

MEMO ID: 6d9f3131

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provide incorrect interpretations of nuanced or complex standards, provide incomplete or imprecise citations, rely on outdated guidance, or contain extraction and calculation errors.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 14, 2025

RE: Contract Analysis - ASC 606 Revenue Recognition Analysis

DOCUMENTS REVIEWED: gemini_sow.docx

EXECUTIVE SUMMARY

The ASC 606 revenue recognition analysis for Global Dynamics Corp. confirms that the contract with InnovateTech meets all criteria for a valid contract under ASC 606-10-25-1. The contract encompasses three distinct performance obligations: the Logi-AI Suite SaaS License, OptiScan-7 scanners, and professional services for implementation and training. A performance bonus is identified as a variable consideration element rather than a separate performance obligation.

The total transaction price is calculated at \$855,000, including \$720,000 for the SaaS license, \$50,000 for hardware, \$75,000 for professional services, and an estimated \$30,000 for the performance bonus, with a 10% bundle discount applied to hardware and services. Revenue allocation is based on the relative standalone selling prices, with the discount proportionately applied. The performance bonus allocation is contingent on achieving the cost reduction metric.

Revenue recognition is aligned with ASC 606 guidelines, with the SaaS license recognized over time, hardware upon delivery, and professional services upon customer acceptance. The performance bonus is recognized when it is probable that the target will be met without significant reversal. This analysis confirms compliance with ASC 606, with no significant issues identified in the revenue recognition process.

BACKGROUND

The arrangement reviewed involves a comprehensive contract between InnovateTech and Global Dynamics Corp., encompassing a Software as a Service (SaaS) license, hardware provision, and professional services for implementation and training. This ASC 606 analysis aims to ensure proper revenue recognition by identifying and evaluating the distinct performance obligations within the contract, determining the transaction price, and allocating it appropriately based on standalone

selling prices. The analysis further addresses the timing of revenue recognition for each component, ensuring compliance with the relevant accounting standards.

ASC 606 ANALYSIS

Step 1: Identify the Contract

Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. meets the criteria for a valid contract under ASC 606-10-25-1.

1. **Approval and Commitment:** The Statement of Work (SOW) is entered into by both parties as of October 26, 2023, under the terms of a pre-existing Master Services Agreement dated January 15, 2022. This indicates that both parties have approved the contract and are committed to performing their respective obligations [Contract §1.0, p. 1]. According to ASC 606-10-25-1(a), a contract is valid when the parties have approved it and are committed to their obligations.

2. **Rights Regarding Goods or Services:** The SOW clearly delineates the rights of each party concerning the goods and services to be transferred. InnovateTech is obligated to provide a SaaS license for the Logi-AI Suite, hardware in the form of OptiScan-7 scanners, and professional services for integration and training [Contract §1.1-1.3, p. 1]. This satisfies ASC 606-10-25-1(b), which requires that each party's rights regarding the goods or services be identifiable.

3. **Payment Terms:** The contract specifies payment terms for each component: \$240,000 per year for the SaaS license, a one-time fee of \$50,000 for hardware, and \$75,000 for professional services, all due Net 30 from the Effective Date [Contract §2.1-2.3, p. 2]. This aligns with ASC 606-10-25-1(c), which requires identifiable payment terms.

4. **Commercial Substance:** 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 the Logi-AI Suite and associated services is intended to enhance Global Dynamics' logistics capabilities, potentially impacting InnovateTech's revenue streams [Contract §1.0, p. 1]. This meets the requirement of ASC 606-10-25-1(d).

5. **Probable Collection of Consideration:** It is probable that InnovateTech will collect substantially all of the consideration, given the structured payment terms and the history of similar transactions. The performance bonus clause further indicates a high likelihood of achieving the desired outcomes [Contract §2.4, p. 2]. This satisfies ASC 606-10-25-1(e), which requires that it be probable the entity will collect the consideration.

