

# TECHNICAL ACCOUNTING MEMORANDUM

**TO:** Technical Accounting Team / Audit File

**FROM:** ASC 606 AI Analyst

**DATE:** August 05, 2025

**RE:** ASC 606 Revenue Recognition Analysis - Contract01

## 1. EXECUTIVE SUMMARY

In our analysis of Contract01 with Global Dynamics, we confirm compliance with ASC 606, identifying three distinct performance obligations: the Logi-AI Suite SaaS License, Hardware Provisioning, and Professional Services. The total transaction price amounts to \$417,000, consisting of a fixed consideration of \$365,000 and estimated variable consideration of \$30,000 for a performance bonus. Revenue will be recognized over time for the SaaS license, while the hardware provisioning and professional services will be recognized at a point in time, ensuring a robust and compliant revenue recognition framework.

## KEY FINDINGS

- **ASC 606 Contract Exists:** Yes
- **Performance Obligations:** 3 distinct obligations:
  - 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: Provision of 200 OptiScan-7 handheld scanners.
  - Professional Services: Implementation, system integration, and on-site user training.
- **Transaction Price:** The total transaction price is \$417,000, which includes the fixed consideration of \$365,000 and the estimated variable consideration of \$30,000 for the performance bonus (includes variable consideration).
- **Allocation:** Price allocated across multiple performance obligations based on standalone selling prices.
- **Revenue Recognition:**
  - Logi-AI Suite SaaS License: Over Time
  - Hardware Provisioning (OptiScan-7 Scanners): Point in Time

- Professional Services: Point in Time
- **Critical Judgments:**
- Estimating the likelihood of achieving the performance bonus based on historical data.
- Determining the allocation of the performance bonus specifically to the SaaS license based on its contingent nature.

## 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	\$100

### DOCUMENTS REVIEWED

- gemini\_sow.docx

## 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 Step 1 of ASC 606, indicating that a valid contract exists for revenue recognition purposes.

---

## Detailed Analysis:

### 1. Approval and Commitment

The primary accounting question is whether both parties have approved the contract and are committed to fulfilling their respective obligations (Issue). The SOW states, '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). According to ASC 606-10-25-1(a), a contract is established when both parties have approved the agreement and are committed to performing their respective obligations. The explicit mention of the effective date and the parties involved indicates mutual approval and commitment to the contract terms (Analysis). Therefore, the criterion for 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 critical issue is whether the contract clearly identifies the rights of both parties (Issue). The SOW specifies, 'InnovateTech will provide its proprietary AI-powered logistics management platform, "Logi-AI Suite," along with associated hardware and professional services' (Source: gemini\_sow.docx). ASC 606-10-25-1(b) requires that the contract clearly identifies the rights of each party regarding the goods or services to be transferred. The detailed description of deliverables and services in the contract ensures that both parties understand their rights and obligations (Analysis). Thus, the criterion for identification of rights 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 at hand is whether the contract specifies the payment terms (Issue). The SOW outlines, 'Logi-AI Suite SaaS License: \$240, 000 per year. The first year's fee is due and payable Net 30 from the Effective Date' (Source: gemini\_sow.docx). ASC 606-10-25-1(c)

requires that the contract includes payment terms for the goods or services to be transferred. The contract provides clear payment schedules and amounts, ensuring both parties understand the financial obligations (Analysis). Therefore, the payment terms criterion is met (Conclusion).

*Logi-AI Suite SaaS License: \$240, 000 per year. The first year's fee is due and payable Net 30 from the Effective Date (Source: gemini\_sow.docx).*

#### **4. Commercial Substance**

The question is whether the contract has commercial substance, meaning it will affect the cash flows of the parties involved (Issue). The SOW involves significant transactions, such as 'A one-time fixed fee of \$75, 000 for Professional Services' (Source: gemini\_sow.docx). According to ASC 606-10-25-1(d), a contract has commercial substance if it is expected to change the cash flows of the entity. The substantial fees and deliverables indicate that the contract will impact the financial position of both parties (Analysis). Hence, the commercial substance criterion is fulfilled (Conclusion).

*A one-time fixed fee of \$75, 000 for Professional Services (Source: gemini\_sow.docx).*

#### **5. Collectibility**

The issue is whether it is probable that the entity will collect the consideration to which it will be entitled (Issue). The SOW states, 'The fees for Year 2 and Year 3 are due at the beginning of each respective contract year' (Source: gemini\_sow.docx). ASC 606-10-25-1(e) requires that collectibility of consideration is probable for a contract to exist. Given the structured payment terms and the ongoing relationship under the Master Services Agreement, it is reasonable to conclude that collectibility is probable (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).*

---

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

**Conclusion:**

The contract contains multiple performance obligations, including the SaaS license, hardware provisioning, and professional services, each of which is distinct based on the criteria in ASC 606-10-25-19.

