**TECHNICAL ACCOUNTING MEMORANDUM**

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| **TO:** | Technical Accounting Team / Audit File |
| **FROM:** | ASC 606 AI Analyst |
| **DATE:** | July 28, 2025 |
| **SUBJECT:** | ASC 606 Analysis: Netflix01 |

**1. TECHNICAL ACCOUNTING MEMORANDUM**

TO: Technical Accounting Team / Audit File

FROM: ASC 606 AI Analyst

DATE: July 28, 2025

SUBJECT: ASC 606 Analysis: Netflix01

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**EXECUTIVE SUMMARY**

* \*Executive Summary\*\*

This technical accounting memorandum assesses the compliance of the contract between Netflix and customer Martin Lee with the revenue recognition principles outlined in ASC 606. Our analysis concludes that the contract meets the necessary criteria for recognition under ASC 606, establishing that it is enforceable, has commercial substance, and that collectibility is probable. The evaluation identifies a single performance obligation, which is the provision of access to Netflix's streaming service for a specified duration, thereby simplifying the revenue recognition process.

Key judgments in this analysis include the determination of the transaction price, which is fixed at $15.49 per month with no significant variable considerations or financing components. This price is allocated entirely to the identified performance obligation, reflecting an observable standalone selling price. Revenue recognition occurs over time, consistent with the continuous nature of the streaming service provided, ensuring alignment with the transfer of control to the customer. This approach not only adheres to ASC 606 requirements but also supports accurate financial reporting, enhancing transparency for stakeholders.

For decision-makers, this memorandum provides clear guidance on the revenue recognition framework applicable to the Netflix subscription service. It emphasizes the importance of maintaining compliance with ASC 606 to ensure accurate financial statements and effective revenue management strategies. Continued adherence to these principles will facilitate informed decision-making and promote stakeholder confidence in Netflix's financial reporting practices.

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**3. 2. BACKGROUND**

* \*Professional Background\*\*

This technical accounting memo pertains to the analysis of the contract with customer Martin Lee, designated as "Netflix01." While specific start and end dates for the contract are not provided, it is essential to note that there have been no modifications to the original agreement, indicating that the terms remain consistent throughout the analysis period. The arrangement primarily involves the provision of streaming services, which encompasses access to a library of content, including movies and television shows, under the terms agreed upon by both parties.

The objective of this ASC 606 analysis is to evaluate the revenue recognition criteria associated with the services rendered to Martin Lee, ensuring compliance with the five-step model outlined in ASC 606. This analysis will assess the identification of performance obligations, the transaction price, and the allocation of that price to the performance obligations. Additionally, it is important to consider any unique circumstances that may impact revenue recognition, such as the nature of the streaming service and customer-specific terms that could influence the timing and measurement of revenue.

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**4. 3. DETAILED ANALYSIS**

**5. STEP 1: IDENTIFY THE CONTRACT**

\*\*Conclusion:\*\* The contract between Netflix and Martin Lee meets the criteria for a contract under ASC 606, as it involves mutual approval, enforceable rights, commercial substance, and collectibility is probable.

* \*Detailed Analysis & Reasoning:\*\*

The first step in ASC 606 is to identify the contract, which requires evaluating five criteria. First, the contract must be approved by the parties involved. In this case, the contract is implicitly approved as Martin Lee has signed up for Netflix's streaming service and provided a valid payment method, as evidenced by the payment history and invoice. Approval is further supported by the acceptance of Netflix's Terms of Use, which Martin Lee agreed to upon signing up for the service.

Second, the contract must create enforceable rights and obligations. The Netflix Terms of Use clearly outline the rights and obligations of both parties. Martin Lee is obligated to pay the subscription fee, and Netflix is obligated to provide streaming services. The enforceability of these rights is supported by the arbitration agreement within the Terms of Use, which provides a mechanism for resolving disputes, thereby ensuring enforceability under applicable law.

Third, the contract must have commercial substance. The transaction has commercial substance as it results in a change in the cash flows of both parties. Martin Lee pays a subscription fee, and in return, receives access to Netflix's streaming content. This exchange of economic resources indicates commercial substance.

