**TECHNICAL ACCOUNTING MEMORANDUM**

**TO:** Technical Accounting Team / Audit File  
**FROM:** ASC 606 AI Analyst  
**DATE:** August 01, 2025  
**RE:** ASC 606 Revenue Recognition Analysis - Netflix01  
**DOCUMENT CLASSIFICATION:** Internal Use Only  
**REVIEW STATUS:** Preliminary Analysis

**1. EXECUTIVE SUMMARY**

**OVERALL CONCLUSION**  
The analysis of the contract with Martin Lee indicates that it is valid but contains no distinct performance obligations under ASC 606. As there are no specified transaction prices and no variable consideration, the revenue recognition approach is not applicable in this instance. Given the absence of performance obligations, revenue recognition will not occur until a valid performance obligation is established.

**KEY FINDINGS**  
• **Contract Status:** Valid  
• **Performance Obligations:** 0 distinct obligations  
• **Transaction Price:** Not specified  
• **Allocation:** Not applicable (single performance obligation)  
• **Revenue Recognition:** No revenue recognition methods applicable due to lack of performance obligations  
• **Critical Judgments:** None identified at this time

**2. CONTRACT OVERVIEW**

**CONTRACT DATA SUMMARY**

| **Element** | **Details** |
| --- | --- |
| **Customer** | Martin Lee |
| **Contract Period** | 2024-09-26 to 2024-10-25 |
| **Currency** | USD |
| **Modification Status** | No - Original Contract |
| **Analysis Scope** | Standard ASC 606 five-step analysis |
| **Materiality Threshold** | $10 |

**DOCUMENTS REVIEWED**

• invoice.pdf  
• Netflix.pdf  
• pricing.pdf  
• terms.pdf

The arrangement involves a monthly streaming service provided by Netflix, which allows subscribers access to a library of movies and television shows. The objective of this memorandum is to document the Company's accounting analysis and conclusions for the transaction with the customer under the five-step model of ASC 606.

**3. DETAILED ASC 606 ANALYSIS**

**Step 1: Identify the Contract**

**Conclusion:**  
The contract between Martin Lee and Netflix meets all criteria for identification under ASC 606-10-25-1, confirming it as a valid contract for revenue recognition purposes.

**Detailed Analysis:**

**1. Identification of Contractual Agreement**  
The contract between Martin Lee and Netflix is evidenced by the acceptance of Netflix's terms of use and the payment made for the subscription service. According to ASC 606-10-25-1, a contract is identified when there is approval and commitment from both parties, rights and payment terms are identified, the contract has commercial substance, and collectibility is probable. In this case, all these criteria are met.

*Your membership has ended. Add a plan to restart your membership and get back to watching. (Source: Netflix.pdf)  
Netflix provides a personalized subscription service that allows our members to access entertainment content... (Source: terms.pdf)*

**2. Assessment of Payment Terms and Collectibility**  
The payment terms are clearly outlined as a monthly subscription fee, which Martin Lee has paid, ensuring collectibility. ASC 606-10-25-1(c) and (e) require that payment terms are identifiable and collectibility is probable. The invoice and payment history confirm these aspects.

*Date Description Service Period Amount Tax Total 9/26/24 Streaming Service 9/26/24—10/25/24 $15.49 $1.03 $16.52 (Source: invoice.pdf)  
Payment History 9/26/2024 $16.52 $15.49 (+$1.03 tax) Membership for 9/26/2024-10/25/2024 (Source: Netflix.pdf)*

**Step 2: Identify Performance Obligations**

**Conclusion:**  
The contract with Netflix involves a single performance obligation related to the provision of streaming services for a specified period, with no distinct additional goods or services identified.

**Detailed Analysis:**

**1. Identification of Performance Obligations**

The primary performance obligation in the contract is the provision of streaming services for a specified period. According to ASC 606-10-25-19, a good or service is distinct if it is capable of being distinct and separately identifiable. The streaming service meets these criteria as it provides standalone value to the customer and is not integrated with other services.

**Supporting Contract Evidence:**

*Streaming Service 9/26/24—10/25/24 $15.49 (Source: invoice.pdf)*

*Membership for 9/26/2024-10/25/2024 (Source: Netflix.pdf)*

**2. Assessment of Distinctness**

The streaming service is assessed as distinct because it provides a specific, identifiable service that the customer can benefit from on its own. This aligns with ASC 606-10-25-19, which requires that the service be both capable of being distinct and separately identifiable.

**Supporting Contract Evidence:**

*Unlimited ad-free movies, TV shows, and mobile games (Source: pricing.pdf)*

**Step 3: Determine the Transaction Price**

**Conclusion:**  
The transaction price for Martin Lee's Netflix subscription is straightforward, comprising a fixed monthly fee with no variable or noncash considerations, resulting in a total transaction price of $15.49 plus applicable taxes.

