**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 there are no distinct performance obligations under ASC 606, resulting in a straightforward accounting treatment. Given the contract's valid status and the absence of specified transaction price or variable consideration, revenue recognition is not applicable at this time. The approach aligns with the guidance for contracts that do not involve multiple performance obligations.

**KEY FINDINGS**  
• **Contract Status:** Valid  
• **Performance Obligations:** 0 distinct obligations - no performance obligations identified.  
• **Transaction Price:** Not specified, indicating a lack of quantifiable revenue at this stage.  
• **Allocation:** Not applicable, as there are no performance obligations to allocate.  
• **Revenue Recognition:** No revenue recognition methods applicable due to the absence of performance obligations and transaction price.  
• **Critical Judgments:** None identified, as the analysis reveals a straightforward application of ASC 606 without complex judgments required.

This summary encapsulates the key aspects of the contract analysis, emphasizing the simplicity of the accounting treatment under ASC 606.

**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 with access to a library of video content. 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 criteria for identification under ASC 606 Step 1, establishing a valid contract for the provision of streaming services.

**Detailed Analysis:**

**1. Approval and Commitment to the Contract**  
The contract between Netflix and Martin Lee demonstrates mutual approval and commitment. The customer has accepted the terms of use and initiated payment, which indicates both parties' commitment to the contract. This aligns with ASC 606-10-25-1(a), which requires that the parties to the contract have approved the contract and are committed to performing their respective obligations.

*Your membership has ended. Add a plan to restart your membership and get back to watching. (Source: Netflix.pdf)  
You have accepted these Terms of Use, which govern your use of our service. (Source: terms.pdf)*

**2. Identification of Rights and Payment Terms**  
The contract clearly identifies the rights of the customer to access Netflix content and the payment terms. According to ASC 606-10-25-1(b) and (c), a contract must specify the rights of the parties and the payment terms. The customer is granted access to streaming services for a specified period upon payment of a monthly fee.

*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 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)*

**3. Commercial Substance and Collectibility**  
The contract has commercial substance as it results in a change in the entity's cash flows, fulfilling ASC 606-10-25-1(d). Collectibility is probable, as the customer has a history of payments, and a valid payment method is used, satisfying ASC 606-10-25-1(e).

*Payment History: 9/26/2024 $16.52 (Source: Netflix.pdf)  
Payment Method: •••• •••• •••• 0459 (Source: invoice.pdf)*

**Step 2: Identify Performance Obligations**

**Conclusion:**  
The analysis concludes that the Netflix contract contains a single performance obligation, which is the provision of streaming services for a specified period. This obligation is distinct and not part of a series, with Netflix acting as the principal in fulfilling this obligation.

**Detailed Analysis:**

**1. Identification of Performance Obligations**  
The primary performance obligation in the Netflix contract is the provision of streaming services for a specific period. This service is distinct because it provides standalone functionality, allowing the customer to access content independently. According to ASC 606-10-25-19, a good or service is distinct if it is both capable of being distinct and separately identifiable. The streaming service meets these criteria as it delivers a specific benefit without requiring integration with other services.

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

**2. Principal vs. Agent Consideration**  
Netflix acts as the principal in this contract because it controls the streaming service before it is transferred to the customer. ASC 606-10-55-36 through 55-40 provides guidance on determining whether an entity is a principal or an agent. Netflix's control over the content and service delivery indicates its role as the principal.

*The Netflix service is provided to you by Netflix Inc. (Source: terms.pdf)*

**3. Customer Options for Additional Goods or Services**  
The contract does not offer any additional options for goods or services that would provide a material right to the customer. ASC 606-10-55-41 outlines that options providing a material right should be treated as separate performance obligations. In this case, the contract's terms do not include such options, focusing solely on the streaming service.

*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 the Netflix subscription is straightforward, consisting solely of fixed consideration with no variable or noncash components. The total transaction price is $15.49 for the service period.

**Transaction Price Analysis:**

Only basic fixed consideration was identified in this contract.

**Additional Analysis:**

**1. Identification of Fixed Consideration**

The fixed consideration for the Netflix subscription is clearly defined as $15.49 per month. 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 monthly subscription fee is a fixed amount, and there are no indications of variable consideration or other adjustments. The invoice clearly states the amount charged for the service period, aligning with the guidance for determining fixed consideration.

**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. Assessment of Variable Consideration**

There is no variable consideration involved in this contract. ASC 606-10-32-5 to 32-9 provides guidance on estimating variable consideration, which includes factors like discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The contract for Netflix's subscription service does not include any such elements, as the price is fixed and straightforward.

**Supporting Contract Evidence:**

*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 4: Allocate the Transaction Price**

**Conclusion:**  
The entire transaction price is allocated to a single performance obligation for the Netflix streaming service, as no additional distinct goods or services are promised in the contract.

**Detailed Analysis:**

**1. Identification of Performance Obligations**  
The contract involves a single performance obligation, which is the provision of Netflix streaming services for a specified period. According to ASC 606-10-25-19, a performance obligation is a promise to transfer a distinct good or service to the customer. In this case, the streaming service is the only distinct service provided, as there are no other goods or services promised in the contract.

*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 ('Netflix content') over the Internet on certain Internet-connected TVs, computers, and other devices ('Netflix ready devices'). (Source: terms.pdf)*

**2. Determination of Standalone Selling Price (SSP)**  
The SSP for the Netflix streaming service is determined based on the observable price, as Netflix offers standardized pricing plans. ASC 606-10-32-33 suggests using observable prices when available, which is applicable here as Netflix's pricing is publicly available and consistent across customers.

*Standard: $15.49 / month (Source: pricing.pdf)*

**Step 5: Recognize Revenue**

**Conclusion:**  
Revenue for 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**  
The Netflix subscription service is a continuous service where the customer receives and consumes the benefits of the service as it is provided. According to 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. The subscription fee is charged monthly, and the service is provided continuously, making the straight-line method appropriate for recognizing revenue evenly over the subscription period.

*Membership for 9/26/2024-10/25/2024 (Source: Netflix.pdf)  
The subscription fee for the Netflix service... will be charged to your Payment Method on the specific payment date indicated on the 'Account' page. (Source: terms.pdf)*

**2. Absence of Special Arrangements**  
The contract does not include any special arrangements such as licenses of intellectual property, repurchase agreements, bill-and-hold, consignment arrangements, or expected breakage. The service provided is a straightforward subscription service without additional complexities that would impact revenue recognition.

*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, the five-step model provides a structured approach to recognizing revenue from contracts with customers. Here’s a brief overview of the five steps involved:

1. **Identify the Contract with the Customer**: Determine whether a contract exists that creates enforceable rights and obligations.
2. **Identify the Performance Obligations**: Identify the distinct goods or services promised in the contract. Each performance obligation is a promise to transfer a good or service to the 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.
4. **Allocate the Transaction Price**: 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 over time or at a point in time.

In your case, if the accounting for the arrangement is considered straightforward under ASC 606, it likely means that the contract is simple, with clear performance obligations and a straightforward transaction price. This would minimize the need for significant judgments or estimates, allowing for a more direct application of the standard’s principles.

If you have specific details about the arrangement, I can provide more tailored insights or examples!

**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 for this straightforward arrangement is appropriate and in accordance with ASC 606. Revenue will be recognized as described in the analysis above.

**Recommendations**

It is recommended that this memorandum and the supporting contract documentation be retained as audit evidence for the transaction. No other specific actions are required as a result of this analysis.

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