Contract, Section 2.1]. The hardware is priced at a one-time fee of \$50,000, and the professional services are priced at a one-time fee of \$75,000, both due 30 days from the Effective Date [Contract, Sections 2.2 and 2.3].

The contract also includes a variable consideration component in the form of a \$30,000 performance bonus, contingent upon the Customer achieving a 15% reduction in shipping costs within the first 12 months [Contract, Section 2.4]. According to ASC 606-10-32-8, variable consideration should 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 is likely that a portion of this bonus could be included in the transaction price, but management must evaluate the constraint on variable consideration per ASC 606-10-32-11 to 32-13.

The contract specifies a 10% bundle discount on hardware and services, which should be allocated proportionately to the standalone selling prices of these goods and services [Contract, Section 2.5]. The SaaS license is not discounted and is priced at its standalone rate.

Regarding significant financing components, ASC 606-10-32-15 requires consideration of whether the timing of payments provides a significant financing benefit. The payment terms do not indicate a significant financing component, as payments are due within 30 days, aligning with typical commercial terms [Contract, Payment Terms clause].

Noncash consideration and consideration payable to the customer are not 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 variable consideration of \$30,000 is subject to constraint evaluation. No significant financing component is present, and there is no noncash consideration [ASC 606-10-32-2, ASC 606-10-32-8].

**Issues or Uncertainties:**

None identified.

## **Step 4: Allocate the Transaction Price**

### **Analysis:**

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. includes 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 obligations is distinct and should be considered separately for revenue allocation.

According to ASC 606-10-32-31, the standalone selling prices (SSPs) of these distinct goods and services should be determined based on observable data. The contract specifies that the SaaS license is priced at its standard standalone rate, implying that its SSP is directly observable. However, the SSPs for the hardware and professional services are not explicitly provided and must be estimated.

The contract includes a 10% bundle discount on the hardware and services, which must be allocated proportionately across these performance obligations as per ASC 606-10-32-37. This allocation should be based on the relative SSPs of the hardware and professional services. The SaaS license, being priced at its standalone rate, is excluded from this discount allocation.

To allocate the transaction price, we will use the relative standalone selling price method. This involves determining the SSP for each performance obligation and then allocating the total transaction price in proportion to these SSPs, as outlined in ASC 606-10-32-29.

Given the contract terms, the transaction price is \$720,000, comprising \$240,000 per year for the SaaS license over three years, \$50,000 for the hardware, and \$75,000 for the professional services. The performance bonus of \$30,000 is contingent and should be recognized separately if the conditions are met, as it is not part of the initial transaction price allocation.

### **Conclusion:**

The transaction price will be allocated to the performance obligations based on their relative standalone selling prices. The SaaS license is allocated at its standard rate, while the hardware and professional services will share the 10% discount proportionately. The final allocation is contingent on determining the SSPs for the hardware and services [ASC 606-10-32-31, ASC 606-10-32-37].

### **Issues or Uncertainties:**

None identified. The contract clearly delineates the performance obligations and pricing, with the exception of the need to estimate SSPs for the hardware and professional services.

## **Step 5: Recognize Revenue**

### **Analysis:**

The contract with Global Dynamics Corp. involves three primary performance obligations: the Logi-AI Suite SaaS license, the provision of OptiScan-7 scanners, and professional services for integration and training. Each obligation requires distinct consideration under ASC 606 for revenue recognition.

**1. Logi-AI Suite SaaS License:** The SaaS license is a subscription service over a 3-year period, with revenue recognized over time. According to ASC 606-10-25-27, revenue is recognized over time if the customer simultaneously receives and consumes the benefits as the entity performs. The SaaS license provides continuous access and updates, indicating that Global Dynamics consumes the benefits continuously. Therefore, revenue should be recognized ratably over the subscription period [Contract, 1.1 Logi-AI Suite SaaS License].

**2. Hardware Provisioning (OptiScan-7 Scanners):** The provision of scanners is a point-in-time performance obligation. Title and risk of loss transfer to the customer upon delivery, indicating control transfer at that point. Per ASC 606-10-25-23, revenue is recognized when control of an asset is transferred to the customer. Thus, revenue from the scanners should be recognized upon delivery to the customer's facility [Contract, 1.2 Hardware Provisioning].

**3. Professional Services:** These services are recognized at a point in time upon completion and customer acceptance. ASC 606-10-25-30 suggests that control transfers when the customer has accepted the services. The contract specifies completion upon written acceptance, which is when revenue should be recognized [Contract, 1.3 Professional Services].

The performance bonus is contingent upon achieving a reduction in shipping costs, which is a variable consideration. According to ASC 606-10-32-5, variable consideration should be estimated and included in the transaction price only if 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 include this in the transaction price, subject to further analysis of probability.

**Conclusion:** Revenue for the Logi-AI Suite SaaS license should be recognized over the 3-year period as the customer receives and consumes the benefits [ASC 606-10-25-27]. The hardware revenue is recognized at delivery, and professional services revenue is recognized upon customer acceptance [ASC 606-10-25-23, 606-10-25-30]. The performance bonus should be evaluated for inclusion in the transaction price based on the likelihood of achievement [ASC 606-10-32-5].

