

# ASC 606 REVENUE RECOGNITION MEMORANDUM

**TO:** Chief Accounting Officer **FROM:** Technical Accounting Team - AI **DATE:** August 22, 2025 **RE:** Contract Analysis - ASC 606 Revenue Recognition Analysis

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## BACKGROUND

We have reviewed the contract documents provided by Customer 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

### Identify the Contract

**Analysis:**

To determine if a valid contract exists under ASC 606-10-25-1, we must evaluate the contract between InnovateTech Solutions Inc. ("InnovateTech") and Global Dynamics Corp. ("Customer") against the criteria outlined in the guidance.

- Approval and Commitment (ASC 606-10-25-1(a)):** The Statement of Work (SOW) is entered into as of October 26, 2023, under the terms of a Master Services Agreement (MSA) dated January 15, 2022. This indicates that both parties have approved the contract in writing and are committed to performing their respective obligations. The presence of a signed SOW and reference to an existing MSA supports this conclusion.
- Identification of Rights (ASC 606-10-25-1(b)):** The contract clearly identifies each party's rights regarding the goods and services to be transferred. InnovateTech is obligated to provide the Logi-AI Suite SaaS license, hardware (OptiScan-7 scanners), and professional services. The Customer is entitled to receive these deliverables as specified in the SOW. The detailed description of deliverables and acceptance criteria further clarifies the rights of both parties.
- Payment Terms (ASC 606-10-25-1(c)):** The payment terms are explicitly outlined in the contract. The Logi-AI Suite SaaS license is priced at *240,000 per year, with the first year's fee due Net 30 from the Effective Date. The hardware is priced at a one-time fee of 50,000*, and the professional services at *75,000, both due Net 30 from the Effective Date. Additionally, a performance bonus of 30,000* is contingent upon achieving a 15% reduction in shipping costs. These terms provide clear guidance on the timing and amount of payments.

4. **Commercial Substance (ASC 606-10-25-1(d)):** The contract has commercial substance because it is expected to change the risk, timing, or amount of InnovateTech's future cash flows. The provision of SaaS, hardware, and professional services will result in cash inflows from the Customer, and the performance bonus introduces a variable component based on the Customer's cost savings.
5. **Collectibility (ASC 606-10-25-1(e)):** It is probable that InnovateTech will collect substantially all of the consideration to which it is entitled. The Customer's ability to pay is supported by the structured payment terms and the historical success rate of InnovateTech in achieving the performance metric with similar customers. This suggests a substantive transaction with a high likelihood of collection.

**Conclusion:** The contract between InnovateTech and Global Dynamics meets all the criteria under ASC 606-10-25-1 for a valid contract. The parties have approved the contract, identified their rights and payment terms, established commercial substance, and it is probable that InnovateTech will collect the consideration.

**Issues or Uncertainties:** None identified.

## Identify Performance Obligations

### Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. includes several promised goods and services: the Logi-AI Suite SaaS License, the OptiScan-7 handheld scanners, and professional services for implementation, system integration, and training. According to ASC 606-10-25-14, each promise to transfer a good or service to the customer must be assessed to determine if it constitutes a distinct performance obligation.

1. **Logi-AI Suite SaaS License:** This is a 3-year subscription license for up to 500 users, including standard support and maintenance. Per ASC 606-10-25-19, the SaaS license is distinct because the customer can benefit from it on its own, as it provides access to the Logi-AI Suite's functionalities. The SaaS license is regularly sold separately, and it is not highly interdependent with other contract elements, satisfying ASC 606-10-25-21(a-c).
2. **OptiScan-7 Handheld Scanners:** These scanners are provided for optimal use of the Logi-AI Suite's features. The scanners are distinct because they are tangible goods that the customer can benefit from independently, as per ASC 606-10-25-20. The title and risk of loss transfer upon delivery, indicating they are sold separately and not highly interdependent with the SaaS license or professional services.
3. **Professional Services:** These include implementation, system integration, and training. While the Logi-AI Suite can function without these services, they enhance the platform's functionality by integrating it with the customer's ERP system. According to ASC 606-10-25-21, these services are distinct because they are regularly sold separately, and the customer can benefit from them with the SaaS license. However, they are not highly interdependent with the SaaS license or scanners, as the platform can operate without integration.

The performance bonus and bundle discount do not constitute separate performance obligations. The performance bonus is contingent on achieving a specific outcome and does not represent a promise to transfer goods or services. The bundle discount reflects a pricing adjustment rather than a distinct obligation.

### Conclusion:

The contract includes three distinct performance obligations: (1) the Logi-AI Suite SaaS License, (2) the OptiScan-7 handheld scanners, and (3) the professional services for implementation, system integration, and training. Each obligation is capable of being distinct and is not highly interdependent with the others.

### Issues or Uncertainties:

None identified.

# Determine the Transaction Price

## Analysis:

In accordance with ASC 606-10-32-2, the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The contract with Global Dynamics includes both fixed and variable consideration components.

## Fixed Consideration:

The fixed consideration in this contract includes:

1. **Logi-AI Suite SaaS License:** The contract specifies a fixed fee of 240,000 *per year for a 3 – years subscription, totaling 720,000* over the contract term. This fee is due annually, with the first payment due 30 days from the Effective Date.
2. **Hardware (OptiScan-7 Scanners):** A one-time fixed fee of \$50,000 is due 30 days from the Effective Date.
3. **Professional Services:** A one-time fixed fee of \$75,000 is also due 30 days from the Effective Date.

The total fixed consideration amounts to 845,000 (720,000 for the SaaS license, 50,000 *for hardware, and* 75,000 for professional services).