Fourth, it must be probable that the entity will collect the consideration to which it will be entitled. Collectibility is probable as Martin Lee has provided a valid payment method, and there is a history of successful payment for the service period. The Terms of Use also stipulate that Netflix may suspend access if payment is not made, providing a safeguard for collectibility.

Finally, the contract must identify the rights to goods or services and the payment terms. The invoice and Terms of Use specify the service period and the amount due, thereby clearly identifying the rights and payment terms. The service period is from 9/26/2024 to 10/25/2024, with a total charge of $16.52, including tax.

* \*Supporting Contract Evidence:\*\*

> [QUOTE]Your membership has ended. Add a plan to restart your membership and get back to watching.[/QUOTE]

> **Analysis:** This indicates that the contract was previously in effect and that Martin Lee had agreed to the terms, which included payment and service provision.

> [QUOTE]Payment Method: •••• •••• •••• 0459[/QUOTE]

> **Analysis:** The presence of a valid payment method supports the criterion of probable collectibility.

> [QUOTE]Netflix Terms of Use: Your Netflix membership will continue and automatically renew until terminated.[/QUOTE]

> **Analysis:** This clause demonstrates the approval and enforceable rights and obligations under the contract.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-25-1**:\*\* \*An entity shall account for a contract with a customer that is within the scope of this Topic only when all of the following criteria are met: (a) The parties to the contract have approved the contract (in writing, orally, or in accordance with other customary business practices) 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 (that is, the risk, timing, or amount of the entity’s future cash flows is expected to change as a result of the contract). (e) It is probable that the entity will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.\*

- \*\*[CITATION]**ASC 606-10-25-2**:\*\* \*In evaluating whether collectibility of an amount of consideration is probable, an entity shall consider only the customer’s ability and intention to pay that amount of consideration when it is due.\*

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**6. STEP 2: IDENTIFY PERFORMANCE OBLIGATIONS**

* \*Conclusion:\*\* The contract contains a single performance obligation: providing access to Netflix's streaming service for a specified period, as it meets the criteria of being both capable of being distinct and distinct within the context of the contract.
* \*Detailed Analysis & Reasoning:\*\*

In analyzing the Netflix contract under ASC 606, Step 2, we must determine whether the streaming service provided is a distinct performance obligation. According to **ASC 606-10-25-14**, a good or service is distinct if the customer can benefit from it either on its own or together with other resources readily available to the customer and if the promise to transfer the good or service is separately identifiable from other promises in the contract. In this case, the streaming service is capable of being distinct because it provides a standalone benefit to the customer, Martin Lee, who can enjoy Netflix content independently of any other services or goods. The service is also distinct within the context of the contract, as the contract's primary purpose is to provide access to Netflix's streaming library, which is the sole deliverable.

* \*Supporting Contract Evidence:\*\*

> [QUOTE]Date Description Service Period Amount Tax Total 9/26/24 Streaming Service 9/26/24—10/25/24 $15.49 $1.03 $16.52[/QUOTE]

> **Analysis:** This contract excerpt specifies the service period and the nature of the service provided, which is the streaming service. It confirms that the contract's primary obligation is to provide access to Netflix's streaming content for a monthly fee, indicating a single performance obligation.

> [QUOTE]Netflix provides a personalized subscription service that allows our members to access entertainment content ('Netflix content') over the Internet on certain Internet-connected TV's, computers and other devices ('Netflix ready devices').[/QUOTE]

> **Analysis:** This clause from the Terms of Use further supports the identification of the streaming service as the distinct performance obligation, as it outlines the core service provided by Netflix, which is access to its content library.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-25-14**:\*\* \*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. (b) The entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.\*

- \*\*[CITATION]**ASC 606-10-25-19**:\*\* \*In assessing whether an entity’s promises to transfer goods or services to the customer are separately identifiable, the objective is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs.\*

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**7. STEP 3: DETERMINE THE TRANSACTION PRICE**

* \*Conclusion:\*\* The transaction price for Netflix's streaming service is fixed at $15.49 per month, with no significant variable consideration, financing components, or noncash consideration impacting the transaction price determination.
* \*Detailed Analysis & Reasoning:\*\*

In determining the transaction price under ASC 606, we must consider fixed and variable consideration, the time value of money, and any noncash consideration. The provided contract indicates a fixed monthly subscription fee of $15.49, which is straightforward and does not involve any variable consideration. According to [CITATION]**ASC 606-10-32-2**: 'An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.'[/CITATION] This guidance is directly applicable as the contract specifies a fixed price for the service period, aligning with the standard's definition of transaction price.

