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## ASC 606 MEMORANDUM

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**TO:** Chief Accounting Officer

**FROM:** Technical Accounting Team - AI

**DATE:** September 09, 2025

**RE:** Contract Analysis - ASC 606 Revenue Recognition Analysis

**DOCUMENTS REVIEWED:** gemini\_sow.docx

## EXECUTIVE SUMMARY

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The ASC 606 revenue recognition analysis for Global Dynamics Corp. confirms that the contract with InnovateTech Solutions Inc. meets all criteria for a valid contract under ASC 606-10-25-1. The agreement includes three distinct

performance obligations: the Logi-AI Suite SaaS License, the OptiScan-7 handheld scanners, and professional services for implementation and training. Each obligation is capable of being distinct and is not highly interdependent with the others.

The total transaction price is \$815,000, which includes \$720,000 for the SaaS license, \$50,000 for the hardware, \$75,000 for professional services, and a \$30,000 performance bonus. The transaction price allocation is based on the relative standalone selling prices, with a 10% discount applied proportionately to the hardware and professional services. The performance bonus is contingent and will be recognized when it becomes probable.

Revenue recognition for the Logi-AI Suite SaaS license will occur over the 36-month term, while hardware revenue is recognized upon delivery, and professional services revenue upon acceptance. The analysis concludes that Global Dynamics Corp. is in compliance with ASC 606, with no significant financing components or noncash considerations affecting the transaction. The allocation of the bundle discount and the contingent nature of the performance bonus are significant findings that require ongoing assessment.

## **BACKGROUND**

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The arrangement reviewed involves a comprehensive contract between InnovateTech Solutions Inc. and Global Dynamics Corp., which encompasses a Software as a Service (SaaS) license, hardware provision, and professional services for implementation and training. This ASC 606 analysis aims to ensure proper recognition and allocation of revenue across the distinct performance obligations identified within the contract. The analysis focuses on confirming the contract's validity, identifying distinct performance obligations, determining the transaction price, allocating the transaction price to each obligation, and recognizing revenue in accordance with the prescribed guidelines.

# ASC 606 ANALYSIS

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## Step 1: Identify the Contract

### Analysis:

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

Firstly, the contract must be approved by both parties and demonstrate a commitment to perform their respective obligations. The Statement of Work (SOW) is entered into by InnovateTech Solutions Inc. and Global Dynamics Corp. under the terms of a Master Services Agreement dated January 15, 2022, which indicates formal approval and commitment to the contract terms [Contract §1.0, p. 1]. This satisfies ASC 606-10-25-1(a), as the parties have formally agreed to the terms.

Secondly, each party's rights regarding the goods or services must be identifiable. The contract outlines specific deliverables, including a 3-year SaaS license for the Logi-AI Suite, hardware provisioning of OptiScan-7 scanners, and professional services for integration and training [Contract §1.0, p. 1]. This clarity in deliverables ensures that each party's rights are clearly defined, meeting the requirement of ASC 606-10-25-1(b).

Thirdly, the payment terms for these goods and services are explicitly stated. The SaaS license is priced at \$240,000 per year, with the first year's fee due Net 30 from the Effective Date. The hardware and professional services are each subject to a one-time fixed fee of \$50,000 and \$75,000, respectively, also due Net 30 from the Effective Date [Contract §2.0, p. 2]. These terms fulfill ASC 606-10-25-1(c), as the payment terms are clearly identifiable.

Fourthly, the contract must have commercial substance, meaning it is expected to change the risk, timing, or amount of the entity's future cash flows. The contract involves significant financial transactions, including annual SaaS fees

and one-time payments for hardware and services, which will impact InnovateTech's cash flows. This satisfies ASC 606-10-25-1(d).

Finally, it must be probable that InnovateTech will collect substantially all of the consideration. Given the structured payment terms and the absence of any indication of Global Dynamics Corp.'s inability to pay, it is reasonable to conclude that collection is probable [ASC 606-10-25-1(e)].

### **Conclusion:**

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. meets all the 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 defined, the contract has commercial substance, and it is probable that InnovateTech will collect the consideration [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: the Logi-AI Suite SaaS License, the OptiScan-7 handheld scanners, professional services for implementation and training, and a performance bonus contingent on cost savings. Each of these promises must be evaluated to determine if they are distinct performance obligations under ASC 606.

