**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**

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SUBJECT: ASC 606 Analysis: Netflix01

**EXECUTIVE SUMMARY**

* \*Executive Summary\*\*

This technical accounting memo evaluates the contract between Netflix and customer Martin Lee under the guidelines of ASC 606, concluding that the contract is fully compliant with the revenue recognition standards. The analysis confirms that the agreement possesses the necessary attributes of a valid contract, including enforceable rights and obligations, commercial substance, and probable collectibility. Consequently, Netflix's provision of streaming services to Martin Lee is recognized as a single distinct performance obligation, satisfying both criteria of being capable of being distinct and distinct within the context of the contract.

The transaction price for the streaming service is established at $15.49 per month, representing fixed consideration with no variable components or significant financing arrangements. This straightforward pricing structure allows for a clear allocation of the transaction price entirely to the performance obligation of providing streaming services for the subscription period from September 26, 2024, to October 25, 2024. Revenue recognition will occur over time, aligning with the customer's receipt and consumption of the service benefits throughout the subscription period. This approach not only adheres to ASC 606 requirements but also ensures accurate financial reporting and revenue recognition practices, thereby providing clarity and consistency for decision-makers in financial planning and analysis.

**3. 2. BACKGROUND**

* \*Professional Background\*\*

This technical accounting memorandum analyzes the contract between Martin Lee and the service provider, referred to as Netflix01. While specific start and end dates for the contract are not provided, it is essential to note that the arrangement is characterized as a single, unmodified contract, indicating that the terms and conditions have remained consistent throughout its duration. The primary nature of this arrangement involves the provision of streaming services, which encompasses access to a library of digital content, including movies and television shows.

The objective of this ASC 606 analysis is to evaluate the revenue recognition implications associated with the streaming service provided to Martin Lee, ensuring compliance with the five-step revenue recognition model outlined in ASC 606. Given the nature of the service and the absence of specified contract dates, special consideration will be given to the timing of revenue recognition, particularly in relation to the continuous delivery of services and any potential implications for performance obligations. This analysis aims to provide clarity on revenue recognition practices while addressing any unique circumstances that may arise from the contract's indefinite duration.

**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 is approved, has enforceable rights and obligations, possesses commercial substance, and collectibility is probable.

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

The first step in identifying a contract under ASC 606 is to determine if the agreement meets the five criteria outlined in **ASC 606-10-25-1**. The first criterion is that the parties to the contract have approved the contract and are committed to perform their respective obligations. In this case, the contract is evidenced by the invoice and payment history, which indicates that Martin Lee has accepted the terms by making a payment for the service period from 9/26/24 to 10/25/24. [QUOTE] 'Your membership has ended. Add a plan to restart your membership and get back to watching.' [/QUOTE] This suggests that Martin Lee had previously agreed to the terms and conditions of the Netflix service, fulfilling the approval requirement. The second criterion is that the entity can identify each party's rights regarding the goods or services to be transferred. The contract clearly outlines the service period and the nature of the service, which is the streaming service provided by Netflix. [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] This indicates that both parties understand the rights to access Netflix's streaming content during the specified period. The third criterion is that the entity can identify the payment terms for the goods or services to be transferred. The invoice provides a clear payment structure, including the service fee and applicable taxes, totaling $16.52. The payment method is also specified, indicating that Martin Lee has provided a valid payment method, which is a requirement under the contract terms. [QUOTE] 'Payment Method: •••• •••• •••• 0459' [/QUOTE] This satisfies the requirement for identifiable payment terms. The fourth criterion is that the contract has commercial substance. The exchange of payment for access to Netflix's streaming service demonstrates commercial substance, as it affects the cash flows of both parties involved. The payment history and the terms of service indicate that Martin Lee receives a tangible benefit from the service, and Netflix receives payment, which impacts their financial positions. The fifth and final criterion is that it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services transferred. Given that Martin Lee has already made the payment for the service period, collectibility is not an issue in this case. The payment history confirms that the consideration has been received, thus satisfying this criterion.

* \*Supporting Contract Evidence:\*\*

> [QUOTE]Direct quote from contract: 'Your membership has ended. Add a plan to restart your membership and get back to watching.'[/QUOTE]

> **Analysis:** This indicates prior acceptance of the terms and conditions by Martin Lee.

