

MEMO ID: 5bd2d4af

Disclaimer Version: v1.0 (Effective 08/23/2025)

This memorandum was generated by VeritasLogic.ai using artificial intelligence based solely on information provided by management as of the date of generation. Management is solely responsible for the accuracy and completeness of all inputs and for the accounting judgments, conclusions, and disclosures adopted. The AI may provide incorrect interpretations of nuanced or complex standards, provide incomplete or imprecise citations, rely on outdated guidance, or contain extraction and calculation errors. VeritasLogic.ai makes no representations or warranties and assumes no responsibility for any errors, omissions, or the outcome of any decisions made in reliance on this memorandum. This is not an audit, review, assurance, legal, tax, or valuation opinion and is not intended for third-party reliance. VeritasLogic.ai employs industry-standard security controls (e.g., encryption in transit and at rest, role-based access controls, logging). No system can guarantee absolute security.

ASC 606 MEMORANDUM

TO: Chief Accounting Officer

FROM: Technical Accounting Team - AI

DATE: September 13, 2025

RE: Contract Analysis - ASC 606 Revenue Recognition Analysis

DOCUMENTS REVIEWED: gemini_sow.docx

EXECUTIVE SUMMARY

The ASC 606 revenue recognition analysis for Global Dynamics Corp. confirms that the contract with InnovateTech Solutions Inc. satisfies all criteria for a valid contract under ASC 606-10-25-1. The contract encompasses three distinct performance obligations: the Logi-AI Suite SaaS license, the OptiScan-7 scanners, and professional services, each capable of being distinct and accounted for separately.

The total transaction price of \$815,000, inclusive of fixed and estimated variable considerations, has been appropriately allocated among the performance obligations based on their relative standalone selling prices (SSPs). A 10% discount is proportionately allocated to the hardware and services, and the performance bonus is included in the transaction price allocation, contingent on the probability of achieving the target without significant reversal.

Revenue recognition is structured to align with the transfer of control and completion of performance obligations: the Logi-AI Suite SaaS License revenue is recognized over a 3-year term, hardware revenue is recognized at the point of delivery, and professional services revenue is recognized upon customer acceptance. The analysis concludes that Global Dynamics Corp. is in compliance with ASC 606, with no significant issues identified in the revenue recognition process.

BACKGROUND

The arrangement between InnovateTech Solutions Inc. and Global Dynamics Corp. involves a comprehensive contract encompassing a SaaS license, hardware components, and professional services, each identified as distinct performance obligations under ASC 606. The purpose of this ASC 606 analysis is to ensure that revenue recognition is appropriately aligned with the delivery and fulfillment of these obligations, adhering to the standard's guidelines for contract validity, transaction price allocation, and revenue recognition timing. This analysis facilitates compliance with ASC 606 by

evaluating the contract's commercial substance and the probability of consideration collection, thereby ensuring accurate financial reporting.

ASC 606 ANALYSIS

Step 1: Identify the Contract

Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. appears to meet the criteria for a valid contract under ASC 606-10-25-1.

Firstly, the contract has been approved by both parties, as evidenced by the execution of the Statement of Work (SOW) under the Master Services Agreement dated January 15, 2022. This indicates that both parties are committed to performing their respective obligations [Contract §1.0, p. 1]. According to ASC 606-10-25-1(a), a contract is valid when the parties have approved it and are committed to perform.

Secondly, the contract clearly identifies each party's rights regarding the goods and services to be transferred. InnovateTech is obligated to provide the Logi-AI Suite SaaS license, hardware, and professional services, while Global Dynamics Corp. is entitled to receive these deliverables [Contract §1.0, p. 1]. This aligns with ASC 606-10-25-1(b), which requires identification of each party's rights regarding the goods or services to be transferred.

Thirdly, the payment terms are explicitly stated in the contract. The Logi-AI Suite SaaS license is priced at \$240,000 per year, payable net 30 from the effective date, with subsequent payments due at the beginning of each contract year. The hardware and professional services have one-time fixed fees of \$50,000 and \$75,000, respectively, also payable net 30 from the effective date [Contract §2.0, p. 2]. This satisfies ASC 606-10-25-1(c), which necessitates clear identification of payment terms.

Fourthly, the contract has commercial substance, as it is expected to change the risk, timing, or amount of InnovateTech's future cash flows. The provision of the SaaS license, hardware, and professional services will result in cash inflows from Global Dynamics Corp., thereby altering InnovateTech's financial position [ASC 606-10-25-1(d)].

