ASC 606 Revenue Recognition Policy Memorandum

Company Name: ABC Company, Inc.

Date: XX/XX/XXXX

Subject: Revenue Recognition Policy under ASC 606

I. Purpose

The purpose of this memorandum is to document the revenue recognition policy of ABC Company, Inc. ("ABC Company" or "the Company") under Accounting Standards Codification Topic 606, Revenue from Contracts with Customers ("ASC 606"), as applied generally across the Company's revenue arrangements with customers, including its SaaS platform subscriptions, implementation services, and related support offerings.

This memorandum documents the Company's policy for applying the five-step revenue recognition model under ASC 606 to determine the appropriate accounting treatment for its customer arrangements. This policy is intended to be applied consistently across substantially all of the Company's contracts with customers.

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****Disclaimer: This sample memo is a shortened version provided for illustrative purposes only. It includes documentation for two of the five steps in ASC 606 revenue recognition. A complete engagement includes full analysis and documentation across all five steps, tailored to your specific contracts and revenue model.***

II. Background

ABC Company is a Software-as-a-Service (SaaS) company that owns and operates a proprietary, cloud-based online platform (the "Platform") that functions as a hosted database of market data. Subscribing customers use the Platform to access aggregated market data and analytics regarding their own customer bases, enabling them to better understand, segment, and engage with their end customers. The Company primarily generates revenue through subscription-based arrangements that provide customers with access to the Platform, as well as from related implementation and ongoing support services.

The Platform is developed, hosted, and maintained solely by ABC Company using proprietary technology, data architecture, and integration methodology that are not available from any other provider. Customers access the Platform on a subscription basis to obtain ongoing, continuous access to the Company's market data and related analytical tools.

This memorandum evaluates the Company's revenue recognition policy as applied to its typical customer arrangements. Under the terms of a typical arrangement, ABC Company provides the customer with the following:

- **SaaS Subscription (ABC Platform)**: Access to the Company's hosted Platform over the contract term, including ongoing customer support
- **Implementation Services**: Configuration, data onboarding, and integration of the Platform within the customer's existing systems and workflows, performed exclusively by the Company
- **Ongoing Support Services**: Ongoing technical assistance and platform maintenance provided throughout the subscription term

These components form the basis for the Company's evaluation under ASC 606, including the identification of performance obligations and the determination of the appropriate pattern of revenue recognition.

III. Executive Summary

The table below summarizes the Company's revenue recognition conclusions for each performance obligation identified in its typical customer arrangement. For each performance obligation, the table identifies the pattern in which revenue is recognized – either at a single point in time or over time – along with the specific method used to measure recognition. This summary reflects the conclusions reached following an analysis of the five-step ASC 606 revenue recognition model. This summary is presented as a convenient reference point, ahead of the detailed step-by-step analysis that follows.

Performance Obligation	Recognition Pattern	Measurement of Recognition
Implementation and Deployment Services	Point in Time	Upon Delivery (at the go-live date)
Platform Subscription (including ongoing support and maintenance)	Over Time	Ratable

IV. Step 1 – Identification of the Contract with a Customer

ABC Company accounts for contracts with customers in accordance with ASC 606-10-25-1.

ASC 606-10-25-1: An entity shall account for a contract with a customer only when all of the following criteria are met: (a) the parties have approved the contract and are committed to perform their respective obligations; (b) the entity can identify each party's rights regarding the goods or services to be transferred; (c) the entity can identify the payment terms for the goods or services to be transferred; (d) the contract has commercial substance; and (e) it is probable the entity will collect substantially all of the consideration to which it will be entitled.

The Company evaluates its contracts with customers for the relevant criteria as follows:

a) **Approval and Commitment**: The parties have approved the contract (in writing, orally, or in accordance with customary business practices). Generally, a formal written agreement is signed by both parties to satisfy the approval and commitment criterion. Both parties have enforceable rights and obligations arising from the arrangement.

b) **Identification of Rights**: Each party's rights regarding the goods or services to be transferred can be identified in the contract. These are stated explicitly in the contract as the product or service being provided in exchange for consideration.

c) **Payment Terms**: The payment terms for the goods or services can be identified. These are explicitly stated in the contract.

d) **Commercial Substance**: The Company's contracts with customers contain commercial substance (i.e., risk, timing, or amount of future cash flows is expected to change) as a result of fulfillment of the services described in the Company's customer contracts.

e) **Collectability**: It is probable that the Company will collect substantially all of the consideration to which it is entitled. The Company evaluates collectability at contract inception for each customer based on the customer's financial condition, payment history, and other relevant factors. The Company has historically collected substantially all of the consideration to which it is entitled across its customer base and does not expect a significant change in collectability going forward. If collectability is evaluated and ever not deemed probable, the Company would not recognize the arrangement as a contract under ASC 606 until such time that the criteria are met.

