Case 18-9
Auditing Mesmerizing Marketers

Background
Mesmerizing Marketers (MM) is a marketing company that offers a variety of marketing offerings to its customers, including TV commercial production, app construction, and Facebook page creation. Assume MM has adopted the new revenue recognition standard, ASC 606, Revenue From Contracts With Customers.

As part of our audit procedures, we need to understand the accounting for an account balance before we begin auditing that balance. Therefore, this case assumes you have read and understood MM’s marketing services and the accounting of such services, which are presented in Case 17-7 (available on the Trueblood Case Study Series website). Note that you have been provided with Handout 1, which contains the risks of material misstatement matrix, and Handout 2, which is MM’s control matrix.

Required Activities:

1. Read Case 17-7, Mesmerizing Marketers. On the basis of the facts stated therein related to the contract between MM and Stone, a customer, what are some risks of material misstatement (RoMMs) that we may identify as part of our audit? Handout 1, the RoMMs matrix, may be used to assist with identifying relevant RoMMs.

2. Tailoring RoMMs to the specific revenue streams and assertions is an important step in designing an audit plan for revenue. Now that you have identified the RoMMs that are applicable to the contract between MM and Stone, how might you tailor the RoMMs that you identified in Activity 1 to the facts presented in this case?

3. Identify internal controls that address the tailored RoMMs identified in Activity 2. Handout 2, MM’s internal control matrix, may be used to assist with identifying relevant internal controls. If REV 7 is identified as a relevant internal control, identify which specific step in the control addresses the RoMM.

4. Design substantive procedures that address the tailored RoMMs identified in Activity 2.