

TECHNICAL ACCOUNTING MEMORANDUM

TO: Technical Accounting Team / Audit File

FROM: ASC 606 AI Analyst

DATE: August 06, 2025

RE: ASC 606 Revenue Recognition Analysis - Contract01

1. EXECUTIVE SUMMARY

In accordance with ASC 606, we have determined that a valid contract exists with Global Dynamics, encompassing three distinct performance obligations: the Logi-AI Suite SaaS License, Hardware Provisioning (OptiScan-7 Scanners), and Professional Services. The total estimated transaction price for this contract is \$845,000, contingent upon the achievement of a performance bonus. Revenue will be recognized in alignment with the nature of each performance obligation, with the SaaS License recognized over time and the hardware provisioning and professional services recognized at a point in time. This analysis confirms compliance with ASC 606 standards.

KEY FINDINGS

- ASC 606 Contract Exists:** Yes
- Performance Obligations:** 3 distinct obligations - Logi-AI Suite SaaS License, Hardware Provisioning (OptiScan-7 Scanners), Professional Services
- Transaction Price:** The total estimated transaction price is \$845,000, assuming the performance bonus is achieved.
- Allocation:** Price allocated across multiple performance obligations based on standalone selling prices
- Revenue Recognition:**
 - Logi-AI Suite SaaS License: Over Time
 - Hardware Provisioning: Point in Time
 - Professional Services: Point in Time
- Critical Judgments:**

- Determining the likelihood of achieving the performance bonus required significant judgment.
 - Allocation of the performance bonus as variable consideration to the SaaS License performance obligation.
 - Applying the bundle discount proportionally to the hardware and professional services.
 - Determining the appropriate measure of progress for the SaaS License as straight-line over the contract term.
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2. CONTRACT OVERVIEW

CONTRACT DATA SUMMARY

Element	Details
Customer	Global Dynamics
Contract Period	2023-10-26 to 2026-10-25
Currency	USD
Modification Status	No - Original Contract
Analysis Scope	Standard ASC 606 five-step analysis
Materiality Threshold	\$1,000

DOCUMENTS REVIEWED

- gemini_sow.docx
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3. DETAILED ASC 606 ANALYSIS

Step 1: Identify the Contract

Conclusion:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. meets all the criteria for identifying a contract under ASC 606-10-25-1. Therefore, it is a valid contract for revenue recognition purposes.

Detailed Analysis:

1. Approval and Commitment

The issue is whether there is approval and commitment from both parties. The contract states that the SOW is entered into by InnovateTech and Global Dynamics under a Master Services Agreement (Issue). ASC 606-10-25-1(a) requires that both parties have approved the contract and are committed to perform their respective obligations (Analysis: Rules). The explicit reference to the MSA and the effective date indicates mutual approval and commitment, satisfying this criterion (Analysis: Bridge the Gap). Therefore, the criterion is met (Conclusion).

This Statement of Work ("SOW") is entered into as of October 26, 2023, by and between InnovateTech Solutions Inc. ("InnovateTech") and Global Dynamics Corp. ("Customer") under the terms of the Master Services Agreement (MSA) dated January 15, 2022. (Source: gemini_sow.docx)

2. Identification of Rights

The issue is whether the contract identifies the rights of the parties. The contract specifies the deliverables, including the Logi-AI Suite, hardware, and professional services (Issue). ASC 606-10-25-1(b) requires that the contract identifies the rights of the parties regarding the goods or services to be transferred (Analysis: Rules). The detailed description of deliverables and associated rights confirms that this criterion is met (Analysis: Bridge the Gap). Therefore, the criterion is met (Conclusion).

The deliverables for this project are as follows: 1.1 Logi-AI Suite SaaS License... 1.2 Hardware Provisioning... 1.3 Professional Services... (Source: gemini_sow.docx)

3. Identification of Payment Terms

The issue is whether the payment terms are identified. The contract outlines specific fees and payment schedules for the SaaS license, hardware, and professional services (Issue).

ASC 606-10-25-1(c) requires that the payment terms for the goods or services to be transferred are identified (Analysis: Rules). The clear specification of payment amounts and due dates satisfies this criterion (Analysis: Bridge the Gap). Therefore, the criterion is met (Conclusion).

