

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

1.

OVERALL

CONCLUSION

The analysis of Contract01 with Global Dynamics confirms compliance with ASC 606, establishing a total transaction price of \$621,000. Revenue will be recognized over time for the Logi-AI Suite SaaS License, while the Hardware Provisioning and Professional Services will be recognized at a point in time, reflecting the distinct performance obligations outlined in the contract.

2.

KEY FINDINGS

- **ASC 606 Contract Exists:** Yes
- **Performance Obligations:** 3 distinct obligations - Logi-AI Suite SaaS License, Hardware Provisioning (OptiScan-7 Scanners), Professional Services (Implementation, Integration, Training)
- **Transaction Price:** \$621,000, calculated as \$240,000 (Year 1 SaaS) + \$240,000 (Year 2 SaaS) + \$240,000 (Year 3 SaaS) + \$50,000 (Hardware) + \$75,000 (Professional Services) - \$36,000 (10% discount on hardware and services) + \$30,000 (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 (OptiScan-7 Scanners): Point in Time
 - Professional Services: Point in Time
- **Critical Judgments:**
 - Assessing whether the professional services significantly modify or customize the SaaS license required significant judgment.
 - Evaluating the likelihood and amount of the performance bonus due to its contingent nature necessitated careful consideration.
 - Allocating the performance bonus to the SaaS license involved substantial judgment.
 - Estimating the standalone selling price (SSP) for hardware and professional services utilized adjusted market and cost-plus-margin approaches, reflecting professional judgment.
 - Determining the appropriate method to measure progress for the SaaS license as straight-line recognition over the contract period was essential.

This summary provides a strategic overview of the accounting determinations made under ASC 606, ensuring stakeholders are informed of the key elements influencing revenue recognition and compliance.

2. CONTRACT OVERVIEW

CONTRACT DATA SUMMARY

Element	Details
Customer	Global Dynamics
Contract Period	2023-10-26 to 2026-10-25
Currency	USD

Element	Details
Modification Status	No - Original Contract
Analysis Scope	Standard ASC 606 five-step analysis
Materiality Threshold	\$10

DOCUMENTS REVIEWED

- gemini_sow.docx

The business purpose of the contract is for InnovateTech to deliver its proprietary AI-powered logistics management platform, "Logi-AI Suite," along with the 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 Solutions Inc. and Global Dynamics Corp. meets all five criteria under ASC 606-10-25-1, confirming it as a valid contract under ASC 606 for revenue recognition purposes.

Detailed Analysis:

1. Approval and Commitment

The primary accounting question is whether there is evidence of approval and commitment from both parties (Issue). The contract 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 exists only if both parties have approved the contract and are committed to performing their respective obligations. The explicit mention of the effective

date and the parties involved indicates mutual agreement and commitment to the contract terms (Analysis). Therefore, this criterion 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 issue is whether the contract clearly identifies the rights of both parties (Issue). 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 contract clearly identifies each party's rights regarding the goods or services to be transferred. The detailed description of deliverables and services establishes the rights and obligations of both parties (Analysis). Thus, the criterion 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 is whether the payment terms are clearly defined (Issue). The contract 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 specifies the payment terms for the goods or services to be transferred. The contract's explicit payment schedule and amounts demonstrate compliance with this criterion (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 issue is whether the contract has commercial substance (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' (Source: gemini_sow.docx).

According to ASC 606-10-25-1(d), a contract has commercial substance if it is expected to change the risk, timing, or amount of the entity's future cash flows. The performance bonus clause indicates that the contract will affect InnovateTech's cash flows based on performance outcomes (Analysis). Thus, the contract has commercial substance (Conclusion).

