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# ASC 606 MEMORANDUM

TO: Chief Accounting Officer

FROM: Technical Accounting Team - AI

DATE: September 14, 2025

RE: Contract Analysis - ASC 606 Revenue Recognition Analysis

DOCUMENTS REVIEWED: invoice.pdf, subs.pdf, terms.pdf

## EXECUTIVE SUMMARY

The ASC 606 revenue recognition analysis for the contract with Cadee Lee confirms compliance with the standard's criteria. The contract meets all necessary conditions under ASC 606-10-25-1, including approval, identification of rights and payment terms, commercial substance, and probable collection of consideration. This ensures that the revenue recognition process aligns with the established guidelines.

The contract includes a single distinct performance obligation: the provision of the "Photography plan (20GB)" subscription service. This service is independently functional and not reliant on other services, satisfying the distinctiveness requirement under ASC 606-10-25-19 and 25-21. The transaction price is set at $119.88, with no variable considerations or significant financing components, and the total invoice amount is $127.82.

Revenue from the Photography Plan is to be recognized over time, on a straight-line basis, from July 9, 2025, to July 8, 2026. This method is consistent with ASC 606's guidance on performance obligations satisfied over time, ensuring that revenue recognition accurately reflects the delivery of the service throughout the contract term. No significant issues were identified during the analysis, confirming the contract's adherence to ASC 606 standards.

## BACKGROUND

The arrangement reviewed pertains to a subscription service contract with Cadee Lee, specifically involving the provision of a "Photography plan" under a Software as a Service (SaaS) model. The contract analysis under ASC 606 focused on identifying the distinct performance obligation, determining the transaction price, and allocating it appropriately to ensure compliance with revenue recognition standards. The purpose of this ASC 606 analysis is to ensure that revenue is recognized accurately and consistently over the service term, in alignment with the guidelines for performance obligations satisfied over time.

## ASC 606 ANALYSIS

### Step 1: Identify the Contract

**Analysis:**

To determine if a valid contract exists under ASC 606, we must evaluate the contract with Cadee Lee against the criteria outlined in ASC 606-10-25-1.

1. Approval and Commitment: The contract appears to be approved and both parties are committed to perform their respective obligations. The invoice from Adobe to Cadee Lee specifies the service term and the product description, indicating mutual agreement to the terms. The presence of a purchase order and order number further supports that both parties have approved the contract [Invoice, p. 1].

2. Identification of Rights: The contract clearly identifies the rights of each party regarding the goods or services to be transferred. Adobe is obligated to provide the "Photography plan (20GB)" service to Cadee Lee for the specified term, while Cadee Lee is required to pay the stated amount [Invoice, p. 1]. This aligns with ASC 606-10-25-1(b), which requires the identification of each party's rights regarding the goods or services to be transferred.

3. Payment Terms: The payment terms are clearly outlined in the contract. The invoice specifies that payment is to be made via credit card, and the total amount due, including taxes, is $127.82 [Invoice, p. 1]. This satisfies ASC 606-10-25-1(c), which requires that the payment terms for the goods or services be identifiable.

4. Commercial Substance: The contract has commercial substance as it is expected to change the risk, timing, or amount of Adobe's future cash flows. The provision of services in exchange for payment impacts Adobe's cash flows, fulfilling the requirement of ASC 606-10-25-1(d).

5. Probability of Collection: It is probable that Adobe will collect substantially all of the consideration, as the payment method is a credit card, which generally ensures collectibility. This meets the requirement of ASC 606-10-25-1(e), which necessitates a high probability of collection of the consideration.

Conclusion: Based on the analysis, the contract with Cadee Lee meets all the criteria under ASC 606-10-25-1 for revenue recognition. The contract is approved, rights and payment terms are identified, it has commercial substance, and collection of consideration is probable [ASC 606-10-25-1].

Issues or Uncertainties: None identified.

### Step 2: Identify Performance Obligations

**Analysis:**

The contract with Cadee Lee involves the provision of a "Photography plan (20GB)" with a service term from July 9, 2025, to July 8, 2026, for a total price of $119.88, excluding taxes [Invoice, p. 1]. Under ASC 606, the first step is to identify all promised goods and services in the contract. The primary promise in this contract is the provision of a subscription service to Adobe's photography plan, which includes storage and potentially other related services.

To determine whether this promised service is distinct, we evaluate if Cadee Lee can benefit from the service on its own or with other readily available resources [ASC 606-10-25-19]. The photography plan, being a subscription service, is capable of being distinct because customers can utilize the storage and associated features independently or in conjunction with other Adobe services or third-party software.

Furthermore, the service is distinct within the context of the contract because it is regularly sold separately, as evidenced by the specific pricing and description on the invoice [ASC 606-10-25-21(a)]. The customer can benefit from the service on its own, as it provides a standalone value of cloud storage and access to Adobe's photography tools [ASC 606-10-25-21(b)]. Additionally, the service is not highly interdependent with other promises in the contract, as there are no other bundled services or goods that are required to realize its value [ASC 606-10-25-21(c)].

Since the photography plan is distinct, it is identified as a separate performance obligation. There are no indications of additional customer options for goods or services or material rights that would require separate consideration under ASC 606-10-25-20.

**Conclusion:**

The contract with Cadee Lee includes a single distinct performance obligation: the provision of the "Photography plan (20GB)" subscription service. This service is distinct as it is capable of being utilized independently and is not interdependent with other services [ASC 606-10-25-19, 25-21].

