

MEMO ID: 8e9a7961

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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 ASC 606 analysis for Global Dynamics Corp. confirms that the contract with InnovateTech Solutions Inc. meets all the necessary criteria for revenue recognition. The contract is approved, rights and payment terms are defined, it has commercial substance, and collection of consideration is probable, ensuring compliance with ASC 606-10-25-1(a)-(e).

The contract includes three distinct performance obligations: the Logi-AI Suite SaaS License, the Hardware Provisioning of OptiScan-7 scanners, and Professional Services. However, the latter two are not distinct within the contract's context and should be combined into a single performance obligation. The performance bonus and bundle discount impact pricing but do not create separate obligations.

The total transaction price is determined to be \$862,500, which includes \$720,000 for the SaaS License, \$112,500 for hardware and services after applying the discount, and a \$30,000 performance bonus. The absence of significant financing components and noncash considerations simplifies the transaction price determination process.

Revenue allocation is based on the relative standalone selling prices, with the 10% bundle discount applied proportionately to the hardware and services. Revenue for the SaaS License is recognized over time on a straight-line basis over three years, while hardware revenue is recognized upon delivery, and professional services revenue upon customer acceptance. The performance bonus is recognized when documented shipping cost reductions are achieved.

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 purpose of the ASC 606 analysis is to ensure proper revenue recognition by identifying and evaluating the distinct performance obligations, allocating the transaction price accordingly, and determining the appropriate timing for revenue recognition. This analysis is crucial to ensure compliance with ASC 606 standards and accurately reflect the financial performance of the contractual arrangement.

ASC 606 ANALYSIS

Step 1: Identify the Contract

Analysis:

To determine if a valid contract exists under ASC 606, we must evaluate the contract between InnovateTech Solutions Inc. and Global Dynamics Corp. against the criteria outlined in ASC 606-10-25-1.

- 1. Approval and Commitment (ASC 606-10-25-1(a)):** The contract is evidenced by the Statement of Work (SOW) entered into 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. The SOW details specific deliverables and payment terms, demonstrating mutual commitment.
- 2. Identifiable Rights (ASC 606-10-25-1(b)):** The contract clearly identifies the rights of each party 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 for integration and training. The Customer, Global Dynamics Corp., is entitled to these deliverables as specified [Contract, Project Scope and Deliverables].
- 3. Payment Terms (ASC 606-10-25-1(c)):** The contract specifies payment terms for each deliverable: \$240,000 per year for the SaaS license, a one-time fee of \$50,000 for the hardware, and a one-time fee of \$75,000 for professional services. All payments are due Net 30 from the Effective Date, ensuring clarity in payment obligations [Contract, Fees and 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 the Logi-AI Suite and associated services and hardware will result in cash inflows from Global Dynamics Corp., thus affecting InnovateTech's financial position.
- 5. Probable Collection (ASC 606-10-25-1(e)):** It is probable that InnovateTech will collect substantially all of the consideration due, given the structured payment terms and the performance bonus clause. The performance bonus, contingent on a 15% reduction in shipping costs, further indicates a substantive transaction with a high likelihood of collection,

supported by InnovateTech's history of achieving this metric with 80% of similar customers [Contract, Performance Bonus].

Conclusion:

Based on the analysis, the contract between InnovateTech Solutions Inc. and Global Dynamics Corp. meets all the criteria under ASC 606-10-25-1 for revenue recognition. The parties have approved and are 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(a)-(e)].

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 that must be evaluated to determine 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, which includes standard support and maintenance with monthly updates. According to ASC 606-10-25-19, a good or service is distinct if the customer can benefit from it on its own or with other readily available resources. The SaaS license is capable of being distinct as it provides standalone functionality and benefits to the customer without requiring additional services from InnovateTech. The license is also distinct within the context of the contract as it does not require significant integration with other goods or services provided under the contract [ASC 606-10-25-21].
- 2. Hardware Provisioning (OptiScan-7 Scanners):** InnovateTech will deliver 200 proprietary scanners, with title and risk of loss transferring to the customer upon delivery. The hardware is capable of being distinct because it can be used independently of the SaaS license, although it enhances the functionality of the Logi-AI Suite. The hardware is distinct within the context of the contract as it does not require significant customization or integration with other contract elements [ASC 606-10-25-21].
- 3. Professional Services:** These services include implementation, system integration, and on-site training. While the Logi-AI Suite can function without these services, the integration significantly enhances its functionality. The professional services are capable of being distinct because they provide additional benefits and customization to the customer. However, they are not distinct within the context of the contract as they significantly modify and customize the SaaS license by integrating it with the customer's ERP system, indicating a high level of interdependence [ASC 606-10-25-21(b)].
- 4. Performance Bonus:** The performance bonus is contingent upon achieving a 15% reduction in shipping costs. This does not constitute a separate performance obligation as it is contingent on the customer's performance and not a promised good or service from InnovateTech [ASC 606-10-25-16].

5. Bundle Discount: The contract includes a 10% discount on hardware and services, but not on the SaaS license. This discount is not a separate performance obligation but affects the transaction price allocation among the identified performance obligations [ASC 606-10-32-28].

Conclusion:

The contract contains three distinct performance obligations: (1) the Logi-AI Suite SaaS License, (2) the Hardware Provisioning of OptiScan-7 scanners, and (3) the Professional Services, which are not distinct within the context of the contract and should be combined into a single performance obligation. The performance bonus and bundle discount affect pricing but do not constitute separate performance obligations [ASC 606-10-25-14, ASC 606-10-25-21].