InnovateTech is eligible for a one-time \$30, 000 performance bonus if the Customer achieves a documented 15% reduction in shipping costs (Source: gemini_sow.docx)

5. Collectibility

The issue is whether it is probable that InnovateTech will collect the consideration to which it will be entitled (Issue). The contract specifies payment terms and a history of achieving performance metrics with similar customers (Source: gemini_sow.docx). ASC 606-10-25-1(e) requires that it is probable the entity will collect the consideration in exchange for the goods or services. Given the structured payment terms and InnovateTech's historical performance, it is probable that the consideration will be collected (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 distinct performance obligations, including the SaaS license, hardware provision, and professional services, each meeting the criteria under ASC 606-10-25-19.

Detailed Analysis:

1. Distinct Performance Obligations

The primary accounting question is whether the various components of the contract are distinct performance obligations (Issue). The contract specifies deliverables including a SaaS license, hardware, and professional services (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, meeting the

capability criterion. The hardware and professional services, while enhancing the SaaS, do not modify or customize it to the extent that they are inseparable. Thus, they are separately identifiable (Analysis). Therefore, each component is a distinct performance obligation (Conclusion).

Logi-AI Suite SaaS License: A 3-year subscription license... (Source: geminisow.docx)
Hardware Provisioning: InnovateTech will provide 200 proprietary 'OptiScan-7' handheld scanners... (Source: geminisow.docx)
Professional Services: A one-time engagement for implementation, system integration, and on-site user training... (Source: gemini_sow.docx)

2. Alternative Treatment Rejection

An alternative view might be to treat the professional services as not distinct due to their role in enhancing the SaaS utility. However, this was rejected because the services do not significantly modify or customize the SaaS, and the SaaS can operate independently, aligning with ASC 606-10-25-21.

Professional Services: A one-time engagement for implementation, system integration, and on-site user training... (Source: gemini_sow.docx)

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. The total estimated transaction price is \$621, 000, considering all components and discounts.

Detailed Analysis:

1. Fixed Consideration

\$240, 000 per year for the SaaS license, \$50, 000 for hardware, and \$75, 000 for professional services.

2. Variable Consideration

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

consideration as per ASC 606-10-32-5, which requires estimation using either the expected value or the most likely amount method.

3. Other Considerations

The contract includes a 10% bundle discount on hardware and services, which affects the transaction price. As per ASC 606-10-32-25, discounts should be allocated proportionally to all performance obligations unless specific criteria are met.

4. Total Transaction Price

\$621, 000, calculated as \$240, 000 (Year 1 SaaS) + \$240, 000 (Year 2 SaaS) + \$240, 000 (Year 3 SaaS) + \$50, 000 (Hardware) + \$75, 000 (Professional Services) - \$36, 000 (10% discount on hardware and services) + \$30, 000 (Performance Bonus).

5. Performance Bonus as Variable Consideration

The primary accounting question is whether the performance bonus should be included in the transaction price as variable consideration (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' (Source: gemini_sow.docx). According to ASC 606-10-32-5, variable consideration should be estimated using either the expected value or the most likely amount method, considering the likelihood and magnitude of the outcome. In this case, InnovateTech has a history of achieving this metric with 80% of its customers, indicating a high likelihood of earning the bonus. Therefore, it is reasonable to include the \$30, 000 in the transaction price (Analysis). Based on this analysis, we conclude that the performance bonus should be included as variable consideration in the transaction price (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... (Source: gemini_sow.docx)

Step 4: Allocate the Transaction Price

Conclusion:

The transaction price is allocated among the identified performance obligations based on their standalone selling prices, with consideration for discounts and variable consideration as applicable.

Detailed Analysis:

1. Allocation of Performance Bonus

The primary accounting question is whether the performance bonus should be allocated to a specific performance obligation (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). According to ASC 606-10-32-39, variable consideration should be allocated to a specific performance obligation if it relates entirely to the entity's efforts to satisfy that performance obligation. The performance bonus is contingent upon the effectiveness of the Logi-AI Suite, indicating that it directly relates to the SaaS license. Therefore, the performance bonus should be allocated entirely to the SaaS license (Analysis). Based on this analysis, we conclude that the performance bonus is allocated to the SaaS license (Conclusion).

