

# ASC 606 REVENUE RECOGNITION MEMORANDUM

**TO:** Chief Accounting Officer  
**FROM:** Technical Accounting Team - AI  
**DATE:** August 21, 2025  
**RE:** contract01 - ASC 606 Revenue Recognition Analysis

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## EXECUTIVE SUMMARY

Global Dynamics has successfully met all criteria outlined in ASC 606-10-25-1 for recognizing a valid contract, as evidenced by the comprehensive Statement of Work (SOW) that delineates mutual agreement, clearly identifies rights and payment terms, possesses commercial substance, and establishes probable collectibility of consideration. Consequently, this contract qualifies as a valid contract under ASC 606. The analysis identifies three distinct performance obligations: the subscription license to the Logi-AI Suite, the provision of Opti Scan-7 scanners, and the professional services for system integration and training. Each of these obligations provides standalone utility and can be accounted for separately, ensuring compliance with ASC 606. The total transaction price amounts to 815,000, *which includes fixed consideration and potential variable consideration of 30,000*, subject to constraints due to uncertainties in meeting performance metrics. The allocation of the transaction price will be based on relative standalone selling prices, taking into account the bundle discount while excluding the contingent performance bonus until it

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## BACKGROUND

We have reviewed the contract documents provided by Global Dynamics to determine the appropriate revenue recognition treatment under ASC 606. This memorandum presents our analysis following the five-step ASC 606 methodology and provides recommendations for implementation.

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## ASC 606 ANALYSIS

**Step 1: Identify the Contract** The contract demonstrates clear approval from both parties because it states, "This Statement of Work ('SOW') is entered into as of October

26, 2023" *between Innovate Tech and Global Dynamics under an existing Master Servi*  
**15, 2022.** This implies mutual commitment per ASC 606-10-25-1(a), since both parties have agreed to the SOW terms in conjunction with established terms from the MSA. The rights and obligations of each party are clearly delineated in the contract, fulfilling ASC 606-10-25-1(b). Innovate Tech is responsible for providing the Logi-AI Suite SaaS license, 200 Opti Scan-7 scanners, and professional services. Global Dynamics holds the right to receive these goods and services, including access to the software platform, possession of scanners upon delivery, and completion of professional services as confirmed by their written acceptance. Payment terms are explicitly outlined with specific amounts and due dates, satisfying ASC 606-10-25-1(c). The contract specifies fees such as 240,000 *per year for the SaaS license, a one-time* 50,000 fee for the hardware, and a one-time

75,000 *fee for the professional services, all due within 30 days from the Effective Date.* A 30,000 performance bonus is conditionally tied to a specific customer performance goal. The contract has commercial substance as required by ASC 606-10-25-1(d)

because it is expected to change Innovate Tech's future cash flows. This is evidenced by the fees due under the SOW, as well as the conditional performance bonus that ties remuneration to outcome-based criteria. Therefore, Innovate Tech's cash flows will change based on the provisions of the contract, thus impacting timing and amount. Finally, it is probable that Innovate Tech will collect the consideration, satisfying ASC 606-10-25-1(e). Global Dynamics is assumed capable and likely to fulfill its payment obligations under this contract. No information suggests a credit risk concerning Global Dynamics, and historical success at achieving performance metrics with 80% of similar customers supports this assessment. Conclusion: All ASC 606-10-25-1 criteria for recognizing a valid contract are satisfied because the SOW outlines mutual agreement, clear identification of rights and payment terms, possesses commercial substance, and establishes probable collectibility of consideration. Therefore, this contract qualifies as a valid contract under ASC 606.### Step 2: Identify Performance ObligationsThe contract between Innovate Tech Solutions Inc. and Global Dynamics Corp. involves several promised goods and services. The primary deliverables listed include: a subscription license to the "Logi-AI Suite, hardware provisioning of "Opti Scan-7" scanners, and professional services for integration and training. According to ASC 606-10-25-16, all these promises constitute separate goods and services offered to the customer. To assess whether each promised good or service is distinct, we must consider if the customer can benefit from them on their own or with other readily available resources, pursuant to ASC 606-10-25-20. The Logi-AI Suite SaaS License is likely distinct because it can be used independently with standard support and maintenance, as stated in the contract. The hardware, Opti Scan-7 scanners, are also distinct since title and risk transfer upon delivery, meaning they function as standalone products. Evaluating the professional services, these are aimed at implementation, integration, and training, which although enhance the Logi-AI Suite's functionality, are not requisite for its basic operation. These can be seen as distinct because the Logi-AI Suite is operational without them, satisfying ASC 606-10-25-21(b) that the services are not highly interdependent. However, the integration services could be seen as interdependent with the SaaS product, given they significantly enhance the platform's functionality by connecting directly to the Customer's ERP system. Nonetheless, the integration does not alter the underlying product to change its operational essence, thus, under ASC 606-10-25-21, each service is capable of being distinct, as each could be sold separately and provide individual value to the customer. In terms of performance obligations, each of these components (SaaS license, scanners, professional services) meets the criteria for being distinct promises because none are highly interdependent or require significant integration with other contractual elements to provide their intended benefits. Conclusion: The distinct performance obligations in this contract are: the subscription license to the Logi-AI Suite, the provision of Opti Scan-7 scanners, and the professional services for system integration and training. Each of these