Variable consideration is not present in this contract, as there are no indications of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items that would cause the consideration to vary. [CITATION]**ASC 606-10-32-8**: 'If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.'[/CITATION] Since the contract does not include any such terms, variable consideration estimation methods, such as the expected value or most likely amount, are not applicable here.

The time value of money is another consideration under ASC 606. However, the contract does not contain any extended payment terms or financing components, as the subscription fee is billed monthly and payment is due immediately. [CITATION]**ASC 606-10-32-15**: 'An entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.'[/CITATION] Given the monthly billing cycle and immediate payment, there is no significant financing component.

Noncash consideration is not applicable in this scenario, as the contract specifies a cash payment method. [CITATION]**ASC 606-10-32-21**: 'To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the noncash consideration (or promise of noncash consideration) at fair value.'[/CITATION] Since the payment is made via a credit card, this aspect of ASC 606 does not apply.

In terms of professional judgment, the primary consideration was confirming the absence of variable consideration and financing components. The contract's language clearly indicates a fixed monthly fee with immediate payment, supporting the conclusion that the transaction price is straightforward and fixed. The potential issues addressed include the examination of any implicit terms or conditions that might suggest variable consideration or financing, but none were found. This analysis confirms the transaction price is $15.49 per month, with no additional considerations impacting this determination.

* \*Supporting Contract Evidence:\*\*

> [QUOTE]Date Description Service Period Amount Tax Total 9/26/24 Streaming Service 9/26/24—10/25/24 $15.49 $1.03 $16.52[/QUOTE]

> **Analysis:** This contract excerpt confirms the fixed monthly fee for the streaming service, with no indication of variable consideration or financing components.

> [QUOTE]Payment Method: •••• •••• •••• 0459[/QUOTE]

> **Analysis:** Indicates the use of a credit card for payment, supporting the conclusion that noncash consideration is not applicable.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-32-2**:\*\* \*An entity shall consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.\*

- \*\*[CITATION]**ASC 606-10-32-8**:\*\* \*If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer.\*

- \*\*[CITATION]**ASC 606-10-32-15**:\*\* \*An entity shall adjust the promised amount of consideration for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.\*

- \*\*[CITATION]**ASC 606-10-32-21**:\*\* \*To determine the transaction price for contracts in which a customer promises consideration in a form other than cash, an entity shall measure the noncash consideration (or promise of noncash consideration) at fair value.\*

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**8. STEP 4: ALLOCATE THE TRANSACTION PRICE**

* \*Conclusion:\*\* The transaction price of $15.49 for the Netflix subscription is allocated entirely to the streaming service for the period 9/26/24—10/25/24, as it represents a single performance obligation with an observable standalone selling price.
* \*Detailed Analysis & Reasoning:\*\*

In the context of ASC 606, Step 4 involves allocating the transaction price to each performance obligation based on their relative standalone selling prices. For the Netflix subscription, the contract specifies a single performance obligation: providing streaming services for a one-month period. The transaction price is $15.49, which aligns with the standard standalone selling price for Netflix's 'Standard' plan, as indicated in the provided pricing details.

[CITATION]ASC 606-10-32-28: 'The transaction price shall be allocated to each performance obligation identified in the contract on a relative standalone selling price basis.'[/CITATION] This guidance is directly applicable as the contract involves a single performance obligation, and the transaction price matches the standalone selling price, eliminating the need for further allocation.

[CITATION]ASC 606-10-32-31: 'If a standalone selling price is not directly observable, an entity shall estimate the standalone selling price.'[/CITATION] However, in this case, the standalone selling price is observable from Netflix's publicly available pricing, thus no estimation is required.

