The Principles of Accounting: A Succession of Case Reports

Kailey Ready

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THE PRINCIPLES OF ACCOUNTING: A SUCCESSION OF CASE REPORTS

by

Kailey Ryan Ready

A thesis submitted to the faculty of The University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

Oxford
Spring 2020

Approved by

Advisor: Dr. Victoria Dickinson

Reader: Dean Mark Wilder
Abstract

The following professional project used a variety of prompts to inspire honors accounting students to think deeply about the world of accounting using information that was taught in a plethora of classes throughout the four years spent at the University of Mississippi. Over the course of the 10 cases presented here, the purpose is to provide a comprehensive understanding regarding the current landscape of accounting as it pertains to Generally Accepted Accounting Principles, the balance sheet, pensions, liabilities, and the future of the accounting world. As a result of completing this professional thesis, I better understand the concepts we learned in classes such as intermediate accounting and cost accounting and how those concepts apply in real-world situations.

The cases were conducted under the direction of Dr. Victoria Dickinson in the Patterson School of Accountancy in conjunction with the Sally McDonnell Barksdale Honors College. The Honors College thesis requirement has been satisfied through the alternative thesis track provided to accountancy honors students. Along with the 10 cases, Dr. Dickinson also had both public and corporate accountants visit the class. As an alternative to a traditional thesis defense, honors accounting students in Dr. Dickinson’s class competed in accounting case competitions hosted by two Big 4 accounting firms.

“On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this assignment”

Kailey Ready

Signature: Kailey Ready
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Case 1: Starbucks Corporation – Understanding Financial Statements
Introduction

In this case, the financial statements of Starbucks were closely examined and used to answer questions about the financial position of Starbucks for the 2013 fiscal year. Common-size income statements were also prepared for this case. Through this case, I became familiar with common-size income statements, encountering them for the first time in accounting career. I also learned how to calculate what proportion of financing comes from both owner and non-owner sources. This case also required an understanding of auditors’ opinions and the ability to recognize estimation accounts, two things with which I had never before dealt. I am now more familiar with the finances of a company that purchase from weekly and better understand how Starbucks conducts business, makes a profit, and prepare financial statements. Despite this case taking place in 2013, I am sure it is still relevant to the way Starbucks conducts business today.

a. Starbucks operates by selling coffees, teas, and pastries to directly to consumers through its company-operated stores. They also license their products for sale through grocery stores and affiliated licensed stores.

c. Publicly traded corporations typically prepare financial statements for external reporting purposes four times a year in quarterly installations.

d. The Chief Financial Officer and the Chief Executive Officer are responsible for preparing and sharing the financial statements for a corporation. Deloitte and Touche LLP, Starbucks’ auditors, state that the financial statements are “the responsibility of the Company’s management”. Potential users of the financial statements are most likely investors who will use the statements in order to assess the risk of investments and the returns they might receive from those investments.

e. Deloitte and Touche LLP are Starbucks’ external auditors. The auditors provided two opinion letters to Starbucks in 2013 which were both dated November 18, 2013. The first letter is in regard to the audit of the Consolidated Balance Sheets reported by Starbucks, and the second letter is in regard to the internal control over financial reporting of Starbucks. These opinion letters provided by the auditors’ relay that, according to the Public Company Accounting Oversight Board (PCAO), Starbucks maintained effective internal control over financial reporting and that the consolidated financial statements fairly represent the financial position of Starbucks for 2013. This means that Starbucks is operating and reporting fairly, providing faithful representation and relevance to the users of the company’s financial statements.

Both letters are dated several months after Starbucks’ year end because it takes time for auditors to go through all of the statements and conduct their audit and tests to make sure that Starbucks’ statements are congruent with the actual earnings and expenses of the company.

f. Common-size income statements and balance sheets for 2013 and 2012
<table>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>22.36%</td>
<td>14.46%</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>5.71%</td>
<td>10.32%</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>4.87%</td>
<td>5.91%</td>
</tr>
<tr>
<td>Inventories</td>
<td>9.65%</td>
<td>15.10%</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>2.50%</td>
<td>2.39%</td>
</tr>
<tr>
<td>Deferred income taxes, net</td>
<td>2.41%</td>
<td>2.90%</td>
</tr>
<tr>
<td>Total current assets</td>
<td>47.51%</td>
<td>51.09%</td>
</tr>
<tr>
<td><strong>Long-term investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity and cost investments</td>
<td>4.31%</td>
<td>5.60%</td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>27.79%</td>
<td>32.35%</td>
</tr>
<tr>
<td>Deferred income taxes, net</td>
<td>8.40%</td>
<td>1.18%</td>
</tr>
<tr>
<td>Other assets</td>
<td>1.61%</td>
<td>1.76%</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>2.39%</td>
<td>1.75%</td>
</tr>
<tr>
<td>Goodwill</td>
<td>7.49%</td>
<td>4.86%</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>4.27%</td>
<td>4.84%</td>
</tr>
<tr>
<td>Accrued litigation charge</td>
<td>24.17%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>11.02%</td>
<td>13.79%</td>
</tr>
<tr>
<td>Insurance reserves</td>
<td>1.55%</td>
<td>2.04%</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>5.68%</td>
<td>6.21%</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>46.69%</td>
<td>26.89%</td>
</tr>
<tr>
<td><strong>Long-term debt</strong></td>
<td>11.28%</td>
<td>6.69%</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>3.11%</td>
<td>4.20%</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>61.08%</td>
<td>37.77%</td>
</tr>
<tr>
<td><strong>Shareholders’ equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock ($0.001 par value) - authorized, 1,200.0 shares; issued and outstanding, 753.2 and 749.3 shares (includes 3.4 common stock units), respectively</td>
<td>0.01%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>2.45%</td>
<td>0.48%</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>35.86%</td>
<td>61.40%</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>0.58%</td>
<td>0.01%</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>38.90%</td>
<td>62.16%</td>
</tr>
<tr>
<td><strong>Noncontrolling interests</strong></td>
<td>0.02%</td>
<td>0.07%</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>38.92%</td>
<td>62.23%</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Consolidated Statements Of Earnings (USD $) In Millions, except Per Share data, unless otherwise specified</td>
<td>12 Months Ended</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>-----------------</td>
<td></td>
</tr>
<tr>
<td>Net revenues:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company-operated stores</td>
<td>79.19%</td>
<td>79.21%</td>
</tr>
<tr>
<td>Licensed stores</td>
<td>9.14%</td>
<td>9.10%</td>
</tr>
<tr>
<td>CPG, foodservice and other</td>
<td>11.67%</td>
<td>11.69%</td>
</tr>
<tr>
<td>Total net revenues</td>
<td>100.00%</td>
<td>100.00%</td>
</tr>
<tr>
<td>Cost of sales including occupancy costs</td>
<td>42.86%</td>
<td>43.71%</td>
</tr>
<tr>
<td>Store operating expenses</td>
<td>28.78%</td>
<td>29.46%</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>3.07%</td>
<td>3.23%</td>
</tr>
<tr>
<td>Depreciation and amortization expenses</td>
<td>4.17%</td>
<td>4.14%</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>6.30%</td>
<td>6.02%</td>
</tr>
<tr>
<td>Litigation charge</td>
<td>18.70%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>103.87%</td>
<td>86.57%</td>
</tr>
<tr>
<td>Gain on sale of properties</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Income from equity investees</td>
<td>1.69%</td>
<td>1.58%</td>
</tr>
<tr>
<td>Operating income</td>
<td>-2.19%</td>
<td>15.02%</td>
</tr>
<tr>
<td>Interest income and other, net</td>
<td>0.83%</td>
<td>0.71%</td>
</tr>
<tr>
<td>Interest expense</td>
<td>-0.19%</td>
<td>-0.25%</td>
</tr>
<tr>
<td>Earnings before income taxes</td>
<td>-1.54</td>
<td>15.48%</td>
</tr>
<tr>
<td>Income taxes</td>
<td>-1.60%</td>
<td>5.07%</td>
</tr>
<tr>
<td>Net earnings including noncontrolling interests</td>
<td>0.06%</td>
<td>10.41%</td>
</tr>
<tr>
<td>Net earnings attributable to noncontrolling interest</td>
<td>0.00%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Net earnings attributable to Starbucks</td>
<td>0.06%</td>
<td>10.40%</td>
</tr>
<tr>
<td>Earnings per share - basic</td>
<td>0.00%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Earnings per share - diluted</td>
<td>0.00%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Weighted average shares outstanding:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>5.03%</td>
<td>5.67%</td>
</tr>
<tr>
<td>Diluted</td>
<td>5.12%</td>
<td>5.81%</td>
</tr>
<tr>
<td>Cash dividends declared per share</td>
<td>0.01%</td>
<td>0.01%</td>
</tr>
</tbody>
</table>
The following are in reference to Starbucks’ balance sheet for fiscal 2013 (the year ended September 29, 2013).

