

# 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

The analysis of revenue recognition for Global Dynamics under ASC 606 confirms that a valid contract exists, as the agreement with InnovateTech meets all necessary criteria, including mutual approval, clear identification of rights and deliverables, detailed payment terms, commercial substance, and a probable expectation of collecting consideration. The contract encompasses three distinct performance obligations: the Logi-AI Suite SaaS License, the OptiScan-7 scanners, and the professional services for implementation and integration. Each obligation is capable of being utilized independently, thus satisfying the distinctiveness requirement outlined in ASC 606. The total fixed transaction price amounts to 845,000, *with allocationsof* 720,000 for the SaaS License, 50,000*forhardware*, and 75,000 for professional services. Additionally, there is potential variable consideration of \$30,000, which should be recognized conservatively. Revenue recognition will occur over time for the SaaS License on a straight-line basis, while revenue for hardware and professional

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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 ContractConclusion: A valid contract exists under ASC 606 because the agreement between InnovateTech and Global Dynamics fulfills all required criteria: (a) mutual approval and commitment, (b) clear identification of rights and deliverables, (c) detailed payment terms, (d) commercial substance, and (e) a probable expectation of collecting consideration. Each criterion is evidenced explicitly in the SOW.### Step 2: Identify Performance ObligationsThe contract between InnovateTech Solutions Inc. and Global Dynamics Corp. includes three distinct promises of deliverables: the Logi-AI Suite SaaS License, the OptiScan-7 hardware, and professional services. Under ASC 606-10-25-14, these promises must be assessed**

to identify whether they constitute distinct performance obligations. The Logi-AI Suite SaaS License appears to be distinct because it provides specific software capabilities over a period of 3 years with regular updates, and the license alone can be beneficial to the customer. The contract specifies that this license includes standard support and maintenance with monthly feature updates. According to ASC 606-10-25-19, the customer can use the Logi-AI Suite on its own or with other resources they may have, meeting the criterion of separate benefit. The second deliverable, the "OptiScan-7" handheld scanners, also meets the requirements for being distinct. The title and risk of loss transfer upon delivery, clearly delineating it as a separate promise. It provides specific functionality by enhancing the Logi-AI Suite's inventory tracking feature but can ultimately function regarding its specific deliverable independent of other services. The contract explicitly states that title and risk of loss transfer to the customer upon delivery, satisfying the transfer of control and benefits criteria in ASC 606-10-25-23. On the other hand, the professional services for implementation, system integration, and training enhance the SaaS notably, but they can also stand alone without the SaaS because they significantly enhance its core functionality by enabling integration with the customers ERP system. This indicates that the professional services are capable of being distinct per ASC 606-10-25-20, as they offer distinct services that can be separately identifiable from other promises in the contract. While the professional services augment the SaaS and hardware, each can be functional independently for the customer, as the contract notes that the Logi-AI Suite can be used without these services. This suggests that the services may not be highly interdependent or interrelated within the context of the ASC 606-10-25-21 assessment. Furthermore, due compensation for each service also bolsters their separateness in total consideration credit for its delivery. Conclusion: The contract comprises three distinct performance obligations: the Logi-AI Suite SaaS License, the OptiScan-7 scanners (hardware), and the professional services for implementation and integration. Each can be utilized independently or with resources readily available to the customer, thereby satisfying ASC 606 criteria for being distinct.### Step 3: Determine the Transaction PriceThe transaction price for the contract between

InnovateTech Solutions Inc. and Global Dynamics Corp. consists of both fixed and variable consideration. The fixed consideration is explicitly stated in the contract. For the Logi-AI Suite SaaS License, the annual fee is

240,000, payable at the beginning of each contract year, summing to 720,000 over the three-year term. The Hardware Provisioning for the OptiScan-7 scanners incurs a one-time fee of

50,000. Professional Services implementation is likewise stated as a one-time fixed fee of 75,000. These components are straightforward fixed

consideration because they are explicitly detailed with specified prices as per ASC 606-10-32-2. Variable consideration exists in the potential performance bonus. InnovateTech may earn a

30,000 bonus if the Customer achieves a 15845,000, comprised of 720,000 for the SaaS License, 50,000 for hardware, and

75,000 for professional services. Variable consideration of 30,000 for performance is possible but should be constrained according to the entity's judgment. There are no significant financing components, noncash considerations, or customer payables.### Step 4: Allocate the

Transaction Price Conclusion: The allocation of the transaction price will follow the relative standalone selling price basis, distributing the price in proportion to the SSPs for each identified performance obligation. The 10% discount will apply specifically to the hardware and professional services components. Final allocation is contingent upon determining or estimating the SSPs for these components according to ASC 606 guidance.### Step 5: Recognize

Revenue Conclusion: Revenue recognition for the Logi-AI Suite SaaS License should occur over time on a straight-line basis throughout the license term as the customer receives benefits consistently. For both the Hardware Provisioning and Professional Services, revenue recognition is at a point in time, specifically upon delivery for hardware and customer acceptance for services. Consideration for the performance bonus should be conservatively estimated.

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# CONCLUSION

In conclusion, the analysis indicates that InnovateTech's contract with Global Dynamics is compliant with ASC 606, as it meets all necessary criteria for a valid contract and appropriately identifies three distinct performance obligations. The allocation of the total transaction price of \$845,000, including the consideration for variable performance, adheres to the relative standalone selling price method, ensuring that revenue recognition aligns with the timing and nature of each performance obligation. However, careful attention must be given to the estimation of standalone selling prices for the hardware and professional services, as well as the conservative approach to recognizing the performance bonus, to maintain compliance with ASC 606's guidance on variable consideration.

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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.*