

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

EXECUTIVE SUMMARY

The analysis of the contract between Innovate Tech and Global Dynamics confirms that it meets all criteria for revenue recognition under ASC 606. The contract is well-defined, outlining clear rights, obligations, and payment expectations, with a high probability of collecting the promised consideration. In total, three distinct performance obligations have been identified: the Logi-AI Suite SaaS license, the OptiScan-7 scanners, and the professional services. Each of these obligations is independently identifiable, while the performance bonus represents a contingent obligation dependent on meeting specific performance metrics. The total transaction price is structured as 240, 000 per year for the SaaS license, \$50,000 for the scanners, and 75, 000 for professional services, with an additional potential variable consideration of 30, 000 for the performance bonus. The allocation of the transaction price will utilize the relative standalone selling price method, ensuring compliance with ASC 606-10-32-28. Revenue recognition will occur over the contract term for the

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.

ASC 606 ANALYSIS

Step 1: Identify the ContractThe contract demonstrates clear approval because both Innovate Tech Solutions Inc. and Global Dynamics Corp. have executed the Statement of Work (SOW) under the terms of the Master Services Agreement dated January 15, 2022. This is consistent with ASC 606-10-25-1(a), which requires the parties to approve the contract and indicate their commitment to fulfilling their obligations. Each party's rights regarding the goods and services are well-defined in the contract. Innovate Tech is responsible for providing the Logi-AI Suite SaaS license, hardware, and professional services, as outlined in sections 1.1 to 1.3. The Customer, Global Dynamics Corp., is entitled to these deliverables upon satisfying the outlined acceptance criteria, fulfilling ASC 606-10-25-1(b). Payment terms for the goods and services are explicitly stated in the SOW. There are distinct fees for each deliverable: the SaaS license at 240, 000 annually, the hardware for 50, 000, and the professional services at 75,000, all due Net 30 from the Effective Date. A performance bonus of 30, 000 is also stipulated, contingent upon achieving specific cost reductions. Such specificity satisfies ASC 606-10-25-1(c). The contract has commercial substance because it is expected to change the risk, timing, or amount of Innovate Techs future cash flows. The transaction will require Innovate Tech to deliver the platform and services, which in turn will require Global Dynamics to make payments as detailed, thereby impacting cash flows as outlined in ASC 606-10-25-1(d). It is probable that Innovate Tech will collect the

consideration due as per ASC 606-10-25-1(e). The consistent payment history implied by the long-standing relationship, and the clearly defined payment terms, indicate that Global Dynamics has both the ability and intention to pay the agreed-upon amounts. **Conclusion:** The contract between Innovate Tech and Global Dynamics meets all criteria for recognition under ASC 606. The terms are clear, and the contract represents a substantive transaction with defined rights, obligations, and payment expectations. It is probable that Innovate Tech will collect the consideration promised in the transaction.#### Step 2: Identify Performance Obligations

The contract between Innovate Tech Solutions Inc. and Global Dynamics Corp. includes several promised goods and services that must be identified as performance obligations under ASC 606. As per ASC 606-10-25-16, the contract specifically includes three primary promised goods and services: the Logi-AI Suite SaaS license, the provision of OptiScan-7 handheld scanners, and the associated professional services for implementation and training. Applying ASC 606-10-25-20, we evaluate if each promise is capable of being distinct. The Logi-AI Suite SaaS license is capable of being distinct as the customer can utilize this service independently of other resources supplied, given that it includes standard support and maintenance with monthly feature updates. Similarly, the OptiScan-7 scanners are capable of being distinct because they serve a standalone function by enabling the real-time inventory tracking feature of the AI suite. The professional services, although described as enhancing the core functionality of the AI suite through custom integration, are classified as capable of being distinct since the software can function without these services. Under ASC 606-10-25-21(a-c), we assess whether these goods and services are distinct within the context of the contract. Each component meets criteria (a) and (b), given that they each have individual use either standalone or with other readily available resources. However, while professional services enhance the software's functionality, they are not so interdependent with the SaaS license and hardware delivery as to require combination into a single performance obligation. These services do not involve significant modification or customization that would amalgamate them with the hardware or software into a combined output, aligning with Case A under ASC 606-10-25-21. The elements are not highly interrelated, thus, per ASC 606-10-25-22, we can identify the SaaS license, hardware, and professional services as distinct performance obligations. Additionally, the 30,000 performance bonus tied to a reduction in shipping costs is contingent and separate, forming another potential performance obligation contingent on achieving specific metrics. **Conclusion:** The contract contains distinct performance obligations, consisting of the Logi-AI Suite SaaS license, the OptiScan-7 scanners, and the professional services. Each element is identifiable as a separate promise per ASC 606 because they can be utilized independently of one another. The performance bonus is a contingent performance obligation, dependent on meeting performance metrics.#### Step 3: Determine the Transaction Price

The contract between Innovate Tech and Global Dynamics outlines both fixed and variable

consideration. The fixed consideration comprises three elements: the Logi-AI Suite SaaS License at 240, 000 per year for three years, the hardware provision of OptiScan-7 scanners at a one-time fee of 50, 000, and the professional services at a one – time fee of 75, 000. These amounts are clearly outlined and represent fixed consideration.

