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ASC 606 MEMORANDUM

TO: Chief Accounting Officer

FROM: Technical Accounting Team - AI

DATE: September 14, 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. meets all the 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. The inclusion of a performance bonus, estimated at \$30,000, is contingent and not considered a separate obligation at inception.

The total transaction price of \$862,500 is allocated among the performance obligations based on their relative standalone selling prices (SSPs). The SaaS license, priced at \$720,000, is recognized ratably over the 3-year term, while the hardware revenue of \$112,500 is recognized at the point of delivery. Professional services revenue is recognized upon customer acceptance. The performance bonus will be recognized separately when it becomes probable that the criteria will be met, ensuring compliance with ASC 606-10-32-11.

No significant financing component is present, as payments align with the transfer of goods and services. The analysis concludes that Global Dynamics Corp. is in compliance with ASC 606, with all revenue recognition practices appropriately aligned with the standard's requirements.

BACKGROUND

The arrangement under review involves a comprehensive contract between InnovateTech Solutions Inc. and Global Dynamics Corp., encompassing a Software as a Service (SaaS) license, hardware components, and professional services. This contract necessitates an ASC 606 analysis to ensure proper identification and allocation of performance obligations, as well as appropriate revenue recognition in accordance with the established guidelines. The analysis aims to ensure compliance with ASC 606 by evaluating the contract's commercial substance, the probability of consideration collection, and the allocation of transaction price among the distinct performance obligations.

ASC 606 ANALYSIS

Step 1: Identify the Contract

Analysis:

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

First, the contract has been approved by both parties, as evidenced by the Statement of Work (SOW) being entered into on October 26, 2023, under the terms of a pre-existing Master Services Agreement (MSA) dated January 15, 2022. This demonstrates that both parties are committed to performing their respective obligations, satisfying ASC 606-10-25-1(a).

Second, the rights of each party regarding the goods and services are clearly defined. InnovateTech is obligated to provide a SaaS license for the Logi-AI Suite, hardware in the form of OptiScan-7 scanners, and professional services for system integration and training. The customer, Global Dynamics Corp., is entitled to these deliverables, which are outlined in the SOW [Contract §1.0, p. 1]. This clarity fulfills ASC 606-10-25-1(b).

Third, the payment terms are explicitly stated. The SaaS license is priced at \$240,000 per year, with the first year's fee due within 30 days of the effective date. The hardware and professional services fees are one-time payments of \$50,000 and \$75,000, respectively, also due within 30 days [Contract §2.0, p. 2]. These terms satisfy ASC 606-10-25-1(c).

Fourth, the contract has commercial substance. The transaction will alter InnovateTech's future cash flows through the receipt of payments totaling \$365,000 in the first year and additional payments in subsequent years. This change in cash flows confirms the contract's commercial substance, as required by ASC 606-10-25-1(d).

Finally, it is probable that InnovateTech will collect the consideration due. The contract specifies that payments are due within 30 days, and InnovateTech's history of achieving performance metrics with 80% of similar customers suggests a strong likelihood of collection [Contract §2.4, p. 2]. This assessment aligns with ASC 606-10-25-1(e), which requires evaluating the customer's ability and intention to pay.

Conclusion: The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. satisfies all criteria under ASC 606-10-25-1 for a valid contract. The parties have approved the contract, rights and payment terms are identified, the contract has commercial substance, and it is probable that consideration will be collected [ASC 606-10-25-1].

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 subscription license to 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 15% reduction in shipping costs.

1. Logi-AI Suite SaaS License:

The SaaS license is a distinct performance obligation. It is a standalone subscription service that provides value to the customer independently, as the customer can benefit from the software on its own or with other resources [ASC 606-10-25-19]. The license is priced at its standard standalone rate, indicating it is regularly sold separately [Contract §1.1].

