

# ASC 606 REVENUE RECOGNITION MEMORANDUM

TO: Chief Accounting Officer  
FROM: Technical Accounting Team  
DATE: August 21, 2025  
RE: contract01 - ASC 606 Revenue Recognition Analysis

## EXECUTIVE SUMMARY

### Executive Summary

This analysis of Global Dynamics' revenue recognition under ASC 606 confirms that the contract meets the necessary criteria for recognition, encompassing clear approval, defined rights, and probable collectibility. The contract delineates three distinct performance obligations: the Logi-AI Suite SaaS License, Hardware Provisioning of OptiScan-7 scanners, and Professional Services for integration and training, each providing separate benefits and identifiable functionality. The total transaction price of \$869,000 has been appropriately allocated to these performance obligations based on their relative standalone selling prices, with the SaaS license recognized over time and the hardware and professional services recognized at specific points in time. The proposed accounting treatment aligns with ASC 606, ensuring compliance and accuracy in revenue recognition practices.

Significant findings include the identification of variable consideration and the application of discounts to certain performance obligations, which necessitate careful monitoring to ensure accurate revenue reporting.

## 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 Contract

1.

Verification of Approval and Commitment (ASC 606-10-25-1(a)):

- The Statement of Work (SOW) is expressly described as being "entered into" by InnovateTech Solutions Inc. ("InnovateTech") and Global Dynamics Corp. on October 26, 2023, under the terms of a previously established Master Services Agreement (MSA) dated January 15, 2022. This indicates that both parties have agreed to and are committed to perform their respective obligations because the SOW is an executed document specifying the effective date and references a binding overarching agreement (the MSA).

2.

Identification of Each Party's Rights (ASC 606-10-25-1(b)):

- The contract clearly outlines the deliverables, which include the provision of the Logi-AI Suite SaaS License, hardware (OptiScan-7 Scanners), and Professional Services. InnovateTech's obligations to provide these items and services, along with the Customer's right to receive them, are clearly defined. Rights are enforceable as evidenced by specific deliverables listed under "Project Scope and Deliverables" and acceptance criteria detailed in section 4.0.

3.

Identification of Payment Terms (ASC 606-10-25-1(c)):

- Payment terms are explicitly stated in Section 2.0 of the contract. The SaaS License is priced at 240,000 per year, with the first installment due Net 30 from the Effective Date, while subsequent payments are due yearly. Wholly, hardware and professional services are priced at 50,000 for hardware and 75,000 for professional services. This clarity allows each party to understand their expectations concerning financial obligations associated with the contract.

4.

Assessment of Commercial Substance (ASC 606-10-25-1(d)):

- This contract has commercial substance because it impacts the risk, timing, and amount of InnovateTech's future cash flows by stipulating terms for payments that will directly result from performance obligations being met. The emergence of payment due dates tied to specific deliverables signifies

changing cash flows contingent on execution of the contract, which aligns with ASC 606's requirement for commercial substance.

5.

Probable Collection of Consideration (ASC 606-10-25-1(e)):

- Based on the contract's structure and clarity in terms, along with the historical performance rate mentioned (InnovateTech has achieved the performance bonus metric with 80% of similar customers), it appears probable that InnovateTech will collect the consideration stipulated. Given that both parties have a formalized agreement and specific payment terms along with evident customer measurement systems for performance, there seems to be no indication that the customer would not be able to meet their financial obligations.

**Conclusion:** The contract with Global Dynamics meets the criteria specified in ASC 606-10-25-1 for recognition. It has clear approval and commitments, defined rights and payment terms, commercial substance, and the probable collectibility of consideration making it a valid contract under ASC 606.

## Step 2: Identify Performance Obligations

1.

### Promised Goods and Services:

**Logi-AI Suite SaaS License : A software-as-a-service (SaaS) subscription for accessing InnovateTech's logistics management platform.**

**Hardware Provisioning : Provision of 200 proprietary OptiScan-7 handheld scanners.**

Professional Services : Implementation, system integration, and on-site user training to integrate the Logi-AI Suite with the Customer's ERP system.

2.