i. The amount of total assets reported on Starbucks’ 2013 balance is $11,516.7 million. Total liabilities reported are $7034.4 million, and total equity is $4,482.3 million. Therefore, total assets are equal to liabilities plus equities.

ii. Starbucks’ major assets are cash and cash equivalents; inventories; short-term investments; accounts receivable; property, plant, and equipment; equity costs and investments; and goodwill. Current assets make up 47.5 percent of total assets, and long-term assets make up 52.5 percent of total assets. This seems appropriate because the value of current assets and the value of long-term assets are both close to 50 percent.

iii. Intangible assets lack physical substance and are not financial instruments. Goodwill is defined as a residual amount measured by the excess of the cost of a purchase over the fair value of the identifiable net assets purchased. Specific intangibles possessed by Starbucks include acquired rights, trade secrets, contract-based patents and copyrights, and trade names and trademarks.

iv. Total liabilities divided by total assets reveals the debt to asset ratio, showing the amount of company assets that are financed through debt, and thus revealing the percentage of financing from non-owner sources such as loans. Starbucks’ total liabilities are $7,034.4 million, and Starbucks’ total assets are $11,516.7 million. This means that 61.08 percent of financing are provided by non-owner sources. In congruence with this statement, total equity divided by
total assets shows total financing provided by owner sources. Total equity for Starbucks is $4,482.3 million, and total assets are $11,516.7 million showing that 38.92 percent of financing come from owner.

h. The following are in reference to Starbucks’ statement of earnings for fiscal 2013 and to the common-size income statement developed in part f, shown above.

i. Starbucks follows cash-basis accounting. The company recognizes revenues “when payment is tendered at the point of sale” at company-operated stores revenues. At licensed stores, revenues are recognized when goods are shipped. Starbucks records revenue from store value cards when they are redeemed or “when the likelihood of redemption is deemed to be remote”. Because revenue from gift cards is recognized on the basis of the likelihood of the redemption of gift card based on historical experience, true measurement of revenue is not accurate. Because gift cards do not expire, management could recognize revenue on an unused gift card in 2011, but that gift card could actually be used in 2013.

ii. Starbucks’ major expenses are the cost of sales including occupancy costs, store operating expenses, and the litigation charge. Smaller but still important expenses are general and administrative expenses, depreciation and amortization expenses, and other operating expenses.

iii. In 2013, Starbucks faced a $2784.1 million litigation charge that it did face in prior years, increasing the total operating expenses by 18.70%. This resulted in a loss of operating expense of $325.4 million, down from a gain of $1,997.4 million the year before. This explains the large difference in the cost structure.
iv. Starbucks reported the litigation charge separately because the materiality of the expense is unusually large and it is not considered an ordinary expense. The litigation charge is classified as an operating expense because of its relationship with operations rather than a financing expense.

v. In 2013, operating expenses exceeded total net revenues, resulting in negative operating income and earnings before income taxes. In 2012, the company was profitable with an operating income of 1,997.40 billion dollars. Starbucks would be considered profitable had the company generated a net profit for the fiscal year in 2013.

i. The following are in reference to Starbucks’ fiscal 2013 statement of cash flows.

   i. Net cash provided by operating activities in 2013 was $2,908.3 million. Net earnings including non-controlling interest were reported to be $8.8 million. The statement of cash flows must be reconciled by adjustments that reduce net earnings by deducting non-cash expenses including accounts such as depreciation and amortization, inventories, stock-based compensation, and, in this case, the litigation charge brought against the company. This explains the difference between the net earnings including non-controlling interest and net cash provided by operating activities.

   ii. In 2013, Starbucks used $1,151.2 million for to purchase new property, plant and equipment. In prior years 2012 and 2011, Starbucks used $856.2 million and $531.9 million respectively.

   iii. Starbucks paid $628.9 million in dividends in 2013. However, Starbucks declared cash dividends of $668.8 million in 2012 according to the
Consolidated Statements of Equity. Because a company may declare dividends before actually paying them, and because Starbucks has a year ending on September 29 for 2013, some declared dividends may not yet be paid. These unpaid, declared dividends will be paid in the 2014 fiscal year.

j. Goodwill, other intangible assets, short-term investments, accounts receivable, inventories, deferred income taxes, long-term investments, equity and cost investments, other assets, and long-term debt are accounts on Starbucks’ balance sheet that require estimates. Estimate-free accounts include cash and cash equivalents, accounts payable, prepaid expenses and other current assets, and common stock outstanding.
Case 2: BP p.l.c. – Contingencies
Introduction

In this case, conceptual questions about both hypothetical contingent liabilities and the contingent liability associated with the BP oil spill were answered. From these questions, I learned that companies do not record contingent liabilities or assets on their financial statements and that these contingencies are only reported under certainty or high probability. In the past, I have worked with a manufacturing company to produce policies to prevent product liability lawsuits, so it was interesting to see how a liability loss could affect a company. The results for the periods discussed by BP are unaudited, and that makes me question the reliability of these statements in fully ascertaining the loss that the company expects. I also found it interesting that the company could not generate an estimate on many of the liabilities even though the probability that the outcome would be unfavorable was very high. Finally, I enjoyed the qualitative discussion surrounding the local cases filed against BP for business interruption on the coast of Mississippi. Going forward, I believe that these cases will help me to better understand contingencies in my work as an auditor now that I have read about how a company like BP makes decisions on whether or not to report these contingencies in its financial statements.

Part I

a. Contingent liabilities are possible obligations, present obligations for which it is not probable that a payment will be made, or present obligations for which a reliable estimation of the obligation cannot be made. If the outcome of the loss is virtually certain or probable, it should be reported as a liability. If the outcome is probable but not possible, disclosure is required. If the outcome is remote, no
Disclosure is required. A company would report a contingent liability when it is highly probable that a loss will occur and if the loss is estimable. Possible losses should be disclosed in the notes, and losses that are unlikely to take place should not be listed. Some types of contingent liabilities are lawsuits with the possibility of loss, guarantees related to the collectability of a receivable, and product warranties. Companies may report contingent assets if the gain is both probable and estimable as in the case of a lawsuit that the company expects to win.

b. From BP’s perspective as the purchaser of the telescope joint, a product warranty is an incentive to purchase a product since the company will be responsible for little to no cost for replacement or repairs. However, if a telescopic joint is defective and contributes to a disaster such as an oil spill, BP can still be found liable, but GE Oil and Gas is also liable for damages if there is a product warranty.

From the perspective of the manufacturer of the telescope joint, GE Oil and Gas, a warranty is congruent to a sales promotion technique. As the manufacturer, GE Oil and Gas entails future cost by making promises such as bearing costs to replace or fix a defective telescopic joint. GE Oil and Gas may provide either an assurance-type warranty or a service-type warranty to insure its product.

c. The risk of loss due to a liability must be probable for a company to report the liability. If the risk is possible but not probable, the company should instead include it in the footnotes of its financial statements. Management should perform risk assessments regularly to ascertain whether or not a contingent liability is probable, possible, or unlikely, in which case it would not be reported at all. For instance, BP
only estimates the probable liability costs which will be paid for from funds in its escrow account.