provides standalone utility and can be accounted for separately under ASC 606.### Step 3: Determine the Transaction PriceThe contract clearly outlines fixed consideration amounts for each component of the service. The Logi-AI Suite SaaS License includes a fixed annual fee of 240,000 for three years. These fees are referenced in section 2.1 of the contract, which in 10 – 32 – 5. For the hardware, a one – time payment of 50,000 is agreed upon, and similarly, 75,000 for Professional Services. These are fixed, upfront amounts due Net 30 from the focus on specificity in payment terms. Regarding variable consideration, a performance 30,000 is contingent upon achieving a documented 15% reduction in shipping costs within the first 12 months. Given Innovate Tech's 80% success rate with similar customers, it is likely this bonus will be considered probable. However, per ASC 606-10-32-11 through 32-13, the constraint on recognizing variable consideration requires a high degree of confidence that it will not result in a significant reversal. Considering the contingent nature of the performance bonus, it could be constrained, as its realization depends on external customer metrics which introduce some degree of uncertainty. The contract does not provide evidence of any significant financing components, noncash consideration, or consideration payable to the customer. The specified payment terms are standard and do not indicate an implied significant financing benefit to either party, adhering to ASC 606-10-32-15. Conclusion: The transaction price consists of fixed consideration amounts totaling 815,000, including potential variable consideration of 30,000 subject to constraint due to uncertainty in meeting performance metrics. There are no significant financing components noted in the contract.### Step 4: Allocate the Transaction PriceThe contract with Global Dynamics entails multiple performance obligations, which were identified in Step 2 as follows: (1) the Logi-AI Suite SaaS license, (2) hardware provisioning with Opti Scan-7 scanners, and (3) professional services for implementation and training. These obligations are distinct and separately identifiable and will necessitate the allocation of the transaction price. According to ASC 606-10-32-31, the allocation of the transaction price should be based on the standalone selling prices (SSPs) of each performance obligation. The SSPs should be determined using observable data whenever possible, as emphasized in ASC 606-10-32-33. The contract provides some indication that the SaaS license is at its standard standalone rate but notes a 10% bundle discount applied to the hardware and services. This discount should be proportionately allocated to the respective performance obligations to meet the allocation objective per ASC 606-10-32-37. The pricing for the identified components is 240,000 per year for the Logi – AISuite (totaling 720,000 over three years), 50,000 for the hardware, and 75,000 for the professional services. The performance bonus of 30,000 will not be part of the initial allocation because it is contingent on future customer,

50,000 in revenue upon delivery of the scanners to Global Dynamics' facility within 14 days from the effective date. Revenue from the professional services is recognized at a point in time upon customer acceptance of the completed services, which follows ASC 606-10-25-23. Although these services enhance the Logi-AI Suite's functionality, they are deemed distinct and separate from the ongoing SaaS provision, as supported by the explicit acceptance criterion requiring written acknowledgment by the customer. Conclusion: The Logi-AI Suite SaaS License revenue is recognized over the subscription period, 240,000 annually. The OptiScan – 7 scanners' revenue is recognized upon delivery, totaling 50,000. Professional services revenue is recognized upon customer acceptance, totaling \$75,000.

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## CONCLUSION

In conclusion, the analysis demonstrates that the contract adheres to the criteria set forth in ASC 606, confirming its validity and the distinct performance obligations identified within. The transaction price of \$815,000, inclusive of variable consideration, has been appropriately allocated based on relative standalone selling prices, ensuring compliance with the standard's requirements. Revenue recognition for the subscription license, scanners, and professional services aligns with the performance obligations and timing outlined, thereby affirming the contract's overall compliance with ASC 606.

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PREPARED BY: <br> [Analyst Name] <br> [Title] <br> [Date]

REVIEWED BY: <br> [Reviewer Name] <br> [Title] <br> [Date]

*This memorandum represents our preliminary analysis based on the contract documents provided. Final implementation should be reviewed with external auditors and may require additional documentation or analysis of specific implementation details.*