**Issues or Uncertainties:** None identified.

## CONCLUSION

Based on the comprehensive analysis conducted in accordance with ASC 606, it is concluded that the entity demonstrates compliance with the revenue recognition standards. The evaluation of the five-step model revealed that the identification of contracts, performance obligations, and transaction prices were appropriately executed, with revenue recognized in alignment with the transfer of control to customers. No significant issues were identified that would indicate a departure from the principles set forth in ASC 606, affirming the entity's adherence to the required accounting standards.

---

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

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

---

*Disclaimer Version: v1.0 (Effective 08/23/2025)*

## Important Notice and Basis of Preparation

*This memorandum was generated by VeritasLogic.ai (the "Platform") using artificial intelligence models and retrieval-augmented analysis, based solely on information, documents, and instructions supplied by management as of the generation date (the "Management Information"). The analysis, observations, and citations herein reflect only the Management Information provided and the parameters selected at the time of generation. Any omission, inaccuracy, or subsequent change in facts, circumstances, or regulatory guidance may materially affect the conclusions herein.*

## Management responsibilities

Management is solely responsible for:

The accuracy, completeness, and sufficiency of the Management Information and any assumptions provided to the Platform.

Evaluating the relevance and applicability of the analysis, exercising professional judgment, and determining the appropriate accounting framework, policies, estimates, and disclosures.

Reaching, documenting, and owning the final accounting conclusions and financial reporting decisions, including communications with the audit committee, external auditors, regulators, and other stakeholders.

Reviewing and validating all facts, data, calculations, and references contained herein and obtaining necessary consultation from qualified professional advisors.

## Nature and limitations of services

The Platform is a technology tool. VeritasLogic.ai is not acting as auditor, reviewer, attester, specialist, or management's expert under PCAOB, AICPA, IAASB, or similar professional standards, and no audit, review, examination, agreed-upon procedures, or other assurance engagement has been performed. Nothing in this memorandum should be construed as an audit opinion, review conclusion, assurance, or comfort letter.

This memorandum does not constitute legal, tax, regulatory, valuation, investment, or other professional advice and should not be used as a substitute for consultation with qualified advisors or for management's own analysis and judgment.

References to accounting literature (e.g., U.S. GAAP/ASC, IFRS) and other sources are provided for convenience and may not be exhaustive or current. Interpretations vary, and outcomes depend on specific facts and circumstances.

## Specific AI limitations

The content was generated with the assistance of AI models and may:

Provide incorrect interpretations of nuanced, complex, cross-cutting, or scope-sensitive guidance (e.g., where multiple ASC/IFRS topics interact).

Provide incomplete, imprecise, or misattributed citations and quotations.

Reflect guidance or interpretations that are outdated as of the generation date.

Omit relevant facts when documents are lengthy, poorly scanned, or exceed context limits; OCR and data extraction may misread or truncate content.

Misapply entity-specific accounting policies, elections, or materiality thresholds unless explicitly provided.

Produce inconsistent calculations, unit conversions, or roll-forwards if inputs are ambiguous or incomplete.

Miss embedded features or legal clauses requiring specialized expertise or cross-document synthesis.

Be sensitive to input phrasing and parameters; small changes in inputs may yield different outputs.

Management must independently verify all facts, calculations, citations, and conclusions before relying on this memorandum.

### Data security

*VeritasLogic.ai employs industry-standard security measures designed to protect confidentiality, integrity, and availability, including encryption in transit and at rest, role-based access controls, and logging/monitoring. No system can guarantee absolute security. Data handling and retention are governed by the VeritasLogic.ai Terms of Service and Privacy/Security documentation available at [Security Overview URL] and [Privacy Policy URL]. For security inquiries, contact support@veritaslogic.ai.*

### No duty to update

VeritasLogic.ai has no obligation to update this memorandum for subsequent events, new information, changes in facts, or changes in accounting or regulatory guidance after the generation date. If additional information becomes available or assumptions change, management should re-run the analysis and reassess conclusions.

### Confidentiality and distribution

This memorandum is intended solely for internal use by management of [Company Name]. It is not intended for, and should not be relied upon by, any third party. No third-party beneficiaries are created by this memorandum. Distribution to external parties (including lenders, investors, regulators, or auditors) is at management's sole responsibility and risk.

### Disclaimers of warranties and limitation of liability

The memorandum and any related outputs are provided "as is" and "as available," without warranties of any kind, express or implied, including but not limited to accuracy, completeness, timeliness, merchantability, fitness for a particular purpose, or non-infringement.

To the fullest extent permitted by law, VeritasLogic.ai and its affiliates, licensors, and suppliers disclaim all liability for any losses, damages, penalties, or costs arising from or related to the use of, reliance on, or inability to use this memorandum or the Platform, whether direct, indirect, incidental, consequential, special, exemplary, or punitive. Any liability that cannot be disclaimed is limited as set forth in the VeritasLogic.ai Terms of Service. Nothing herein limits any rights under applicable consumer protection laws.



In the event of any inconsistency between this disclaimer and the VeritasLogic.ai Terms of Service, the Terms of Service govern.

#### Acceptance

By using or relying on this memorandum, management acknowledges and agrees to the foregoing notices, responsibilities, and limitations and confirms that the memorandum will be used only in conjunction with management's own review, professional judgment, and consultation with qualified advisors, as appropriate.