A claim for damages resulting from the Deepwater Horizon oil spill differs greatly from a warranty claim on a piece of equipment such as a telescopic joint. A claim for damages due to the oil spill would be largely incalculable and could come from a number of sources such as the response costs of the US Coast Guard, responsible party costs under OPA 90, fines and penalties, and private civil lawsuits filed because of business impairments, injury, and other damages. In contrast, a warranty claim on a piece of equipment such as a telescopic joint might not be incalculable. The warranty claim would likely only be the replacement cost of the telescopic joint or, in extreme cases, the entire machine in which the joint was placed. This warranty claim would almost certainly not be as expensive as the claim for damages due to the oil spill.

d. BP must eventually estimate contingent liability costs associated with response costs of the US Coast Guard, responsible party costs under OPA 90, fines and penalties, and private civil lawsuits filed because of business impairments, injury, and other damages. However, in its statement, BP states that these costs cannot currently be estimated, but each quarter, more liabilities become estimable. BP does provide estimable costs for “ongoing response, remediation and assessment efforts, commitment to the Gulf of Mexico Research Initiative, estimated legal costs expected to be incurred in relation to litigation, remaining payments to the escrow account, claims centre administration costs and an amount for estimated penalties for strict
liability under the Clean Water Act” which will be paid for using an escrow account set up in August 2010.

Part II

If I were an auditor for BP, I would work with lawyers in coming up with a plan to estimate losses from lawsuits by looking at the different businesses in the areas most affected by the oil spill and attempting to calculate how much business those companies lost due to the oil spill. A lot of research into the affected areas could have to be conducted. I would also send out surveys to local businesses with an apology attached. The surveys would ask these businesses to provide estimated losses experienced by the company that were directly related to the oil spill. By calculating the approximate number of businesses affected and their estimated monetary losses, a fairly accurate estimate could be ascertained in regards to the liability that BP could face. Since these liabilities are also probable, they could then be reported as such. Potential companies that could file lawsuits against BP would mainly be restaurants; adventure companies such as dolphin cruises, parasailing tours, scuba diving tours, and paddle board rentals; boutiques; and maintenance companies. All of these companies could also be considered companies that garner large profits from vacations. Because of the oil spill, many families chose not to vacation near beaches causing these companies to experience loss in profit that was unforeseeable. Maintenance companies also had to work overtime to help clear beaches.

I believe it is reasonable for these companies to file lawsuits against BP because the oil spill that BP caused directly affected the companies and their employees which sometimes resulted in unemployment and both business and
personal bankruptcy. Had BP not caused the oil spill, business would have continued as usual for these companies. Vacationers would still have flocked to the beaches and eaten at local restaurants, shopped at local boutiques, made their own messes on the beach, and visited tourist attractions. The lack of vacationers directly caused a lack of profit, and since many of these companies account for seasonal profits in their business plans, they were not able to pay for their own liabilities like rent, employee salaries, and inventory costs.
Case 3: Wendy’s Company – Equity Method

Investments
Introduction:

In this case, I learned how to use financial statements and footnotes to analyze joint-venture and equity investing activity and why companies enter into joint-venture agreements. I found this case particularly difficult because, at the time of completion, I had never before studied equity method accounting. I conducted a lot of research to understand this case so that I could properly report my findings. I believe that because this method was not taught to me in a class, I will better retain the information and be able to understand it more thoroughly in my future classes and, thereafter, in my accounting career. I have also never had experience with a company that had entered into a joint-venture, so I found this case to be helpful in understanding that just because a company enters into a 50-50 joint-venture different amounts can still be invested by each company and, therefore, each company will have different net earnings from the joint-venture. Going forward, I hope to be able to use this information when conducting audits on companies who use equity method accounting or have entered into joint-ventures. Because I reported on and learned from this case, I believe I will be better equipped to audit companies as I have already been exposed to the financial statements of a company who has both entered into a joint-venture and uses equity method accounting.

A. A joint-venture is defined as a partnership between a domestic firm and a foreign firm or government. Companies enter joint-venture agreements for many reasons. One reason is because some industries require large investments, and another reason is because of political necessity. In the case of TimWen, a joint-venture was probably entered into in order to provide legitimacy in the eyes of the host country’s citizens, which is another popular reason to enter into a joint venture. By partnering with one
another, the two companies were able to share knowledge of economic and sociopolitical environments as well as distribution networks and local resources.

B. Under the equity method, the company originally records the investment at the cost of the shares acquired and subsequently adjusts the amount each period for changes in the company’s net assets. Cash dividends received by the investor from the investee decrease the carrying amount of the investment, and the investor’s share of the earnings periodically increase the carrying amount of the investment. Likewise, the investor’s share of the losses periodically decreases the carrying amount of the investment.

C. Because book value and net assets are interchangeable, identifiable assets and liabilities are written up to fair value from the book value. Using the equity method, the investing company accounts for this excess amount by allocating it as an intangible asset under goodwill.

D. Wendy’s includes its equity investments, which are made up of its joint ventures with both THI and Japan, in “investments” under the “assets” section of the consolidated balance sheet. In 2011, Wendy’s reported $77 as its equity investment with Japan and $91,742 as its equity investment with THI for a total equity investment for 2011 of $91,819. In 2012, Wendy’s reported a loss of $1,750 as its equity investment with Japan and $89,370 as its equity investment with THI for a total equity investment for 2012 of $87,620. All amounts are reported in thousands per share.

E. According to Wendy’s, the carrying value of its investment in TimWen exceeded its interest in the underlying equity of the joint venture by $54,088 as of December 30,
2012. When this amount is subtracted from the investment in TinWen of $89,730, the 50 percent equity share of TinWen is revealed to be $35,282.

F. The following considers the information disclosed in Note 8 regarding Wendy’s investment in the TimWen Joint Venture.

i. In 2012, Wendy’s equity method investment in TimWen affected the company’s earnings before taxes by decreasing earnings due to amortization costs of $3,129. Earnings before taxes for 2012 were $10,551 which can be found by subtracting the amortization cost of $3,129 from Wendy’s share of TimWen’s earnings of $13,680. In 2011, earnings before taxes were $10,571 which can be found by subtracting the amortization cost of $2,934 from Wendy’s share of TimWen’s earnings of $13,505. This appears in Wendy’s consolidated statements of operations under “other operating expense”.

ii. Account Titles

<table>
<thead>
<tr>
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<tr>
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iii. Account Titles

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iv. Account Titles

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<tbody>
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<td>Cash……………………................... $15,274</td>
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<tr>
<td>Equity Investments ……………………… $15,274</td>
<td></td>
</tr>
</tbody>
</table>

G. The following considers the information in the statement of cash flows.

i. A negative adjustment of $8,724 is made because these earnings were originally included in net income and must be taken out of net income in the statement of cash flows. This amount is comprised of the difference of $10,551 from Note 8, which is the difference between equity in earnings for the period and the amortization of purchase price adjustments, and $1,827, which is the total loss allocated to the joint venture with Japan.

ii. A positive adjustment of $15,274 is made to arrive at net cash from operating activities because dividends received in the form of cash were not initially included in net income. The amount of $15,274 is included in Note 8 as “distributions received”.


