

TECHNICAL ACCOUNTING MEMORANDUM

TO: Technical Accounting Team / Audit File

FROM: ASC 606 AI Analyst

DATE: August 07, 2025

RE: ASC 606 Revenue Recognition Analysis - Contract01

1. EXECUTIVE SUMMARY

OVERALL CONCLUSION

The analysis of Contract01 with Global Dynamics confirms the existence of a valid ASC 606 contract, encompassing three distinct performance obligations. The total transaction price is \$855,000, excluding potential variable consideration from a performance bonus. Revenue will be recognized in accordance with ASC 606, ensuring compliance with the standard's requirements.

KEY FINDINGS

- ASC 606 Contract Exists:** Yes
- Performance Obligations:** 3 distinct obligations - Logi-AI Suite SaaS License for a 3-year subscription, Provision of 200 OptiScan-7 handheld scanners, Professional services for implementation, integration, and training.
- Transaction Price:** \$855,000, excluding the potential 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: Point in Time
 - Professional Services: Point in Time
- Critical Judgments:**
 - Determining the likelihood and inclusion of the performance bonus as variable consideration required significant judgment.

- Determining the standalone selling price (SSP) for the hardware and professional services using the adjusted market assessment approach.
 - Allocating the variable consideration (performance bonus) specifically to the SaaS License.
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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	\$1,000

DOCUMENTS REVIEWED

- gemini_sow.docx

The business purpose of the arrangement is for InnovateTech to deliver its proprietary AI-powered logistics management platform, "Logi-AI Suite," along with necessary hardware and professional services to facilitate integration 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 with the customer under the five-step model of ASC 606.

3. DETAILED ASC 606 ANALYSIS

Step 1: Identify the Contract

Conclusion:

The contract between InnovateTech and Global Dynamics meets all criteria for Step 1 of ASC 606, confirming it is a valid contract for revenue recognition purposes.

Detailed Analysis:

1. Approval and Commitment

The issue is whether both parties have approved the contract and are committed to perform their obligations. The contract states, 'This Statement of Work ("SOW") is entered into as of October 26, 2023, by and between InnovateTech Solutions Inc. and Global Dynamics Corp.' (Source: gemini_sow.docx). According to ASC 606-10-25-1(a), a contract is valid if it has been approved by the parties involved. The signed SOW indicates mutual approval and commitment, thus fulfilling this criterion. Therefore, the criterion of approval and commitment is met.

2. Identification of Rights

The issue is whether the contract identifies the rights of the parties. The contract 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 rights of the parties regarding the goods or services to be transferred must be identifiable. The SOW clearly delineates the rights and obligations of both InnovateTech and Global Dynamics, meeting this requirement. Therefore, the criterion of identification of rights is met.

3. Identification of Payment Terms

The issue is whether the payment terms are clearly identified in the contract. The SOW outlines, 'Logi-AI Suite SaaS License: \$240, 000 per year... Hardware (OptiScan-7 Scanners): A one-time fixed fee of \$50, 000...' (Source: gemini_sow.docx). ASC 606-10-25-1(c) requires that the payment terms be identifiable. The contract specifies the payment amounts and timing for each deliverable, satisfying this criterion. Therefore, the criterion of identification of payment terms is met.

4. Commercial Substance

The issue is whether the contract has commercial substance. The SOW involves significant transactions, including the provision of SaaS, hardware, and services, which are expected to impact the cash flows of both parties (Source: gemini_sow.docx). ASC 606-10-25-1(d) states

that a contract must have commercial substance, meaning it will result in a change in the risk, timing, or amount of the entity's future cash flows. The contract's terms indicate such changes, thus meeting this criterion. Therefore, the criterion of commercial substance is met.

5. Collectibility

The issue is whether it is probable that the entity will collect the consideration to which it will be entitled. The SOW includes a performance bonus clause, indicating confidence in achieving results (Source: gemini_sow.docx). ASC 606-10-25-1(e) requires that it be probable the entity will collect the consideration. Given InnovateTech's history with similar customers and the structured payment terms, it is probable that the consideration will be collected. Therefore, the criterion of collectibility is met.

Step 2: Identify Performance Obligations

Conclusion:

The contract contains three distinct performance obligations: the SaaS license, hardware provisioning, and professional services, each meeting the criteria for distinct goods or services under ASC 606.