**1. Logi-AI Suite SaaS License:** The SaaS license is a 3-year subscription granting access to the Logi-AI Suite for up to 500 users, including standard support and maintenance. This service is distinct because the customer can benefit from the software on its own, as it is a standalone product that does not require the other goods or services in the contract to

function [ASC 606-10-25-19(a)]. The SaaS license is priced at its standard standalone rate, indicating it is regularly sold separately [Contract §2.5].

2. **OptiScan-7 Handheld Scanners:** These scanners are provided for optimal use of the Logi-AI Suite's features. The title and risk of loss transfer upon delivery, suggesting they are a distinct good. The scanners can function independently of the SaaS, as the Logi-AI Suite can be used without them, albeit less efficiently. Therefore, they are capable of being distinct [ASC 606-10-25-19(b)] and are not highly interdependent with the SaaS license [ASC 606-10-25-21(c)].

3. **Professional Services:** These services include implementation, system integration, and training. While the Logi-AI Suite can be used without these services, the integration enhances its functionality. However, the services are not highly interdependent with the SaaS license or the scanners, as the software can operate independently. Thus, they are distinct [ASC 606-10-25-21].

4. **Performance Bonus:** The bonus is contingent on achieving a 15% reduction in shipping costs. This is not a promised good or service but a contingent consideration based on performance metrics. Therefore, it does not constitute a separate performance obligation [ASC 606-10-25-16].

The contract does not involve third parties, so principal vs. agent considerations are not applicable. Additionally, there are no customer options for additional goods or services that would constitute material rights.

### **Conclusion:**

The contract contains three distinct performance obligations: (1) the Logi-AI Suite SaaS License, (2) the OptiScan-7 handheld scanners, and (3) the professional services for implementation and training. Each of these obligations is capable of being distinct and is not highly interdependent with the others [ASC 606-10-25-19, 21].

**Issues or Uncertainties:**

None identified.

**Step 3: Determine the Transaction Price****Analysis:**

The transaction price under ASC 606 is the amount of consideration InnovateTech Solutions Inc. expects to be entitled to in exchange for transferring promised goods or services to Global Dynamics Corp. The contract specifies fixed consideration amounts for each deliverable: \$240,000 per year for the Logi-AI Suite SaaS License, a one-time fee of \$50,000 for the OptiScan-7 scanners, and \$75,000 for professional services [Contract §2.0, p. 1]. These amounts are fixed and do not vary based on future events, thus they are included in the transaction price as fixed consideration [ASC 606-10-32-2].

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, p. 1]. 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 history of achieving this metric with 80% of similar customers, the most likely amount method is appropriate. However, ASC 606-10-32-11 requires that variable consideration be included in the transaction price only to the extent it is probable that a significant revenue reversal will not occur. Given the high likelihood of achieving the performance metric, it is reasonable to include the \$30,000 bonus in the transaction price.

The contract does not indicate any significant financing components. Payments for the SaaS license, hardware, and professional services are due within 30 days of the effective date, aligning with the transfer of control and minimizing the time value of money considerations [Contract §2.0, p. 1; ASC 606-10-32-15]. The bundle discount of 10% on hardware and

services does not affect the transaction price calculation, as the SaaS license is priced at its standalone rate, and the discount is already reflected in the fixed consideration amounts [Contract §2.5, p. 1].

There is no indication of noncash consideration or consideration payable to the customer within the contract terms.

**Conclusion:**

The total transaction price for the contract is \$815,000, comprising \$720,000 for the SaaS license over three years, \$50,000 for the hardware, \$75,000 for professional services, and the inclusion of a \$30,000 performance bonus [ASC 606-10-32-2, 32-8]. There are no significant financing components or noncash considerations identified.

**Issues or Uncertainties:**

None identified.

**Step 4: Allocate the Transaction Price**

**Analysis:**

The contract with Global Dynamics Corp. identifies three primary performance obligations: the Logi-AI Suite SaaS License, hardware provisioning of OptiScan-7 scanners, and professional services for implementation and training. Each of these deliverables is distinct and separately identifiable, which aligns with the criteria for performance obligations under ASC 606 [Contract §1.0, p. 1].

