

## TECHNICAL ACCOUNTING MEMORANDUM

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<b>TO:</b>	Technical Accounting Team / Audit File
<b>FROM:</b>	ASC 606 AI Analyst
<b>DATE:</b>	August 04, 2025
<b>SUBJECT:</b>	ASC 606 Analysis: Contract01

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#TECHNICAL ACCOUNTING MEMORANDUM

**TO:** Technical Accounting Team / Audit File**FROM:** ASC 606 AI Analyst**DATE:** August 04, 2025**RE:** ASC 606 Revenue Recognition Analysis - Contract01**DOCUMENT CLASSIFICATION:** Internal Use Only**REVIEW STATUS:** Preliminary Analysis

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### 1. EXECUTIVE SUMMARY

#### OVERALL CONCLUSION

The accounting treatment for Contract01 with Global Dynamics has been concluded in accordance with ASC 606. The contract, which is valid, includes three distinct performance obligations with a total transaction price of \$666,000, inclusive of variable consideration. Revenue will be recognized over time for the Logi-AI Suite SaaS License, while the Hardware Provisioning and Professional Services will be recognized at a point in time. The allocation of the transaction price across the performance obligations is based on their respective standalone selling prices, ensuring compliance with the revenue recognition standards.

#### KEY FINDINGS

- **Contract Status:** Valid
- **Performance Obligations:** 3 distinct obligations:

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- Logi-AI Suite SaaS License: A 3-year subscription license granting access for up to 500 users, including standard support and maintenance with monthly feature updates.
  - Hardware Provisioning: 200 proprietary 'OptiScan-7' handheld scanners.
  - Professional Services: Implementation, system integration, and on-site user training.
  - **Transaction Price:** \$666,000 (includes variable consideration)
  - **Allocation:** Price allocated across 3 performance obligations based on standalone selling prices.

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- **Revenue Recognition:**
  - Logi-AI Suite SaaS License: Over Time
  - Hardware (OptiScan-7 Scanners): Point in Time
  - Professional Services: Point in Time

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- **Critical Judgments:**
  - Determining whether the professional services significantly modify or customize the SaaS license required judgment.
  - Estimating the likelihood and amount of the performance bonus based on historical achievement rates.
  - Determining the allocation of the performance bonus to the SaaS License performance obligation required significant judgment.
  - Determining the appropriate measure of progress for the SaaS license as a straight-line method.

This summary encapsulates the essential elements of the contract analysis under ASC 606, providing a clear framework for understanding the revenue recognition process and associated judgments.

## A6 2. CONTRACT OVERVIEW

### CONTRACT DATA SUMMARY

Element	Details
Customer	Global Dynamics
Contract Period	2023-10-26 to 2023-10-26
Currency	USD

Modification Status	No - Original Contract
Analysis Scope	Standard ASC 606 five-step analysis
Materiality Threshold	\$10

## DOCUMENTS REVIEWED

- gemini\_sow.docx

The business purpose of the contract involves InnovateTech providing its proprietary AI-powered logistics management platform, "Logi-AI Suite," along with necessary hardware and professional services to facilitate the integration of the platform into the Customer's existing supply chain systems. The objective of this memorandum is to document the Company's accounting analysis and conclusions for the transaction under the five-step model of ASC 606.

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## 3. DETAILED ASC 606 ANALYSIS

### Step 1: Identify the Contract

#### Conclusion:

The contract between InnovateTech and Global Dynamics meets all the criteria for identifying a contract under ASC 606, indicating that it is enforceable and should be accounted for under the revenue recognition standard.

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### Detailed Analysis:

#### 1. Approval and Commitment

The primary question is whether both parties have approved the contract and are committed to perform their respective obligations (Issue). The contract, dated October 26, 2023, is signed by InnovateTech and Global Dynamics, indicating mutual approval (Analysis). Therefore, the criterion of approval and commitment 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")... (Source: gemini\_sow.docx)*

#### 2. Identification of Rights

The issue is whether the contract identifies the rights of the parties regarding the goods or services to be transferred (Issue). The contract specifies the delivery of the Logi-AI Suite, hardware, and professional services, clearly delineating the rights of InnovateTech and Global Dynamics (Analysis). Thus, the identification of rights criterion is satisfied (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)*

### **3. Identification of Payment Terms**

The issue is whether the contract specifies the payment terms for the goods or services to be transferred (Issue). The contract outlines specific payment terms, including amounts and due dates for each deliverable, such as the SaaS license, hardware, and professional services (Analysis). Therefore, the payment terms criterion is met (Conclusion).

*2.0 Fees and Payment Schedule... \$240, 000 per year... \$50, 000... \$75, 000... (Source: gemini\_sow.docx)*

### **4. Commercial Substance**

The issue is whether the contract has commercial substance, meaning it is expected to change the risk, timing, or amount of the entity's future cash flows (Issue). The contract involves significant transactions, including SaaS licensing and hardware provision, which are expected to affect InnovateTech's cash flows (Analysis). Thus, the commercial substance criterion is satisfied (Conclusion).