> [QUOTE]Direct quote from contract: '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 specifies the service period and payment terms, confirming the rights and obligations of both parties.

* \*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 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 ...

* \*\*Relevance:\*\* This guidance applies as all criteria are met by the Netflix contract with Martin Lee.

- \*\*[CITATION]**ASC 606-10-25-2**:\*\* 'A contract is an agreement between two or more parties that creates enforceable rights and obligations.'

* \*\*Relevance:\*\* The Netflix Terms of Use and the payment made by Martin Lee establish enforceable rights and obligations.
* \*Key Professional Judgments:\*\*
* The payment history and invoice serve as evidence of contract approval and commitment by both parties.
* The clear identification of service period and payment terms supports the identification of rights and obligations.

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

* \*Conclusion:\*\* The Netflix contract contains a single distinct performance obligation, which is 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 provided constitutes a distinct performance obligation. According to **ASC 606-10-25-14**, a good or service is distinct if the customer can benefit from it on its own or with other readily available resources, and it is separately identifiable from other promises in the contract. The Netflix streaming service meets the first criterion, as customers can benefit from the service independently by accessing a wide range of content through any internet-connected device. This capability is supported by the contract language that describes the service as 'personalized' and accessible on 'Netflix ready devices' [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]. This indicates that the service can be utilized independently of other services or goods. The second criterion, distinct within the context of the contract, requires that the service is separately identifiable from other promises. **ASC 606-10-25-21** explains that a service is not distinct if it is highly interrelated with other goods or services in the contract. In this case, the Netflix service is not bundled with other services or goods, and there are no interdependencies with other offerings. The contract specifies the service period and the associated fee, indicating a clear delineation of the service provided [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]. This clarity supports the conclusion that the streaming service is distinct within the context of the contract. Furthermore, the contract does not include any material modifications or bundled services that would affect the distinctness of the streaming service. The terms of use and billing details reinforce the standalone nature of the service, as they outline the subscription fee and renewal process without reference to additional bundled offerings. The absence of interdependent deliverables or material modifications confirms the distinct nature of the streaming service. In addressing potential counterarguments, one might consider whether the availability of different subscription plans (e.g., Standard, Premium) affects the distinctness of the service. However, each plan represents a separate contract with its own distinct performance obligation, as each plan offers different features and pricing. Therefore, the distinctness of the service within each plan remains unaffected. In conclusion, the Netflix streaming service is a distinct performance obligation under ASC 606, as it meets the criteria of being capable of being distinct and distinct within the context of the contract. This analysis is consistent with ASC 606 guidance and supported by the contract terms.

* \*Supporting Contract Evidence:\*\*

> [QUOTE]Direct quote from contract: '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 indicates the service is capable of being distinct as it can be used independently.

> [QUOTE]Direct quote from contract: '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 specifies the service period and fee, supporting the distinctness of the service within the contract.

* \*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.'

* \*\*Relevance:\*\* This guidance applies as the Netflix service can be used independently and is not bundled with other services.

- \*\*[CITATION]**ASC 606-10-25-21**:\*\* '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.'

* \*\*Relevance:\*\* This applies as the Netflix service is not combined with other services, confirming its distinctness.
* \*Key Professional Judgments:\*\*
* The streaming service is distinct as it can be used independently and is not bundled with other services.
* The contract terms clearly delineate the service period and fee, supporting the distinctness of the streaming service.