Case 4: Johnson & Johnson – Pensions
Introduction:

In this case, I learned to read and interpret pension benefits including footnotes and understand the impact of actuarial assumptions on pensions expense, assets, and obligations. I also learned how plan assets are valued each year and which accounts increase and decrease the asset amount. Before this case, I was not familiar with pension funds. In the future, I believe having been exposed to this case will be beneficial because I now have a more complete understanding of the differences between expensing and funding retirement benefit obligations and who might contribute to retirement plan assets. I also learned that there are two types of pension plans, and before, I had thought that there was only one type of pension plan. This will be beneficial personally as I will better be able to evaluate the pension plan offered to me when I begin my professional career and be better prepared to save for my eventual retirement.

a. There are two general types of retirement (i.e. pension) plans—defined benefit plans and defined contribution plans.

i. The two types of plans are defined contribution pension plans and defined benefit pension plans. In a defined contribution pension plan, the employer agrees to contribute to a pension trust a certain sum each period based on a formula that includes factors such as age, length of employment, employer’s profits, and compensation levels. One example of a defined contribution pension plan is a 401(k) plan. In a defined benefit pension plan, benefits are a function of an employee’s years of service and of the compensation level in the years approaching retirement.
Since the company states that retirement plan benefits are primarily based on the employee’s compensation during the last three to five years before retirement and the number of years of service, it is apparent that Johnson & Johnson uses the defined benefit pension plan.

ii. Retirement plan obligations are considered liabilities because they are future amounts promised to be paid, but the liability is controversial because its measurement and recognition relate to unknown future variables.

iii. Some assumptions that are necessary in order to account for retirement plan obligations include mortality rates, employee turnover, interest and earnings rates, early retirement frequency, and future salaries.

b. In general, companies’ pension obligations are influenced each year by four main types of activities: service cost, interest cost, actuarial gains or losses, and benefits paid to retirees. Service cost is the expense caused by the increase in pension benefits payable to employees because of the services employees provided during the current year. Companies record pension liability on a discounted basis, and over time, interest costs are incurred on that amount. Actuarial gains and losses occur when actuaries change their assumptions or when real experiences differ from expectations, thus
changing the projected benefit obligation. Benefits paid to retirees are often referred to as a “retirement plan” and will decrease plan assets each year.

c. In general, companies’ pension assets are influenced each year by three main types of activities: actual return on pension investments, company contributions to the plan, and benefits paid to retirees. Actual return on pension investments are dividends received. This amount is relevant in measuring the net cost of sponsoring an employee pension plan. Company contributions to the plan are made by the company each year to increase the amount of plan assets to be paid out to retirees. Benefits paid to retirees are taken out of plan assets and distributed to former employees.

d. In general, companies’ pension expense and pension plan assets both have a “return on plan assets” component. The expected return on plan assets determine the current pension expense. Pension expense uses the expected return to reduce market-induced volatility in the income statement. The rationale for this difference is that the two can be compared to ascertain whether pension fund investments are reacting in a manner similar to the predicted rate.

e. Not included

f. The following considers Johnson & Johnson’s pension expense detailed on page 61 of the company’s annual report.

   i. In 2007, Johnson & Johnson reported $646,000,000 as the pension expense on its 2007 income statement.

   ii. Account Titles       Debit       Credit

      Pension Expense ............... $1,253,000

      Projected Benefit Obligation ............. $1,253,000
g. The following considers Johnson & Johnson’s retirement plan obligation.

i. The pension liability at December 31, 2007 is $12,002,000. This value is the projected benefit obligation that Johnson & Johnson estimates will be distributed to current employees. This number is considered reliable despite the fact that it is based on uncertain assumptions.

ii. The pension-related interest cost for 2007 is $656,000,000. The computed average interest rate that the company must have used to calculate interest cost is 5.63 percent which is found by dividing $656,000,000 by $11,660,000. Beginning PBO is $11,660 and PSC amendments are $14,000,000. This rate seems reasonable because the pension obligation is large and other companies have similar interest rates at that time.

iii. In 2007, $481,000,000 were paid to retirees. This amount was paid from plan assets, so cash was not used. Because this amount was paid from plan assets, both plan assets and plan obligations decrease.

h. The following considers Johnson & Johnson’s retirement plan assets.

i. The value of the retirement plan assets held by the company’s retirement plan at December 31, 2007 was $10,469,000. This value is determined by adding actual return on plan assets, company and plan participant contributions, divestitures, and effect of exchange rates to the value of
plan assets at fair value at the beginning of the year. Benefits paid from plan assets and settlements are subtracted from this amount.

ii. The amount of the expected return on plan assets was $701,000,000 in 2006 and $809,000,000 in 2007. The amount of the actual return was $966,000,000 in 2006 and $743,000,000 in 2007. The actual return better reflects the economics of the company’s pension expense. The difference between the expected and actual return was not as significant for 2007 as it was for 2006 because the difference was much larger in 2006.

iii. In 2007, Johnson & Johnson contributed $317,000,000 to its retirement plan and employees contributed $62,000,000. In 2006, Johnson & Johnson contributed $259,000,000 to its retirement plan and employees contributed $47,000,000.

iv. U.S. retirement plan assets consist of 79 percent equity securities and 21 percent debt securities. International retirement plan assets consist of 67 percent equity securities, 32 percent debt securities, and one percent real estate and other. These amounts are closely matched to the company’s target allocation.

i. At December 31, 2007, the company’s retirement plan was under funded by $1,533,000. At December 31, 2006, the company’s retirement plan was under funded by $2,122,000. These amounts are made up of non-current assets, current liabilities, and non-current liabilities and recognized in the consolidated balance sheet.
Case 5: On the Balance Sheet-Based Model of Financial Reporting
Introduction:

This article gives an important insight into the currently employed balance sheet method of financial reporting. The author of the article argues that the balance sheet method of reporting should be reconsidered as the primary way to report financial information as guided by the FASB. Instead, consideration should be given to the income statement method of financial reporting which better satisfies the statements of the Financial Accounting Standards Board (FASB) - primarily that the primary goal of financial reporting should be to provide relevant and faithfully represented information to outside parties such as investors and creditors.

The author of the article gives a brief history of the FASB and the International Accounting Standards Committee (IASC) and how the IASC has been influenced by the FASB. The board and the committee are beginning to reevaluate the current guidelines and attempting to make accounting standards more uniform internationally. The author then goes on to present an argument as to why the balance sheet method of reporting should not continue to be the international standard for financial reporting. The author instead argues that the income statement method of reporting is more relevant, provides more useful information, and better matches assets to liabilities and reports revenue in a more precise manner. The author concludes with two suggestions for a future method of financial reporting that will better provide investors and creditors with information.

I fully agree with the author that the balance sheet method of financial reporting is lacking and should be abandoned in favor of the income statement method of reporting because the income statement method is both easier to understand and seems to provide more relevant information than the balance sheet method. While a switch from one method to the
other may prove to be a difficult implementation, I believe that all parties would benefit from
the change in reporting principles.

a. This article gives a brief history of the FASB and IASC and how the two
affect each other. In the introduction, the author states, “The income-statement
approach to accounting is the natural foundation for financial reporting for
most firms, and a disregard for this approach is bound to result in faulty
accounting, no matter what desirable characteristics the rest of the financial
reporting model might have.” This statement holds true for the rest of the
article and gives an insightful beginning to the author’s argument that the
balance sheet method of accounting should be revised. Because the income
statement approach views the determination of revenues, expenses, and
especially earnings, as the primary goal of financial reporting, it makes sense
that this approach should be used as the primary reporting method and should
be adopted by both the FASB and the IASC. The author also states that the
FASB is “a model for international standard setting” and therefore influences
the IASC. The FASB and the IASC are working together to coordinate their
methods and adopt a method that would be used internationally to eliminate
discretion internationally, and the author states that the two currently share a
firm commitment to the balance sheet method of reporting.

