

[Company Name]
[Address]
[City, State, Zip Code]

[Date]

To: [Management Name / Audit Committee]
From: [Name/Department]
Subject: Advisory Letter Regarding ASC 606 Contract Modification Controls

Dear [Recipient Name],

The purpose of this letter is to provide guidance on the internal control environment surrounding contract modifications under ASC 606, Revenue from Contracts with Customers. As contract terms evolve, it is critical to ensure that changes are captured, evaluated, and accounted for accurately to prevent material misstatements in revenue recognition.

Background

Under ASC 606, a contract modification exists when the parties approve a change in the scope or price of a contract. The accounting treatment depends on whether the modification adds distinct goods or services at their standalone selling prices.

Identified Control Requirements

To ensure compliance, we recommend the implementation or enhancement of the following controls:

- **Identification Controls:** Formal procedures to notify the accounting department when legal amendments, side agreements, or price concessions are executed.
- **Classification Review:** A review process to determine if a modification should be accounted for as a separate contract, a prospective adjustment to the existing contract, or a cumulative catch-up adjustment.
- **Variable Consideration Assessment:** Controls to evaluate how modifications affect the transaction price, including any changes to discounts, rebates, or performance bonuses.
- **System Integration:** Ensuring that the ERP or revenue management system is updated timely to reflect the modified performance obligations and transaction price.
- **Documentation:** Maintaining a centralized repository of all signed amendments and the documented accounting rationale for the treatment of complex modifications.

Next Steps

We recommend a gap analysis of current workflows against these requirements. Our team is available to assist in drafting specific policy language or testing the effectiveness of these controls.

Sincerely,

[Signature]

[Printed Name]

[Title]