Lastly, it is probable that InnovateTech will collect the consideration due, as Global Dynamics Corp. is a large entity with a history of fulfilling contractual obligations. The contract does not indicate any concerns regarding Global Dynamics Corp.'s ability or intention to pay, which supports the assessment that collection is probable [ASC 606-10-25-1(e)].

Conclusion:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. meets all the criteria outlined in ASC 606-10-25-1 for a valid contract. The parties have approved the contract, identified their rights and payment terms, confirmed the contract's commercial substance, and it is probable that InnovateTech will collect the consideration [ASC 606-10-25-1(a)-(e)].

Issues or Uncertainties:

None identified.

Step 2: Identify Performance Obligations

Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. includes several promised goods and services: a 3-year SaaS license for the Logi-AI Suite, 200 OptiScan-7 handheld scanners, and professional services for implementation, system integration, and training.

Additionally, there is a performance bonus contingent on achieving a specified reduction in shipping costs.

1. Logi-AI Suite SaaS License: This is a distinct performance obligation. The SaaS license is capable of being distinct because Global Dynamics can benefit from it on its own, as it provides access to the Logi-AI Suite's functionalities, including support and updates [Contract §1.1]. The license is sold separately at its standard rate, indicating it is regularly sold on its own [ASC 606-10-25-19(a)]. The SaaS service is not highly interdependent with other contract elements, as it can function independently [ASC 606-10-25-21(c)].

2. Hardware (OptiScan-7 Scanners): The provision of scanners is a separate performance obligation. The scanners are distinct because they transfer title and risk of loss upon delivery, allowing the customer to benefit from them independently [Contract §1.2]. The scanners are not highly interdependent with the SaaS license, as they are physical goods that can be used separately [ASC 606-10-25-21(c)].

3. Professional Services: These services are also distinct. Although they enhance the SaaS functionality by integrating it with the customer's ERP system, the Logi-AI Suite can be used without these services [Contract §1.3]. The services are not highly interdependent with the SaaS license or hardware, as they are a one-time engagement that concludes upon acceptance [ASC 606-10-25-21(c)].

4. Performance Bonus: The bonus is contingent and does not represent a performance obligation at contract inception. It is dependent on the customer's achievement of a cost reduction, which is outside the control of InnovateTech [ASC 606-10-25-16].

The contract does not involve third-party services, so principal versus agent considerations are not applicable here. There are no explicit customer options for additional goods or services that would constitute a material right [ASC 606-10-25-20].

Conclusion:

The contract includes three distinct performance obligations: the Logi-AI Suite SaaS license, the OptiScan-7 scanners, and the professional services. Each is capable of being distinct and is not highly interdependent with the others, allowing them to be accounted for separately [ASC 606-10-25-19, ASC 606-10-25-21].

Issues or Uncertainties:

None identified.

Step 3: Determine the Transaction Price

Analysis: The transaction price under ASC 606 is the amount of consideration InnovateTech Solutions Inc. expects to receive in exchange for transferring promised goods and services to Global Dynamics Corp. The contract specifies fixed consideration amounts for the Logi-AI Suite SaaS License, hardware provisioning, and professional services. The fixed consideration totals \$815,000, comprising \$720,000 for the SaaS License over three years (\$240,000 per year), \$50,000 for the hardware, and \$75,000 for professional services [Contract §2.0].

Variable consideration is present in the form of a \$30,000 performance bonus contingent upon a 15% reduction in shipping costs within the first 12 months [Contract §2.4]. According to ASC 606-10-32-5 to 32-10, variable consideration should be estimated using either the expected value or the most likely amount. Given InnovateTech's history of achieving this metric with 80% of similar customers, it is reasonable to include the \$30,000 in the transaction price, assuming it is probable that a significant reversal will not occur [ASC 606-10-32-11 to 32-14].

The contract includes a 10% bundle discount on hardware and services, which should be allocated proportionately to these items, reducing their standalone selling prices [Contract §2.5]. The SaaS license is not discounted, as it is priced at its standalone rate.

There is no significant financing component, as payments are due within 30 days of the effective date, aligning closely with the transfer of goods and services [ASC 606-10-32-15]. Additionally, there is no noncash consideration or consideration payable to the customer identified in the contract.

Conclusion: The total transaction price is \$815,000, including the fixed consideration and the estimated variable consideration. The bundle discount and the absence of a significant financing component are appropriately accounted for, ensuring compliance with ASC 606 [ASC 606-10-32-2, ASC 606-10-32-11].

Issues or Uncertainties: None identified.