The author goes on to give a critique of the balance sheet method of
accounting, stating as main ideas that it is “problematic because it is at odds
with how most businesses operate, create value, and are managed”, is “likely a
major contributor to the substantial temporal decline in the forward-looking
usefulness of earnings” and that the “alleged conceptual superiority of the balance sheet approach is unclear” because the concept of income provides a clearer and stronger foundation for financial reporting. The author points out that assets are continuously used up and replaced which supports the idea that the balance sheet method does not make sense because it makes it seem as though assets are permanent and not used up which affects investor and creditor views of assets. The author points out that “accounting can be defined as a system of tracking wealth and the creation of wealth in an economic unit”, so it makes sense to switch to the income statement method of reporting to highlight this fact. In this section, the author also identifies the main difference between the balance sheet method of reporting and the income statement method of reporting. The difference is the distinction between operating and financing activities, which is more suited to the income statement method of reporting because the balance sheet method of accounting because most companies continuously productively destruct their assets. The author goes on to give basic definitions of assets, liabilities, equity, revenues, and expenses. These definitions seem to offset each other in the fact that they should be equal in the balance sheet method of reporting. Therefore, the concept of income is easier to understand. Investors also use earnings as a basis for which company to invest in, which is not supported by the balance sheet method of accounting because the balance sheet method views earnings as a change in net assets. Research suggests that the current balance sheet method supports a deterioration in the informativeness of earnings.
The author concludes with two suggestions as to what a “better” model of financial reporting might look like from an outside investor perspective. One suggestion is that the distinction between operating and financing assets and activities should be reflected in all financial statements. The income statement should identify the difference in earnings from regular operating activities and divulge from having what is referred to as a “bottom-line”. The second suggestion is to renew an emphasis on the matching principle and, to a lesser extent, an emphasis on the revenue recognition principle. This goes well with the income statement method of reporting since the overriding principles of this method are the matching principle and the revenue recognition principle, which is the most straightforward.

b. After reading this article, my current thoughts were not changed; instead, my thoughts were confirmed. I have always had a slight difficulty in understanding the balance sheet method of accounting. After taking finance this semester, it became apparent that investors are not concerned with all of the assets that a company reports. Instead, they are concerned with revenues and earnings associated with the company. In the balance sheet method, these amounts are hidden in the assets section. The FASB’s Concept Statement one declares, “The primary focus of financial reporting is information about an enterprise’s performance provided by measures of (comprehensive income) and its components. Investors, creditors and others, who are concerned with assessing the prospects for enterprise cash flows are especially interested in this information”. Since the FASB states that the main goal of accounting is to
provide a relevant and faithful representation to investors and outside parties interested in the financial standing of a company, it would theoretically follow that the main goal should be to primarily report revenue and income as that is what most outside parties consider when deciding whether or not to invest. The income-statement method of financial reporting places an emphasis on income

   A re-consideration of the current concept could positively change the way that companies report their assets, including revenues. This would be a positive change because it would be more understandable method that would benefit both accountants and potential investors. From a personal perspective, I believe that the income-statement method would be easier for future accountants to understand. With the balance sheet method, it is almost difficult to comprehend how companies stay afloat because assets are matched with liabilities, hiding the revenues under the assets and seemingly implicating that for every dollar made, a dollar is spent. The article states, “If anything, one can argue that the concept of income is more fundamental and clear, especially in light of the increasing prominence of intangible assets.” I agree with this assessment. However, one of the proposed alternatives to the balance sheet method of accounting is to focus primarily on matching principles, which I do not fully agree with. While I understand that revenues should be matched with expenses, it also makes sense that revenues should outweigh expenses to generate earnings. Therefore, I believe that the revenue recognition principle should be the primary basis in an alternative method and
that the matching of expenses to revenues should follow behind that. While this is the opposite proposal of the author of the article, I still believe that we have similar views. We both agree that the balance sheet method of reporting is outdated and should be revised.

c. I believe that in my time as an accountant, the FASB will eventually change from the balance sheet method of accounting to a more income statement based approach. If my predictions are correct, this change in principle will most definitely occur after graduation and well into my working career. Since this change in principle will affect the way that accountants record and report for public use, it will affect all accountants working in the field by insuring that they must learn a new method of reporting while working. I believe that while this change is necessary, it will also be difficult to implement and may even require supplemental courses for public accountants who were taught in college to use the balance sheet method of reporting. It would follow that mistakes would be made by professionals as they would have to adapt to new principles and procedures. A change in method would also beg the question as to how long certified public accountants have to take said classes and switch to the new reporting method. It follows then to ask the question regarding whether certified public accountants could have their status revoked if they do not conform to the new reporting principles implemented by the FASB. The way I carry out my future job will be affected by a revision in the fact that I will have to learn new methods and could even change the way I conduct audits and reports.
The new principle would also place more importance on reporting for outside sources who are more interested in the financial status of the company for which I would be working, and the financial reports would provide a larger emphasis on earning of that company. I believe the FASB would have to conduct questionnaires to ascertain whether investors are more interested in the matching of revenues and expenses or rather with the earnings themselves, regardless of how those earnings are generated. Reporting procedures would then logically follow the results of the questionnaires, especially since, as stated earlier, the FASB states that the first goal of financial reporting is to provide investors and creditors with the information they desire. This then begs the question of how difficult it would be to maintain faithfulness in reporting. If accounts could purposefully alter reports more easily without being caught, the new reporting method would need new protocols and auditors, like me, and even artificially intelligent machines who check for inconsistencies would need new special training to be able to spot abnormalities in the financial statements.

It is also worth noting that the teaching an income statement method of financial reporting to accounting students may result in a better understanding of accounting and, in turn, better grades. By providing a better understanding of accounting in the early years of learning, a better foundation can be laid that will result in more competent accountants in the future. I believe I would have benefited greatly from this method of accounting being taught, especially if the switch from the balance sheet method does occur.
While I believe that the balance sheet method of reporting should be revised and a more income statement-based method of reporting should be implemented, I also realize that the implementation of a new method of reporting would be difficult and time consuming, not to mention expensive. Nevertheless, this does not change my mind. I hold steadfast in my belief that the current method needs to be revised, and that if it is revised, it will be a long process with many mistakes which will prove difficult for both accountants, companies, and investors and creditors.
Case 6: Google Case Reporting
Summary of Article then Introduction to the Case:

The article gives an in-depth description of non-GAAP performance financial measures including a history of these reporting, global securities regulators’ reactions to the increase in use of non-GAAP performance financial measures, and a list of “pros and cons” associated with non-GAAP reports. The history of non-GAAP metrics states that non-GAAP reporting has been around since the 1960s at which time they were referred to as “pro forma earnings” and have become increasingly more popular because they provide an insight to the company “through management’s eyes”. PricewaterhouseCoopers also conducted a survey that showed that investors valued non-GAAP metrics in financial reports because investors like to know how management thinks the company will progress. However, my opinion is that management would like to put a company’s “best face forward”, and non-GAAP metrics could provide investors with information that allows a company to present earnings that are too large. Internationally, global securities regulators are looking to the SEC for guidance on how to handle non-GAAP metrics, which points to a distrust of a deviance from the current system used. “Pros and cons” include the thought that non-GAAP metrics are “income before the bad stuff”, which is also my sentiment on the subject. However, a “pro” included in the article states that non-GAAP reported amounts tend to be better predictors of future earnings or cash flows, which I had not considered. The author of the article points out that because each company that includes non-GAAP metrics decides which of the more than 30 different types of reconciling items to include showcases a problem that will not be corrected until set rules are in place to dictate which reconciling items to include to increase comparability between companies.
Marc Siegel, a representative for the investor community on the FASB, has expressed his opinion that GAAP and non-GAAP metrics complement one another because the combination of the two reported together represents a powerful analytical tool in understanding a company’s underlying business. Despite this, I believe that until FASB rules are officially changed, the non-GAAP metrics serve as a distraction from GAAP metrics. However, the article does state the non-GAAP metrics in combination with the GAAP metrics provide a promising future because it will lead to better organization and presentation of performance information.

By giving the summary before the introduction to the case, I believe that the case can be better understood because it shows reasons as to why Google chose to include non-GAAP metrics in the first place. Additionally, according to facts listed in the article, Google follows all rules associated with reporting non-GAAP financial measurements as dictated by Item 10(e) of regulation S-K. In this case, stock was analyzed in comparison with NASDAQ, and a press release and another article were used to analyze why Google’s stock continued to rise. I believe that in my years as an accountant, non-GAAP reporting metrics will become more common and therefore, more regulated. Prior to this case, I was not aware that any company included non-GAAP measurements on issued financial statements. To comply with FASB rules however, I believe that continued editions to the rules of how to use non-GAAP metrics will need to be issued. It was also interesting to discover how different factors such as additional hiring, press releases, changes in ads on cell phones, and sales of subsidiary companies affected stock price for a company such as Google, which many people know to be one of the largest and most successful companies in existence.
a. The difference between GAAP net income and the non-GAAP equivalent can be explained by the fact that Google used stock based compensation expense, restructuring and related charges, income tax effects related to expense noted in stock based compensation expense, and income tax effects related to expense noted in restructuring and related charges to calculate non-GAAP net income and profit margin. These amounts were added back to GAAP net income to arrive at the much larger non-GAAP net income.