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

* \*Conclusion:\*\* The transaction price for the Netflix subscription service is determined to be $15.49 per month, reflecting fixed consideration without variable components, significant financing, or noncash considerations, based on the straightforward monthly billing cycle and immediate service access.
* \*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 fee is clearly stated in the contract and invoice, indicating a straightforward pricing model without any additional variable components such as discounts, rebates, or performance bonuses. The absence of such elements simplifies the transaction price determination, as there is no need to estimate variable consideration or apply a constraint. Variable consideration, as outlined in **ASC 606-10-32-5**, requires estimation using either the expected value or the most likely amount method, and then applying a constraint to ensure that it is probable that a significant reversal of revenue will not occur. However, in this case, the contract does not include any variable consideration elements, such as volume discounts or penalties. The contract specifies a fixed monthly fee, which is consistent across the billing cycle, thus negating the need for variable consideration estimation or constraint application. Regarding the time value of money, **ASC 606-10-32-15** through 32-20 addresses the need to consider significant financing components. The Netflix contract specifies monthly billing with immediate access to services, which means there is no significant time lapse between payment and service delivery. Consequently, the time value of money is not applicable, as the payment terms do not extend beyond one year, and the effect of any potential financing component is considered immaterial. Noncash consideration is also not applicable in this scenario. **ASC 606-10-32-21** through 32-24 requires entities to measure noncash consideration at fair value. However, the Netflix contract involves cash payments only, as evidenced by the payment method details provided in the invoice. Thus, there is no need to account for noncash consideration in determining the transaction price.

* \*Supporting Contract Evidence:\*\*

> [QUOTE][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][/QUOTE]

> **Analysis:** This contract language indicates a fixed monthly fee for the streaming service, confirming the absence of variable consideration.

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

> **Analysis:** This indicates a cash payment method, ruling out noncash consideration.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-32-5**:\*\* 'An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled: (a) The expected value—The expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. (b) The most likely amount—The most likely amount is the single most likely amount in a range of possible consideration amounts (i.e., the singl...

* \*\*Relevance:\*\* This guidance is not applicable as the contract does not include variable consideration.

- \*\*[CITATION]**ASC 606-10-32-15**:\*\* 'In determining the transaction price, 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.'

* \*\*Relevance:\*\* The guidance on financing components is not applicable as the contract specifies monthly payments with immediate service access, negating any significant financing component.
* \*Key Professional Judgments:\*\*
* The determination that no variable consideration exists is based on the fixed monthly fee structure.
* The conclusion that no significant financing component is present is due to the immediate service access upon payment.

**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 discounts or multiple performance obligations present in the contract.
* \*Detailed Analysis & Reasoning:\*\*

In analyzing the allocation of the transaction price under ASC 606, we begin by identifying the performance obligations in the contract. The contract provided is for a single month of Netflix streaming service, priced at $15.49, with an additional $1.03 in taxes, totaling $16.52. The contract does not specify multiple performance obligations; hence, the entire transaction price is allocated to the single service period of 9/26/24 to 10/25/24. According to **ASC 606-10-32-28**, the transaction price should be allocated to each performance obligation based on the relative standalone selling prices of each distinct good or service. In this case, the standalone selling price is observable as the monthly subscription fee for the 'Standard' plan, which is $15.49. There is no evidence of a bundled discount or multiple services being offered, which simplifies the allocation process. **ASC 606-10-32-31** states that if a standalone selling price is not directly observable, it should be estimated. However, in this scenario, the price is directly observable from Netflix's pricing structure, as outlined in the provided contract and supporting documents. The 'Standard' plan is priced at $15.49 per month, aligning with the invoice amount, confirming that the transaction price is allocated entirely to this single performance obligation. Furthermore, **ASC 606-10-32-40** discusses the allocation of discounts. Since the contract does not include multiple performance obligations or any indication of a bundled discount, this guidance is not applicable here. The contract's simplicity, with a single service and corresponding price, negates the need for complex allocation methodologies or discount considerations. In terms of potential issues, one might consider whether there are any unobservable standalone selling prices or bundled discounts that could affect the allocation. However, the contract and supporting documentation clearly outline a single service and price, with no modifications or additional services included. This analysis confirms that the transaction price allocation is straightforward and adheres to ASC 606 guidance.

* \*Supporting Contract Evidence:\*\*

> [QUOTE][QUOTE] 'Streaming Service 9/26/24—10/25/24 $15.49' [/QUOTE][/QUOTE]

> **Analysis:** This contract language indicates that the transaction price is for a single month of streaming service, supporting the allocation of the entire price to this period.

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

> **Analysis:** This pricing information confirms the standalone selling price of the service, aligning with the invoice amount.

* \*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.'

* \*\*Relevance:\*\* This guidance applies as the transaction price of $15.49 is allocated to the single performance obligation of providing streaming services.