Conclusion: The contract between InnovateTech and Global Dynamics Corp. satisfies all criteria under ASC 606-10-25-1 for a valid contract. The parties have approved and are committed to the contract, the rights and payment terms are clear, the contract has commercial substance, and it is probable that consideration will be collected [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, OptiScan-7 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 distinct good because it provides a standalone benefit to the customer, allowing access to the Logi-AI Suite for up to 500 users. The service is regularly sold separately, as evidenced by its standard standalone rate [Contract §1.1]. According to ASC 606-10-25-19, a good or service is distinct if it is "capable of being distinct" and "distinct within the context of the contract." The SaaS license meets these criteria as it can be used independently by the customer.

2. **Hardware Provisioning (OptiScan-7 Scanners):** The scanners are distinct goods because they are transferred to the customer with title and risk of loss, indicating a separate transfer of control [Contract §1.2]. The scanners are necessary for optimal use of the SaaS but are not integrated with the software in a manner that would make them inseparable. Per ASC 606-10-25-21, the scanners are not highly interdependent with the SaaS, thus qualifying as a separate performance obligation.

3. **Professional Services:** These services include implementation, integration, and training. While the Logi-AI Suite can function without these services, they enhance the software's functionality by integrating it with the customer's ERP system [Contract §1.3]. According to ASC 606-10-25-21, services are distinct if they are not highly interdependent with other contract elements. Here, the professional services are distinct because they do not significantly modify the software itself and are completed upon customer acceptance, indicating separate fulfillment.

4. **Performance Bonus:** The bonus is contingent on achieving a 15% reduction in shipping costs. This is not a distinct performance obligation but rather a variable consideration related to the SaaS license and services. It is contingent upon the customer's performance and does not represent a separate promise to transfer goods or services [Contract §2.4].

Conclusion: The contract contains three distinct performance obligations: the Logi-AI Suite SaaS License, the OptiScan-7 scanners, and the professional services for implementation and training. The performance bonus is not a separate performance obligation but a variable consideration element [ASC 606-10-25-14, 25-19, 25-21].

Issues or Uncertainties: None identified.

Step 3: Determine the Transaction Price

Analysis: The transaction price under ASC 606 is the amount of consideration InnovateTech expects to receive in exchange for transferring promised goods or services to Global Dynamics Corp. The contract specifies fixed consideration amounts for the SaaS license, hardware, and professional services. The Logi-AI Suite SaaS license is priced at \$240,000 per year for three years, totaling \$720,000, with payments due annually [Contract §2.1]. The hardware, consisting of 200 OptiScan-7 scanners, is priced at a one-time fee of \$50,000 [Contract §2.2]. Professional services are also a one-time fee of \$75,000 [Contract §2.3].

Variable consideration is present in the form of a \$30,000 performance bonus, contingent upon a 15% reduction in shipping costs within the first 12 months [Contract §2.4]. Under 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 with similar customers, it is probable that the bonus will be achieved, and thus it can be included in the transaction price, provided it is probable that a significant reversal will not occur [ASC 606-10-32-11].

The contract includes a 10% bundle discount on hardware and services, which affects the transaction price. The discount does not apply to the SaaS license, which is at its standalone price [Contract §2.5]. This discount should be allocated proportionately to the hardware and services based on their standalone selling prices, as per ASC 606-10-32-28.

There is no significant financing component in this contract. Payments for the SaaS license are due annually, and other fees are due within 30 days of the effective date, which does not indicate a significant time difference between transfer and payment [ASC 606-10-32-15]. Additionally, there is no noncash consideration or consideration payable to the customer identified in the contract.

Conclusion: The total transaction price is calculated as \$720,000 for the SaaS license, \$50,000 for hardware, \$75,000 for professional services, and an estimated \$30,000 for the performance bonus, adjusted for the 10% bundle discount on hardware and services. The total transaction price is \$855,000, assuming the performance bonus is achieved [ASC 606-10-32-5, ASC 606-10-32-8].

Issues or Uncertainties: None identified.

Step 4: Allocate the Transaction Price

Analysis:

In analyzing the contract between InnovateTech Solutions Inc. and Global Dynamics Corp., we identify three primary performance obligations: (1) the Logi-AI Suite SaaS License, (2) the provision of OptiScan-7 hardware, and (3) professional services for implementation and training. Each of these obligations is distinct and separately identifiable within the contract, as they provide separate benefits to the customer and can be used independently or enhance the functionality of other products [Contract §1.0].