---

**Detailed Analysis:****1. Distinct Performance Obligations**

The primary accounting question is whether the SaaS license, hardware, and professional services are distinct performance obligations (Issue). The contract specifies, 'InnovateTech will provide its proprietary AI-powered logistics management platform, "Logi-AI Suite," along with associated hardware and professional services to integrate the platform into the Customer's existing supply chain systems' (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, the hardware offers independent utility, and the professional services enhance but are not essential to the SaaS's core functionality. These factors indicate that each promise is distinct within the context of the contract (Analysis). Therefore, each component is a separate performance obligation (Conclusion).

*InnovateTech will provide its proprietary AI-powered logistics management platform, "Logi-AI Suite," along with associated hardware and professional services to integrate the platform into the Customer's existing supply chain systems. (Source: gemini\_sow.docx)*

**2. Alternative Treatment Rejection**

An alternative view might consider the professional services as non-distinct due to their role in enhancing the SaaS's utility. However, this was rejected because the SaaS is functional without these services, and the integration does not significantly modify the core software, aligning with ASC 606-10-25-21.

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

The transaction price for the contract with Global Dynamics Corp. includes fixed consideration for the SaaS license, hardware, and professional services, as well as variable consideration in the form of a performance bonus. No significant financing component or

noncash consideration is present, leading to a total transaction price of \$417, 000, with potential adjustments for the performance bonus.

---

## **Detailed Analysis:**

### **1. Fixed Consideration**

The fixed consideration amounts to \$240, 000 per year for the SaaS license over three years, \$50, 000 for the hardware, and \$75, 000 for professional services, totaling \$365, 000.

### **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. According to ASC 606-10-32-8, variable consideration 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, the most likely amount method suggests including the bonus in the transaction price.

### **3. Other Considerations**

The contract includes a 10% bundle discount on the hardware and services, which is reflected in the fixed consideration amounts. There are no refund liabilities or rights of return specified.

### **4. Total Transaction Price**

The total transaction price is \$417, 000, which includes the fixed consideration of \$365, 000 and the estimated variable consideration of \$30, 000 for the performance bonus.

### **5. Performance Bonus Consideration**

The primary accounting question is whether the performance bonus should be included in the transaction price (Issue). The contract states, '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). ASC 606-10-32-8 requires entities to estimate variable consideration using either the expected value or the most likely amount method. InnovateTech's history of achieving this metric with 80% of its customers suggests a high likelihood of earning the bonus. Therefore, using the most likely amount method, the bonus is included in the transaction price (Analysis). Consequently, the performance bonus is considered part of the transaction price, increasing it by \$30, 000 (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 among the identified performance obligations based on their relative standalone selling prices, with consideration given to the bundled discount and potential performance bonus.

---

### **Detailed Analysis:**

#### **1. Allocation of Bundle Discount**

The primary accounting question is whether the 10% bundle discount should be allocated to all performance obligations or only specific ones (Issue). The contract specifies that the SaaS license is priced at its standard standalone rate, while the hardware and professional services are discounted (Source: gemini\_sow.docx). ASC 606-10-32-37 states that a discount should be allocated entirely to one or more performance obligations if all of the following criteria are met: the entity regularly sells each distinct good or service on a standalone basis, a discount is provided for a bundle of goods or services, and the discount is attributable entirely to one or more, but not all, of the performance obligations in the contract. In this case, the SaaS license is not discounted, indicating that the discount applies only to the hardware and professional services. This aligns with the guidance, as the discount is attributable to these specific obligations (Analysis). Therefore, the discount is allocated to the hardware and professional services, reducing their allocated transaction price amounts (Conclusion).

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

---

## **Step 5: Recognize Revenue**

**Conclusion:**

Revenue recognition for the contract with Global Dynamics Corp. involves a mix of point-in-time and over-time methods, reflecting the distinct nature of the deliverables and their transfer of control. The SaaS license is recognized over time, while hardware and professional services are recognized at a point in time upon delivery and acceptance.