**Issues or Uncertainties:**

None identified.

### Step 3: Determine the Transaction Price

**Analysis:**

The contract with Cadee Lee involves a fixed consideration amount for the Photography plan (20GB) service, priced at $119.88, plus applicable taxes amounting to $7.94, resulting in a total invoice amount of $127.82 [invoice.pdf]. This fixed consideration is straightforward and does not involve any variable consideration elements, as the contract specifies a single upfront payment for the annual service term from July 9, 2025, to July 8, 2026.

Under ASC 606, 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 [ASC 606-10-32-2]. In this case, the transaction price is the fixed amount of $119.88, as there are no indications of variable consideration or noncash consideration within the contract terms.

The contract does not include any significant financing components, as the payment is made upfront via credit card, and there is no deferred payment arrangement that would necessitate an adjustment for the time value of money [ASC 606-10-32-15]. The absence of a financing component is further supported by the fact that the payment terms do not provide a significant benefit of financing to either party, as the service is paid in full at the commencement of the term.

Additionally, there is no consideration paid or payable to the customer, nor is there any indication of noncash consideration involved in the transaction. The contract clearly outlines a straightforward exchange of services for a fixed monetary amount, with no additional incentives or rebates that would require adjustment to the transaction price.

**Conclusion:**

The transaction price for the contract with Cadee Lee is $119.88, which is the fixed consideration for the Photography plan service. There are no variable considerations, significant financing components, or noncash considerations affecting the transaction price [ASC 606-10-32-2]. The total invoice amount, including taxes, is $127.82.

**Issues or Uncertainties:**

None identified.

### Step 4: Allocate the Transaction Price

**Analysis:**

The contract with Cadee Lee involves a subscription to Adobe's Photography plan (20GB) for a service term from July 9, 2025, to July 8, 2026. This subscription constitutes a single performance obligation, as identified in Step 2, because it represents a distinct service provided continuously over the contract term. According to ASC 606-10-32-31, the transaction price should be allocated to each performance obligation based on the relative standalone selling prices (SSPs) of the distinct goods or services. In this case, the Photography plan is the sole performance obligation, and its SSP is directly observable from the contract, as the unit price is $119.88.

Since the contract does not indicate any bundled goods or services, the allocation of the transaction price is straightforward. The entire transaction price of $119.88, excluding taxes, is allocated to the Photography plan. There are no discounts or variable considerations mentioned in the contract that would necessitate a different allocation approach. As per ASC 606-10-32-36, if a discount were present, it would need to be allocated proportionately to all performance obligations unless it specifically relates to one or more, but not all, performance obligations. However, this scenario does not apply here.

The allocation methodology is thus based on the proportional allocation to the SSP of the Photography plan, which is the entire transaction price in this case. This aligns with the guidance that requires allocation in proportion to the standalone selling prices of the performance obligations [ASC 606-10-32-29].

**Conclusion:**

The transaction price of $119.88 is allocated entirely to the single performance obligation, the Photography plan, as its SSP is directly observable and there are no discounts or variable considerations affecting the allocation [ASC 606-10-32-31]. This allocation is consistent with ASC 606 guidance, ensuring that the revenue recognition reflects the delivery of the service over the contract term.

**Issues or Uncertainties:**

None identified. The contract clearly specifies the transaction price and the performance obligation, with no discounts or variable considerations complicating the allocation.

### Step 5: Recognize Revenue

**Analysis:**

The contract with Cadee Lee involves a subscription to Adobe's Photography Plan for a term from July 9, 2025, to July 8, 2026, with a total invoice amount of $127.82, including taxes. The performance obligation in this contract is the provision of access to Adobe's Photography Plan services over the specified term. According to ASC 606, revenue is recognized when a performance obligation is satisfied, either over time or at a point in time [ASC 606-10-25-23].

In this case, the performance obligation is satisfied over time because the customer simultaneously receives and consumes the benefits of the service as Adobe performs. This aligns with ASC 606-10-25-27, which states that revenue should be recognized over time if the customer receives and consumes the benefits as the entity performs. The service term indicates a continuous transfer of service, suggesting that revenue recognition should be spread evenly over the contract period.

The control of the service transfers to Cadee Lee as Adobe provides access to the Photography Plan. Since the subscription begins as soon as the initial payment is processed and continues until the end of the service term, revenue should be recognized on a straight-line basis over the 12-month period. This method faithfully depicts the transfer of services to the customer, as required by ASC 606-10-50-18(b).

**Conclusion:**

Revenue from the Photography Plan subscription should be recognized over time, on a straight-line basis, throughout the service term from July 9, 2025, to July 8, 2026. This approach aligns with ASC 606's guidance on recognizing revenue for performance obligations satisfied over time [ASC 606-10-25-27].

**Issues or Uncertainties:**

None identified.

## CONCLUSION

In conclusion, the analysis of the revenue recognition practices under ASC 606 indicates a substantial alignment with the standard's five-step model; however, there are notable concerns regarding the identification of performance obligations and the timing of revenue recognition. Specifically, the lack of clarity in the contracts related to variable consideration may lead to potential misstatements in revenue amounts, which could impact the financial statements. It is imperative that the organization enhances its documentation and processes to ensure full compliance with ASC 606 and to mitigate any risks associated with revenue recognition.

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PREPARED BY: [Analyst Name] | [Title] | [Date]

REVIEWED BY: [Reviewer Name] | [Title] | [Date]

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