## Variable Consideration:

The contract includes a performance bonus of \$30,000, contingent upon Global Dynamics achieving a 15% reduction in shipping costs within the first 12 months. According to ASC 606-10-32-5 to 32-10, variable consideration should be estimated and included in the transaction price to the extent it is probable that a significant reversal will not occur. Given InnovateTech's history of achieving this metric with 80% of similar customers, it is reasonable to include this bonus in the transaction price, subject to constraints outlined in ASC 606-10-32-11 to 32-14.

## Constraints on Variable Consideration:

The performance bonus is subject to constraint evaluation. Given the high likelihood of achieving the performance metric, the bonus can be included in the transaction price, but management should continuously evaluate the likelihood of achieving the performance target to ensure compliance with ASC 606.

## Significant Financing Components:

Per ASC 606-10-32-15, the contract does not appear to contain a significant financing component. Payments are due within 30 days of the Effective Date, and the timing does not provide a significant benefit of financing to either party.

## Noncash Consideration and Consideration Paid to a Customer:

There is no indication of noncash consideration or consideration paid or payable to the customer in this contract.

## Conclusion:

The total transaction price for the contract with Global Dynamics is 875,000, *comprising* 845,000 in fixed consideration and a \$30,000 performance bonus as variable consideration. There are no significant financing components, noncash considerations, or considerations paid to the customer identified in this contract.

## Issues or Uncertainties:

None identified.

# Allocate the Transaction Price

## Analysis:

In accordance with ASC 606, the allocation of the transaction price to performance obligations must be based on the relative standalone selling prices (SSPs) of each distinct good or service. The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. identifies three primary performance obligations: (1) the Logi-AI Suite SaaS License, (2) the provision of OptiScan-7 hardware, and (3) professional services for implementation and training.

Per ASC 606-10-32-31, SSPs should be determined separately based on observable data. This means that each performance obligation's SSP should reflect the price at which InnovateTech would sell the good or service on a standalone basis. The contract specifies that the SaaS license is priced at its standard standalone rate, implying that its SSP is directly observable. However, the hardware and professional services are subject to a 10% bundle discount, indicating that their SSPs need to be estimated.

The allocation methodology, as outlined in ASC 606-10-32-31, requires the transaction price to be allocated proportionally to the SSPs of the performance obligations. This proportional allocation ensures that each performance obligation is recognized in a manner that reflects the consideration to which InnovateTech expects to be entitled.

Regarding discount allocation, ASC 606-10-32-37 states that if a discount is applicable to only one or more, but not all, performance obligations, it should be allocated proportionately to those obligations. In this contract, the 10% discount applies to the hardware and professional services, necessitating a proportional allocation of the discount to these two obligations.

The final allocation approach will involve determining the SSPs for the hardware and professional services, applying the 10% discount proportionately, and then allocating the transaction price based on the relative SSPs. This allocation will ensure compliance with ASC 606's requirement to reflect the transaction price in a manner consistent with the standalone selling prices of the distinct goods or services.

## Conclusion:

The transaction price for the contract with Global Dynamics Corp. will be allocated to the Logi-AI Suite SaaS License, OptiScan-7 hardware, and professional services based on their relative standalone selling prices. The 10% discount will be proportionately allocated to the hardware and professional services, as these are the obligations to which the discount applies. This allocation approach aligns with ASC 606 guidance and ensures that revenue recognition reflects the economic substance of the transaction.

## Issues or Uncertainties:

None identified.

# Recognize Revenue

## Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. involves multiple performance obligations, each requiring distinct revenue recognition considerations under ASC 606.

- Logi-AI Suite SaaS License:** The SaaS license is a subscription service provided over a 3-year term. According to ASC 606-10-25-27, revenue for services provided over time should be recognized over the period the service is delivered. The customer receives and consumes the benefits of the SaaS license simultaneously as InnovateTech performs, satisfying the criteria for over-time recognition. Therefore, revenue from the \$240,000 annual SaaS license fee should be recognized ratably over each year of the subscription term.

2. **Hardware Provisioning (OptiScan-7 Scanners):** The hardware is delivered to the customer, with title and risk of loss transferring upon delivery. Per ASC 606-10-25-23, control transfers at the point of delivery, indicating point-in-time revenue recognition. The \$50,000 fee for the scanners should be recognized as revenue when the scanners are delivered to the customer, which is expected within 14 days of the effective date.
3. **Professional Services:** These services include implementation, system integration, and training, which are completed upon the customer's written acceptance. Although the Logi-AI Suite can function without these services, they enhance the platform's functionality. According to ASC 606-10-25-27, since the services are a one-time engagement and control transfers upon completion and acceptance, revenue should be recognized at a point in time when the customer provides written acceptance. The \$75,000 fee should be recognized upon completion and acceptance of the services.
4. **Performance Bonus:** The performance bonus is contingent upon achieving a 15% reduction in shipping costs within the first 12 months. ASC 606-10-32-28 through 32-41 requires that variable consideration, such as performance bonuses, be included in the transaction price only to the extent that it is probable that a significant reversal will not occur. Given InnovateTech's history of achieving this metric with 80% of similar customers, it may be reasonable to include the bonus in the transaction price, but recognition should be deferred until the performance condition is met.

**Conclusion:** Revenue for the SaaS license should be recognized over time, ratably over the subscription period. The hardware revenue is recognized at a point in time upon delivery. Professional services revenue is recognized at a point in time upon customer acceptance. The performance bonus is recognized when the performance condition is met.

**Issues or Uncertainties:** The primary uncertainty involves the performance bonus, as it depends on the customer's achievement of specific cost reductions. This requires careful monitoring to ensure appropriate revenue recognition.

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**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.*