Contract Structure / Form

ABC Company's contracts are typically executed through Master Service Agreements ("MSAs"), Statements of Work ("SOWs"), and/or order forms that collectively specify the services to be provided, pricing, contract term, and billing arrangements. The MSA establishes the general legal and commercial framework governing the relationship between the Company and the customer, including terms such as confidentiality, intellectual property ownership, limitation of liability, indemnification, warranties, termination rights, and other standard legal provisions that are not specific to any particular engagement. The MSA is typically negotiated once and remains in effect for the duration of the overall customer relationship, often governing multiple subsequent orders or engagements over time.

The order form (and, where applicable, the SOW) supplements the MSA by specifying the commercial and operational terms of a particular arrangement, including the specific services or subscriptions being purchased, pricing and fees, the subscription or service term, billing frequency, and any customer-specific configuration or deliverables. Where implementation or professional services are involved, the SOW further details the scope of work, deliverables, timeline, and any milestones associated with those services.

An order form or SOW is not effective as a standalone contract; it derives its enforceability from, and is governed by, the terms of the executed MSA. Accordingly, the MSA and the applicable order form (and/or SOW) must be read together to identify the complete set of enforceable rights and obligations between the parties for purposes of ASC 606. In substance, the MSA and the accompanying order form/SOW operate as a single, integrated contract: the MSA supplies the legal terms and conditions, while the order form/SOW supplies the commercial terms specific to the arrangement, including the pricing and services to which the Company's revenue recognition analysis is applied. For customers with an existing MSA, a new order form executed under that MSA is evaluated as a new contract (or contract modification, as applicable) for ASC 606 purposes, incorporating the pre-existing MSA terms by reference.

Contract Term

ABC Company evaluates the contract term for revenue recognition purposes based on the period of enforceable rights and obligations, rather than solely the stated contractual term.

ASC 606-10-25-4: For purposes of applying the guidance in this Topic, the contract term is the period during which the parties to the contract have present enforceable rights and obligations.

While customer agreements may specify a fixed term (e.g., one to three years), the Company considers termination provisions, including any substantive termination rights and associated penalties, in determining the enforceable period. If either party can terminate the contract without substantive penalty, the contract term is limited to the period prior to such termination rights. Accordingly, revenue recognition is based on the period over which the parties have enforceable rights and obligations under the arrangement, in accordance with ASC 606-10-25-4.

The Company's SaaS contracts generally have stated subscription terms ranging from one to three years, with auto-renewal provisions for successive periods absent notice of non-renewal. Certain contracts may provide the customer with a right to terminate without penalty upon advance notice (e.g., 30 to 60 days). In such cases, enforceable rights and obligations effectively extend only through the period in which services are provided and not cancelled, and the contract term for ASC 606 purposes is limited to the then-current enforceable period rather than the stated contractual term. The

Company evaluates the enforceable contract term on a contract-by-contract basis, consistent with the policy described above.

Multiple Contracts with the Same Customer

In evaluating whether multiple contracts entered into with the same customer at or near the same time should be combined and accounted for as a single contract, the Company considers factors such as whether the contracts were negotiated as a package with a single commercial objective, whether the amount of consideration in one contract depends on the price or performance of another contract, and whether the goods or services promised represent a single performance obligation. Where these indicators are present, the Company combines and accounts for the contracts as a single arrangement under ASC 606

Contract Modifications

Contract modifications are evaluated to determine whether they should be accounted for as a separate contract or as part of the existing contract, in accordance with ASC 606-10-25-10 through 25-13. Any changes to the scope, pricing, or terms of an existing contract are evaluated at the time they occur to determine whether the modification should be accounted for as a separate contract, as a termination of the existing contract and creation of a new contract, or as a cumulative catch-up adjustment to the existing contract, in accordance with the modification guidance in ASC 606-10-25-12 and 25-13.

V. Step 2 – Identification of Performance Obligations

ASC 606-10-25-14: At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Step 2 of the ASC 606 model requires identifying the performance obligations in a contract by evaluating all promises made to the customer to determine whether they are distinct. In applying this guidance, the Company reviews each customer contract in its entirety and identifies and assesses each promised good and service to determine which promises may represent distinct performance obligations and therefore should be accounted for separately under ASC 606.

The Company's customer contracts typically contain the following promises to the customer:

1) **Implementation and Deployment Services**: The Company agrees to deploy the Platform within the customer's operating environment, configure integrations with the customer's existing business systems, and complete all activities necessary to onboard the customer's data and achieve go-live. This is a one-time promise that culminates in the go-live event, at which point the customer obtains functioning access to the Platform. Implementation requires the Company's proprietary knowledge of its own data architecture and integration methodology and cannot be performed by any other provider.
2) **Platform Subscription**: Following go-live, the Company provides the customer with ongoing, continuous access to the hosted Platform, enabling the customer's users to use the Platform's market data and analytical tools. This is a time-based access right delivered over the subscription term.
3) **Support and Maintenance Services**: The Company provides ongoing support and maintenance throughout the duration of the contract. This includes technical support, bug fixes, platform updates, and maintenance activities.