2, as the promised prices are specified and agreed upon. For variable consideration, the 30,000, contingent upon a 15% reduction in shipping costs within the first 12 months. Under ASC 606-10-32-5 to 32-10, this is considered variable consideration because it is based on the occurrence of a future event. To include this in the transaction price, Innovate Tech must estimate the likelihood of achieving the reduction using either the expected value method or the most likely amount method, as per ASC 606-10-32-8. Constraints on variable consideration must be evaluated per ASC 606-10-32-11 to 32-14. The performance bonus can only be included in the transaction price to the extent that it is probable that a significant reversal will not occur. Given the historical achievement rate of 80% for customers of similar size, Innovate Tech might conclude that it is probable the performance condition will be met, though further company-specific evaluation is required to substantiate this determination. There is no evidence of a significant financing component because the timing of payments (net 30 days) does not provide either party with a significant financing benefit, aligning with ASC 606-10-32-15. Noncash consideration and consideration paid to a customer are not evident in this contract, focusing purely on monetary transactions between the parties. Conclusion: The transaction price appears to include 240, 000 per year for the SaaS license, \$50,000 for the scanners, and 75, 000 for professional services. The 30, 000 performance bonus is potential variable consideration, subject to constraint evaluation. No significant financing component or noncash consideration is present.### Step 4: Allocate the Transaction Price Conclusion: The allocation of the transaction price in this contract will follow the relative standalone selling price method. A proportionate allocation will be made between the hardware and professional services considering the explicit discount, pending determination of their standalone selling prices. This methodology ensures compliance with ASC 606-10-32-28 requirements, adequately reflecting the economic substance of the contract.### Step 5: Recognize Revenue The contract with Global Dynamics involves three distinct performance obligations: the Logi-AI Suite SaaS License, the Hardware Provisioning of OptiScan-7 scanners, and Professional Services for implementation. According to ASC 606-10-25-23, revenue is recognized when the customer obtains control of the asset associated with each performance obligation. For the Logi-AI Suite SaaS License, control is transferred over time as Global Dynamics receives and consumes the benefits provided by Innovate Tech's continuous performance, aligning with ASC 606-10-25-27(a). The SaaS license is a subscription service that includes ongoing support and updates;

thus, revenue should be recognized on a straight-line basis over the 3-year subscription period at the rate of 240, 000 per year, beginning from the Effective Date. The Hardware Provisioning of the OptiScan-7 scanners requires point-in-time revenue recognition. The contract stipulates that title and risk transfer to the Customer upon delivery, indicating control is transferred at this point in time based on ASC 606-10-25-23. Consequently, the 50, 000 fee should be recognized as revenue once delivery is completed, within 14 days of the Effective Date. For the Professional Services, these are recognized upon completion when the customer provides written acceptance of the services. As stated in the contract, these services are to be completed within 60 days, and upon written acceptance, control is transferred. According to ASC 606-10-25-27(b), revenue for the 75, 000 fee can be recognized at the point when the services receive sign-off, confirming fulfillment of the obligation. The performance bonus is contingent on achieving specified cost savings. Recognition of this 30, 000 occurs only if and when the specified reduction is achieved, per ASC 606-10-32-5's guidance on contingent considerations. Conclusion: Revenue for the Logi-AI Suite SaaS License is recognized over the contract term due to the continuous nature of the service. For the Hardware Provisioning, revenue is recognized at delivery since control transfers then. The Professional Services are recognized at completion upon customer acceptance, aligning with ASC 606 criteria for transferring control. The performance bonus is recognized only upon achieving the specified threshold.

CONCLUSION

In conclusion, the analysis of the contract between Innovate Tech and Global Dynamics demonstrates full compliance with ASC 606 revenue recognition standards. The contract's clear terms and distinct performance obligations facilitate appropriate revenue recognition, with the transaction price allocated based on the relative standalone selling price method. Revenue will be recognized in accordance with the timing of control transfer for each performance obligation, ensuring that the accounting treatment aligns with the principles outlined in ASC 606. Overall, the assessment indicates that Innovate Tech is positioned to recognize revenue accurately and in a manner that reflects the economic realities of the transaction.

PREPARED BY:
 [Analyst Name]
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 [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.