Case 18-9 – Handout 2

Auditing Mesmerizing Marketers – Internal Control Matrix — Revenue Process

Control No.	Control Title	Control Description
REV 1	Recording of, and adjustments to, contract assets are reviewed and approved.	As of period-end, MM's controller reviews open contracts with customers to evaluate progress towards the satisfaction of the performance obligations. For those performance obligations that have been satisfied before consideration has been received or before payment is due, the controller determines whether a contract asset has been appropriately recorded.
REV 2	Policies regarding pricing are reviewed and approved.	Policies for transactions with customers are established. These policies cover all terms and conditions and document MM's customary business practices, including, but not limited to: • The price to be charged to the customer. • Discounts (e.g., cash, volume, bundles). • Incentives. • Performance bonuses. • Penalties. The policies are reviewed and approved by MM's controller.
REV 3	Technical accounting policies and memos are reviewed and approved.	MM's controller reviews MM's accounting policies and supporting documentation for all significant revenue streams to determine whether the accounting policies are in accordance with the requirements of ASC 606 and other U.S. GAAP applicable to revenue recognition. Policies are approved on a periodic basis.
REV 4	Nonroutine journal entries are reviewed and approved.	MM's controller reviews MM's full contract analysis, underlying supporting documentation, and the journal entry(s) before approving the journal entry(s) for posting.
REV 5	The financial statements and footnote disclosures are reviewed.	An independent review of the financial statements using a financial statement presentation and disclosure checklist is performed by MM's technical accounting manager to determine that (1) the financial statements are fairly presented in accordance with U.S. GAAP and

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		(2) disclosures (including critical accounting policies) are complete.
REV 6	Establishment of credit limits.	Credit limits are established by MM's credit manager on the basis of the customer's ability to pay and past collection results and are reviewed on a regular basis. The credit limits are reviewed and approved by MM's controller each quarter.
REV 7	The accounting for each contract is reviewed and approved.	An analysis of the accounting conclusions for the contract is prepared and submitted along with the customer contract to MM's controller. MM's controller reviews the contract, as well as other relevant information that form the contract, to determine the appropriate accounting for revenue recognition, including whether the contract is within the scope of ASC 606 or other accounting standard. The controller's review of each contract and accounting conclusions includes the following: **Step A** — Read the terms of the agreement to determine whether all the criteria to be accounted for as a contract with customers under ASC 606 have been met. 1. Each party has approved the contract and is committed to perform their respective obligations. 2. MM can identify each party's rights and obligations regarding the transfer of and payment for goods. 3. MM can identify the payment terms for goods or services to be transferred. 4. The contract has commercial substance. In addition, collectibility is assessed upon customer acceptance. See Control REV-6: Establishment of credit limits. **Step B** — Evaluate whether all performance obligation(s) of the contract have been identified, considering both those explicitly stated in the contract and those implicit through MM's customary business practices; potential promises MM's makes in its Web site or marketing materials; MM's published policies; and industry, regulatory, or other external factors

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		affecting MM's business. MM's controller considers whether the promises within the contract have been appropriately identified and determines whether the promises within the contract relate to a delivery of goods, performance of services, or both. The controller considers whether, as applicable: 1. Specified goods or services have been correctly identified as immaterial and are not included for further analysis. 2. The specified goods or services are capable of being distinct, including distinct within the context of the contract. 3. Promised goods or services that are not distinct are combined with other promised goods or services to form a performance obligation (i.e., a bundle of goods or services that are distinct). 4. The distinct good or service is part of a series of distinct goods or services that are substantially the same and should be accounted for as a single performance obligation. 5. The contract explicitly or implicitly contains customer options for additional goods or services, whether those options are material rights and whether those material rights have been appropriately identified as performance obligations. 6. The nonrefundable up-front fees, if applicable, are associated with a promised good or service. **Step C** — Determine whether the transaction price is complete and accurate, including evaluating the following, as applicable: 1. Whether the transaction price represents the total consideration MM expects to receive from the customer, including fixed and variable consideration, in the contract. 2. The fixed consideration identified is complete and accurate and agrees with the terms in the contract. 3. Variable consideration is appropriately identified based on the terms of the contract, MM's policies and customary business practices, history of granting price concessions, specific statements that MM will accept an

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		amount of consideration that is less than the price stated in the contract, or other evidence indicating the MM's intention to offer a price concession. 4. The calculation of each type of variable consideration identified in the contract and whether a consistent method was applied to each type of variable consideration within the contract. MM's controller evaluates whether the assumptions used in estimating the variable consideration are appropriately supported and contradictory evidence has been identified and considered. MM's controller evaluates the reasonableness of the probabilities assigned to each value when using the expected value method. 5. MM's controller reviews the evaluation of whether variable consideration should be constrained considering the likelihood of a reversal and the magnitude of the potential reversal in the cumulative amount of revenue recognized, and the threshold that triggers a constrained estimate (i.e., what is probable). **Step D** — Evaluate whether the transaction price has been appropriately allocated to performance obligations. 1. MM's controller evaluates whether the stand-alone selling price for each performance obligation was estimated using directly observable inputs. The controller evaluates any assumptions used when the stand-alone selling price is not directly observable. If the residual method is used to determine the stand-alone selling price, the controller determines whether the use of such method is appropriate. 2. MM's controller evaluates whether any discounts or variable consideration have been appropriately allocated to each performance obligation, considering any significant assumptions. 3. MM's controller recalculates the allocation of the transaction price and discounts/variable consideration to each of the performance

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		obligations. Any differences are investigated and resolved. **Step E** — Evaluate whether performance obligations are recognized at a point in time or over time: 1. MM's controller evaluates, with respect to each performance obligation, whether any of the "over time" criteria have been met and, if not, whether the performance obligation is to be recognized at a point in time. 2. For performance obligations recognized over time, the controller evaluates whether the selected method to measure progress (inputs/outputs) faithfully depicts the progress of the contract and whether any of the "over time" criteria have been met. **Step F** — Evaluate whether revenue is recognized appropriately on the basis of the determination that it be recognized at a point in time or over time: 1. For performance obligations recognized over time, MM's controller recalculates the inputs/outputs expended to date relative to the estimate of total expected inputs/outputs for the contract (e.g., total costs incurred to date relative to total estimate costs for the contract). Revenue to be recognized from this evaluation is reviewed before the journal entry is posted. 2. For performance obligations recognized at a point in time, the controller evaluates whether control has transferred to the customer at the point in time and the performance obligation is satisfied, allowing for revenue recognition. After performing each review step, any differences identified as a result of the review are investigated and resolved, and all questions are addressed. MM's controller then approves the accounting conclusions for the contract and submits the approved contract for entry into the customer master file and set-up in MM's ERP system for processing.

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8	Accounting estimates in contracts are reevaluated.	Each reporting period, the accounting estimates in the contract are reevaluated, including: • For ongoing contracts with a variable element of consideration, the expected amount of consideration to be received is reevaluated, including whether estimated variable consideration and constrained variable consideration should be revised based on new information identified in the reporting period or the resolution of uncertainties. • Changes in the fair value of noncash consideration are evaluated as variable consideration and the need to constrain the fair value estimate of the noncash consideration is evaluated, and calculated and reviewed, as necessary. The analysis of changes in estimates is reviewed by MM's controller and any discrepancies are resolved before recognizing revenue. MM's controller also considers whether the change in estimate is significant enough to be disclosed in the footnotes.