According to ASC 606-10-32-31, the standalone selling prices (SSPs) for each performance obligation 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 hardware and professional services are subject to a 10% bundle discount, indicating that their SSPs may need estimation if not directly observable [Contract §2.5, p. 2].

The allocation of the transaction price should be conducted using the relative standalone selling price method, as prescribed by ASC 606-10-32-29. This involves allocating the total transaction price in proportion to the SSPs of each performance obligation. Given the 10% discount on hardware and services, ASC 606-10-32-37 requires that this discount be allocated proportionately across these obligations unless evidence suggests it relates specifically to one or more, but not all, performance obligations.

The performance bonus of \$30,000 is contingent upon achieving a 15% reduction in shipping costs, which introduces variability into the transaction price. As per ASC 606-10-32-35, if the SSPs of the obligations are highly variable or uncertain, a combination of methods, such as the residual approach, may be used to estimate SSPs. However, in this case, the discount allocation should follow the proportional method unless further evidence suggests a different allocation basis.

### **Conclusion:**

The transaction price should be allocated to the performance obligations based on their relative standalone selling prices, with the 10% discount applied proportionately to the hardware and professional services. The SaaS license is allocated at its standard rate, while the performance bonus is contingent and should be recognized when it becomes probable [ASC 606-10-32-31; ASC 606-10-32-37].

### **Issues or Uncertainties:**

None identified.

## **Step 5: Recognize Revenue**

### **Analysis:**

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



**1. Logi-AI Suite SaaS License:** The SaaS license is a subscription service for a 3-year period, which suggests that revenue should be 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 Logi-AI Suite provides continuous access and updates, indicating that Global Dynamics receives benefits throughout the subscription period. Therefore, revenue from the SaaS license should be recognized ratably over the 36-month term [Contract §1.1].

**2. Hardware Provisioning (OptiScan-7 Scanners):** Revenue from the sale of hardware should be recognized at a point in time when control transfers to the customer. The contract specifies that title and risk of loss transfer upon delivery, which aligns with ASC 606-10-25-23, stating that an asset is transferred when the customer obtains control. Therefore, revenue from the hardware should be recognized upon delivery of the scanners to Global Dynamics [Contract §1.2].

**3. Professional Services:** These services are a one-time engagement for implementation and integration, completed upon written acceptance by the customer. According to ASC 606-10-25-30, control transfers when the customer has inspected and accepted the services. Thus, revenue should be recognized at the point in time when Global Dynamics provides written acceptance of the completed services [Contract §1.3].

**4. Performance Bonus:** The performance bonus is contingent upon achieving a 15% reduction in shipping costs within the first 12 months. ASC 606-10-32-11 requires that variable consideration be included in the transaction price only to the extent it is probable that a significant reversal will not occur. Given InnovateTech's 80% success rate with similar customers, it may be reasonable to include this bonus in the transaction price, subject to reassessment as the performance period progresses [Contract §2.4].

**5. Bundle Discount:** The contract includes a 10% discount on hardware and services, which should be allocated to the respective performance obligations based on their standalone selling prices, as per ASC 606-10-32-28 [Contract §2.5].

**Conclusion:** Revenue for the Logi-AI Suite SaaS license should be recognized over the 36-month term. Hardware revenue is recognized upon delivery, and professional services revenue is recognized upon acceptance. The performance bonus is contingent and should be assessed for inclusion in the transaction price. The bundle discount should be allocated proportionally [ASC 606-10-25-27; ASC 606-10-25-23; ASC 606-10-32-11].

**Issues or Uncertainties:** None identified.

## CONCLUSION

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In conclusion, the analysis indicates that the entity has made significant strides towards ASC 606 compliance; however, several areas require further attention to ensure full adherence to the standard. Notably, the identification of performance obligations and the allocation of transaction prices need to be more rigorously documented to mitigate potential risks of misstatement. Additionally, the revenue recognition practices surrounding variable consideration warrant a thorough review to align with the principles outlined in ASC 606, thereby enhancing the reliability of reported revenue figures.

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

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

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