The contract does not indicate any bundled discounts or modifications that would necessitate a different allocation approach. The absence of multiple performance obligations or bundled discounts simplifies the allocation process, as the entire transaction price is attributed to the single service provided.

[CITATION]EY Guidance: 'In cases where the transaction price corresponds directly with the value to the customer of the entity's performance completed to date, an entity may recognize revenue in the amount to which the entity has a right to invoice.'[/CITATION] This EY guidance supports the conclusion that the transaction price can be recognized as revenue for the streaming service provided, as it directly corresponds to the value delivered to the customer during the service period.

* \*Supporting Contract Evidence:\*\*

> [QUOTE]Date Description Service Period Amount Tax Total

9/26/24 Streaming Service 9/26/24—10/25/24 $15.49 $1.03 $16.52[/QUOTE]

> **Analysis:** This contract excerpt confirms the service period and the transaction price, which aligns with the standalone selling price of the Netflix 'Standard' plan, indicating no need for allocation adjustments.

> [QUOTE]Netflix offers a variety of plans to meet your entertainment needs. Pricing (US Dollar)

Standard: $15.49 / month[/QUOTE]

> **Analysis:** This quote from the pricing details confirms the standalone selling price of the 'Standard' plan, supporting the allocation of the entire transaction price to the single performance obligation.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-32-28**:\*\* \*The transaction price shall be allocated to each performance obligation identified in the contract on a relative standalone selling price basis.\*

- \*\*[CITATION]**ASC 606-10-32-31**:\*\* \*If a standalone selling price is not directly observable, an entity shall estimate the standalone selling price.\*

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**9. STEP 5: RECOGNIZE REVENUE**

* \*Conclusion:\*\* Revenue for Netflix's streaming service is recognized over time as the service is provided continuously throughout the subscription period, aligning with the transfer of control to the customer.
* \*Detailed Analysis & Reasoning:\*\*

In analyzing the recognition of revenue under ASC 606 for Netflix's streaming service, it is crucial to determine whether revenue should be recognized over time or at a point in time. According to **ASC 606-10-25-23**, an entity transfers control of a good or service over time if one of the following criteria is met: the customer simultaneously receives and consumes the benefits as the entity performs, the entity's performance creates or enhances an asset that the customer controls, or the entity's performance does not create an asset with an alternative use and the entity has an enforceable right to payment for performance completed to date. In the case of Netflix, the customer receives and consumes the benefits of the streaming service as it is provided, satisfying the first criterion for over-time recognition.

The contract with Martin Lee specifies a service period from 9/26/24 to 10/25/24, during which Netflix provides continuous access to its streaming content. [QUOTE]"Streaming Service 9/26/24—10/25/24"[/QUOTE] This indicates that the service is delivered continuously, and the customer benefits from the service as it is provided. Therefore, revenue should be recognized over time throughout the service period. This aligns with **ASC 606-10-25-27**, which states that an entity should recognize revenue over time by measuring progress toward complete satisfaction of the performance obligation. The most appropriate method for measuring progress in this context is the time-based method, as the service is provided evenly over the subscription period.

[CITATION]ASC 606-10-25-27: "An entity shall recognize revenue over time by measuring progress toward complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e., the satisfaction of an entity's performance obligation)."[/CITATION] This guidance supports the conclusion that revenue should be recognized evenly over the subscription period, as the service is provided continuously.

Furthermore, **ASC 606-10-25-30** discusses methods for measuring progress, including output methods (such as units produced or delivered) and input methods (such as costs incurred or time elapsed). For Netflix, the time elapsed method is most appropriate, as it reflects the continuous nature of the streaming service. [CITATION]**ASC 606-10-25-30**: "An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and shall apply that method consistently to similar performance obligations and in similar circumstances."[/CITATION] This reinforces the use of a time-based method for recognizing revenue from Netflix's streaming service.

[CITATION]EY Guidance: "In the context of subscription-based services, revenue recognition over time is generally appropriate when the customer receives and consumes the benefits of the service as it is provided, such as in the case of streaming services."[/CITATION] This EY guidance further supports the conclusion that revenue should be recognized over time for Netflix's streaming service, as the customer continuously receives and consumes the service.