2.0 Fees and Payment Schedule... 2.1 Logi-AI Suite SaaS License: \$240, 000 per year... 2.2 Hardware (OptiScan-7 Scanners): A one-time fixed fee of \$50, 000... (Source: gemini_sow.docx)

4. Commercial Substance

The issue is whether the contract has commercial substance. The contract involves the provision of significant services and products that will change the cash flows of both parties (Issue). ASC 606-10-25-1(d) requires that the contract has commercial substance, meaning it will result in a change in the cash flows of the entity (Analysis: Rules). The nature of the deliverables and payment terms indicates a change in cash flows, confirming commercial substance (Analysis: Bridge the Gap). Therefore, the criterion is met (Conclusion).

InnovateTech will provide its proprietary AI-powered logistics management platform, "Logi-AI Suite," along with associated hardware and professional services... (Source: gemini_sow.docx)

5. Collectibility

The issue is whether collectibility of consideration is probable. The contract specifies payment terms and InnovateTech's history of achieving performance metrics (Issue). ASC 606-10-25-1(e) requires that it is probable the entity will collect the consideration to which it will be entitled (Analysis: Rules). The defined payment terms and performance history suggest that collectibility is probable (Analysis: Bridge the Gap). Therefore, the criterion is met (Conclusion).

InnovateTech is eligible for a one-time \$30, 000 performance bonus if the Customer achieves a documented 15% reduction in shipping costs... (Source: gemini_sow.docx)

Step 2: Identify Performance Obligations

Conclusion:

The contract identifies three distinct performance obligations: the SaaS license, the hardware provisioning, and the professional services, each meeting the criteria of ASC 606-10-25-19.

Detailed Analysis:

1. Logi-AI Suite SaaS License as a Distinct Performance Obligation

The issue is whether the SaaS license is a distinct performance obligation. The contract states, 'Logi-AI Suite SaaS License: A 3-year subscription license to the Logi-AI Suite, granting access for up to 500 users.' (Source: gemini_sow.docx). ASC 606-10-25-19 requires that a good or service is distinct if it is capable of being distinct and separately identifiable. The SaaS license provides a standalone benefit, as it can be used independently of the hardware and professional services, meeting both criteria. Therefore, the SaaS license is a distinct performance obligation. **Alternative View Rejected:** An alternative view might consider the SaaS license not distinct due to its integration with other services. However, the contract specifies that the SaaS can be used without professional services, supporting its distinct nature.

Logi-AI Suite SaaS License: A 3-year subscription license to the Logi-AI Suite, granting access for up to 500 users. (Source: gemini_sow.docx)

2. Hardware Provisioning as a Distinct Performance Obligation

The issue is whether the hardware provisioning is a distinct performance obligation. The contract states, 'InnovateTech will provide 200 proprietary "OptiScan-7" handheld scanners.' (Source: gemini_sow.docx). According to ASC 606-10-25-19, a good is distinct if it is capable of being distinct and separately identifiable. The hardware provides a standalone benefit and is not highly interdependent with the SaaS license or professional services, thus meeting the criteria for being distinct. **Alternative View Rejected:** An alternative view might argue the hardware is not distinct due to its role in enhancing the SaaS. However, the hardware is independently functional, supporting its distinct status.

InnovateTech will provide 200 proprietary "OptiScan-7" handheld scanners. (Source: gemini_sow.docx)

3. Professional Services as a Distinct Performance Obligation

The issue is whether the professional services are a distinct performance obligation. The contract specifies, 'A one-time engagement for implementation, system integration, and on-site user training.' (Source: gemini_sow.docx). ASC 606-10-25-19 requires that services are distinct if they are capable of being distinct and separately identifiable. These services enhance the SaaS but are not necessary for its use, meeting the criteria for being distinct. **Alternative View Rejected:** An alternative view might consider these services not distinct due to their integration role. However, the contract notes the SaaS can operate without them, affirming their distinct nature.

A one-time engagement for implementation, system integration, and on-site user training.
(Source: gemini_sow.docx)

Step 3: Determine the Transaction Price

Conclusion:

The transaction price for the contract with Global Dynamics includes fixed consideration for the SaaS license, hardware, and professional services, with a variable component linked to a performance bonus. No significant financing component or noncash consideration is identified.

Detailed Analysis:

1. Fixed Consideration

\$815, 000, consisting of \$720, 000 for the SaaS license over three years, \$50, 000 for hardware, and \$75, 000 for professional services.

2. Variable Consideration

The contract includes a \$30, 000 performance bonus contingent on achieving a 15% reduction in shipping costs within the first 12 months.

3. Other Considerations

The contract includes a 10% bundle discount on hardware and services, but not on the SaaS license.

4. Total Transaction Price

The total estimated transaction price is \$845, 000, assuming the performance bonus is achieved.

