

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

EXECUTIVE SUMMARY

Executive Summary: ASC 606 Revenue Recognition Analysis for Global Dynamics

This analysis identifies three distinct performance obligations within the contract with Global Dynamics: 1) the Logi-AI Suite SaaS License, 2) the Opti Scan-7 scanners, and 3) the Professional Services. Each of these obligations is capable of being distinct, as they provide separate benefits to the customer and do not interdependently modify one another.

The total estimated transaction price amounts to \$389,000, which includes both fixed and variable considerations. Notably, the variable consideration related to a performance bonus introduces uncertainty, necessitating careful monitoring to ensure compliance with ASC 606's constraints on revenue recognition. Additionally, there is no significant financing component present due to the established payment terms.

Revenue allocation to the distinct performance obligations will be based on their relative standalone selling prices, with a 10% discount impacting only the hardware and professional services. Revenue recognition will occur as follows: the Logi-AI SaaS

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.

ASC 606 ANALYSIS

Step 1: Identify the Contract

- The contract appears to have been approved by both parties as it is signed and dated by Innovate Tech and Global Dynamics, indicating that both parties are committed to perform under the "Master Services Agreement" referenced in the Statement of Work ("SOW") because ASC 606-10-25-1(a) requires demonstration of such mutual approval and commitment.
- Each party's rights regarding transfer are clearly identified in the SOW. Innovate Tech is responsible for providing the Logi-AI Suite SaaS License, hardware (Opti Scan-7 scanners), and Professional Services, while Global Dynamics has the right to receive these goods and services. This satisfies ASC 606-10-25-1(b) because the contract delineates what each party will provide and receive.
- Payment terms are explicitly outlined in the SOW. For example, the Logi-AI Suite has a fee of 240,000 *per year*, *hardware costs* 50,000 one-time, and Professional Services come at \$75,000 one-time, all due Net 30 from the Effective Date. These clear terms meet ASC 606-10-25-1(c) requirements for identifying payment terms.
- The contract has commercial substance because it includes substantive terms that are expected to affect Innovate Tech's cash flows. The delivery of hardware, software, and services will change the risk, timing, and amount of cash flows as outlined in ASC 606-10-25-1(d).
- It is probable that Innovate Tech will collect the consideration because the payment structure and customer's ability to pay are detailed, with specified due dates and performance incentives. These factors align with ASC 606-10-25-1(e), demonstrating a likely collection of substantially all consideration.

Step 2: Identify Performance Obligations

- The contract outlines three main deliverables: the Logi-AI Suite SaaS License, Hardware Provisioning of Opti Scan-7 scanners, and Professional Services (system integration and training). Each deliverable reflects separate promises as per the contract under section 1.0 Project Scope and Deliverables.
- Per ASC 606-10-25-14, a good or service is distinct if the customer can benefit from it on its own or with other resources. The Logi-AI Suite can operate independently as it is a cloud solution, thus capable of being distinct because section 1.3 states that while professional services enhance the platform, they are not essential for its use.
- The Hardware Provisioning consists of Opti Scan-7 handheld scanners delivered separately from other services. Under ASC 606-10-25-21, the hardware meets the criterion of being capable of functioning independently with the Logi-AI Suite as the scanners are specifically required but not integrated, fulfilling the conditions of being regularly sold as a separate item.
- Professional Services, although enhancing the core functionality of the SaaS platform, are capable of being distinct within the context of the contract because ASC 606-10-25-21(a-c) stipulates that these services do not significantly modify or customize elements in a way that alters their fundamental nature. Integration, while beneficial, is not integrally tied to functioning separately.
- The Performance Bonus outlined in section 2.4 can be seen as contingent consideration linked to performance outcomes. It does not in itself create a performance obligation but may affect transaction price determination.

- There are no additional customer options for goods/services or material rights that form distinct performance obligations under ASC 606-10-25-20 justifications.

Conclusion: The contract with Global Dynamics includes three distinct performance obligations: 1) the Logi-AI Suite SaaS License, 2) the Opti Scan-7 scanners, and 3) the Professional Services. Each deliverable is capable of being distinct and is identifiable as such because they offer separate benefits and do not interdependently modify the others.