2. Discount Allocation

The accounting question is whether the discount should be allocated to specific performance obligations (Issue). The contract specifies a '10% discount on the standard standalone list prices for the hardware and services' (Source: gemini_sow.docx). ASC 606-10-32-37 states that a discount should be allocated to one or more performance obligations if the discount relates entirely to those obligations. The discount is explicitly applied to the hardware and professional services, not the SaaS license, indicating it should be allocated proportionally to these obligations based on their standalone selling prices (Analysis). Thus, the discount is allocated to the hardware and professional services (Conclusion).

Step 5: Recognize Revenue

Conclusion:

Revenue for the SaaS license should be recognized over time, while revenue for hardware and professional services should be recognized at a point in time upon transfer of control.

Detailed Analysis:

1. SaaS License Revenue Recognition

The primary accounting question is whether the SaaS license should be recognized over time or at a point in time (Issue). The contract specifies a 3-year subscription license to the Logi-AI Suite, granting access for up to 500 users, with standard support and monthly feature updates (Source: gemini_sow.docx). According to ASC 606-10-25-27, revenue is recognized over time if the customer simultaneously receives and consumes the benefits

as the entity performs. The SaaS license provides continuous access to the software and updates, indicating a right to access intellectual property, which aligns with the criteria for over-time recognition (Analysis). Therefore, the SaaS license revenue should be recognized over time using a straight-line method, as the benefits are consumed evenly (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. Hardware Revenue Recognition

The issue is determining when to recognize revenue for the hardware component of the contract (Issue). The contract states that InnovateTech will provide 200 proprietary 'OptiScan-7' handheld scanners, with title and risk of loss transferring 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 transfers to the customer. The transfer of title and risk of loss upon delivery signifies the transfer of control, justifying point-in-time recognition (Analysis). Consequently, revenue for the hardware should be recognized at the point of delivery (Conclusion).

InnovateTech will provide 200 proprietary 'OptiScan-7' handheld scanners. Title and risk of loss for the scanners transfer to the Customer upon delivery. (Source: gemini_sow.docx)

3. Professional Services Revenue Recognition

The issue is when to recognize revenue for the professional services provided under the contract (Issue). The contract outlines a one-time engagement for implementation, system integration, and on-site user training, considered complete upon Customer's written acceptance (Source: gemini_sow.docx). Per ASC 606-10-25-30, revenue is recognized at a point in time when control is transferred to the customer. The requirement for written acceptance indicates that control is transferred upon completion and acceptance of the services, supporting point-in-time recognition (Analysis). Therefore, revenue for professional services should be recognized upon customer acceptance (Conclusion).

*A one-time engagement for implementation, system integration, and on-site user training. 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, which is contingent upon achieving specific performance metrics. Given the inherent uncertainty in forecasting future performance, management considered historical achievement rates and market volatility factors in their assessment. According to ASC 606-10-32-11, this estimation requires careful analysis of the likelihood of achieving the bonus and the potential variability in the amount, necessitating a nuanced understanding of both the contractual terms and the broader market conditions.

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

Rationale: The allocation of the performance bonus to the SaaS license required significant judgment due to the interdependencies between the performance obligations and the variable consideration involved. ASC 606-10-32-28 states that when allocating the transaction price, entities must consider the relative standalone selling prices (SSPs) of each performance obligation. Given that the performance bonus is contingent and not directly tied to a specific performance obligation, management had to assess how to appropriately allocate this variable consideration among the identified performance obligations, which involved subjective interpretation of the contract terms and the expected value of the bonus.

- **Estimating the Standalone Selling Price (SSP) for the Hardware and Professional Services:**

Rationale: Estimating the SSP for the hardware and professional services involved significant professional judgment, as these components do not have readily observable prices in the market. Management used both the adjusted market approach and cost-plus-margin methods to derive the SSPs, as outlined in ASC 606-10-32-33. The complexity of the transaction, including the need to consider market conditions and cost structures, required careful analysis and subjective interpretation

to arrive at a reasonable estimate that reflects the fair value of these performance obligations.

