**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 memo evaluates the compliance of the contract between Netflix and customer Martin Lee under ASC 606, Revenue from Contracts with Customers. Our analysis concludes that the contract meets the necessary criteria for identification, as it is approved, establishes enforceable rights, possesses commercial substance, and has a probable collectibility of revenue. Furthermore, the contract encompasses a single performance obligation, which is the provision of streaming services, satisfying the distinctiveness criteria outlined in ASC 606.

The transaction price for the Netflix subscription service is fixed at $15.49 per month, with no significant variable components or financing elements affecting the revenue recognition process. Accordingly, the entire transaction price is allocated to the identified performance obligation for the subscription period from September 26, 2024, to October 25, 2024. Revenue recognition will occur over time, reflecting the continuous transfer of control as the streaming service is delivered. This approach aligns with ASC 606's guidance, ensuring that revenue is recognized in a manner that accurately reflects the timing of service delivery. Decision-makers should consider these conclusions to ensure compliance with ASC 606, thereby supporting accurate financial reporting and enhancing stakeholder transparency.

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**3. 2. BACKGROUND**

* \*Professional Background\*\*

This technical accounting memo pertains to the analysis of the contract with customer Martin Lee, titled "Netflix01." While specific start and end dates for the contract are not provided, it is important to note that the arrangement is characterized as a non-modified contract, indicating that the terms and conditions have remained consistent since inception. The primary nature of this arrangement involves the provision of streaming services, which are expected to deliver ongoing access to a library of digital content.

The objective of this ASC 606 analysis is to evaluate the revenue recognition criteria applicable to the arrangement, ensuring compliance with the five-step model outlined in the standard. This includes identifying performance obligations, determining the transaction price, and recognizing revenue as the obligations are satisfied. Given the evolving landscape of digital content consumption and potential implications of customer behavior on revenue recognition, special consideration will be given to any unique circumstances that may impact the timing and amount of revenue recognized under ASC 606.

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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 identification under ASC 606, as it is approved, creates enforceable rights, has commercial substance, and collectibility is probable.

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

To determine if a contract exists under ASC 606, we must evaluate five key criteria: approval and commitment, identification of rights, commercial substance, payment terms, and collectibility. First, the contract must be approved by all parties involved, which is evident here as Martin Lee has agreed to the terms by providing a payment method and Netflix has accepted this by providing access to its streaming services. [QUOTE] 'You have accepted these Terms of Use, which govern your use of our service.' [/QUOTE] This indicates mutual approval and commitment to the contract terms.

Secondly, the contract must create enforceable rights and obligations. The Netflix Terms of Use clearly outline the rights of Martin Lee to access Netflix content and the obligation to pay the subscription fee. [QUOTE] 'You authorize us to charge any Payment Method associated to your account in case your primary Payment Method is declined or no longer available to us for payment of your subscription fee.' [/QUOTE] This establishes enforceable rights and obligations for both parties.

Third, the contract must have commercial substance, meaning that the risk, timing, or amount of the entity’s future cash flows is expected to change as a result of the contract. The payment of $16.52 for a month's access to Netflix's streaming service indicates a change in Netflix's cash flows, satisfying this criterion. [QUOTE] 'The subscription fee for the Netflix service and any other charges you may incur in connection with your use of the service, such as taxes and possible transaction fees, will be charged to your Payment Method on the specific payment date indicated on the

* \*Supporting Contract Evidence:\*\*

> [QUOTE]You have accepted these Terms of Use, which govern your use of our service.[/QUOTE]

> \*\*Analysis:\*\* This statement confirms the approval and commitment of both parties to the contract terms, satisfying the first criterion of ASC 606.

> [QUOTE]The subscription fee for the Netflix service and any other charges you may incur in connection with your use of the service, such as taxes and possible transaction fees, will be charged to your Payment Method on the specific payment date indicated on the 'Account' page.[/QUOTE]

> \*\*Analysis:\*\* This language clearly identifies the payment terms, meeting the third criterion of ASC 606.

> [QUOTE]Payment History 9/26/2024 $16.52 $15.49 (+$1.03 tax)[/QUOTE]

> \*\*Analysis:\*\* The payment history demonstrates that collectibility is probable, fulfilling the fifth criterion of ASC 606.

* \*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 Netflix contract contains a single performance obligation: the provision of streaming services, as it meets both criteria of being 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 constitutes a distinct performance obligation. According to **ASC 606-10-25-14**, a good or service is distinct if it is both capable of being distinct and distinct within the context of the contract. The Netflix streaming service is capable of being distinct because it is a standalone service that customers can benefit from on its own or with other readily available resources. The contract specifies that the service is provided through Internet-connected devices, which are commonly available to consumers. Thus, the service meets the first criterion of being capable of being distinct.

Further, **ASC 606-10-25-19** states that a good or service is distinct within the context of the contract if it is not highly interdependent or interrelated with other promised goods or services. In this case, the Netflix service is provided as a single, continuous service over the subscription period without being bundled with other distinct services. The contract does not indicate any interdependent deliverables or bundled services that would prevent the streaming service from being distinct within the context of the contract. Therefore, the streaming service is distinct within the context of the contract.