5. Performance Bonus Consideration

The issue is whether the performance bonus should be included in the transaction price (Issue). The contract states a \$30, 000 bonus is payable if a 15% reduction in shipping costs is achieved (Analysis: Evidence). ASC 606-10-32-5 requires entities to estimate variable consideration using either the expected value or the most likely amount, constrained to avoid significant revenue reversal (Analysis: Rules). Given InnovateTech's history of achieving this metric with 80% of similar customers, it is reasonable to include the bonus in the transaction price (Analysis: Bridge the Gap). Therefore, the performance bonus is included in the transaction price (Conclusion).

InnovateTech is eligible for a one-time \$30, 000 performance bonus if the Customer achieves a documented 15% reduction in shipping costs within the first 12 months of platform use... (Source: gemini_sow.docx)

Step 4: Allocate the Transaction Price

Conclusion:

The transaction price is allocated to the identified performance obligations based on their standalone selling prices, with consideration for the bundle discount applied proportionally.

Detailed Analysis:

1. Allocation of Bundle Discount

The issue is whether the bundle discount should be allocated to specific performance obligations. The contract states a 10% discount on the hardware and services (Contract: 'The total fees outlined above reflect a 10% discount on the standard standalone list prices for the hardware and services.'). ASC 606-10-32-37 allows discounts to be allocated to one or more performance obligations if specific criteria are met. The discount is applied to the hardware and professional services, as the SaaS license is priced at its standard rate (Contract: 'The SaaS license is priced at its standard standalone rate.'). Therefore, the discount is allocated proportionally to the hardware and professional services.

The total fees outlined above reflect a 10% discount on the standard standalone list prices for the hardware and services. (Source: gemini_sow.docx)

The SaaS license is priced at its standard standalone rate. (Source: gemini_sow.docx)

2. Allocation of Variable Consideration

The issue is whether the performance bonus should be allocated to a specific performance obligation. The contract includes a \$30, 000 performance bonus contingent on achieving a 15% reduction in shipping costs (Contract: 'InnovateTech is eligible for a one-time \$30, 000 performance bonus if the Customer achieves a documented 15% reduction in shipping costs.'). ASC 606-10-32-39 states that variable consideration should be allocated to a performance obligation if it relates specifically to efforts to satisfy that obligation. The bonus is tied to the use of the SaaS platform, indicating it should be allocated to the SaaS License obligation. Therefore, the performance bonus is allocated to the SaaS License.

InnovateTech is eligible for a one-time \$30, 000 performance bonus if the Customer achieves a documented 15% reduction in shipping costs. (Source: gemini_sow.docx)

Step 5: Recognize Revenue

Conclusion:

Revenue for the Logi-AI Suite SaaS License is recognized over time, while revenue for the hardware and professional services is recognized at a point in time upon transfer of control.

Detailed Analysis:

1. Recognition of SaaS License Revenue

The issue is whether the SaaS license should be recognized over time or at a point in time. The contract states, 'A 3-year subscription license to the Logi-AI Suite, granting access for up to 500 users. The service includes standard support and maintenance, with monthly feature updates.' (Source: gemini_sow.docx). ASC 606-10-25-27(a) states that revenue is recognized over time if the customer simultaneously receives and consumes the benefits as the entity performs. The ongoing updates and support indicate a continuous transfer of benefits. Therefore, the SaaS license revenue is recognized over time. **Alternative View**

Rejected: An alternative view might consider recognizing revenue at a point in time upon delivery of initial access. However, this is rejected because the ongoing nature of updates and support aligns with over-time recognition as the customer benefits continuously.

'A 3-year subscription license to the Logi-AI Suite, granting access for up to 500 users. The service includes standard support and maintenance, with monthly feature updates.'
(Source: gemini_sow.docx)

2. Recognition of Hardware Revenue

The issue is when to recognize revenue for the OptiScan-7 scanners. The contract specifies, 'Title and risk of loss for the scanners transfer to the Customer upon delivery.' (Source: gemini_sow.docx). ASC 606-10-25-30 indicates that control transfers when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. The transfer of title and risk of loss upon delivery supports recognizing revenue at that point. **Alternative View Rejected:** An alternative view might suggest recognizing revenue over time due to the integration with the SaaS. However, this is rejected as the hardware is distinct and control clearly transfers at delivery.

'Title and risk of loss for the scanners transfer to the Customer upon delivery.' (Source: gemini_sow.docx)

3. Recognition of Professional Services Revenue

The issue is when to recognize revenue for professional services. The contract states, 'These services are considered complete upon Customer's written acceptance.' (Source: gemini_sow.docx). ASC 606-10-25-30 suggests that control transfers when the customer can direct the use of and obtain benefits from the service. Written acceptance indicates the customer has control, supporting point-in-time recognition. **Alternative View Rejected:** An alternative view might consider over-time recognition due to the integration process. However, this is rejected as the contract specifies completion upon acceptance, aligning with point-in-time recognition.

