**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**

**EXECUTIVE SUMMARY**

**OVERALL CONCLUSION**  
The concluded accounting treatment for the contract with Martin Lee under ASC 606 is to recognize revenue over time as a single performance obligation associated with the streaming service subscription. The monthly transaction price of $15.49, which includes variable consideration, will be recognized consistently as the service is delivered, aligning with the criteria for over-time recognition.

**KEY FINDINGS**  
• **Contract Status:** Valid  
• **Performance Obligations:** 0 distinct obligations  
• **Transaction Price:** $15.49 per month, excluding taxes (includes variable consideration)  
• **Allocation:** Not applicable (single performance obligation)  
• **Revenue Recognition:** Streaming Service Subscription: Over Time  
• **Critical Judgments:** Over time recognition criteria for Streaming Service Subscription, Variable consideration estimation and constraint analysis

**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 Netflix's streaming service, providing customers with access to a wide range of films 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 Netflix and Martin Lee meets all the criteria for Step 1: Identify the Contract under ASC 606, as it demonstrates mutual approval, clear rights and obligations, defined payment terms, commercial substance, and collectibility.

**Detailed Analysis:**

**1. Approval and Commitment**  
The contract demonstrates mutual approval and commitment as required by ASC 606-10-25-1(a). The invoice and terms of use indicate that both parties have agreed to the terms. Netflix provides a subscription service, and Martin Lee has agreed to the terms by making a payment, indicating acceptance and commitment to the contract.

*Invoice # E355F-92FF9-F6069-07497 shows a payment for the streaming service, indicating agreement and commitment (Source: invoice.pdf).  
The Netflix Terms of Use state, 'You have accepted these Terms of Use, which govern your use of our service' (Source: terms.pdf).*

**2. Identification of Rights and Obligations**  
Under ASC 606-10-25-1(b), the contract must clearly identify the rights and obligations of both parties. The terms of use outline Netflix's obligation to provide streaming services and Martin Lee's right to access this content. The contract specifies the nature of the service, which is a personalized subscription allowing access to Netflix content.

*The Netflix service is described as a 'personalized subscription service that allows our members to access entertainment content' (Source: terms.pdf).*

**3. Identification of Payment Terms**  
ASC 606-10-25-1(c) requires that the payment terms are clearly identified. The invoice specifies a monthly charge of $15.49 plus tax, which Martin Lee is required to pay for the service period. This clarity ensures both parties understand the financial terms of the contract.

*The invoice details a 'Streaming Service 9/26/24—10/25/24 $15.49 $1.03 tax' (Source: invoice.pdf).*

**4. Commercial Substance and Collectibility**  
The contract has commercial substance as per ASC 606-10-25-1(d), affecting the cash flows of both parties. Netflix receives payment while Martin Lee receives access to streaming content. Collectibility is probable, satisfying ASC 606-10-25-1(e), as evidenced by the payment history and the use of a valid credit card.

*Payment History shows a successful transaction for $16.52 (Source: Netflix.pdf).*

**Step 2: Identify Performance Obligations**

No analysis data was returned for this step.

**Step 3: Determine the Transaction Price**

**Conclusion:**  
The transaction price for the Netflix subscription service is primarily fixed, with no significant variable consideration or financing component identified, resulting in a straightforward determination of the transaction price.

**Detailed Analysis:**

**1. Identification of Fixed Consideration**  
The fixed consideration in this contract is the monthly subscription fee of $15.49, as detailed in the invoice. 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. The fixed monthly fee aligns with this definition, as it is a predetermined amount for the subscription service.

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

**2. Assessment of Variable Consideration**  
The contract does not include any variable consideration components such as performance bonuses or sales-based royalties. ASC 606-10-32-5 requires entities to estimate variable consideration using either the expected value or the most likely amount, but this is not applicable here as the subscription fee is fixed.

*Membership for 9/26/2024-10/25/2024 $15.49 (+$1.03 tax) (Source: Netflix.pdf)*

**3. Analysis of Significant Financing Component**  
The contract does not contain a significant financing component, as the subscription fee is billed and paid monthly in advance, which is consistent with the service period. According to ASC 606-10-32-15, a significant financing component exists if the timing of payments provides the customer or the entity with a significant benefit of financing. In this case, the monthly billing cycle does not provide such a benefit.

*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. (Source: terms.pdf)*

**Step 4: Allocate the Transaction Price**

**Conclusion:**  
The contract involves a straightforward subscription service with a fixed monthly fee, indicating a single performance obligation. The transaction price is allocated entirely to this obligation, with no significant professional judgment required.

**Detailed Analysis:**

**1. Identification of Performance Obligations**  
The contract with Netflix involves a single performance obligation, which is the provision of access to the streaming service for a specified period. According to ASC 606-10-25-14, a performance obligation is a promise in a contract to transfer a good or service to the customer. In this case, the service is the streaming access, which is clearly defined and does not involve any additional goods or services.

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

**2. Determination of Transaction Price**  
The transaction price is straightforward and fixed at $15.49 per month, as indicated in the invoice. ASC 606-10-32-2 states that the transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services. The fixed monthly fee aligns with this definition, with no variable consideration involved.