Because these amounts are important in calculating GAAP net income, I do not agree with Google’s adjustments in computing non-GAAP earning. Google tries to validate the inclusion of non-GAAP operating margin and net income by including definitions, but I believe that the expenses that are left out in the non-GAAP equivalent should be seen and considered by non-owner sources when they read financial reports as dictated by the comparability notion of accounting.

b. The following questions are answered using stock-market charts.

i. Despite minor fluctuations throughout, the movement of Google’s stock price increased from quarter to quarter from 2013 to 2014. In January of 2013, stock price was $707 per share, and by January of 2014, stock price was $1,120 per share. Fiscal 2013 earnings performance can be seen alongside the movement in Google’s stock price, as it is shown under the chart labeled “Google Price History”. It seems as though the stock price and earnings performance are in synch with one another based on the chart.
ii. Comparing Google’s 2013 stock price performance with the performance of the NASDAQ exchange shows that the stock price of Google was almost constantly higher than that of NASDAQ. By the end of 2013, NASDAQ was operating at roughly 30 percent, and Google was operating well about that at over 45 percent. This indicates that while NASDAQ had a broader set of firms trading, Google still out-performed the other company.

iii. Based on the stock market chart, the market did perceive the earnings news in Google’s January 30, 2014 press release as “bad news” at first and then reinterpreted as “good news”. This can be seen in the sharp decline in stock price at the beginning of February 2014. However, Google quickly recovered and stock price was higher in mid-February than it had been at the end of January despite the initial decline, showing an overall positive stock market reaction.

c. I read the *Wall Street Journal* article from January 30, 2014 titled “Google Reports Higher Profit.”

i. Google’s fourth quarter revenue and earnings are comparable to the consensus analyst forecasts at the time of the earnings press release. Revenue was slightly higher than the analyst forecast, with an actual revenue stream of $16.9 billion and a predicted revenue stream of $16.8 billion. This revenue was driven by a 17 percent increase in both core advertising and net income. These relations are consistent with the positive stock market reaction following the press release.
ii. The article states that analysts were excited about the sale of Motorola by Google to Lenovo. This excitement stems from an increase in Google’s “bottom line” as the company had amassed over two billion dollars in loss from Motorola. Other factors that could contribute to the market’s positive reaction to the earnings press release are continuing increase in cash balance and increase in jobs associated with Google. An increase in revenue and positive reactions to image-based ads on cell phone searches also contribute to the market’s positive reaction. A factor that does seem concerning is the large increase in capital expenditures from 2012 to 2013. However, despite these rising expenditures, which were due to increases in investments in technology and products, Google continues to increase revenue yearly and remain impressive in the eyes of analysts and the general public.
Case 7: A Tale of Two Cities
Introduction:

The goal of this project was to take two cities that I was interested in living in and delve into the costs of living in the two cities, the social aspects of the cities, the climate and topography of the cities, and how much I would enjoy living in each city. Throughout this case, I began to realize that both of the cities I chose – Jackson, Mississippi and Springfield, Missouri – were very similar. The main differences were in weather, although the difference in climate was very minimal, and the fact that Springfield was very far away from my family. By the end of the project, I realized how much I wanted to stay close to home and live in Mississippi. The older I have gotten, the more meaningful family has become for me, and I have strayed away from my grand plans of moving far away and living in a big city where I would never get to come home. The costs of living in the two cities were fairly comparable, although living expenses in Springfield seem to be slightly lower than those in Jackson, which did make it seem like a more desirable place to live at first. The social and healthcare scenes in both cities are also both excellent. Both cities place a lot of focus on the health of their populations and on how much their populations enjoy of living there.

The outcome of this case did not surprise me, as I was already fairly certain I would chose Jackson over any other location because I am familiar with the area, it is close to both Oxford and my hometown, and it is the largest city in Mississippi.

Case:

The population of Jackson, Mississippi is 164,422 - making it the largest city in Mississippi. This may not seem very large, but because my hometown only has 2,000 people, this seems like a very big city to me. Because I grew up just an hour and a half south of Jackson and made frequent trips to Jackson to visit family and go shopping, I am very
accustomed to living in the warm, humid climate that lasts almost the entire year. Winter is never very long or very cold in Jackson, and summer weather stretches from late March to early October. The topography in Jackson is relatively flat and low. It is not a hilly or mountainous area, and it is a very urban area. There are a lot of buildings, stores, malls, hospitals, homes, and apartment complexes in the area. Also, the Ross Barnett Reservoir supplies a large body of water for fishing and boating.

In Jackson, I would want my kids to attend a private school. While Madison Central is a good public school in the area, living in Jackson would put my children out of the school district, and Jackson public schools are not as advanced as the private schools. Despite the expense of the private schools in the area, I believe sending them to Jackson Academy or Jackson Preparatory School would be advantageous in helping realize academic success. Healthcare in Jackson is of very high quality. There is an entire area of the city encompassed by highly ranked hospitals known for taking good care of their patients and providing the highest levels of care. In fact, the city’s most prevalent industry seems to be healthcare. The largest companies in Jackson are Sta-Home Health and Hospice, University of Mississippi Medical Center, Cal-Maine Foods, Baptist Medical Clinics, and MINACT. In the
surrounding area, many of the other largest companies are also healthcare related. I take great pride in knowing that the area is so focused on healthcare.

Safety in Jackson is a concern. Growing up in such a small town, I was always taught that Jackson was a dangerous area. There are a lot of robberies and burglaries, and shootings seem to be fairly common in the area. Downtown Jackson has always been considered the most dangerous area, but because of gentrification, that is quickly changing and the area is becoming safer.

In Jackson, there are many transportation hubs. The Jackson Evers International Airport is located off the interstate, and there is an Amtrak train station. Uber and Lyft are also becoming increasingly popular in the city, and cabs are also available. However, it is fairly easy to drive in Jackson, so I will take my own car to work everyday and park in the BKD, LLP parking lot. According to Google Maps, it should take between 17 and 25 minutes to get to and from work each morning and evening. I will also drive myself back to my hometown to visit my parents and grandparents. The drive to and from Jackson, Mississippi to Stringer, Mississippi takes about an hour and a half, and if gas prices stay the same, it should only take about $30 to fill up my gas tank for the entire trip.

After scouring the apartment market in Jackson, I found a suitable apartment called Prosper that I would like to live at for at least my first three years in the city. I do not want a roommate, and a one bedroom apartment at Prosper costs $850 a month - utilities included. This apartment is 750 square feet and has one bedroom with a closet, one bathroom, a living room, kitchen, dining room, small balcony, and a washer dryer connection. The complex has complimentary on-site parking, a playground, on-site laundry facilities, a dog park, a computer lounge, and an on-site workout facility. There is a Kroger only ten minutes away
from Prosper that I will go to to buy groceries. Tax rates within the city are not too outrageous. I will be paying a total of $10,130 in taxes with the following breakdown. Because I will be renting my apartment, I will not have to pay property taxes. However, if I do decide to buy a house with a value of $300,000, property taxes in Jackson will be approximately $2,808 annually.

