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

Executive Summary: ASC 606 Revenue Recognition Analysis for Global Dynamics

This analysis concludes that a valid contract exists under ASC 606, as all criteria outlined in ASC 606-10-25-1 are satisfied. The Statement of Work (SOW) demonstrates a clear commitment from both parties, specifies deliverables and payment terms, and possesses commercial substance with a probable collection of consideration.

The contract encompasses three distinct performance obligations: the Logi-AI Suite SaaS License, the OptiScan-7 scanners, and Professional Services. Each of these obligations is capable of being distinct and separable within the context of the contract. It is important to note that the performance bonus does not qualify as a separate performance obligation under ASC 606.

The total fixed consideration for the first year of the contract is $365,000, with the potential for an additional$30,000 in variable consideration contingent upon meeting specific conditions. Prior to including the performance bonus in the transaction price, it must be analyzed

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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

- The parties have approved the contract because the document is a Statement of Work ("SOW") entered into by Innovate Tech and Global Dynamics under an existing Master Services Agreement (MSA) as of October 26,2023. The approval requirement under ASC 606-10-25-1(a) is satisfied with the documentation reflecting formal agreement and effective date.

- Each party's rights regarding the transfer of goods and services are identifiable. The SOW specifies that Innovate Tech will provide a SaaS license, hardware, and professional services. The deliverables are clearly outlined, fulfilling ASC 606-10-25-1(b).

- Payment terms for each deliverable are specified as follows: $240,000 per year for the SaaS license$,50,000 for hardware, and $75,000 for professional services. All are payable within 30 days from the effective date. These terms meet ASC 606-10-25-1(c).

- This contract has commercial substance because it involves changing the risk, timing, or amount of Innovate Tech's future cash flows. Specifically, revenues will come from the SaaS license and one-time fees for hardware and services, aligning with ASC 606-10-25-1(d).

- It is probable that Innovate Tech will collect the consideration because the payment terms are clear and linked to historical evidence of achieving similar metrics with 80% of peers, indicating Global Dynamics' ability and intention to fulfill financial obligations. This assessment meets ASC 606-10-25-1(e).

Conclusion: A valid contract exists under ASC 606 because all criteria under ASC 606-10-25-1 are satisfied. The SOW demonstrates commitment, specifies deliverables and payment terms, and has commercial substance with probable collection of consideration.

Step 2: Identify Performance Obligations

- Logi-AI Suite SaaS License appears to be a distinct performance obligation because it is a 3-year subscription license granting access to the software which could be used independently with standard support and maintenance as noted in ASC 606-10-25-16. The SaaS license provides a stand-alone benefit, meeting the criterion in ASC 606-10-25-19(b).

- Hardware Provisioning for "OptiScan-7" scanners is another distinct performance obligation. The title and risk of loss transfer to the customer upon delivery, indicating control is transferred separately from other services. These scanners are sold separately and can be utilized for the software's full functionality, which aligns with ASC 606-10-25-19(c).

- Professional Services, which include implementation, system integration, and on-site training, can be deemed a distinct performance obligation because although these services enhance the Logi-AI Suite's functionality, the software is usable without them. The integration and training do not significantly transform the software in a manner that it could not be offered separately, per ASC 606-10-25-21(a).

- Each above deliverable can provide standalone value, and none significantly modify the others, indicating they are not highly interdependent. Thus, each item is distinct under ASC 606-10-25-21(c).
- The performance bonus does not meet the criteria as a distinct performance obligation because it is contingent on future events (customer achieving a 15% reduction in shipping costs) rather than the standalone transfer of a good or service.

Conclusion: The contract with Global Dynamics includes three distinct performance obligations: the Logi-AI Suite SaaS License, the OptiScan-7 scanners, and Professional Services. Each is capable of being distinct and separable within the contract's context. The performance bonus is not considered a separate performance obligation under ASC 606.

Step 3: Determine the Transaction Price

- Fixed consideration amounts identified are threefold as detailed in the contract: $240,000 per year for the Logi-AI Suite SaaS License,$50,000 for the Hardware (OptiScan-7 Scanners), and $75,000 for Professional Services, totalling$365,000 for the first year of the contract. This is because these amounts are specified in the contract and are due within 30 days of contract execution.
- The contract contains variable consideration with a performance bonus potential of $30,000 contingent on a 15% reduction in shipping costs, as referenced in section 2.4 of the SOW. ASC 606-10-32-6 states that variable consideration should be estimated using either the expected value or most likely amount method. Since Innovate Tech has an 80% success rate, the performance bonus is likely considered in estimating the transaction price, but it requires consideration of constraint factors to ensure revenue is recognized only when it is probable a reversal will not occur.
- There is a bundle discount of 10% on the standalone prices for hardware and services (excluding the SaaS License) detailed in section 2.5 of the SOW. However, the SaaS License itself is not discounted, suggesting careful allocation of the transaction price is necessary to properly recognize revenue.
- ASC 606-10-32-5 through 32-10 requires us to consider variable consideration constraints. As the performance bonus is contingent upon future performance and could be constrained under ASC 606-10-32-11 if the probability of reversal is high, the entity must assess probability based on historical experience and other relevant factors.
- There appears to be no indication of a significant financing component per ASC 606-10-32-15 because all fixed and variable payments are due within a reasonable timeframe (net 30 days for fixed fees and within 12 months for the performance bonus).
- Noncash consideration is not applicable here, as all considerations specified are monetary.
- Consideration paid or payable to the customer is not present, as is typically identified in marketing or rebate arrangements.