<u>Evaluation of Distinct Criteria</u>

ASC 606-10-25-19: A good or service that is promised to a customer is distinct if both of the following criteria are met: (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (the 'capable of being distinct' criterion); and (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (the 'distinct within the context of the contract' criterion).

The Company evaluates the promises within its customer contracts in accordance with ASC 606 to determine whether each promise is capable of being distinct and whether it is distinct within the context of the contract, considering the nature of the services and their interrelationship with other promises in the arrangement.

Promise 1: Implementation and Deployment Services

- *<u>Capable of Being Distinct</u>*: The Company concludes that the implementation services are capable of being distinct, as the customer can benefit from the services together with the Platform subscription, which is a readily available resource concurrently provided under the contract. The implementation services result in a fully configured connection to the Platform and onboarded customer data, which provides the customer with a discrete, identifiable benefit. Although the implementation services can only be performed by the Company, given its proprietary data architecture and integration methodology, that fact relates to which party is capable of performing the service rather than whether the customer can benefit from it – the resulting benefit (a functioning, configured Platform environment) is separately identifiable and valuable to the customer regardless of who performs the work. Accordingly, the criterion that the services are capable of being distinct is met.

- *Distinct in the Context of the Contract*: The Company evaluated whether the implementation services are distinct within the context of the contract in accordance with ASC 606-10-25-21 and concluded that they are separately identifiable from the subscription service. While the implementation services configure and connect the customer's existing systems environment to the Platform, they do not provide a significant integration service that results in a combined or transformed output, as the Platform remains a standardized, cloud-based solution. The implementation activities also do not significantly modify or customize the underlying software, but instead consist primarily of setup and configuration tasks similar to installation. Although implementation must be completed before the customer can begin using the platform, this sequencing alone does not indicate a high level of interdependence, as the SaaS solution operates independently once implementation is complete. Accordingly, the implementation services are distinct within the context of the contract.

Promise 2: Platform Subscription

- *Capable of Being Distinct*: The Platform is capable of being distinct because it provides standalone functionality as a cloud-based SaaS solution that delivers value to the customer on its own. The customer can benefit from the platform once access is provided, as it performs its core functions independently of other services in the contract. While implementation facilitates initial setup and access, the platform itself is a fully functional product that could be used with other readily available resources. Therefore, the SaaS offering is capable of being distinct.
- *Distinct in the Context of the Contract*: Within the context of the contract, the Platform is separately identifiable from other promises. The platform does not significantly integrate with implementation services to create a combined output, nor is it significantly modified or customized by those services, as it remains a standardized solution. Although implementation is required prior to go-live, this

sequencing does not create ongoing interdependence, as the platform operates independently once deployed. Accordingly, the Platform is distinct within the context of the contract and represents a separate performance obligation.

Promise 3: Support and Maintenance Services

- *Capable of Being Distinct*: Ongoing support and maintenance services are capable of being distinct because they provide a benefit to the customer on their own or together with other readily available resources. The customer can receive value from troubleshooting, assistance, and routine updates in using the SaaS platform. Accordingly, the support and maintenance services are capable of being distinct.
- *Distinct in the Context of the Contract*: Within the context of the contract, ongoing support and maintenance services are not separately identifiable from the SaaS platform. The support services are highly interrelated with the SaaS offering, as they are designed to ensure the platform continues to function as intended and to resolve issues that arise during its use. In substance, the support activities significantly enhance and are closely aligned with the ongoing provision of the SaaS solution, rather than representing a separately identifiable service. Accordingly, the support and maintenance services are not distinct within the context of the contract and are combined with the SaaS platform as a single performance obligation.

Conclusion

Based on the evaluation above, the Company has identified two distinct performance obligations within its typical customer arrangement:

1) Implementation and Deployment Services
2) Platform Subscription (including ongoing support and maintenance)

Each of these promises was evaluated against the two criteria required for a good or service to be treated as a distinct performance obligation under ASC 606: (a) whether the customer can benefit from the good or service on its own or together with other readily available resources (the "capable of being distinct" criterion), and (b) whether the Company's promise to transfer the good or service is separately identifiable from the other promises in the contract (the "distinct within the context of the contract" criterion). Based on this evaluation, both the Implementation and Deployment Services and the Platform Subscription (including ongoing support and maintenance) were determined to be capable of being distinct and distinct within the context of the contract. Accordingly, each is accounted for as its own separate performance obligation under ASC 606.

Performance Obligation	Capable of Being Distinct	Distinct in the Context of the Contract
Implementation and Deployment Services	Yes	Yes
Platform Subscription (including ongoing support and maintenance)	Yes	Yes

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