2. Hardware Provisioning (OptiScan-7 Scanners):

The provision of 200 scanners is also a distinct performance obligation. The contract specifies that title and risk of loss transfer upon delivery, suggesting that the scanners are a separate deliverable [Contract §1.2]. The scanners are necessary for optimal use of the Logi-AI Suite but are not highly interdependent with the SaaS license, as they can be used independently once delivered [ASC 606-10-25-21(c)].

3. Professional Services:

The professional services, including implementation, integration, and training, are distinct because they enhance the functionality of the Logi-AI Suite but are not essential for its use [Contract §1.3]. These services are separately identifiable, as the Logi-AI Suite can function without them, and they are completed upon customer acceptance [ASC 606-10-25-21(a)].

4. Performance Bonus:

The performance bonus is contingent and does not constitute a separate performance obligation at contract inception. It is dependent on the customer's achievement of specific cost reductions, which is outside the control of InnovateTech [ASC 606-10-25-16].

The contract does not suggest any customer options for additional goods or services or material rights that would constitute separate performance obligations [ASC 606-10-25-20].

Conclusion:

The contract with Global Dynamics Corp. includes three distinct performance obligations: the Logi-AI Suite SaaS license, the OptiScan-7 scanners, and the professional services. The performance bonus is contingent and not a separate obligation at inception [ASC 606-10-25-19, 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 be entitled to in exchange for transferring promised goods or services to Global Dynamics Corp. The contract specifies fixed consideration amounts for the Logi-AI Suite SaaS License, hardware, and professional services. The SaaS License is priced at \$240,000 per year for three years, totaling \$720,000 [Contract §2.1]. The hardware, OptiScan-7 scanners, is provided for a one-time fee of \$50,000 [Contract §2.2], and professional services are priced at \$75,000 [Contract §2.3]. These amounts are fixed and payable within 30 days of the effective date, indicating no significant financing component as the payment timing aligns with the transfer of goods and services [ASC 606-10-32-15].

Variable consideration is present in the form of a \$30,000 performance bonus, contingent upon achieving a 15% reduction in shipping costs within the first 12 months [Contract §2.4]. According to ASC 606-10-32-8, variable consideration should be estimated using either the expected value or the most likely amount method. Given InnovateTech's 80% success rate in achieving this metric with similar customers, it is reasonable to include this bonus in the transaction price, subject to the constraint that it is probable that no significant revenue reversal will occur [ASC 606-10-32-11].

The contract also mentions a 10% bundle discount on hardware and services, which must be considered in the transaction price allocation. The SaaS license is at its standalone price, so the discount applies only to the hardware and services [Contract §2.5]. The total standalone price for hardware and services before discount is \$125,000 (\$50,000 + \$75,000), and the discount amount is \$12,500 (10% of \$125,000). Therefore, the transaction price for hardware and services after discount is \$112,500.

No noncash consideration or consideration payable to the customer is identified in the contract.

Conclusion:

The total transaction price is \$862,500, comprising \$720,000 for the SaaS license, \$112,500 for hardware and services after discount, and an estimated \$30,000 performance bonus. The contract does not contain a significant financing component, as payments are aligned with the transfer of goods and services [ASC 606-10-32-15]. The performance bonus is included based on a high probability of achievement without significant revenue reversal [ASC 606-10-32-11].

Issues or Uncertainties:

None identified.

Step 4: Allocate the Transaction Price

Analysis: The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. identifies three primary performance obligations: (1) the Logi-AI Suite SaaS License, (2) the provision of OptiScan-7 scanners, and (3) professional services for implementation and training. Each of these obligations is distinct, as they provide separate benefits to the customer [Contract §1.0, p. 1].

According to ASC 606-10-32-31, the transaction price should be allocated to each performance obligation based on their relative standalone selling prices (SSPs). The SSPs should be determined using observable data where available, or estimated if not directly observable [ASC 606-10-32-33]. The contract specifies that the SaaS license is priced at its standard standalone rate, suggesting that its SSP is directly observable. However, the hardware and professional services are subject to a 10% bundle discount, indicating that their SSPs may need to be estimated [Contract §2.5, p. 2].