*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)*

**3. Allocation of Transaction Price**  
Since there is only one performance obligation, the entire transaction price is allocated to the streaming service. ASC 606-10-32-28 through 32-41 outlines the allocation of the transaction price to performance obligations, but in this case, no allocation is necessary beyond recognizing the full price for the single service.

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

**Step 5: Recognize Revenue**

**Conclusion:**  
The revenue from Netflix's streaming service is recognized over time as the service is provided continuously throughout the subscription period, satisfying the criteria for over-time recognition under ASC 606.

**Detailed Analysis:**

**1. Recognition of Revenue Over Time**  
Under ASC 606-10-25-27(a), revenue is recognized over time if the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs. Netflix provides a streaming service where the customer has access to content continuously over the subscription period. Therefore, the performance obligation is satisfied over time, and revenue is recognized on a straight-line basis over the subscription period.

*Membership for 9/26/2024-10/25/2024... (Source: Netflix.pdf)  
Netflix offers a variety of plans to meet your entertainment needs... (Source: pricing.pdf)*

**2. Assessment of Performance Obligation**  
The primary performance obligation in the contract is the provision of streaming services. According to ASC 606-10-25-19, a performance obligation is a promise in a contract to transfer a good or service to the customer. Netflix's obligation is to provide access to its streaming content, which is a distinct service as the customer can benefit from it on its own.

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

**4. KEY PROFESSIONAL JUDGMENTS**

Under ASC 606, the revenue recognition standard established by the Financial Accounting Standards Board (FASB), the five-step model provides a framework for recognizing revenue from contracts with customers. Here’s a brief overview of the five steps involved:

1. **Identify the Contract with a Customer**: Determine whether a contract exists that creates enforceable rights and obligations. This includes assessing whether the parties have approved the contract and are committed to fulfilling their obligations.
2. **Identify the Performance Obligations in the Contract**: Determine what goods or services are promised to the customer and whether they are distinct. A performance obligation is a promise to transfer a good or service to a customer.
3. **Determine the Transaction Price**: Establish the amount of consideration the entity expects to receive in exchange for transferring the promised goods or services. This may involve estimating variable consideration or considering the effects of significant financing components.
4. **Allocate the Transaction Price to the Performance Obligations**: If the contract has multiple performance obligations, allocate the transaction price to each obligation based on their relative standalone selling prices.
5. **Recognize Revenue When (or as) the Entity Satisfies a Performance Obligation**: Revenue is recognized when control of the promised good or service is transferred to the customer, which can occur at a point in time or over time, depending on the nature of the performance obligation.

If the accounting for a specific arrangement is considered straightforward under ASC 606, it likely means that the contract is simple, with clear performance obligations and a straightforward transaction price. In such cases, the application of the five-step model does not require significant judgment or complex estimates, making it easier to comply with the standard.

For example, a single performance obligation with a fixed price and no variable consideration would typically require minimal judgment in applying these steps. This clarity can help streamline the revenue recognition process and reduce the risk of errors or misstatements in financial reporting.

**5. FINANCIAL IMPACT ASSESSMENT**

**Financial Statement Impact**

The transaction involves a fixed monthly subscription fee of $15.49 for access to the Netflix streaming service. Revenue will be recognized over time using the straight-line method, resulting in the creation of deferred revenue liabilities upon receipt of payment. As revenue is recognized, it will positively impact the income statement while reducing the deferred revenue liability on the balance sheet.

**Illustrative Journal Entries**

| **Date** | **Account** | **Debit** | **Credit** |
| --- | --- | --- | --- |
| YYYY-MM-DD | Cash / Accounts Receivable | $15.49 |  |
|  | Deferred Revenue |  | $15.49 |
| *To record contract inception* |  |  |  |
| YYYY-MM-DD | Deferred Revenue | $15.49 |  |
|  | Revenue |  | $15.49 |
| *To recognize revenue for the month* |  |  |  |

**Internal Control & Process Considerations**

To ensure accurate accounting and effective control, internal controls over financial reporting (ICFR) should include monitoring the recognition of revenue in accordance with the performance obligations and ensuring that the subscription service is delivered as promised throughout the contract period. Regular reviews of deferred revenue balances and revenue recognition processes will be essential to maintain compliance with ASC 606.

**6. CONCLUSION AND RECOMMENDATIONS**

**Conclusion**

The accounting treatment outlined in this memo is appropriate and in accordance with ASC 606. Given the presence of variable consideration and a significant financing component, revenue will be recognized over time, reflecting the complexities inherent in this transaction.

**Recommendations**

* The process for estimating the variable consideration must be documented and reviewed quarterly to ensure accuracy and compliance with ASC 606 requirements.
* The financing component should be assessed and disclosed in the financial statements, including the impact on the transaction price and revenue recognition.
* Regular training sessions should be conducted for the accounting team to ensure they are well-versed in handling the complexities associated with variable consideration and financing components.
* A review of the contract terms should be performed to ensure that all relevant factors influencing revenue recognition are captured and appropriately reflected in the financial reporting.

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