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

* \*\*Relevance:\*\* This is not applicable here as the standalone selling price is directly observable from Netflix's pricing structure.
* \*Key Professional Judgments:\*\*
* The transaction price is allocated entirely to the single performance obligation due to the absence of multiple obligations or discounts.
* The observable standalone selling price simplifies the allocation process, negating the need for estimation methods.

**9. STEP 5: RECOGNIZE REVENUE**

* \*Conclusion:\*\* Revenue from Netflix's streaming service should be recognized over time as the customer simultaneously receives and consumes the benefits of the service throughout the subscription period.
* \*Detailed Analysis & Reasoning:\*\*

In analyzing the revenue recognition for Netflix's streaming service, the primary consideration is whether the revenue should be recognized over time or at a point in time. According to **ASC 606-10-25-27**, 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, 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 this case, the streaming service provided by Netflix meets the first criterion, as the customer receives and consumes the benefits of the service as it is provided over the subscription period. This is evidenced by the contract language stating that the membership period is from 9/26/24 to 10/25/24, during which the customer has access to the streaming content.

* \*Supporting Contract Evidence:\*\*

> [QUOTE][QUOTE] 'Membership for 9/26/2024-10/25/2024' [/QUOTE][/QUOTE]

> **Analysis:** This indicates that the service is provided over a specific period, supporting the recognition of revenue over time.

> [QUOTE][QUOTE] 'Your Netflix membership will continue and automatically renew until terminated.' [/QUOTE][/QUOTE]

> **Analysis:** This suggests a continuous service provision, reinforcing the over-time revenue recognition model.

* \*Authoritative Guidance:\*\*

- \*\*[CITATION]**ASC 606-10-25-27**:\*\* '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...'

* \*\*Relevance:\*\* This guidance applies as Netflix's service is consumed by the customer as it is provided, indicating that revenue should be recognized over time.

- \*\*[CITATION]**ASC 606-10-25-31**:\*\* 'For each performance obligation satisfied over time, an entity shall recognize revenue over time by measuring the progress toward complete satisfaction of that performance obligation...'

* \*\*Relevance:\*\* This reinforces the need to recognize revenue over time as the service is continuously delivered and consumed.
* \*Key Professional Judgments:\*\*
* The decision to recognize revenue over time is based on the continuous nature of the service and the customer's simultaneous consumption of benefits.
* The absence of any significant customer acceptance clauses or bill-and-hold arrangements simplifies the revenue recognition process to a straightforward over-time model.

**10. 4. KEY JUDGMENTS**

**11. KEY JUDGMENTS**

- \*\*Contract Approval and Commitment\*\*: The payment history and the invoice documentation serve as sufficient evidence of contract approval and mutual commitment between the parties involved. This aligns with **ASC 606-10-25-1**, which emphasizes the necessity of a contract to establish enforceable rights and obligations. The clear identification of the service period and payment terms further supports the identification of these rights and obligations, reinforcing the existence of a valid contract.

- \*\*Distinct Performance Obligation\*\*: The streaming service is determined to be a distinct performance obligation as it can be utilized independently and is not bundled with other services. This conclusion is supported by **ASC 606-10-25-19**, which states that a good or service is distinct if the customer can benefit from it on its own or together with other readily available resources. The contract terms explicitly delineate the service period and fee, confirming the distinct nature of the streaming service.

- \*\*Transaction Price Allocation\*\*: The transaction price is allocated entirely to the single performance obligation, as there are no multiple obligations or discounts present. This is consistent with **ASC 606-10-32-28**, which provides guidance on allocating the transaction price when a contract contains multiple performance obligations. The observable standalone selling price of the streaming service simplifies the allocation process, eliminating the need for estimation methods and ensuring compliance with **ASC 606-10-32-31**.

- \*\*Revenue Recognition Over Time\*\*: Revenue is recognized over time due to the continuous nature of the service and the customer's simultaneous consumption of benefits, as outlined in **ASC 606-10-25-27**. The absence of significant customer acceptance clauses or bill-and-hold arrangements further simplifies the revenue recognition process, allowing for a straightforward application of the over-time recognition model. Alternative treatments, such as recognizing revenue at a point in time, were considered but deemed inappropriate given the nature of the service delivery and consumption.

**12. 5. FINANCIAL IMPACT**

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

**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