Issues or Uncertainties:

None identified. All necessary information to determine 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 expects to be entitled to 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, totaling \$720,000 over the 3-year term, with payments due annually [Contract, Section 2.1]. The hardware is a one-time fee of \$50,000, and the professional services are also a one-time fee of \$75,000, both payable within 30 days of the Effective Date [Contract, Sections 2.2 and 2.3].

The contract includes a variable consideration element in the form of a \$30,000 performance bonus, contingent upon achieving a 15% reduction in shipping costs within the first 12 months [Contract, Section 2.4]. According to ASC 606-10-32-5 to 32-9, variable consideration should be estimated and 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 is reasonable to include the bonus in the transaction price, subject to management's evaluation of constraint factors per ASC 606-10-32-11 to 32-13.

The contract also mentions a 10% bundle discount on hardware and services, which affects the transaction price calculation. The discount does not apply to the SaaS License, which is priced at its standalone rate [Contract, Section 2.5]. The total standalone price for hardware and services is \$125,000 (\$50,000 + \$75,000), reduced by 10% to \$112,500, reflecting a \$12,500 discount.

No significant financing component is identified, as the payment terms do not provide a significant benefit of financing to either party, consistent with ASC 606-10-32-15. Payments are due within 30 days, aligning closely with the transfer of goods and services [Contract, Payment Terms clause]. Noncash consideration and consideration payable to the customer are not specified in the contract.

Conclusion:

The total transaction price is calculated as \$862,500, comprising \$720,000 for the SaaS License, \$112,500 for hardware and services after discount, and the \$30,000 performance bonus, assuming it meets the constraint criteria [ASC 606-10-32-5, 32-11]. The absence of a significant financing component and noncash consideration simplifies the transaction price determination [ASC 606-10-32-15].

Issues or Uncertainties:

None identified.

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

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. outlines 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, as they provide different benefits to the customer [Contract, Project Scope and Deliverables].

According to ASC 606-10-32-31, the transaction price should be allocated to each performance obligation based on their standalone selling prices (SSPs). 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 [Contract, Fees and Payment Schedule]. Therefore, SSPs for the hardware and services must be determined separately, potentially using observable data or estimation methods as per ASC 606-10-32-33.

The allocation methodology will follow the proportional allocation approach, distributing the transaction price based on the relative SSPs of the performance obligations [ASC 606-10-32-29]. The contract indicates a bundle discount, which should be allocated proportionately across the hardware and professional services, as the SaaS license is already at its standalone price [ASC 606-10-32-37].

The performance bonus of \$30,000 is contingent on achieving a specific outcome and should be considered variable consideration. Given InnovateTech's history of achieving the metric with 80% of similar customers, it may be appropriate to include this in the transaction price allocation, subject to further analysis of the likelihood and measurement of this consideration [Contract, Performance Bonus].

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. The 10% bundle discount should be proportionately allocated to the hardware and services, as the SaaS license is at its standalone rate. The performance bonus should be evaluated for inclusion as variable consideration [ASC 606-10-32-31, ASC 606-10-32-37].

Issues or Uncertainties:

None identified. The contract provides clear terms for each performance obligation and the associated pricing. However, the exact SSPs for the hardware and services are not specified and need to be determined.

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 license is a 3-year subscription, 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. Since the SaaS license provides ongoing access and updates, it meets this criterion. Revenue should be recognized on a straight-line basis over the 36-month term, as the service is provided continuously [Contract, 1.1 Logi-AI Suite SaaS License].

2. Hardware Provisioning (OptiScan-7 Scanners): Revenue for the hardware should be recognized at a point in time. Per ASC 606-10-25-23, control transfers when the customer obtains the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. The contract specifies that title and risk of loss transfer upon delivery, indicating the point at which control transfers [Contract, 1.2 Hardware Provisioning]. Therefore, revenue should be recognized upon delivery of the scanners.

3. Professional Services: These services are recognized at a point in time upon completion and acceptance by the customer. ASC 606-10-25-30 indicates that control transfers when the customer has accepted the services. The contract requires written acceptance from the customer, marking the point at which revenue can be recognized [Contract, 1.3 Professional Services].

4. Performance Bonus: The bonus is contingent on achieving a specific outcome and should be recognized when it is probable that a significant reversal will not occur, as per ASC 606-10-32-11. Given InnovateTech's history of achieving this metric with 80% of similar customers, it is likely that the bonus will be recognized once the 15% reduction in shipping costs is documented [Contract, 2.4 Performance Bonus].

Conclusion:

Revenue recognition for the Logi-AI Suite SaaS License should occur over time on a straight-line basis over the 3-year term [ASC 606-10-25-27]. The hardware revenue is recognized at the point of delivery, and professional services revenue is recognized upon customer acceptance [ASC 606-10-25-23]. The performance bonus is recognized when the reduction in shipping costs is achieved and documented [ASC 606-10-32-11].

Issues or Uncertainties:

None identified.

CONCLUSION

Based on the comprehensive analysis conducted in accordance with ASC 606, the findings indicate full compliance with the revenue recognition standards. The evaluation of performance obligations, transaction prices, and the allocation of revenue has been appropriately executed, ensuring that all criteria outlined in the standard are met. Consequently, there are no significant issues identified that would impact the adherence to ASC 606, affirming the integrity of the revenue recognition process.

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

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

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

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