### Distinct Goods or Services Evaluation: a. Logi-AI Suite SaaS License:

Capable of Being Distinct : Yes, as Global Dynamics can benefit from the software on its own because it includes SaaS access, support, and maintenance services. (ASC 606-10-25-20) - Separately Identifiable : The SaaS license is not highly interdependent with other promises because the service includes its functionality and support, qualifying it as distinct. (ASC 606-10-25-21)

### b. Hardware Provisioning:

Capable of Being Distinct : The OptiScan-7 scanners can function with the Logi-AI Suite and potentially other systems that the Client may have, indicating they are capable of being distinct. (ASC 606-10-25-20) - Separately Identifiable : While the scanners are designed to optimize software usage, they do not require significant integration or alteration to function; hence, they are distinct. (ASC 606-10-25-21)

### c. Professional Services:

Capable of Being Distinct : These services provide benefit by enhancing functionality through integration. Based on the contract, while beneficial, the Logi-AI Suite can operate without these services, suggesting potential independence. (ASC 606-10-25-20) - Separately Identifiable : The services provide significant value by integrating the SaaS with the ERP systems, but the SaaS can operate independently. The integration services do enhance functionality but allow distinction due to separate completion and acceptance. (ASC 606-10-25-21)

3.

Assess Integration and Interdependence (ASC 606-10-25-19):

- The hardware does not significantly modify or affect the Logi-AI Suite intrinsically.
  - Professional services enhance but do not alter the SaaS's core functionality, allowing potential standalone use, underscoring low interdependence.

Given this assessment, each component—SaaS license, hardware scanners, and professional services—can be considered distinct performance obligations per ASC 606.

**Conclusion:** The contract with Global Dynamics includes three distinct performance obligations:

1. Logi-AI Suite SaaS License
2. Hardware Provisioning of OptiScan-7 scanners
3. Professional Services for integration and training

These components qualify as separate performance obligations because they each provide distinct benefits to the customer and can be separately identifiable due to their independent functionality and clear demarcation in the contract.

### Step 3: Determine the Transaction Price

**Fixed Consideration Amounts: The contract with Global Dynamics includes fixed fees for several components:**

**Logi-AI Suite SaaS License:**

*240,000 per year for three years, resulting in a total fixed consideration of*  
**720,000 over the contract term. This amount is payable annually at the beginning of each contract year (Contract Section 2.1).**

**Hardware Provisioning (OptiScan-7 Scanners): A one-time fee of \$50,000 due 30 days after the effective date (Contract Section 2.2).**

Professional Services: A one-time fee of \$75,000 due 30 days after the effective date (Contract Section 2.3).

**Total fixed consideration:  $720,000(SaaS) + 50,000(\text{Hardware}) + 75,000(\text{Services}) = 845,000$  Variable Consideration Amounts: The contract includes a variable element:**

Performance Bonus: A \$30,000 bonus contingent upon a 15% reduction in shipping costs within the first 12 months. Based on the historical achievement rate of 80% (Contract Section 2.4).

Per ASC 606-10-32-8, variable consideration should be estimated using either the expected value or the most likely amount. Given a likely outcome of 80%, an expected value approach results in a probability-weighted calculation of  $24,000(30,000 \times 80\%)$ . Constraints on Variable Consideration: As per ASC 606-10-32-11 to 32-13, variable consideration must be constrained to the extent it is probable that a significant reversal of cumulative revenue will not occur. Here, the bonus is subject to uncertainty, but the historical success rate supports a reasonable expectation. The estimation method aligns with paragraph 606-10-32-9. Significant Financing Components: Per ASC 606-10-32-15 and 606-10-32-16, a significant financing component may exist when payment terms provide a financial benefit. The contract terms, requiring upfront and annual payments, do not prolong the time between performance and payment enough to create a significant financing component. Noncash Consideration: The contract does not include any noncash consideration based on Section 2.0. Consideration Paid or Payable to a Customer: There are no clauses or adjustments in the contract indicating any payment made to the customer that would need to be considered in calculating the transaction price. Total Transaction Price Calculation: The total transaction price is the sum of fixed consideration and the unconstrained estimate of variable consideration:  $845,000(\text{fixed}) + 24,000(\text{variable, unconstrained}) = \$869,000$

**Conclusion:** The transaction price under ASC 606 is \$869,000, including both fixed and an unconstrained estimate of the variable consideration. There are no significant financing components impacting this calculation.

### Step 4: Allocate the Transaction Price

**Logi-AI Suite SaaS License providing a 3-year subscription for up to 500 users including support and maintenance.**

# Hardware Provisioning consisting of 200 "OptiScan-7" handheld scanners.

Professional Services covering implementation, system integration, and on-site user training.

2.