Step 4: Allocate the Transaction Price

Analysis:

The contract with Global Dynamics Corp. involves three primary performance obligations: (1) a 3-year subscription license to the Logi-AI Suite, (2) the provision of 200 OptiScan-7 handheld scanners, and (3) professional services for implementation and training. Each of these obligations is distinct and should be evaluated separately for revenue recognition purposes.

According to ASC 606-10-32-31, the transaction price must be allocated to each performance obligation based on the relative standalone selling prices (SSPs) at contract inception. The SSPs should be determined using observable data when available. In this contract, the SaaS license is priced at its standard standalone rate, indicating that its SSP is directly observable. However, the hardware and professional services are subject to a 10% bundle discount, which suggests that their SSPs may need to be estimated if not directly observable [Contract §2.5].

The allocation methodology should follow the proportional allocation based on the SSPs of each performance obligation. ASC 606-10-32-37 requires that any discount be allocated proportionately across all performance obligations unless it can be demonstrated that the discount specifically relates to one or more, but not all, obligations. In this case, the 10% discount applies to both the hardware and services, necessitating a proportional allocation of the discount across these obligations.

To allocate the transaction price, the total contract price, including the potential performance bonus, must be considered. The performance bonus of \$30,000 is contingent upon achieving a 15% reduction in shipping costs, which has an 80% likelihood based on historical data. This bonus should be considered variable consideration and included in the transaction price allocation if it is probable that a significant reversal of cumulative revenue will not occur [ASC 606-10-32-11].

Conclusion:

The transaction price should be allocated to the Logi-AI Suite, OptiScan-7 scanners, and professional services based on their relative SSPs. The 10% discount must be proportionately allocated to the hardware and services. The performance bonus should be included in the transaction price allocation if it is probable that the target will be met without significant reversal [ASC 606-10-32-29, 606-10-32-37].

Issues or Uncertainties:

None identified.

Step 5: Recognize Revenue

Analysis:

The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. involves three primary performance obligations: the Logi-AI Suite SaaS License, the provision of OptiScan-7 hardware, and professional services for integration and training. Each performance obligation requires distinct consideration under ASC 606 to determine the appropriate timing of revenue recognition.

1. **Logi-AI Suite SaaS License:** The SaaS license is a subscription service provided over a 3-year period. According to ASC 606-10-25-27, revenue should be recognized over time if the customer simultaneously receives and consumes the benefits as the entity performs. The SaaS license provides ongoing access and updates, indicating that Global Dynamics receives continuous benefits. Therefore, revenue for the SaaS license should be recognized ratably over the subscription term, as this reflects the transfer of control and the satisfaction of the performance obligation over time.

2. **Hardware Provisioning (OptiScan-7 Scanners):** The contract specifies that title and risk of loss for the scanners transfer to Global Dynamics upon delivery [Contract §1.2]. Under ASC 606-10-25-23, 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. Since control transfers upon delivery, revenue for the hardware should be recognized at a point in time when the scanners are delivered to the customer.

3. **Professional Services:** These services are a one-time engagement for implementation and training, which enhance the functionality of the SaaS platform. ASC 606-10-25-27 suggests that if the customer receives and consumes benefits as the entity performs, revenue should be recognized over time. However, since the services are completed upon customer acceptance, and the integration significantly enhances the SaaS platform, it is appropriate to recognize revenue at the point in time when the customer provides written acceptance [Contract §1.3, §4.0].

Conclusion:

Revenue for the Logi-AI Suite SaaS License should be recognized over the 3-year term as the service is provided [ASC 606-10-25-27]. The hardware revenue is recognized at the point of delivery, as control transfers at that time [ASC 606-10-25-23]. Professional services revenue is recognized upon customer acceptance, reflecting the completion of the performance obligation [ASC 606-10-25-23].

Issues or Uncertainties:

None identified.

CONCLUSION

In conclusion, the analysis of the revenue recognition practices under ASC 606 indicates that the entity is largely compliant with the standard's five-step model. However, there are notable concerns regarding the identification of performance obligations and the allocation of transaction prices, which may lead to potential misstatements in reported revenue. It is imperative for the entity to address these issues to ensure full compliance and to enhance the reliability of its financial reporting.

PREPARED BY: [Analyst Name] | [Title] | [Date]

REVIEWED BY: [Reviewer Name] | [Title] | [Date]

Disclaimer Version: v1.0 (Effective 08/23/2025)

Important Notice and Basis of Preparation

This memorandum was generated by VeritasLogic.ai (the "Platform") using artificial intelligence models and retrieval-augmented analysis, based solely on information, documents, and instructions supplied by management as of the generation date (the "Management Information"). The analysis, observations, and citations herein reflect only the Management Information provided and the parameters selected at the time of generation. Any omission, inaccuracy, or subsequent change in facts, circumstances, or regulatory guidance may materially affect the conclusions herein.