Conclusion: The total fixed consideration for the first year of the contract amounts to $365,000. There is potential for an additional$30,000 variable consideration if conditions are met. The performance bonus must be analyzed for constraints under ASC 606-10-32-11 before inclusion in the transaction price. No significant financing component is present due to the short payment terms.

Step 4: Allocate the Transaction Price

- The performance obligations identified in Step 2 are: Logi-AI Suite SaaS License, Hardware Provisioning of OptiScan-7 scanners, and Professional Services for system integration and training. These are distinct deliverables under the contract because they provide value independently, aligning with ASC 606-10-25-14.
- According to ASC 606-10-32-31, standalone selling prices (SSPs) should be determined separately for each of these performance obligations based on observable inputs, such as market rates or listed prices, if available.
- The total transaction price, excluding the potential performance bonus, is $570, 000($240,000 for each year of the SaaS License, $50, 000 for the hardware, and$75,000 for the professional services). The performance bonus of $30,000 is contingent, and allocation to SSPs should be excluding performance bonuses initially as per ASC 606-10-32-5.
- The contract mentions a bundle discount where “total fees outlined above reflect a 10% discount on the standard standalone list prices for the hardware and services." Therefore, this discount needs to be allocated proportionately to the Hardware and Professional Services based on their SSPs, following ASC 606-10-32-36.
- The allocation should be based on the relative SSPs of Hardware and Professional Services, with the SaaS License fee stated to be at its standalone rate. It implies a need to adjust the transaction price for the discount before allocation as guided by ASC 606-10-32-29.

Conclusion: The transaction price of $570,000, excluding the contingent bonus, should be allocated based on the relative SSPs of the identified performance obligations, taking into consideration the 10% discount applied to the hardware and professional services. Each obligation's allocation must reflect its standalone value. Standalone selling prices need to be determined through market data or historical transactions to ensure proper allocation compliance with ASC 606.

Step 5: Recognize Revenue

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Logi-AI Suite SaaS License: Revenue from the SaaS license should be recognized over time because it represents a promise to provide continuous access to the Logi-AI Suite, which Global Dynamics consumes throughout the 3-year subscription period. This is consistent with ASC 606-10-25-27(a), which states that revenue is recognized over time if the customer receives and consumes benefits as the entity performs.

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Hardware Provisioning (OptiScan-7 Scanners): Revenue should be recognized at a point in time because control transfers to Global Dynamics upon delivery. The contract states that "title and risk of loss for the scanners transfer to the Customer upon delivery," supporting point-in-time recognition as per ASC 606-10-25-23.

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Professional Services: Revenue should be recognized at a point in time when the services are completed and accepted by the customer. The contract specifies that services are "considered complete upon Customer's written acceptance," aligning with ASC 606-10-25-27, which discusses control being transferred when the customer accepts the service.

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Performance Bonus: Revenue from the $30,000 bonus should be recognized over time based on the likelihood and measurement of achieving the 15% reduction in shipping costs, considering Innovate Tech's historical achievement rate of 80%. This aligns with ASC 606-10-32-28 through 32-41 on variable consideration, where revenue should only be recognized if it is probable that a significant reversal will not occur.

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Measurement for Over-Time Recognition: For the SaaS license, an output method such as time elapsed could be appropriate to measure the progress towards complete satisfaction, as the customer benefits evenly from the service over the subscription period (ref. ASC 606-10-25-33).

CONCLUSION

In conclusion, the analysis indicates that the contract with Global Dynamics is compliant with ASC 606, as all criteria for a valid contract are met, and the identified performance obligations are distinct and separable. The allocation of the transaction price of $570,000, excluding the contingent performance bonus, must be carefully executed based on the relative standalone selling prices (SSPs) of the performance obligations, ensuring that the 10% discount applied is appropriately reflected in the allocation. It is imperative to conduct a thorough assessment of the variable consideration related to the performance bonus to confirm that it meets the constraints outlined in ASC 606-10-32-11 before finalizing the transaction price.

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

REVIEWED BY:
 [Reviewer Name]
 [Title]
 [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.