**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**  
Based on the analysis of the contract with Martin Lee, the concluded accounting treatment under ASC 606 indicates that there are no performance obligations associated with this contract. Consequently, there is no revenue to recognize at this time, as the total transaction price is not specified and no variable consideration exists. The absence of performance obligations and applicable revenue recognition methods confirms that the contract remains inactive in terms of revenue recognition.

**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 subscription for a streaming service, which provides customers 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 the criteria for a valid contract under ASC 606 Step 1, as it involves a clear exchange of services for payment, with both parties committed to the terms.

**Detailed Analysis:**

**1. Approval and Commitment**  
The contract demonstrates approval and commitment from both parties. Martin Lee has agreed to the terms by subscribing and making a payment, while Netflix has committed to providing the streaming service. This mutual agreement is a key requirement under ASC 606-10-25-1(a).

*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. Identification of Rights and Payment Terms**  
The contract clearly outlines the rights of Martin Lee to access Netflix's streaming services and the obligation to pay a monthly subscription fee. This aligns with ASC 606-10-25-1(b) and (c), ensuring both parties understand their rights and obligations.

*Membership for 9/26/2024-10/25/2024 (Source: Netflix.pdf)  
The subscription fee for the Netflix service and any other charges you may incur... will be charged to your Payment Method... (Source: terms.pdf)*

**3. Commercial Substance and Collectibility**  
The contract has commercial substance as it results in a change in the cash flows of both parties, with Netflix receiving subscription fees and Martin Lee gaining access to content. Collectibility is probable, as evidenced by the successful payment recorded. This satisfies ASC 606-10-25-1(d) and (e).

*Payment Method: •••• •••• •••• 0459 (Source: invoice.pdf)  
The subscription fee for the Netflix service... will be charged to your Payment Method... (Source: terms.pdf)*

**Step 2: Identify Performance Obligations**

**Conclusion:**  
The Netflix contract involves a single performance obligation: the provision of streaming services for a specified period. This obligation is distinct and not part of a series of distinct goods or services.

**Detailed Analysis:**

**1. Identification of Performance Obligations**

The contract with Netflix involves the provision of streaming services for a specific billing period. According to ASC 606-10-25-19, a performance obligation is distinct if it is capable of being distinct and separately identifiable. The streaming service meets these criteria as it provides standalone functionality to the customer and is not integrated with other services. The contract does not include any additional goods or services, making the streaming service the sole performance obligation.

**Supporting Contract Evidence:**

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

**2. Assessment of Customer Options**

The contract does not offer any options for additional goods or services that would provide a material right to the customer. The terms focus solely on the provision of streaming services for the specified period, without any discounts or renewals that would constitute a separate performance obligation under ASC 606-10-55-41.

**Supporting Contract Evidence:**

*Netflix offers a variety of plans to meet your entertainment needs. (Source: pricing.pdf)*

**Step 3: Determine the Transaction Price**

**Conclusion:**  
The transaction price for Martin Lee's Netflix subscription is straightforward, consisting solely of fixed consideration with no variable or noncash components. The total transaction price is $16.52 for the service period of 9/26/24 to 10/25/24.

**Transaction Price Analysis:**

Only basic fixed consideration was identified in this contract.

**Additional Analysis:**

**1. Identification of Fixed Consideration**

The fixed consideration for this contract is the monthly subscription fee of $15.49 for the Netflix streaming service. 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. In this case, the fixed monthly fee is clearly stated and is the only consideration involved.

**Supporting Contract Evidence:**

*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. Analysis of Other Considerations**

The transaction price also includes a tax component of $1.03, bringing the total to $16.52. This aligns with ASC 606-10-32-2, which requires the transaction price to include all amounts expected to be received, including taxes. The tax is a straightforward addition to the fixed consideration and does not introduce any variable elements.

**Supporting Contract Evidence:**

*SUBTOTAL $15.49 TAX TOTAL $1.03 TOTAL $16.52 (Source: invoice.pdf)*

**Step 4: Allocate the Transaction Price**

**Conclusion:**  
The entire transaction price is allocated to the single performance obligation of providing a monthly streaming service, as there are no other distinct performance obligations in the contract.

**Detailed Analysis:**

**1. Identification of Fixed Consideration**  
The contract involves a fixed monthly fee for the streaming service, which is straightforward and does not involve any variable consideration. According to ASC 606-10-32-31, 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 of $15.49 is the transaction price.

*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. Allocation of Transaction Price**  
The transaction price is allocated entirely to the single performance obligation of providing the streaming service. ASC 606-10-32-28 requires that the transaction price be allocated to each performance obligation based on the relative standalone selling prices of each distinct good or service. Since there is only one performance obligation, the entire transaction price is allocated to it.

*Netflix offers a variety of plans to meet your entertainment needs. As a Netflix member, you are charged monthly on the date you signed up. (Source: pricing.pdf)*

**Step 5: Recognize Revenue**

**Conclusion:**  
The Netflix subscription contract involves a single performance obligation, which is the provision of streaming services, recognized over time as the customer receives and consumes the benefits throughout the subscription period.

**Detailed Analysis:**

**1. Identification of Performance Obligation**  
The Netflix contract involves a single performance obligation: the provision of streaming services. According to ASC 606-10-25-14, a performance obligation is a promise to transfer a good or service to a customer. The contract's primary promise is to provide access to Netflix's content library, which is a service that the customer consumes as it is provided. This aligns with the guidance in ASC 606-10-25-19, which states that a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer should be treated as a single performance obligation.

*Netflix provides a personalized subscription service that allows our members to access entertainment content... (Source: terms.pdf)*

**2. Revenue Recognition Over Time**  
Revenue is recognized over time as the customer receives and consumes the benefits of the streaming service simultaneously. ASC 606-10-25-27(a) supports this recognition method, as the customer benefits from the service as it is delivered. The straight-line method is appropriate because it reflects the continuous nature of the service provision, with no significant fluctuations in the delivery of content over the subscription period.

*Your Netflix membership will continue and automatically renew until terminated... (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 price is not specified, but upon receipt of payment, the fee will be recorded as a deferred revenue liability 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, given the classification of the contract as complex despite the low transaction complexity score. As there are no identified performance obligations, variable considerations, or financing components, revenue recognition will not be applicable under the standard's framework. Furthermore, no significant judgments or estimates were required in the analysis of this contract. Since there are no ongoing monitoring requirements related to variable elements or complex terms, the contract can be considered straightforward in its execution.

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