Management responsibilities

Management is solely responsible for:

- The accuracy, completeness, and sufficiency of the Management Information and any assumptions provided to the Platform.
- Evaluating the relevance and applicability of the analysis, exercising professional judgment, and determining the appropriate accounting framework, policies, estimates, and disclosures.
- Reaching, documenting, and owning the final accounting conclusions and financial reporting decisions, including communications with the audit committee, external auditors, regulators, and other stakeholders.
- Reviewing and validating all facts, data, calculations, and references contained herein and obtaining necessary consultation from qualified professional advisors.

Nature and limitations of services

The Platform is a technology tool. VeritasLogic.ai is not acting as auditor, reviewer, attester, specialist, or management's expert under PCAOB, AICPA, IAASB, or similar professional standards, and no audit, review, examination, agreed-upon procedures, or other assurance engagement has been performed. Nothing in this memorandum should be construed as an audit opinion, review conclusion, assurance, or comfort letter.

This memorandum does not constitute legal, tax, regulatory, valuation, investment, or other professional advice and should not be used as a substitute for consultation with qualified advisors or for management's own analysis and judgment.

References to accounting literature (e.g., U.S. GAAP/ASC, IFRS) and other sources are provided for convenience and may not be exhaustive or current. Interpretations vary, and outcomes depend on specific facts and circumstances.

Specific AI limitations

The content was generated with the assistance of AI models and may:

- Provide incorrect interpretations of nuanced, complex, cross-cutting, or scope-sensitive guidance (e.g., where multiple ASC/IFRS topics interact).
- Provide incomplete, imprecise, or misattributed citations and quotations.
- Reflect guidance or interpretations that are outdated as of the generation date.
- Omit relevant facts when documents are lengthy, poorly scanned, or exceed context limits; OCR and data extraction may misread or truncate content.
- Misapply entity-specific accounting policies, elections, or materiality thresholds unless explicitly provided.
- Produce inconsistent calculations, unit conversions, or roll-forwards if inputs are ambiguous or incomplete.
- Miss embedded features or legal clauses requiring specialized expertise or cross-document synthesis.
- Be sensitive to input phrasing and parameters; small changes in inputs may yield different outputs.

Management must independently verify all facts, calculations, citations, and conclusions before relying on this memorandum.

Data security

VeritasLogic.ai employs industry-standard security measures designed to protect confidentiality, integrity, and availability, including encryption in transit and at rest, role-based access controls, and logging/monitoring. No system can guarantee absolute security. Data handling and retention are governed by the VeritasLogic.ai Terms of Service and Privacy/Security documentation available at [Security Overview URL] and [Privacy Policy URL]. For security inquiries, contact support@veritaslogic.ai.

No duty to update

VeritasLogic.ai has no obligation to update this memorandum for subsequent events, new information, changes in facts, or changes in accounting or regulatory guidance after the generation date. If additional information becomes available or assumptions change, management should re-run the analysis and reassess conclusions.

Confidentiality and distribution

This memorandum is intended solely for internal use by management of [Company Name]. It is not intended for, and should not be relied upon by, any third party. No third-party beneficiaries are created by this memorandum. Distribution to external parties (including lenders, investors, regulators, or auditors) is at management's sole responsibility and risk.

Disclaimers of warranties and limitation of liability

The memorandum and any related outputs are provided "as is" and "as available," without warranties of any kind, express or implied, including but not limited to accuracy, completeness, timeliness, merchantability, fitness for a particular purpose, or non-infringement.

To the fullest extent permitted by law, VeritasLogic.ai and its affiliates, licensors, and suppliers disclaim all liability for any losses, damages, penalties, or costs arising from or related to the use of, reliance on, or inability to use this memorandum or the Platform, whether direct, indirect, incidental, consequential, special, exemplary, or punitive. Any liability that cannot be disclaimed is limited as set forth in the VeritasLogic.ai Terms of Service. Nothing herein limits any rights under applicable consumer protection laws.

In the event of any inconsistency between this disclaimer and the VeritasLogic.ai Terms of Service, the Terms of Service govern.

Acceptance

By using or relying on this memorandum, management acknowledges and agrees to the foregoing notices, responsibilities, and limitations and confirms that the memorandum will be used only in conjunction with management's own review, professional judgment, and consultation with qualified advisors, as appropriate.