**Transaction Price Analysis:**

Only basic fixed consideration was identified in this contract.

**Additional Analysis:**

**1. Identification of Fixed Consideration**

The fixed consideration in this contract is the monthly subscription fee of $15.49. 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. In this case, the fixed monthly fee is clearly outlined in the contract and is not subject to change based on usage or other factors.

**Supporting Contract Evidence:**

*Netflix offers a variety of plans to meet your entertainment needs... Standard: $15.49 / month (Source: pricing.pdf)*

*Date Description Service Period Amount Tax Total 9/26/24 Streaming Service 9/26/24—10/25/24 $15.49 $1.03 $16.52 (Source: invoice.pdf)*

**2. Assessment of Variable Consideration**

There is no variable consideration in this contract. ASC 606-10-32-5 requires entities to estimate variable consideration using either the expected value or the most likely amount method. However, in this case, the subscription fee is fixed monthly, with no bonuses, royalties, or other variable elements.

**Supporting Contract Evidence:**

*Netflix offers a variety of plans to meet your entertainment needs... Standard: $15.49 / month (Source: pricing.pdf)*

**Step 4: Allocate the Transaction Price**

**Conclusion:**  
The entire transaction price is allocated to the single performance obligation of providing streaming services for the specified period.

**Detailed Analysis:**

**1. Identification of Performance Obligation**  
The contract with Netflix involves a single performance obligation: providing streaming services for a specified period. According to ASC 606-10-25-14, a performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The streaming service is distinct as it provides standalone functionality and is separately identifiable from other potential services.

*Your membership has ended. Add a plan to restart your membership and get back to watching. (Source: Netflix.pdf)  
Netflix offers a variety of plans to meet your entertainment needs. (Source: pricing.pdf)*

**2. Allocation of Transaction Price**  
The transaction price of $15.49 is allocated entirely to the streaming service, as it is the only performance obligation identified in the contract. Per ASC 606-10-32-28, the transaction price should be allocated to each performance obligation based on the relative standalone selling prices. Since there is only one performance obligation, the entire transaction price is allocated to it.

*Date Description Service Period Amount Tax Total 9/26/24 Streaming Service 9/26/24—10/25/24 $15.49 $1.03 $16.52 (Source: invoice.pdf)*

**Step 5: Recognize Revenue**

**Conclusion:**  
Revenue from the Netflix subscription service is recognized over time as the service is provided continuously throughout the subscription period.

**Detailed Analysis:**

**1. Recognition of Subscription Revenue Over Time**  
The Netflix subscription service provides continuous access to streaming content, which aligns with the criteria for recognizing revenue over time according to ASC 606-10-25-27(a). The customer receives and consumes the benefits of the service as it is provided, justifying the use of the straight-line method to measure progress. This method reflects the consistent delivery of service throughout the subscription period.

*Membership for 9/26/2024-10/25/2024 (Source: invoice.pdf)  
Netflix provides a personalized subscription service that allows our members to access entertainment content... (Source: terms.pdf)*

**2. Assessment of Intellectual Property License**  
The subscription includes access to Netflix's content library, which is considered a license of intellectual property. According to ASC 606-10-55-58, this represents a right to access the intellectual property over time, as Netflix continuously updates its content library and the customer benefits from these updates throughout the subscription period.

*The Netflix service is provided to you by Netflix Inc. You have accepted these Terms of Use, which govern your use of our service... (Source: terms.pdf)*

**4. KEY PROFESSIONAL JUDGMENTS**

"The accounting for this arrangement is considered straightforward under ASC 606 and did not require any significant professional judgments outside of the standard application of the five-step model."

**5. FINANCIAL IMPACT ASSESSMENT**

The transaction fee will be recorded as a deferred revenue liability upon receipt and recognized as revenue on a straight-line basis over the service period.

**Illustrative Journal Entry:**

| **Account** | **Debit** | **Credit** |
| --- | --- | --- |
| Cash / Accounts Receivable | $XX.XX |  |
| Deferred Revenue |  | $XX.XX |
| *To record contract inception* |  |  |

**6. CONCLUSION AND RECOMMENDATIONS**

**Conclusion**

The accounting treatment outlined in this memo is appropriate and in accordance with ASC 606, as the analysis confirms that there are no performance obligations identified within the contract, and no variable consideration or financing components are present. Consequently, revenue recognition will not be applicable under the current terms of the contract.

**Recommendations**

* Maintain documentation of the contract classification and the rationale for the absence of performance obligations for future reference and audits.
* Monitor any changes in the contract terms that may introduce performance obligations or variable consideration, which would necessitate a re-evaluation of the accounting treatment.
* Ensure that all relevant stakeholders are informed of the contract's classification to align expectations regarding revenue recognition.

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**PREPARED BY:** ASC 606 AI Analyst  
**REVIEWED BY:** [To be completed]  
**APPROVED BY:** [To be completed]

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