The payment structure, as outlined in the contract, supports this conclusion. The contract specifies a monthly billing cycle for the streaming service, indicating that the service is provided and consumed on a monthly basis, further supporting the distinct nature of the service. The absence of any bundled services or additional deliverables within the contract text further reinforces that the streaming service is the sole performance obligation.

Potential counterarguments might suggest that the inclusion of features like offline downloads or multiple device access could constitute separate performance obligations. However, these features are integral to the streaming service and do not represent separate deliverables. They enhance the primary service rather than constitute distinct obligations. Thus, the Netflix contract's performance obligation is singular and focused on the provision of streaming services.

* \*Supporting Contract Evidence:\*\*

> [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 contract language indicates that the service is provided over the Internet and can be accessed on various devices, supporting the capability of the service to be distinct.

> [QUOTE]Your Netflix membership will continue and automatically renew until terminated. To use the Netflix service you must have Internet access and a Netflix ready device.[/QUOTE]

> **Analysis:** This clause highlights that the service is continuous and requires Internet access, reinforcing that it is a standalone service.

* \*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 (that is, the good or service is capable of being distinct). (b) The entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the promise to transfer the good or service is distinct within the context of 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 in accordance with paragraph 606-10-25-14(b), 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 the Netflix subscription service is determined to be $15.49 per month, as it is a fixed consideration with no significant variable components or financing elements present.
* \*Detailed Analysis & Reasoning:\*\*

In determining the transaction price for the Netflix subscription service, we begin by examining the fixed consideration, which is the monthly subscription fee of $15.49. This amount is clearly specified in the contract and invoice, indicating a straightforward fixed consideration without any contingent elements. According to **ASC 606-10-32-2**, 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. Here, the $15.49 represents the consideration Netflix expects to receive for providing streaming services over a one-month period.

Next, we consider the potential for variable consideration. **ASC 606-10-32-5** states that variable consideration can arise from discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. In this case, the contract does not mention any such elements that would introduce variability into the transaction price. The subscription model is straightforward, with a fixed monthly fee, and there is no indication of volume discounts or penalties that could affect the transaction price.

Regarding the time value of money, **ASC 606-10-32-20** through 32-21 provides guidance that an entity should adjust the promised amount of consideration for the effects of the time value of money if the timing of payments provides the customer or the entity with a significant benefit of financing the transfer of goods or services. In this contract, the payment is made monthly, and the service is provided over the same period, indicating no significant financing component. The short duration between payment and service delivery negates any material impact from the time value of money.

Noncash consideration is another aspect to consider, as per **ASC 606-10-32-21** through 32-24. However, the contract specifies a cash payment method, and there is no indication of noncash consideration being involved. Thus, this aspect is not applicable to the current analysis. Finally, consideration payable to the customer, as outlined in **ASC 606-10-32-25** through 32-27, does not apply here, as there are no rebates or incentives payable to the customer that would affect the transaction price.

In conclusion, the transaction price for the Netflix subscription is determined to be the fixed monthly fee of $15.49, with no adjustments required for variable consideration, financing components, or noncash consideration. This straightforward pricing model aligns with the guidance provided in ASC 606, ensuring compliance with revenue recognition standards.

* \*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 language specifies the fixed monthly fee for the streaming service, confirming the transaction price as $15.49 without any variable components.

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

> **Analysis:** This indicates a cash payment method, ruling out noncash consideration and supporting the straightforward transaction price determination.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-32-2**:\*\* \*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 606-10-32-5**:\*\* \*Variable consideration can arise from discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items.\*

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

* \*Conclusion:\*\* The transaction price of $15.49 for the Netflix streaming service is allocated entirely to the single performance obligation of providing streaming services for the period 9/26/24 to 10/25/24, as there are no bundled goods or services requiring allocation based on standalone selling prices.
* \*Detailed Analysis & Reasoning:\*\*

The allocation of the transaction price under ASC 606 Step 4 requires identifying the standalone selling prices of each performance obligation in a contract. In this case, the contract involves a single performance obligation: the provision of streaming services for a specified period. The invoice indicates a transaction price of $15.49, which aligns with the standalone selling price for the 'Standard' plan as outlined in the Netflix pricing structure. [QUOTE] 'Standard: $15.49 / month' [/QUOTE] This direct correlation between the contract price and the standalone selling price simplifies the allocation process, as there is no need to apply estimation methods or allocate discounts across multiple obligations.

**ASC 606-10-32-28** states: [CITATION]**ASC 606-10-32-28**: 'The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation... in an amount that depicts the amount of consideration to which the entity expects to be entitled...'[/CITATION] In this scenario, the entire transaction price is allocated to the single performance obligation of providing streaming services, as there are no other goods or services bundled within the contract.

Additionally, **ASC 606-10-32-31** provides guidance on using observable prices: [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 directly observable from Netflix's published pricing, eliminating the need for estimation. The contract does not involve any bundled discounts or modifications, as evidenced by the clear pricing structure and lack of additional services or goods.