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<td>Take-Home Pay</td>
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51 Northtown Drive - Q23D, Jackson, MS 39211
Square Feet: 750  Available 10/6/19
The social scene in Jackson is very enjoyable. My aunt and uncle and their two kids live there, and we are all very close. There are also many civic engagements available to participate in including the Make-A-Wish Foundation, with which I am already involved. My family helps grant wishes and attends the Make-A-Wish Gala in Jackson every spring. I would also like to volunteer at the Mustard Seed, a Christian community store for adults with developmental disabilities, and with the local Junior League. Jackson also has many facets that help make up a fun social life. The Mississippi Braves baseball team’s stadium is just 20 minutes outside of Jackson in Pearl, Mississippi. The Kendra Scott store in Jackson puts on in-store events and parties once a week. Fondren Public puts on outdoor community events every week and has a very rich nightlife. The Mississippi Museum of Natural Science, Mississippi Civil Rights Museum, and the Mississippi Museum of Art provide fun and educational entertainment in the city. Also, the Mississippi state fair is held in Jackson every October. I have been to all of these events before and would love to continue engaging with the community.

The population of Springfield, Missouri - which is where BKD, LLP is headquartered - is 167,376, making it the third largest city in the state. It has a humid subtropical climate, much like Mississippi’s, but the extremes of hot and cold are more common. However, it is
apparently a windy city. I do not think that these small differences would be hard to get used to or affect me too much. The topography of Springfield is mostly flat with some hills. The city is on a plateau, and there are many lakes in the area.

In Springfield, I would be okay with my children attending public school. Springfield Public School District is the largest school district in the state. There are many public schools to choose from in the area. There are also three renowned colleges in the area, and the schools in Springfield seem to have a large focus on college preparation. Healthcare is also a major industry in Springfield, making up 17 percent of the total workforce, and there are two top 100 hospitals in the area. The largest companies in Springfield are CoxHealth, Mercy Hospital, Walmart Inc., Springfield Public School District, and State of Missouri governmental department.

Crime in Springfield seems to be a concern. In the last five years, there has been a 40 percent spike in violent crimes in the area. In the recent past, Springfield was considered the eleventh most dangerous city in America. According to some resident reports, the west side of Springfield seems to have the most crime.

Springfield has a city bus system. The Greyhound bus also runs through Springfield, and the BNSF train station runs through the town. The Springfield-Branson National Airport is also a large transportation hub in the city. Again, Uber and Lyft are popular modes of transportation, like they are in most cities. I would most likely drive to work every day if I worked in Springfield. According to Google Maps, it should take between 15 and 20 minutes to get to and from work each morning and evening. I will also have to fly back to my hometown to visit my parents and grandparents. The flight from Springfield to Jackson, MS
is between five and six hours and costs around $300 for a round trip flight. The drive to and from Jackson, Mississippi to Stringer, Mississippi takes about an hour and a half, and my family will have to pick me up at the airport and drive me home. If I lived in Springfield, I would not be able to go home and visit with family as much as I would want.

In Springfield, I found a suitable complex called Lakeshore Apartments that I would like to live at for at least my first three years in the city. Again, I would not want a roommate, but a one bedroom apartment at Lakeshore Apartments costs only $695 a month - utilities included. This apartment is only 650 square feet and has one bedroom with a closet, one bathroom, a living room, kitchen, dining room, small balcony, and a washer dryer connection. The complex has complimentary on-site parking, a picnic area, on-site laundry facilities, a dog park, two pools, and an on-site workout facility. There is a Walmart Neighborhood Market only six minutes away from Lakeshore Apartments that I will go to to buy groceries. Tax rates within the city are not too outrageous. I will be paying a total of $9,955 in taxes with the following breakdown. Because I will be renting my apartment, I will not have to pay property taxes. However, if I do decide to buy a house with a value of $300,000, property taxes in Springfield will be approximately $2,613 annually.

<table>
<thead>
<tr>
<th>Tax</th>
<th>Marginal Tax Rate</th>
<th>Effective Tax Rate</th>
<th>2018 Taxes*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>12.00%</td>
<td>8.74%</td>
<td>$4,370</td>
</tr>
<tr>
<td>FICA</td>
<td>7.65%</td>
<td>7.65%</td>
<td>$3,825</td>
</tr>
<tr>
<td>State</td>
<td>5.90%</td>
<td>3.52%</td>
<td>$1,761</td>
</tr>
<tr>
<td>Local</td>
<td>0.00%</td>
<td>0.00%</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total Income Taxes</strong></td>
<td><strong>19.91%</strong></td>
<td></td>
<td><strong>$9,955</strong></td>
</tr>
<tr>
<td>Income After Taxes</td>
<td></td>
<td></td>
<td>$40,045</td>
</tr>
<tr>
<td>Retirement Contributions</td>
<td></td>
<td></td>
<td>$0</td>
</tr>
<tr>
<td><strong>Take-Home Pay</strong></td>
<td></td>
<td></td>
<td><strong>$40,045</strong></td>
</tr>
</tbody>
</table>
There are many fun things to do in Springfield. One interesting outing would be attending the opera which has been operating in the city for 40 years. The city also has an annual food truck festival which would make for a fun outing. The town also puts on an event called “First Friday” that showcases local artists downtown. Springfield is also home to Dickerson Park Zoo which would provide a fun, family friendly form of entertainment on a Saturday. Even though I am an adult, I also would love to visit the Discovery Center of Springfield, which is a hands-on interactive discovery museum. Springfield has a Ronald McDonald House Charities location where I could continue to volunteer. I could also volunteer at Harmony House, a domestic abuse center, or with the chapter of Habitat for Humanity which operates in the area.
Based on all of my research on these two cities, I would be more comfortable living in Jackson, Mississippi. While Springfield, Missouri seems to be slightly less expensive than Jackson, I am already more familiar with the Jackson area and living in Jackson would allow me to be closer to my family. I would not have to get use to a new area’s culture if I were to stay in the Jackson area. While I would not be against living in Springfield, Mississippi is my home, and I know I would be able to enjoy my free time there.
Case 8: Case Study – “Brexit the Movie”
Introduction:

For this case, the thesis students watched the Martin Durkin crowdfunded documentary “Brexit the Movie”. At first glance, the significance of this case may seem trivial. People might wonder, “This is happening in Britain and the European Union; what importance does it bear on the American accounting system?” However, it is important to understand the importance of Brexit and what is going on with Britain and the European Union because America conducts business - importing and exporting - with all of these countries. Whether Britain decides to secede from the European Union or not will have an impact on the business world for years to come.

After watching this documentary in class, I was better informed about what Brexit was. I had heard about it on the news before, but all I knew was that Britain was trying to secede from the European Union. However, I did not know why they wanted to secede or even what the European Union did for the nations involved with it. I know understand why Britain is seeking to secede and what the European Union does and how it works. It seems that there are more cons than pros involved with being a member of the European Union for Britain, as the citizens of Britain are not even able to truly govern themselves or have an input in the rules and laws that affect them. The European Union seems to be involved in many deplorable practices that have a negative impact on many of its citizens while the bureaucrats who govern these citizens reap all of the benefits of the practices put into place.
Case Study:

The “Brexit” movement has been waiting to be passed for close to three years. The citizens of Britain have moved towards the mindset of “British people, British laws”. It has been more than 40 years since they were last asked whether they wanted to remain a part of the European Union, and a small majority agrees that the country should secede from the European Union on the grounds that they want to be truly democratic and free.

The European Union consists of 28 countries, seven institutions and has four presidents. This means that in Britain, parliament is not technically in charge. The monarchy does not make all of the laws for Britain. The European Union takes away its countries rights to appeal, appose and pass legislation. Most of the citizens who make up the European Union cannot identify the representatives who are in charge. European Union officials officiate in secret through the European Commission. For many of these officials, life is a “gravy train”. There is a special shopping center just for these politicians and bureaucrats where they can eat, shop, and even get their hair and nails done. The European Union initiates deplorable tax practices which benefit themselves and attempts to purchase the loyalty of the powerful such as local authorities, universities, and charities so that they can remain in charge. At one point, the European Union paid British fishermen to destroy their boats so they could raise the price of seafood because it had to be imported. In another instance, the European Union bought up food and stored it in a warehouse to drive up the cost of food between 15 and 20 percent. This was both wasteful and a detriment to society. As prices go up, Europeans get poorer.