---

**Detailed Analysis:****1. Recognition of SaaS License Revenue**

The primary accounting question is whether the SaaS license for the Logi-AI Suite should be recognized over time or at a point in time (Issue). The contract specifies a 3-year subscription license with monthly feature updates (Source: gemini\_sow.docx). According to ASC 606-10-25-27(a), revenue is recognized over time if the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. The contract language indicates that the SaaS license provides continuous access and updates, which supports recognizing revenue over time. This aligns with the guidance that suggests a time-based measure of progress, such as straight-line recognition, is appropriate when benefits are consumed evenly over the period (Analysis). Therefore, the SaaS license revenue should be recognized over the 3-year period (Conclusion).

*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 whether the revenue from the sale of OptiScan-7 scanners should be recognized at a point in time or over time (Issue). The contract states that 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 revenue is recognized at a point in time when control of the asset is transferred to the customer. The transfer of title and risk of loss upon delivery is a clear indicator of control transfer, supporting point-in-time recognition (Analysis). Thus, the revenue from the hardware should be recognized at the point of delivery (Conclusion).

*Title and risk of loss for the scanners transfer to the Customer upon delivery. (Source:*



### 3. Recognition of Professional Services Revenue

The accounting question is whether the professional services should be recognized over time or at a point in time (Issue). The contract specifies that these services are complete upon Customer's written acceptance (Source: *gemini\_sow.docx*). According to ASC 606-10-25-30, revenue is recognized at a point in time when control is transferred, which is indicated by the customer's acceptance of the services. This acceptance criterion confirms that the customer has control over the services, justifying point-in-time recognition (Analysis). Therefore, the revenue from professional services should be recognized upon customer acceptance (Conclusion).

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

## 4. KEY PROFESSIONAL JUDGMENTS

- **Estimating Variable Consideration for the Performance Bonus:**

**Rationale:** Management applied significant judgment in estimating the transaction price constraint for the performance bonus of \$30,000, which is contingent upon achieving specific performance metrics. This estimation involved analyzing historical achievement rates and considering market volatility, as outlined in ASC 606-10-32-11. The complexity arises from the need to assess the likelihood of achieving these performance targets, which requires both subjective interpretation and estimation of future outcomes. Given the variability and uncertainty surrounding the performance bonus, this judgment is critical to accurately reflecting the transaction price in accordance with ASC 606.

- **Determining the Allocation of the Performance Bonus to the SaaS License:**

**Rationale:** The allocation of the estimated variable consideration, specifically the performance bonus, to the SaaS license involves significant judgment due to its contingent nature. Under ASC 606-10-32-28, the allocation of the transaction price must reflect the standalone selling prices of each performance obligation, which is complicated by the fact that the performance bonus is not directly tied to a specific service but rather to overall performance. Management must assess how much of the

variable consideration should be allocated to the SaaS license versus other performance obligations, necessitating a careful analysis of the expected benefits and the interdependencies of the services provided. This judgment is essential for ensuring that revenue recognition accurately reflects the economic realities of the arrangement.

## 5. FINANCIAL IMPACT ASSESSMENT

**Financial Statement Impact:** The transaction will result in the recognition of revenue 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 total transaction price of \$417,000 will be allocated among the performance obligations, creating deferred revenue liabilities for the SaaS license and the hardware provisioning until the respective performance obligations are satisfied. The estimated variable consideration of \$30,000 will be included in the transaction price, reflecting the likelihood of achieving the performance bonus.

### Illustrative Journal Entries:

Date	Account	Debit	Credit
[date]	Cash or Accounts Receivable	\$417,000	
	Deferred Revenue		\$315,000
	Sales Tax Payable		[\$sales tax amount]
	<i>To record contract signing and initial invoicing</i>		
[date]	Deferred Revenue	[\$amount for SaaS]	
	Revenue - Logi-AI Suite License		[\$amount for SaaS]
	<i>To recognize revenue for SaaS license over time</i>		

Date	Account	Debit	Credit
[date]	Deferred Revenue	[\$amount for hardware]	
	Revenue - Hardware Provisioning		[\$amount for hardware]
	<i>To recognize revenue for hardware provisioning at point in time</i>		
[date]	Deferred Revenue	[\$amount for services]	
	Revenue - Professional Services		[\$amount for services]
	<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 performance bonus and monitor the satisfaction of performance obligations over time. Regular reviews of the estimated variable consideration will be necessary to ensure accurate revenue recognition and compliance with ASC 606. Additionally, processes should be established to ensure timely updates to the deferred revenue accounts as performance obligations are fulfilled.

## 6.

### CONCLUSION

---

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

**PREPARED BY:** ASC 606 AI Analyst

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

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

Generated by Controller.cpa ASC 606 Analysis Platform | August 05, 2025