[Company Letterhead]

[Date]

[Management Name]
[Title]
[Company Name]
[Address]

Subject: Management Letter Regarding Software Revenue Recognition Under ASC 606

Dear [Management Name],

In connection with our audit of the financial statements of [Company Name] for the period ending [Date], we have reviewed the company's adoption and application of ASC 606, *Revenue from Contracts with Customers*, specifically regarding software licenses and related services.

Based on our assessment, we would like to bring the following observations and recommendations to your attention:

1. Identification of Performance Obligations
The company must ensure that software licenses are properly evaluated as either "distinct" or "combined" with other services (such as implementation or PCS). We noted instances where [Insert specific observation, e.g., customized installation] may need to be bundled with the license rather than treated as a separate obligation.

2. Principal vs. Agent Considerations
For software hosted via cloud (SaaS) or sold through third-party resellers, management should formalize its assessment of whether it acts as the principal or the agent. This impacts whether revenue is recorded on a gross or net basis.

3. Allocation of Transaction Price
Management should maintain contemporaneous documentation supporting the Standalone Selling Price (SSP) for each performance obligation. We recommend a periodic review of historical sales data to validate the ranges used in the allocation process.

4. Contract Costs
Under ASC 606, incremental costs of obtaining a contract (such as sales commissions) must be capitalized and amortized. We recommend enhancing the tracking mechanism to ensure these costs are amortized over the expected period of benefit, including anticipated renewals.

5. Disclosure Requirements
ASC 606 requires quantitative and qualitative disclosures regarding categories of revenue and remaining performance obligations (backlog). We suggest refining the financial statement footnotes to meet these expanded requirements.

This communication is intended solely for the information and use of management and those charged with governance.

Sincerely,

[Your Name/Firm Name]
[Title]