According to ASC 606-10-32-31, the transaction price must be allocated to each performance obligation based on the relative standalone selling prices (SSPs) of the goods or services at contract inception. The contract specifies that the SaaS license is priced at its standard standalone rate, while the hardware and professional services are subject to a 10% bundle discount [Contract §2.5]. This indicates that the SSPs for the hardware and services must be estimated, possibly using observable data or estimation methods such as the adjusted market assessment approach or expected cost plus margin approach [ASC 606-10-32-33].

The allocation of the transaction price should be proportional to the SSPs of the distinct goods and services. Given the 10% discount on the hardware and services, ASC 606-10-32-37 requires that this discount be allocated proportionately across these performance obligations. This ensures that the transaction price allocation reflects the relative value of each performance obligation as determined by their SSPs.

The total transaction price, including the performance bonus, is \$365,000, calculated as follows: \$240,000 for the SaaS license, \$50,000 for the hardware, \$75,000 for professional services, and a potential \$30,000 bonus. The allocation of the \$30,000 performance bonus should be considered contingent on the achievement of the specified cost reduction metric, and it should be allocated to the performance obligations that are expected to contribute to achieving this metric [ASC 606-10-32-29].

Conclusion:

The transaction price should be allocated to the Logi-AI Suite SaaS License, OptiScan-7 hardware, and professional services based on their relative standalone selling prices, with the 10% discount proportionately applied to the hardware and services. The performance bonus should be allocated to the obligations that contribute to the cost reduction metric, contingent on its achievement [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 three primary performance obligations: the Logi-AI Suite SaaS license, the provision of OptiScan-7 hardware, and professional services for system integration and training. Each obligation requires distinct consideration under ASC 606 to determine the appropriate revenue recognition method.

1. **Logi-AI Suite SaaS License:** The SaaS license is a subscription service granting access to the Logi-AI Suite for three years. According to ASC 606-10-25-27, revenue for services that are provided over time, such as a SaaS subscription, should be recognized over the period the service is provided. This is because the customer simultaneously receives and consumes the benefits of the service as it is delivered. Therefore, the \$240,000 annual fee should be recognized ratably over each year of the subscription period.

2. **Hardware Provisioning (OptiScan-7 Scanners):** The contract specifies that title and risk of loss for the scanners transfer to the customer upon delivery [Contract §1.2]. Under ASC 606-10-25-23, revenue is recognized at the point in time when control of the asset transfers to the customer. Since control transfers upon delivery, the \$50,000 fee for the hardware should be recognized at that point in time.

3. **Professional Services:** These services are a one-time engagement for system integration and training, and are considered complete upon the customer's written acceptance [Contract §1.3]. According to ASC 606-10-25-30, revenue should be recognized when control of the service transfers, which in this case is upon completion and acceptance of the services. Thus, the \$75,000 fee should be recognized at the point in time when the customer provides written acceptance.

Additionally, the performance bonus of \$30,000 is contingent upon achieving a 15% reduction in shipping costs within the first 12 months. This bonus represents variable consideration and should be recognized only when it is probable that a significant reversal of revenue will not occur, as per ASC 606-10-32-11.

Conclusion:

Revenue for the Logi-AI Suite SaaS license should be recognized over time, ratably over the subscription period [ASC 606-10-25-27]. The hardware revenue is recognized at a point in time upon delivery [ASC 606-10-25-23]. Professional services revenue is recognized upon customer acceptance [ASC 606-10-25-30]. The performance bonus is recognized when it is probable that the target will be met without significant reversal [ASC 606-10-32-11].

Issues or Uncertainties:

None identified.

CONCLUSION

In conclusion, the analysis of the revenue recognition practices under ASC 606 indicates a strong alignment with the standard's five-step model, particularly in identifying performance obligations and determining transaction prices. However, there are notable concerns regarding the timing of revenue recognition for certain contracts, which may lead to potential misstatements in reported revenue. It is imperative that the organization addresses these issues promptly to ensure full compliance with ASC 606 and to maintain the integrity of its financial reporting.

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

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

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.