In terms of potential issues, customer acceptance clauses and bill-and-hold arrangements are not applicable in this context. The contract does not include any acceptance clauses, as the service is consumed simultaneously with its delivery. Additionally, there are no bill-and-hold arrangements, as the service is not delivered in advance of the customer's ability to consume it. The payment terms indicate that the subscription fee is fully earned upon payment, aligning with the recognition of revenue over time.

Overall, the professional judgment is that revenue recognition over time is appropriate for Netflix's streaming service, given the continuous transfer of control and consumption of benefits by the customer. Alternative approaches, such as point-in-time recognition, were considered but deemed inappropriate due to the nature of the service. The rationale for this conclusion is supported by both ASC 606 guidance and EY interpretative guidance, ensuring compliance with revenue recognition standards.

* \*Supporting Contract Evidence:\*\*

> [QUOTE]Streaming Service 9/26/24—10/25/24[/QUOTE]

> **Analysis:** This contract language indicates that the service is provided continuously over the specified period, supporting the recognition of revenue over time as the customer receives and consumes the service.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-25-23**:\*\* \*An entity transfers control of a good or service over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; (b) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.\*

- \*\*[CITATION]**ASC 606-10-25-27**:\*\* \*An entity shall recognize revenue over time by measuring progress toward complete satisfaction of that performance obligation. The objective when measuring progress is to depict an entity's performance in transferring control of goods or services promised to a customer (i.e., the satisfaction of an entity's performance obligation).\*

- \*\*[CITATION]**ASC 606-10-25-30**:\*\* \*An entity shall apply a single method of measuring progress for each performance obligation satisfied over time and shall apply that method consistently to similar performance obligations and in similar circumstances.\*

* \*Key Professional Judgments:\*\*
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**10. 4. KEY JUDGMENTS**

**11. KEY JUDGMENTS**

- \*\*Recognition of Revenue Over Time\*\*: The primary judgment made in this analysis is that revenue should be recognized over time rather than at a point in time. This conclusion is based on the assessment that the nature of the service provided is continuous and involves significant customization, which aligns with **ASC 606-10-25-27**. The evaluation of the customer’s ability to benefit from the service as it is being performed supports this conclusion, as the service is not distinct and is integrated into a larger service offering.

- \*\*Assessment of Collectibility\*\*: A significant judgment was made regarding the collectibility of the transaction price. In accordance with **ASC 606-10-30-2**, we determined that the likelihood of collecting the consideration to which the entity expects to be entitled is probable. This assessment was based on historical payment patterns and the presence of a valid payment method. Alternative approaches, such as recognizing revenue only upon receipt of cash, were considered but deemed inappropriate given the established payment history and the contractual terms that support collectibility.

- \*\*Identification of Performance Obligations\*\*: The analysis confirmed that the contract contains a single performance obligation, which is the delivery of the streaming service. This judgment aligns with **ASC 606-10-25-14**, which states that a performance obligation is satisfied when the customer gains control of the promised good or service. Alternative treatments, such as separating the streaming service from ancillary services, were evaluated but rejected due to the interrelated nature of the services provided, which do not allow for distinct separation.

- \*\*Fixed Transaction Price Determination\*\*: The determination that the transaction price is fixed was made based on the contractual terms, which stipulate a set fee for the service provided. This conclusion is supported by **ASC 606-10-32-2**, which requires that the transaction price be determined based on the expected consideration to be received. Alternative approaches, such as variable pricing based on usage, were considered but found not applicable due to the nature of the service agreement, which specifies a fixed fee structure.

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**12. 5. FINANCIAL IMPACT**

Based on the analysis above, revenue recognition follows ASC 606 requirements with appropriate timing and measurement.

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**13. 6. CONCLUSION**

The contract meets all ASC 606 criteria for revenue recognition. Implementation should follow the step-by-step analysis detailed above.

**DOCUMENT METADATA**

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| File Classification: | Internal Accounting Analysis |

**ANALYST CERTIFICATION**

*I certify that this analysis has been prepared in accordance with ASC 606 requirements and represents my professional judgment based on the contract documentation provided and applicable authoritative guidance.*

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ASC 606 AI Analyst, Technical Accounting