'These services are considered complete upon Customer's written acceptance.' (Source: gemini_sow.docx)

4. KEY PROFESSIONAL JUDGMENTS

- **Determining the likelihood of achieving the performance bonus:**

Rationale: This judgment is significant due to the **contract text** being ambiguous regarding the specific criteria for achieving the performance bonus. The **authoritative guidance** in ASC 606-10-32-6 provides a framework for recognizing variable consideration but lacks detailed direction on how to assess the likelihood of achieving performance targets. Consequently, **management estimation** is necessary to evaluate the probability of meeting these criteria, which introduces a high level of subjectivity and complexity in determining the transaction price.

- **Determining the allocation of the performance bonus as variable consideration to the SaaS License performance obligation:**

Rationale: This judgment requires careful consideration because the **contract text** does not explicitly outline how the performance bonus should be allocated among the identified performance obligations. While **authoritative guidance** in ASC 606-10-32-28 discusses the allocation of variable consideration, it does not provide specific instructions for scenarios involving multiple performance obligations. Therefore, **management estimation** is essential to determine the appropriate allocation of the performance bonus, necessitating a nuanced understanding of the relationship between the bonus and the SaaS License.

- **Applying the bundle discount proportionally to the hardware and professional services:**

Rationale: This judgment is complex as the **contract text** does not clarify how to apply the bundle discount across multiple performance obligations. The **authoritative guidance** in ASC 606-10-32-28 allows for discounts to be allocated based on standalone selling prices, but it does not specify how to approach bundled discounts in cases where multiple distinct goods and services are involved. As a result, **management estimation** is required to determine a fair and reasonable allocation of the discount, which involves significant interpretation of the guidance and the specific circumstances of the contract.

- **Determining the appropriate measure of progress for the SaaS license as straight-line over the contract term:**

Rationale: This judgment is critical because the **contract text** does not provide explicit guidance on the measure of progress for the SaaS license, particularly in the context of over-time recognition. Although **authoritative guidance** in ASC 606-10-25-

27 allows for various methods of measuring progress, it does not specify which method is most appropriate for SaaS arrangements. Thus, **management estimation** is required to assess the most suitable measure of progress, necessitating a careful analysis of the nature of the service delivery and the timing of benefits to the customer.

5. FINANCIAL IMPACT ASSESSMENT

The contract with three distinct performance obligations—Logi-AI Suite SaaS License, Hardware Provisioning (OptiScan-7 Scanners), and Professional Services—will impact both the income statement and balance sheet. The total estimated transaction price of \$845,000 includes a \$30,000 performance bonus contingent on achieving a specific cost reduction. Revenue will be recognized based on the nature of each performance obligation: the SaaS license will be recognized over time, while the hardware and professional services will be recognized at a point in time. This will result in the creation of deferred revenue liabilities for the hardware and professional services until they are delivered, and a contract asset for the SaaS license as revenue is recognized over the contract term.

Illustrative Journal Entries

Date	Account	Debit	Credit
[date]	Cash or Accounts Receivable	\$845,000	
	Deferred Revenue		\$112,500
	Sales Tax Payable		[\$sales tax amount]
	<i>To record initial invoicing for the contract, including sales tax</i>		
[date]	Contract Asset	\$240,000	
	Revenue - Logi-AI Suite		\$240,000

Date	Account	Debit	Credit
	<i>To recognize revenue for the Logi-AI Suite SaaS License over time</i>		
[date]	Deferred Revenue	\$45,000	
	Revenue - Hardware		\$45,000
	<i>To recognize revenue for the Hardware Provisioning at point in time</i>		
[date]	Deferred Revenue	\$67,500	
	Revenue - Professional Services		\$67,500
	<i>To recognize revenue for Professional Services at point in time</i>		

Internal Control & Process Considerations

To ensure accurate accounting and effective control over financial reporting, it is essential to implement internal controls that track the achievement of performance obligations, particularly for the variable consideration related to the performance bonus. Additionally, processes should be established to monitor the timing of revenue recognition for each performance obligation, ensuring compliance with ASC 606 requirements. Regular reviews and reconciliations will be necessary to validate the recognition of revenue and the status of contract assets and liabilities.

CONCLUSION

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PREPARED BY: ASC 606 AI Analyst

REVIEWED BY: [To be completed]

APPROVED BY: [To be completed]

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