The allocation methodology will follow the proportional allocation approach, where the transaction price, including any discounts, is allocated based on the relative SSPs of the performance obligations [ASC 606-10-32-29]. The discount should be allocated proportionately across the hardware and professional services, as the SaaS license is not discounted [ASC 606-10-32-37]. This ensures that the allocation reflects the relative value of each performance obligation in the contract.

Given the total transaction price of \$315,000 (\$240,000 for the SaaS license, \$50,000 for the hardware, and \$75,000 for professional services), the allocation will depend on the determination of the SSPs for the hardware and services. The performance bonus of \$30,000 is contingent and should not be included in the initial allocation until it is probable that the bonus criteria will be met [ASC 606-10-32-11].

Conclusion: The transaction price should be allocated to the SaaS license, hardware, and professional services based on their relative SSPs. The 10% discount should be proportionately allocated to the hardware and professional services, as the SaaS license is at its standard rate [ASC 606-10-32-37]. The performance bonus will be recognized separately when it becomes probable that the criteria will be met.

Issues or Uncertainties: The SSPs for the hardware and professional services need to be determined or estimated to complete the allocation. Additionally, the probability of achieving the performance bonus should be assessed to determine its inclusion in revenue recognition.

Step 5: Recognize Revenue

Analysis: The contract between InnovateTech Solutions Inc. and Global Dynamics Corp. involves multiple performance obligations, including the provision of a SaaS license, hardware, and professional services. Each obligation must be evaluated to determine whether revenue is recognized over time or at a point in time.

1. Logi-AI Suite SaaS License: The SaaS license is a subscription service provided over a 3-year term, with annual payments of \$240,000 due at the start of each year. 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. Since the SaaS service provides continuous access and updates, revenue should be recognized ratably over the subscription period as the service is delivered [Contract §1.1].

2. **Hardware Provisioning (OptiScan-7 Scanners):** The contract specifies that title and risk of loss for the scanners transfer upon delivery [Contract §1.2]. According to ASC 606-10-25-23, control transfers at the point in time when the customer obtains control of the asset. Therefore, revenue for the hardware should be recognized at the point of delivery, which is within 14 days of the Effective Date [Contract §3.2].

3. **Professional Services:** These services are a one-time engagement for implementation and training, completed upon written acceptance by the customer [Contract §1.3]. As per ASC 606-10-25-23, control is transferred when the customer accepts the services. Consequently, revenue should be recognized at the point in time when the customer provides written acceptance.

4. **Performance Bonus:** The performance bonus is contingent on achieving a 15% reduction in shipping costs within the first 12 months. According to ASC 606-10-25-30, variable consideration such as bonuses should be recognized only when it is probable that a significant reversal will not occur. Given InnovateTech's history of achieving this metric with 80% of similar customers, the bonus may be recognized once the condition is met and verified by the customer's internal reporting systems.

Conclusion: Revenue for the SaaS license should be recognized over time, ratably over the 3-year term [ASC 606-10-25-27]. Hardware revenue is recognized at the point of delivery [ASC 606-10-25-23]. Professional services revenue is recognized upon customer acceptance [ASC 606-10-25-23]. The performance bonus is recognized when the condition is met and verified [ASC 606-10-25-30].

Issues or Uncertainties: None identified.

CONCLUSION

In conclusion, the analysis of the company's revenue recognition practices under ASC 606 indicates a substantial level of compliance; however, there are notable concerns regarding the identification of performance obligations and the timing of revenue recognition. Specifically, the inconsistent application of the five-step model raises questions about the accuracy of reported revenue, potentially impacting financial statement reliability. It is imperative that the company addresses these issues to ensure full adherence to ASC 606 and to mitigate any risks associated with misstatements in revenue reporting.

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

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

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