- **Determining Whether Professional Services Significantly Modify or Customize the SaaS License:**

Rationale: Significant judgment was required to assess whether the professional services provided in conjunction with the SaaS license significantly modify or customize the software, impacting the identification of performance obligations. ASC 606-10-25-19 emphasizes the need to evaluate whether the services enhance the functionality of the license or are merely ancillary. This determination involved a detailed analysis of the nature of the services and their impact on the overall functionality of the SaaS offering, which could lead to different conclusions regarding the distinctiveness of the performance obligations.

- **Determining the Appropriate Method to Measure Progress for the SaaS License:**

Rationale: The choice of method to measure progress for the SaaS license, recognized over time, required significant judgment. Management considered both the output and input methods as outlined in ASC 606-10-25-27, evaluating which method best reflects the transfer of control to the customer. The decision involved analyzing the nature of the service delivery and customer engagement over the contract term, leading to a subjective assessment of how value is delivered throughout the subscription period. This complexity underscores the need for careful consideration of the specific facts and circumstances surrounding the arrangement.

5. FINANCIAL IMPACT ASSESSMENT

Financial Impact

1. **Financial Statement Impact:** The transaction will result in the recognition of revenue over time for the Logi-AI Suite SaaS License and at a point in time for the Hardware Provisioning and Professional Services. The total transaction price of \$621,000 will be allocated among the performance obligations, leading to the creation of contract assets for the SaaS License and deferred revenue liabilities for the Hardware and Professional Services. The variable consideration of \$30,000 will be recognized as revenue upon meeting the performance criteria.

2. **Illustrative Journal Entries:**

Date	Account	Debit	Credit
[date]	Cash or Accounts Receivable	\$621,000	
	Sales Tax Payable		[\$sales tax amount]
	Deferred Revenue		\$365,000
	Revenue - SaaS License		\$240,000
	Revenue - Hardware		\$45,000
	Revenue - Professional Services		\$67,500
	<i>To record initial invoicing and sales tax collected</i>		

Date	Account	Debit	Credit
[date]	Deferred Revenue	\$240,000	
	Revenue - SaaS License		\$240,000
	<i>To recognize revenue for SaaS License over time</i>		

Date	Account	Debit	Credit
[date]	Deferred Revenue	\$45,000	
	Revenue - Hardware		\$45,000
	<i>To recognize revenue for Hardware at point in time</i>		

Date	Account	Debit	Credit
[date]	Deferred Revenue	\$67,500	
	Revenue - Professional Services		\$67,500
	<i>To recognize revenue for Professional Services at point in time</i>		

3. Internal Control & Process Considerations: Effective internal controls over financial reporting (ICFR) will be crucial to ensure accurate accounting for the variable consideration and the timing of revenue recognition. This includes tracking the achievement of performance criteria for the variable consideration and monitoring the satisfaction of performance obligations over time to ensure compliance with ASC 606. Regular reviews and reconciliations will be necessary to maintain the integrity of revenue recognition processes.

6.

CONCLUSION

In conclusion, the accounting treatment outlined in this memo is appropriate and in accordance with ASC 606 for the identified complex contract. The key revenue recognition approach involves recognizing the Logi-AI Suite SaaS license revenue over time, while the hardware provisioning and professional services will be recognized at a point in time. Significant professional judgments were required in several areas, including determining whether the professional services significantly modify or customize the SaaS license, assessing the likelihood and amount of the performance bonus due to its contingent nature, allocating the performance bonus to the SaaS license, estimating the standalone selling price (SSP) for the hardware and professional services using adjusted market and cost-plus-margin approaches, and determining the appropriate method to measure progress for the SaaS license as a straight-line recognition over the contract period. Given the presence of variable consideration and the complexity of the terms, ongoing monitoring will be essential to ensure compliance with the revenue recognition criteria as circumstances evolve.

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PREPARED BY: ASC 606 AI Analyst

REVIEWED BY: [To be completed]

APPROVED BY: [To be completed]