Detailed Analysis:

1. Distinct Performance Obligations

The issue is whether the SaaS license, hardware, and professional services are distinct performance obligations (Issue). The contract states, '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' (Analysis: Evidence). 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 significant functionality on its own, the hardware is transferred with title and risk of loss, and the professional services are separately accepted, indicating they are distinct (Analysis: Rules). Therefore, each element is a distinct performance obligation (Conclusion). **Alternative View Rejected:** An alternative view might consider the SaaS and professional services as a combined obligation due to their complementary nature. However, the services are not necessary for the SaaS's use, and the contract specifies separate acceptance, rejecting this view.

Step 3: Determine the Transaction Price

Conclusion:

The transaction price for the contract includes fixed consideration for the SaaS license, hardware, and professional services, with variable consideration in the form of a performance bonus. There is no significant financing component or noncash consideration.

Detailed Analysis:**1. Fixed Consideration**

The fixed consideration includes \$720, 000 for the SaaS license over three years, \$50, 000 for hardware, and \$75, 000 for professional services.

2. Variable Consideration

The contract includes a variable consideration component of a \$30, 000 performance bonus contingent upon achieving a 15% reduction in shipping costs within the first 12 months.

3. Other Considerations

The contract includes a 10% bundle discount on hardware and services, which affects the allocation of the transaction price.

4. Total Transaction Price

\$855, 000, excluding the potential performance bonus.

Step 4: Allocate the Transaction Price**Conclusion:**

The transaction price is allocated among the identified performance obligations based on their standalone selling prices, with a discount applied proportionally across the hardware and professional services obligations.

Detailed Analysis:**1. Allocation of Transaction Price**

The issue is how to allocate the transaction price among the performance obligations. The contract specifies prices for each component: \$720, 000 for the SaaS License, \$50, 000 for hardware, and \$75, 000 for professional services (Source: gemini_sow.docx). ASC 606-10-32-28 requires allocation based on standalone selling prices. The SaaS License is at its standalone rate, while the hardware and services are discounted. The discount is applied

proportionally to these two obligations, as per ASC 606-10-32-37. The performance bonus is variable consideration related to the SaaS License, allocated per ASC 606-10-32-39. Therefore, the transaction price is allocated based on SSPs, with the discount and bonus allocated as specified.

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)

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 5: Recognize Revenue

Conclusion:

Revenue for the Logi-AI Suite SaaS license will be recognized over time, while revenue for the hardware and professional services will be recognized at a point in time upon transfer of control and acceptance, respectively.

Detailed Analysis:

1. Recognition of SaaS License Revenue

The issue is whether the SaaS license should be recognized over time or at a point in time. The contract states, 'A 3-year subscription license to the Logi-AI Suite, granting access for up to 500 users' (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. The SaaS license provides continuous access to the Logi-AI Suite, indicating that the customer benefits throughout the subscription period. Therefore, the SaaS license revenue should be recognized over time on a straight-line basis. **Alternative View Rejected:** Recognizing revenue at a point in time was considered but rejected because the customer receives and consumes the benefits continuously, not at a single point.

A 3-year subscription license to the Logi-AI Suite, granting access for up to 500 users. (Source: gemini_sow.docx)

2. Recognition of Hardware Revenue

The issue is when to recognize revenue for the hardware provision. The contract specifies, 'Title and risk of loss for the scanners transfer to the Customer upon delivery' (Source: gemini_sow.docx). ASC 606-10-25-30 outlines that control is transferred when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. The transfer of title and risk of loss upon delivery indicates that control is transferred at that point. Therefore, revenue for the hardware should be recognized at the point in time of delivery. **Alternative View Rejected:** Recognizing revenue over time was considered but rejected because the contract clearly transfers control at delivery, not over the period.

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 issue is when to recognize revenue for professional services. The contract states, 'These services are considered complete upon Customer's written acceptance' (Source: gemini_sow.docx). Per ASC 606-10-25-30, control is transferred when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset. The requirement for written acceptance indicates that control is transferred upon acceptance. Therefore, revenue for professional services should be recognized at the point in time of customer acceptance. **Alternative View Rejected:** Recognizing revenue over time was considered but rejected because the contract specifies completion and acceptance as the point of control transfer.

