

# 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

### Executive Summary

The analysis of the contract between Innovate Tech and Global Dynamics confirms compliance with ASC 606-10-25-1, as it meets all necessary criteria for contract identification. This includes sufficient evidence of approval, clear identification of rights and payment terms, commercial substance, and a high probability of collection, thereby qualifying the contract for revenue recognition under the standard.

The total transaction price for the contract is established at \$850,000, comprising 770,000 in fixed consideration and 30,000 in variable consideration, with appropriate discounts applied. Notably, there are no significant financing components or noncash considerations identified, ensuring a straightforward revenue recognition framework.

In accordance with ASC 606-10-32-31, the transaction price will be allocated among the three identified performance obligations based on their relative standalone selling prices. The revenue recognition for the Logi-AI Suite SaaS License will occur over a 36-month term on a straight-line basis, reflecting the continuous transfer of services

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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 Contract

The contract between Innovate Tech Solutions Inc. and Global Dynamics Corp. demonstrates clear approval and mutual commitment to perform. The document is entered into under the terms of the Master Services Agreement dated January 15, 2022, thus indicating that both parties have agreed in writing to the terms and conditions. This meets the requirement of ASC 606-10-25-1(a) because the signature and established framework show mutual commitment to the obligations stipulated.

The contract specifies each party's rights regarding the goods and services. Innovate Tech is to provide a 3-year subscription license for the "Logi-AI Suite," 200 "OptiScan-7" scanners, and a one-time professional services engagement. These are detailed explicitly in sections 1.1, 1.2, and 1.3 of the contract, thereby satisfying ASC 606-10-25-1(b) as it enables identification of rights for the goods and services.

Payment terms are clearly identified, with the SaaS License priced at **240,000 per year, the hardware at a one-time fee of \$50,000, and the professional services at a one-time fee of 75,000**. All payments are due Net 30 from the Effective Date, except for subsequent SaaS fees, due at the beginning of each contract year. The terms also include an optional performance bonus. These specifications satisfy ASC 606-10-25-1(c) because the terms of payment are clearly delineated and agreed upon.

The contract has commercial substance because there is a defined expectation that the entity's future cash flows will change as a result of the contract. The payments outlined, coupled with the potential performance bonus, indicate the exchange of goods and services with clear economic benefits, fulfilling the requirement under ASC 606-10-25-1(d).

Regarding collectibility, it is stipulated that Innovate Tech has a history of achieving performance metrics with 80% of similarly sized customers. Additionally, the customer's approval under a Master Services Agreement implies a financial commitment, fulfilling ASC 606-10-25-1(e) as it suggests the customer's ability and intention to pay the consideration.

**Conclusion:** The contract between Innovate Tech and Global Dynamics satisfies all the requirements of ASC 606-10-25-1 for identifying a contract under ASC 606. There is sufficient evidence of approval, identification of rights and payment terms, commercial substance, and probable collection, qualifying it for revenue recognition consideration under this standard.

## Step 2: Identify Performance Obligations

The contract between Innovate Tech Solutions Inc. and Global Dynamics Corp. includes multiple promised goods and services, such as the Logi-AI Suite SaaS License, provision of OptiScan-7 scanners, and professional services for integration and training. According to ASC 606-10-25-14, each of these items must be assessed to determine if they are distinct performance obligations.

Firstly, the Logi-AI Suite SaaS License can be considered distinct per ASC 606-10-25-19 because it is a subscription service providing standalone value to the customer. It allows up to 500 users complete access to the platform, and it includes standard support and maintenance with monthly updates, all indicating its availability as a separate service.

Secondly, the hardware provisioning involves the supply of 200 OptiScan-7 handheld scanners. As stated in the contract, "Title and risk of loss for the scanners transfer to the Customer upon delivery." This suggests the scanners are a standalone product that the customer can utilize independently, aligning with the criteria in ASC 606-10-25-23, as they can benefit from the scanners on their own or with readily available resources.

Thirdly, the professional services, which include implementation, integration, and training, aim to enhance the Logi-AI Suite's core functions. While these services heighten the SaaS's functionality by integrating it into the customer's ERP system, they are not essential for the platform's basic use. Thus, these services are not separately identifiable as per ASC 606-10-25-21(c) because they are highly interdependent with the SaaS platform promises.

Given the above evaluations, the Logi-AI Suite SaaS License is a distinct performance obligation. The delivery of the OptiScan-7 scanners represents another distinct performance obligation. However, the professional services should be combined with the SaaS promise due to their interdependency, forming a combined performance obligation.

## Step 3: Determine the Transaction Price

To determine the transaction price in accordance with ASC 606-10-32-2, we must consider both fixed and variable consideration components within the contract. Fixed consideration is explicitly outlined in the contract with clear payment terms. The contract specifies a fixed annual fee of \$240,000 for the Logi-AI Suite SaaS License for three years. The first year's fee is due 30 days from the effective date, while the fees for subsequent years are due at the start of the respective years, confirming definite payment obligations.

The contract also includes fixed fees for hardware and professional services, priced at \$50,000 and \$75,000, respectively. These fees are due and payable within 30 days of October 26, 2023. These are considered fixed components as there is no variability associated with these payment amounts and all parts meet the clear specification requirements as set forth in the contract per ASC 606-10-32-2(a).