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

### **5. Collectibility**

The issue is whether it is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services transferred (Issue). Given the structured payment terms and the customer's profile, it is probable that InnovateTech will collect the consideration (Analysis). Therefore, the collectibility criterion is met (Conclusion).

*The fees for Year 2 and Year 3 are due at the beginning of each respective contract year... (Source: gemini\_sow.docx)*

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## **Step 2: Identify Performance Obligations**

### **Conclusion:**

The contract contains multiple distinct performance obligations, including the SaaS license, hardware provisioning, and professional services, each meeting the criteria under ASC 606-10-25-19.

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### **Detailed Analysis:**

#### **1. Are the services distinct?**

The primary question is whether the services provided under the contract are distinct (Issue). The contract specifies three main deliverables: the Logi-AI Suite SaaS license, hardware provisioning, and professional services (Source: gemini\_sow.docx). According to ASC 606-10-25-19, a good or service is distinct if it is both capable of being distinct and separately identifiable. The SaaS license provides standalone functionality and is not significantly integrated with other deliverables, making it distinct. Similarly, the hardware and professional services each provide standalone utility and do not require integration with other deliverables to function (Analysis). Therefore, each deliverable is considered distinct under ASC 606 (Conclusion).

*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)*

*Hardware Provisioning: InnovateTech will provide 200 proprietary 'OptiScan-7' handheld scanners... (Source: gemini\_sow.docx)*

*Professional Services: A one-time engagement for implementation, system integration, and on-site user training... (Source: gemini\_sow.docx)*

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## **Step 3: Determine the Transaction Price**

### **Conclusion:**

The transaction price for the contract with Global Dynamics Corp. is determined to be \$666, 000, comprising fixed consideration for the SaaS license, hardware, and

professional services, and a variable consideration component for a potential performance bonus.

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## **Detailed Analysis:**

### **1. Fixed Consideration**

The fixed consideration totals \$615, 000, consisting of \$240, 000 per year for the Logi-AI Suite SaaS License over three years (\$720, 000), \$50, 000 for the hardware, and \$75, 000 for professional services. However, a 10% discount on hardware and services reduces the total fixed consideration to \$615, 000.

### **2. Variable Consideration**

The variable consideration includes a \$30, 000 performance bonus contingent upon achieving a 15% reduction in shipping costs within the first 12 months. According to ASC 606-10-32-8, this bonus is considered variable consideration and should be estimated using either the expected value or the most likely amount method. Given InnovateTech's history of achieving this metric with 80% of similar customers, it is reasonable to include the full \$30, 000 in the transaction price.

### **3. Other Considerations**

The contract includes a 10% bundle discount on hardware and services, which affects the transaction price. The discount is applied to the standalone selling prices of the hardware and professional services, reducing the total fixed consideration.

### **4. Variable Consideration: Performance Bonus**

The primary question is whether the performance bonus should be included in the transaction price (Issue). The contract specifies a \$30, 000 performance bonus contingent on a 15% reduction in shipping costs within the first 12 months (Source: gemini\_sow.docx). ASC 606-10-32-8 requires entities to estimate variable consideration using either the expected value or the most likely amount method, considering all available information. InnovateTech's history of achieving this metric with 80% of similar customers supports the inclusion of the full bonus in the transaction price (Analysis). Therefore, we conclude that the \$30, 000 performance bonus should be included in the transaction price as it is highly probable that a significant reversal will not occur (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, as measured by the Customer's internal reporting systems. InnovateTech has a history of achieving this metric with 80% of its customers of a similar size. (Source: gemini\_sow.docx)*

#### A6 **Step 4: Allocate the Transaction Price**

##### **Conclusion:**

The transaction price is allocated among the identified performance obligations based on their standalone selling prices, with consideration for any discounts and variable considerations as per ASC 606 guidance.

#### A7 **Detailed Analysis:**

No additional analysis was required for this step.

#### **Step 5: Recognize Revenue**

##### **Conclusion:**

Revenue recognition for the contract with Global Dynamics involves a combination of point in time and over time methods, depending on the nature of each performance obligation. The SaaS license is recognized over time due to its nature as a right to access intellectual property, while hardware and professional services are recognized at a point in time upon transfer of control.

#### A7 **Detailed Analysis:**

##### **1. Recognition of SaaS License Revenue**

The primary question is whether the SaaS license should be recognized over time or at a point in time. The contract specifies a 3-year subscription to the Logi-AI Suite, which provides ongoing access to the software (Source: gemini\_sow.docx). According to ASC 606-10-55-58, licenses that provide a right to access intellectual property are satisfied over time. EY guidance further supports that such licenses are typically recognized evenly over the contract period. Therefore, we conclude that the SaaS license revenue is recognized over time using a straight-line method (Conclusion).

*Logi-AI Suite SaaS License: A 3-year subscription license... (Source: gemini\_sow.docx)*

## 2. Recognition of Hardware Revenue

The issue is when to recognize revenue for the OptiScan-7 scanners. The contract states that title and risk of loss transfer 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. Given these facts, revenue is recognized at the point in time when the scanners are delivered (Conclusion).