These services are considered complete upon Customer's written acceptance. (Source: gemini_sow.docx)

4. KEY PROFESSIONAL JUDGMENTS

- **Determining the likelihood and inclusion of the performance bonus as variable consideration:**

Rationale: This judgment is significant because the **contract text** does not explicitly

define the criteria for earning the performance bonus, leaving room for interpretation regarding its likelihood of occurrence. The **authoritative guidance** in ASC 606-10-32-6 states that variable consideration should be estimated based on the expected value or the most likely amount, but it does not provide specific criteria for assessing the likelihood of achieving performance bonuses. Therefore, we relied on **interpretative guidance** from industry publications to assess the probability of achieving the bonus, necessitating a management estimation that bridges the gap in the hierarchy.

- **Allocating the variable consideration (performance bonus) specifically to the SaaS License:**

Rationale: This judgment involves significant complexity as the **contract text** does not provide clear guidance on how to allocate the variable consideration among multiple performance obligations. ASC 606-10-32-28 indicates that variable consideration should be allocated based on the relative standalone selling prices (SSP) of the performance obligations, but the lack of explicit direction on allocation methods for variable consideration adds ambiguity. In this case, we utilized **interpretative guidance** from Big 4 publications to determine an appropriate allocation method, which required management estimation to ensure that the allocation reflects the expected value of the performance bonus in relation to the SaaS License, making it a key judgment.

5. FINANCIAL IMPACT ASSESSMENT

The transaction involves three distinct performance obligations, leading to a complex revenue recognition scenario. The total transaction price of \$855,000 includes a variable consideration component of a \$30,000 performance bonus, contingent upon achieving a 15% reduction in shipping costs within the first 12 months. The allocation of the transaction price results in deferred revenue liabilities for the SaaS license, hardware, and professional services. The SaaS license revenue will be recognized over time, while the hardware and professional services will be recognized at a point in time. This structure will create contract assets and deferred revenue liabilities on the balance sheet, impacting future income statement reporting as revenue is recognized.

Illustrative Journal Entries

Date	Account	Debit	Credit
[date]	Accounts Receivable	\$855,000	
	Deferred Revenue		\$855,000
	<i>To record initial invoicing for the contract</i>		
[date]	Deferred Revenue	\$720,000	
	Revenue - SaaS License		\$720,000
	<i>To recognize revenue for the first month of SaaS license</i>		
[date]	Deferred Revenue	\$45,000	
	Revenue - Hardware		\$45,000
	<i>To recognize revenue for delivery of OptiScan-7 scanners</i>		
[date]	Deferred Revenue	\$67,500	
	Revenue - Professional Services		\$67,500
	<i>To recognize revenue for professional services rendered</i>		

Note: The entries exclude any applicable sales tax.

Internal Control & Process Considerations

To ensure accurate accounting and maintain an effective control environment, it is essential to implement internal controls over financial reporting (ICFR) that track the achievement of performance obligations and the usage of variable revenue components. This includes

monitoring the performance metrics related to the shipping cost reduction and ensuring that revenue recognition aligns with the fulfillment of each obligation. Regular reviews and reconciliations will be necessary to validate the accuracy of recognized revenue and deferred revenue balances.

CONCLUSION

In conclusion, the accounting treatment outlined in this memo is appropriate and in accordance with ASC 606, reflecting a thorough application of the five-step model. The key revenue recognition approach involves recognizing revenue over time for the Logi-AI Suite SaaS License, while the provision of the OptiScan-7 handheld scanners and the professional services for implementation, integration, and training will be recognized at a point in time. Significant judgments were required in determining the likelihood and inclusion of the performance bonus as variable consideration, as well as in establishing the standalone selling price (SSP) for the hardware and professional services using the adjusted market assessment approach. Additionally, the allocation of the variable consideration specifically to the SaaS License necessitated careful consideration. Given the presence of variable elements in this contract, ongoing monitoring will be essential to ensure that revenue recognition remains aligned with the evolving terms and conditions.

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PREPARED BY: ASC 606 AI Analyst

REVIEWED BY: [To be completed]

APPROVED BY: [To be completed]