Step 3: Determine the Transaction Price

- The fixed consideration amounts include a 240,000 annual fee for the Logi – AI Suite SaaS License, a 50,000 one-time fee for the Opti Scan-7 scanners, and a \$75,000 one-time fee for Professional Services. These amounts are fixed because they are explicitly stated in sections 2.1, 2.2, and 2.3 of the contract.
- Variable consideration is present in the form of a \$30,000 performance bonus, contingent on Global Dynamics Corp achieving a 15% reduction in shipping costs within the first 12 months. This is variable because it is dependent on the customer's performance as per Section 2.4. The guidance from ASC 606-10-32-5 to 32-10 requires that variable consideration be estimated and included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.
- The performance bonus can be estimated using the expected value method because Innovate Tech has an 80% success rate in achieving this metric with similar customers. According to ASC 606-10-32-8, this historical experience supports using the expected value as the estimate of variable consideration.
- Constraints on variable consideration (ASC 606-10-32-11 to 32-14) need to be evaluated, but based on Innovate Tech's historical success rate mentioned, it seems highly likely that the bonus will be achieved. However, caution should be maintained as future performance conditions could potentially affect the estimate.
- The transaction price does not seem to include a significant financing component. According to ASC 606-10-32-15, the payment terms are within 30 days for all components, which does not provide a substantial timing difference to suggest a significant financing benefit as per contract terms.
- There is no mention of non-cash consideration in the contract, and no consideration paid or payable to the customer, which aligns with ASC 606 guidance on transaction prices.
- The total transaction price, including both fixed and estimated variable consideration, would be:
 - SaaS License (Year 1): \$240,000
 - Hardware: \$50,000
 - Professional Services: \$75,000
 - Expected Performance Bonus: $30,000 \times 80\%$
 - Total Price: \$389,000

Conclusion: The total estimated transaction price is \$389,000, inclusive of fixed and variable considerations. The primary uncertainty involves the variable consideration of the performance bonus, which despite being historically likely, must be monitored for any potential constraints on recognition. There is no significant financing component present given the payment terms.

Step 4: Allocate the Transaction Price

- The performance obligations identified in Step 2 include: (1) Logi-AI Suite SaaS License, (2) Hardware Provisioning of Opti Scan-7 scanners, and (3) Professional Services for implementation and training. These obligations are distinct because they each provide separate benefits and are capable of being distinct per ASC 606-10-25-14 through 25-15.
- The standalone selling prices (SSPs) should be determined separately for each performance obligation based on observable data where available, or estimated if not directly observable, per ASC 606-10-32-31 to 32-33. Since the SaaS license is priced at its standard standalone rate, the observable SSP can be used for this obligation.
- The transaction price should be allocated to each performance obligation based on the relative standalone selling prices as stipulated in ASC 606-10-32-28. The calculation will involve determining the total SSPs and then allocating the transaction price proportionally.
- The agreement includes a 10% bundle discount on the hardware and the professional services, but not the SaaS license. Thus, the discount should be allocated to the hardware and professional services obligations proportionately per ASC 606-10-32-37 because it is specific to these elements.
- The final allocation of the transaction price to the performance obligations will need the exact SSPs for hardware and professional services. Once determined, the transaction price allocation will adhere to the proportions of those SSPs.

Conclusion: The transaction price will be allocated to the distinct performance obligations based on their relative standalone selling prices. The 10% discount will only affect the hardware and professional services, requiring proportionate allocation to these obligations.

Step 5: Recognize Revenue

- The Logi-AI Suite SaaS License is recognized over time because it represents access to software services over a three-year period, with ongoing benefits. Per ASC 606-10-25-27, services that are delivered and benefits consumed concurrently over time should be recognized over time. Given the service includes continuous support and monthly updates, recognition should occur evenly across the contract term.
- The Hardware Provisioning is recognized at a point in time because control of the Opti Scan-7 scanners transfers to the customer upon delivery, as stipulated by the contract. As per ASC 606-10-25-23, revenue is recognized when control transfers, which occurs when the scanners are delivered to Global Dynamics within 14 days of the effective date.
- The Professional Services are recognized at a point in time because the contract specifies completion upon customer's written acceptance. According to ASC 606-10-25-30, revenue should be recognized when the performance obligation is completely satisfied, which in this case, is the point at which Global Dynamics confirms the fulfillment of services.
- The Performance Bonus is variable consideration and should be recognized when it is probable that a significant reversal will not occur, as outlined in ASC 606-10-32-11 through 32-14. The historical success rate of 80% suggests probable achievement, yet revenue can only be recognized when the 15% reduction in shipping costs is verified during the first 12 months of use.

- Measurement methods for revenue recognized over time include using a time-elapsed method for the SaaS subscription since the benefit is received evenly over the subscription period, consistent with ASC 606-10-25-31 to 25-37 guidance.

Conclusion: For the Logi-AI SaaS License, revenue is recognized evenly over the 36-month period. The hardware revenue is recognized upon delivery, approximately within 14 days post-effective date. Professional services revenue is recognized upon written acceptance. The performance bonus, contingent on a 15% reduction in costs, is recognized when it becomes reasonably assured.

CONCLUSION

In conclusion, the analysis of the contract with Global Dynamics demonstrates compliance with ASC 606 revenue recognition principles. The identification of three distinct performance obligations, appropriate allocation of the transaction price based on relative standalone selling prices, and the systematic recognition of revenue align with the standard's requirements. However, careful monitoring of the variable consideration related to the performance bonus is essential to ensure that revenue is recognized only when it is reasonably assured, thereby mitigating any potential compliance risks.

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

REVIEWED BY: [Reviewer Name] [Title] [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.