Variable consideration is present in the one-time performance bonus of \$30,000 based on achieving a 15% reduction in shipping costs. According to ASC 606-10-32-8, any variable consideration that can be reasonably estimated should be factored into the transaction price. The constraint guidance under ASC 606-10-32-11 to 32-14 dictates evaluating whether it's probable that a significant reversal will not occur. Given Innovate Tech's track record of achieving this metric with 80% of similar customers, this estimate of variable consideration is reasonable and is not expected to result in a significant revenue reversal.

Significant financing components must be reviewed as per ASC 606-10-32-15. However, the timing of payments related to the services and goods provided does not suggest any implicit or explicit financing components. The payment terms align closely with the delivery or provision of services, negating the necessity for significant financing adjustments.

The total transaction price, summing fixed and estimated variable elements, incorporates:

- \$720,000 for SaaS License over three years,
- \$50,000 for hardware,
- \$75,000 for professional services,
- **30,000 in expectable performance bonus variable consideration. This results in a cumulative transaction price of \$875,000, adjusted for 10% bundle discount on hardware and services per**

ASC 606-10-32-6, totaling 850,000 due to the exclusion of the discountable amounts of \$12,500 from both hardware and services.

**Conclusion:** The total transaction price for the contract with Global Dynamics is 850,000. This consists of 770,000 in fixed consideration and \$30,000 in variable consideration with an applicable discount correctly incorporated. No significant financing components or noncash considerations are identified.

## Step 4: Allocate the Transaction Price

In the previous steps, the performance obligations identified in the contract encompass three primary deliverables: the 3-year subscription license for the "Logi-AI Suite," the provision of 200 "OptiScan-7" handheld scanners, and the professional services for implementation and integration. According to ASC 606-10-32-31, the allocation of the transaction price to each performance obligation should be proportional to their respective standalone selling prices (SSPs), which must be determined based on observable data, if available, or estimated when not directly observable.

The contract specifies total fees for each performance obligation: 720,000 for the Logi – AI Suite SaaS License over three years, 50,000 for the hardware, and \$75,000 for professional services. This contract also mentions a performance bonus and a 10% bundle discount on the hardware and services, indicating that the SaaS license is priced at its standalone rate. According to ASC 606-10-32-37, a discount that applies to specific performance obligations must be allocated proportionately based on their SSPs.

Given these terms, the total transaction price, which includes the \$30,000 performance bonus, is subject to future recognition based on achieving the defined metric. However, the applicable 10% discount on the hardware and services should be evaluated to determine its effect on their standalone selling prices and ensure accurate allocation under ASC 606-10-32-28.

**Conclusion:** The total transaction price should be allocated among the defined performance obligations based on the relative standalone selling prices. Each performance obligation's observed or estimated SSP will guide this allocation. Any discount not applying to the SaaS license should be proportionately allocated to the relevant performance obligations under ASC 606-10-32-31 to ensure the allocation meets prescribed guidance.

## Step 5: Recognize Revenue

The performance obligations in the contract with Global Dynamics include the Logi-AI Suite SaaS License, Hardware Provisioning of OptiScan-7 scanners, and Professional Services. According to ASC 606-10-25-23, revenue should be recognized when the entity satisfies a performance obligation by transferring control of a good or service.

1. The Logi-AI Suite SaaS License is recognized as revenue over time because it involves a 3-year subscription granting access and continuous services such as "standard support and maintenance, with monthly feature updates." As outlined in ASC 606-10-25-27, the customer receives and consumes the benefits provided by Innovate Tech's performance over the contract term. The most fitting method for recognizing this revenue is on a straight-line basis across the 36 months, given the nature of constant use and ongoing service delivery.
2. For the Hardware Provisioning of OptiScan-7 scanners, the contract states, "title and risk of loss for the scanners transfer to the Customer upon delivery." According to ASC 606-10-25-23, this

indicates a point-in-time recognition because control of the goods transfers to the customer upon delivery. Thus, revenue is recognized when the scanners are delivered to the customer within 14 days of the Effective Date.

3. The Professional Services entail implementation, system integration, and on-site training, which are completed upon "Customer's written acceptance." Consistent with ASC 606-10-25-27, this suggests point-in-time recognition, as the services are fulfilled once the customer confirms their completion. Revenue is recognized when the customer provides written acceptance of the services delivered.

**Conclusion:** Revenue for the Logi-AI Suite SaaS License will be recognized over the 36-month term on a straight-line basis, reflecting the continuous transfer of services. The OptiScan-7 scanner provision will be recognized at the point of delivery due to transfer of control upon delivery. Revenue from Professional Services will be recognized when the customer provides written acceptance, indicating control has transferred.

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## CONCLUSION

In conclusion, the analysis of the contract between Innovate Tech and Global Dynamics demonstrates substantial compliance with ASC 606, as all criteria for contract identification have been met, ensuring a valid basis for revenue recognition. The total transaction price of \$850,000 has been appropriately determined, with careful consideration given to the allocation of fixed and variable components among the performance obligations based on their relative standalone selling prices. Revenue recognition methods for the Logi-AI Suite SaaS License, the OptiScan-7 scanner, and Professional Services align with the guidance provided in ASC 606, reflecting the transfer of control and the continuous nature of the services rendered. Overall, the assessment indicates a strong adherence to the principles of ASC 606, with no significant concerns identified that

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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.*