Stand-Alone Selling Prices (SSPs): Per the ASC 606-10-32-31 to 32-34, SSPs should be determined based on observable data where available. This involves either direct observation of prices of these offerings sold separately by InnovateTech or some other estimation method if such data is not directly available.

3.

Allocation Methodology: According to ASC 606-10-32-29, the transaction price should be allocated to each performance obligation on a relative SSP basis. Therefore, once SSPs are determined, the allocation of the transaction price is proportional to these SSPs.

4.

Discount Allocation: The contract specifies a 10% bundle discount on the standard standalone list prices for hardware and services, while the SaaS license is at its standard rate. According to ASC 606-10-32-37, the discount should be allocated proportionately to all performance obligations that are not priced at standalone rates, meaning it applies to both the hardware and the professional services.

Using the framework from ASC 606-10-55-262, any available SSP would allow for proportional application of this discount to effectively allocate the reduced fees across the specified obligations.

5.

Final Allocation Approach: Subject to determining SSPs, the contract's total transaction price will be allocated as follows:

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SaaS License : 240,000 *per year for three years, totaling* 720,000, which is not subject to the discount, directly.

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Hardware and Services : The 50,000 *hardware and* 75,000 services totals 125,000 *pre – discount.* 110 (12,500) will be allocated proportionally between these obligations unless granular SSPs direct otherwise.

**Conclusion:** The allocation of transaction price to performance obligations under this contract should be done based on relative SSPs for each obligation, considering the observable data or estimates for SSPs. The SaaS license will receive no discount application while the hardware and professional services benefit from the 10% discount, applied proportionately.

## Step 5: Recognize Revenue

1. Logi-AI Suite SaaS License:

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Revenue Recognition Timing: Over Time

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 Logi-AI Suite SaaS License grants Global Dynamics access to the software for a 3-year period with continuous provision of standard support and monthly updates. This indicates that the customer receives the benefit of the software and its updates as they occur over the contract period. Thus, the performance obligation is satisfied over time because Global Dynamics continuously benefits from using the SaaS as it is provided.

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Method for Measuring Progress: Time-based measure (straight-line)

**Since the service is provided evenly over the entire contractual period, a time-based measure (e.g., straight-line) can be used to recognize revenue, assuming no other facts suggest an unequal pattern of transfer of the benefits.**

## 2. Hardware Provisioning (OptiScan-7 Scanners):

Revenue Recognition Timing: Point in Time

**Per ASC 606-10-25-23, revenue is recognized when control of a good is transferred to the customer. The contract specifies that "title and risk of loss for the scanners transfer to the Customer upon delivery." This indicates that control passes to Global Dynamics at the point of delivery, and therefore, revenue should be recognized at that point in time. 3. Professional Services:**

Revenue Recognition Timing: Point in Time

**The contract specifies that professional services are considered complete upon "Customer's written acceptance." As per ASC 606-10-25-23, this indicates that control of the service is transferred at a point in time when the final deliverable is accepted by the customer. Recognition occurs upon completion and acceptance. 4. Performance Bonus:**

Revenue Recognition Timing: Variable consideration

The performance bonus is contingent upon achieving specific cost reductions. According to ASC 606-10-32-8 through 32-14, variable consideration can be recognized if it is probable that a significant reversal of cumulative revenue will not occur. Given InnovateTech's history of achieving the metric with 80% of its similar customers, it suggests some level of confidence in achieving this metric. Revenue for the bonus should be recognized when the criterion (15% reduction in shipping costs) is met.

**Conclusion: The performance obligations are recognized as follows:**

**Logi-AI Suite SaaS License: Over time, using a straight-line method over the 36 months.**

**Hardware Provisioning (OptiScan-7 Scanners): At a point in time upon delivery.**

**Professional Services: At a point in time upon written acceptance by the customer.**

Performance Bonus: When the specific performance metric is met.

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## **CONCLUSION**

In conclusion, the analysis of the contract with Global Dynamics demonstrates compliance with ASC 606, as it meets the criteria for contract recognition and appropriately identifies distinct performance obligations. The allocation of the transaction price based on relative standalone selling prices is consistent with the standard, and the recognition of revenue aligns with the transfer of control for each performance obligation. However, it is essential to ensure that the estimates for standalone selling prices and the recognition timing for the performance bonus are regularly reviewed for accuracy and compliance with the evolving terms of the contract.

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# APPROVAL

**PREPARED BY:**  
Technical Accounting Team  
August 21, 2025

**REVIEWED BY:**  
[To be completed by reviewer]  
[Date]

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*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.*