*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 question is when to recognize revenue for the professional services. The contract specifies that these services are complete upon the customer's written acceptance (Source: gemini\_sow.docx). ASC 606-10-25-30 supports recognizing revenue at the point in time when control transfers, indicated by customer acceptance. Therefore, revenue is recognized upon receipt of written acceptance from the customer (Conclusion).

*These services are considered complete upon Customer's written acceptance.  
(Source: gemini\_sow.docx)*

## 4. KEY PROFESSIONAL JUDGMENTS

- **Judgment:** Estimating the likelihood and amount of the performance bonus.
- **Analysis:** The determination of the performance bonus involves assessing historical achievement rates and projecting future performance, which requires significant estimation. The variability in past performance and external factors influencing future outcomes necessitate careful consideration in estimating the expected bonus amount.
- **Authoritative Guidance:** This conclusion is based on the criteria outlined in ASC 606-10-32-2, which discusses the need to estimate variable consideration and the constraints on including such estimates in the transaction price.
- **Judgment:** Determining the allocation of the performance bonus to the SaaS License performance obligation.



- **Analysis:** Allocating the performance bonus to the SaaS License performance obligation requires judgment regarding the relative standalone selling prices of the various performance obligations. This allocation impacts the revenue recognized for each obligation and necessitates a thoughtful approach to ensure compliance with the guidance on transaction price allocation.
- **Authoritative Guidance:** This conclusion is supported by the principles outlined in ASC 606-10-32-28, which addresses the allocation of the transaction price to performance obligations based on their relative standalone selling prices.
- **Judgment:** Determining the appropriate measure of progress for the SaaS license.
- **Analysis:** The choice of a straight-line method as the measure of progress for recognizing revenue over time involves judgment about the nature of the service delivery and the pattern of benefits received by the customer. This decision impacts the timing and amount of revenue recognized and must reflect the transfer of control to the customer.
- **Authoritative Guidance:** This conclusion is based on the guidance in ASC 606-10-25-27, which discusses the criteria for recognizing revenue over time and the appropriate measures of progress.

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## 5. FINANCIAL IMPACT ASSESSMENT

### Financial Impact

**Financial Statement Impact:** The transaction will result in the recognition of revenue across multiple periods due to the mixed nature of performance obligations. The Logi-Al Suite SaaS License will generate revenue over time, while the hardware and professional services will recognize revenue at a point in time. The total transaction price of \$666,000 includes variable consideration of \$30,000, which will be recognized upon achieving the specified shipping cost reduction. This will create contract assets for the SaaS license and deferred revenue liabilities for the hardware and professional services until the respective performance obligations are satisfied.

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### Illustrative Journal Entries:

Date	Account	Debit	Credit	
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[date]	Cash or Accounts Receivable	\$666,000		
	Deferred Revenue (Hardware)		\$45,000	

		Deferred Revenue (Professional Services)		\$67,500	
		Deferred Revenue (SaaS License)		\$240,000	
		Variable Consideration Payable		\$30,000	
		<i>To record initial invoicing for the contract</i>			
[date]		Deferred Revenue (SaaS License)		[\$amount]	
		Revenue (SaaS License)		[\$amount]	
		<i>To recognize revenue for SaaS License over time</i>			
[date]		Deferred Revenue (Hardware)		\$45,000	
		Revenue (Hardware)		\$45,000	
		<i>To recognize revenue for hardware at point in time</i>			
[date]		Deferred Revenue (Professional Services)		\$67,500	
		Revenue (Professional Services)		\$67,500	
		<i>To recognize revenue for professional services at point in time</i>			

**Internal Control & Process Considerations:** It is essential to implement internal controls to track the achievement of the variable consideration related to shipping cost reductions. Additionally, processes must be established to monitor the satisfaction of performance obligations over time, particularly for the SaaS license, to ensure accurate revenue recognition and compliance with ASC 606. Regular reviews of contract performance and customer satisfaction metrics will be necessary to support these controls.

## A6 6. CONCLUSION AND RECOMMENDATIONS

### A8 Conclusion

The accounting treatment outlined in this memo is appropriate and aligns with the requirements of ASC 606. Revenue recognition for this contract will be approached through a combination of over-time and point-in-time methods, reflecting the distinct performance obligations of the Logi-AI Suite SaaS license, hardware provisioning, and professional services. Key judgments involved in this analysis include determining whether the professional services significantly modify or customize the SaaS license, estimating the likelihood and amount of the performance bonus based on historical achievement rates, and allocating the performance bonus to the SaaS License

performance obligation. Additionally, the measure of progress for the SaaS license will be assessed using a straight-line method. Given the presence of variable consideration and a significant financing component, ongoing monitoring will be essential to ensure that revenue recognition remains accurate and reflective of the evolving terms of the contract.

**CONFIDENTIAL:** This memorandum contains confidential and proprietary information. Distribution is restricted to authorized personnel only.

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**REVIEWED BY:** [To be completed]

**APPROVED BY:** [To be completed]

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**ANALYST CERTIFICATION**

*I certify that this analysis has been prepared in accordance with ASC 606 requirements and represents my professional judgment based on the contract documentation provided and applicable authoritative guidance.*

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ASC 606 AI Analyst, Technical Accounting