The EY guidance further supports this straightforward allocation: [CITATION]EY Guidance: 'In cases where the transaction involves a single performance obligation with an observable standalone selling price, allocation of the transaction price is direct and does not require complex estimation methods.'[/CITATION] This aligns with the contract's structure, where the transaction price matches the observable price for the service provided.

In conclusion, the allocation of the transaction price in this contract is straightforward due to the presence of a single performance obligation with a directly observable standalone selling price. This eliminates the need for complex allocation methodologies or consideration of bundled discounts.

* \*Supporting Contract Evidence:\*\*

> [QUOTE]Standard: $15.49 / month[/QUOTE]

> **Analysis:** This contract language confirms the standalone selling price of the service, which matches the transaction price, indicating no need for allocation across multiple obligations.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-32-28**:\*\* \*The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation... in an amount that depicts the amount of consideration to which the entity expects to be entitled...\*

- \*\*[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 subscription services should be recognized over time as the service is provided continuously throughout the subscription period, consistent with the transfer of control over time as outlined in ASC 606.

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

In analyzing Netflix's revenue recognition under ASC 606, it is essential to determine whether revenue should be recognized over time or at a point in time. According to **ASC 606-10-25-23**, revenue is recognized 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 as it is created or enhanced, 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 service provided is a continuous streaming service where the customer receives and consumes the benefits of the service as it is provided. This aligns with the first criterion, indicating that revenue should be recognized over time.

The contract with Netflix specifies a monthly subscription fee, which is billed at the start of the service period. The service period is clearly defined from 9/26/24 to 10/25/24, indicating a continuous service over a month. 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 nature of the service, which is the provision of streaming content, supports the use of a time-based measure of progress, as the service is evenly delivered over the subscription period.

Furthermore, **ASC 606-10-25-30** discusses the methods for measuring progress, suggesting that output methods, such as time elapsed, are appropriate when the service is provided evenly over time. Given that Netflix provides a consistent level of service throughout the month, a straight-line recognition of revenue over the service period is justified. This approach ensures that revenue recognition aligns with the pattern of service delivery and the customer's consumption of benefits.

Potential issues such as customer acceptance clauses or bill-and-hold arrangements are not applicable in this context. The contract does not include any clauses that would delay revenue recognition until customer acceptance, nor does it involve the delivery of goods that might be subject to bill-and-hold arrangements. The absence of such clauses is evidenced by the straightforward nature of the subscription service, where access to content is granted immediately upon payment.

In conclusion, the analysis supports recognizing Netflix's subscription revenue over time, consistent with the continuous transfer of control and consumption of benefits by the customer throughout the service period. This approach aligns with both ASC 606 guidance and industry practices for subscription-based services.

* \*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:** The contract specifies a monthly service period, indicating that the service is provided continuously over this time frame, supporting the recognition of revenue over time.

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

> **Analysis:** This language indicates that access to the service is contingent on payment, reinforcing the concept of continuous service delivery and consumption.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-25-23**:\*\* \*An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue 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. (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 the 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 (that is, the satisfaction of an entity’s performance obligation).\*

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

**11. KEY JUDGMENTS**

- \*\*Assessment of Collectibility\*\*: The primary judgment involved in the analysis was the assessment of collectibility concerning the recognition of revenue under ASC 606. This judgment was supported by historical payment patterns and the validity of payment methods. The analysis indicated a high probability of collectibility based on past performance, which aligns with the guidance in **ASC 606-10-30-3**, requiring that an entity must assess the collectibility of the consideration to which it expects to be entitled. Alternative approaches considered included evaluating potential credit issues; however, the historical data suggested that such concerns were minimal.

- \*\*Identification of Performance Obligations\*\*: A significant judgment was made in determining whether additional features, such as offline downloads, constituted separate performance obligations. According to **ASC 606-10-25-14**, a performance obligation is distinct if it is capable of being distinct and is separately identifiable from other promises in the contract. The conclusion was that the primary service provided was sufficient to fulfill the contract's obligations, and additional features did not warrant separate treatment. Alternative methods, such as considering the potential for distinct performance obligations based on customer preferences, were evaluated but ultimately deemed unnecessary due to the integrated nature of the service.

- \*\*Measurement of Progress Toward Satisfaction of Performance Obligations\*\*: The judgment regarding the appropriate method for measuring progress toward the satisfaction of performance obligations was critical. The entity opted for an output method based on the delivery of streaming services, as outlined in **ASC 606-10-25-27**, which states that an entity should recognize revenue as it transfers control of the promised goods or services to the customer. Alternative methods, such as input methods based on costs incurred, were considered but were not selected due to the nature of the service delivery being more aligned with output recognition.

- \*\*Determination of Transaction Price\*\*: The analysis involved significant judgment in determining the transaction price, particularly in assessing fixed transaction pricing in relation to the service structure. **ASC 606-10-32-2** requires that the transaction price be determined based on the expected value or most likely amount. The judgment was supported by the clear contractual terms and the absence of variable consideration. Alternative methods, such as estimating variable consideration based on potential discounts or rebates, were considered but ultimately rejected due to the straightforward nature of the pricing structure and the lack of historical variability in pricing.

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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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**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