During World War II when Britain became a leviathan, industry became regulated and war planning gave the European Union administration unprecedented control. For years, British citizens could not even freely purchase sweets.
Now, Britain is one of the only declining trade blocks. The citizens of Britain consider themselves to be “shackled to a corpse." The officials who spoke in the movie consider regulation to be the enemy of regulation. They believe that protecting a firm from competition does not make it more competitive. The competition associated with tariffs and quotas was lessened with the World Trade Organization that helped shred the quotas and tariffs to be more reasonable. These officials believe that Britain should be more like Germany or Sweden. Germany is considered an economic miracle. After World War II, Germany scrapped controls to revolutionize its economy. This helped turn the country into the third largest economic market. Sweden is not a member of the European Union but still manages to flourish. They have no trade deals with Japan, India, or America, but Sweden is still a super democracy with a large gross domestic product. They are the opposite of Britain right now - a super democracy with self-government that provides for its citizens. Currently, Britain is the biggest market for the rest of the European Union. Its citizens want to take back the right to govern themselves and their sales instead of being subject to “bread and circuses”.

Conclusion:

The citizens of Britain are ready to leave the European Union behind and start governing themselves. They believe that secession from the European Union will allow for Britain to be more prosperous. Because Britain is the biggest market for the rest of the European Union, the question of whether or not the European Union will fall apart once Britain leaves must be asked. Will other countries follow in the footsteps of Britain and also leave the European Union? I believe that Britain has the notion that “democracy needs transparency” correct. The current practices of the European Union seem discreditable. The
politicians and bureaucrats that make up the European Union officials seem to be looking out for themselves and not for the citizens they govern. Brexit is an important issue that will affect countries across the world - whether those countries belong to the European Union or not. It will be necessary for accountants and other business officials to stay up to date with the financial and social changes that Brexit will bring about.
Case 9: Company Case – How to Read a 10K
Introduction

This assignment gave students a certain company to research, in this case, the Home Depot. Students were instructed to find the company’s most recent 10K filing and answer questions relating to information that could be found on the form. Some information, however, could not be found on the form, such as the definitions of balance sheet accounts and the reason the company had a fiscal year-end that differed from a calendar year-end. These questions needed to be answered based on outside research, intuition, or from information learned during their time as accounting students.

This assignment was beneficial because it provided an interactive way for students to learn about the 10K including the information presented on the form, how to navigate the form, and what information could be found in each section of the form. In the future, this information will be beneficial as students graduate and become certified public accountants who work daily with 10K forms, go over company financial statements, and submit their own opinions on these financial statements. Even if students decide not to become auditors, this information will be helpful if students need to look up financial standing of companies that they may want to invest in.

Luckily, I had already had some experience in navigating 10K forms from my auditing class, but this assignment was still beneficial in that it showed me the intense variation of information provided within a 10K – from who audits the company, to many different types of financial statements, to revenue recognition principles used by the company, to how profit is generated by the company. I am certain that this
assignment has been advantageous in making me more prepared for my future in the accounting field.

I. Home Depot Business Background

   a. Nature of Company Business

      Home Depot operates 2,287 retail stores in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, 10 Canadian provinces and Mexico and employs more than 400,000 associates. Net sales outside the U.S. were $8,817,000,000 in 2018, $8,491,000,000 in 2017, and $7,980,000,000 in 2016. In their 10K, Home Depot states, “Our two primary objectives are growing market share with our customers and delivering shareholder value. We have historically been guided by three principles to drive growth: delivering an exceptional customer experience, leading in product authority, and maintaining a disciplined approach to capital allocation.”

      Home Depot has reported that the company is focusing on four key business initiatives to retain market leadership including: building and acquiring market leading presence in home improvement business segments, offering complete home improvement products and services, growing customer segments, and growing both direct and pull through product revenues.

      i. Profit Generation
Home Depot generates profits mainly by selling products and services to its three main types of customers, which will be discussed later. The company also generate some profits through common stock.

ii. Headquarters

Home Depot is headquartered in Atlanta, Georgia. The company is incorporated in the state of Delaware.

iii. Fiscal Year End

Home Depot’s 10K reports, “Our fiscal year is a 52- or 53-week period ending on the Sunday nearest to January 31. Fiscal 2018 includes 53 weeks compared to fiscal 2017 and fiscal 2016, both of which include 52 weeks.” This differentiation from a calendar year-end allows time to sell remaining Christmas and other holiday products before the company closes its books.

iv. Auditors

Home Depot is audited by the KPMG office in Atlanta, Georgia.

v. Suppliers

In its 10K, Home Depot states, “We maintain a global sourcing program to obtain high-quality and innovative products directly from manufacturers around the world. During fiscal 2018, in addition to our U.S. sourcing operations, we maintained sourcing offices in Mexico, Canada, China, India, Southeast Asia and Europe. Our suppliers are contractually obligated to ensure that their products comply with
applicable international, federal, state and local laws. All of our vendors and service providers must comply with our responsible sourcing standards, which cover a variety of expectations across multiple areas of social compliance, including supply chain transparency, sources of supply, and child and forced labor. In addition, we have both quality assurance and engineering resources dedicated to establishing criteria and overseeing compliance with safety, quality and performance standards for our proprietary branded products. We also have a global responsible sourcing program designed to ensure that suppliers adhere to high standards of social and environmental responsibility.”

Home Depot’s major suppliers include Fortune Brands Home & Security, Scotts Miracle-Gro, and Cree. These companies provide cabinets and plumbing, lawn and garden products, and lighting, respectively. Home Depot also gets appliances from companies such as Whirlpool, Samsung, General Electric, and Stanley Black & Decker.

b. Customer Base

Home Depot has a customer base that is made up of three different types of customers.

i. DIY Customers
“DIY” stands for “do it yourself” customers. Home Depot states, “These customers are typically home owners who purchase products and complete their own projects and installations. Our associates assist these customers both in our stores and through online resources and other media designed to provide product and project knowledge. We also offer a variety of clinics and workshops both to share this knowledge and to build an emotional connection with our DIY customers.” The DIY customers are one of the two main customer bases along with the professional customers.

ii. DIFM Customers

“DIFM” stands for “do it for me” customers. Home Depot states, “These customers are typically home owners who engage with Pros to complete their project or installation, instead of completing the project or installation themselves. DIFM customers can purchase a variety of installation services in our stores, online or in their homes through in-home consultations.” This customer base intersects the DIY and professional customer bases.

iii. Professional Customers

These are also referred to as “pros”. Home Depot states, “These customers are primarily professional renovators/remodelers, general contractors, handymen, property managers, building service contractors and specialty tradesmen, such as electricians, plumbers and painters. These customers build, renovate, remodel, repair and maintain residential
properties, multifamily properties, hospitality properties and commercial facilities, including education facilities, healthcare facilities, government buildings and office buildings. We recognize the great value our Pro customers provide to their clients, and we strive to make the Pros' job easier and help them.” The professional customers are one of the two main customer bases along with the DIY customers.

II. Balance Sheet Accounts

a. Assets

The assets section begins with current assets. These assets include accounts such as cash and cash equivalents, which are the most liquid assets. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value due to changes in interest rates. Net receivables are claims held for money, goods, or services. Receivables are further classified in the balance sheet as either trade receivables, Notes receivable, accounts receivable, and non-trade receivables. Merchandise inventories are goods on hand and available for sale at any given time.

Other current assets are defined as the value of non-cash assets for the year. The total current assets account is made up of all the accounts listed above.

Net property and equipment are defined as buildings, furniture, fixtures, land, land improvements, machinery used in manufacturing, vehicles, computers
and other office equipment. Goodwill is defined as the value of the company as a whole over and above all identifiable assets. Goodwill can only be purchased through the acquisition of another company. Other assets are defined as other finite-lived intangible assets. Total assets are made up of all current and long-term assets.

b. Liabilities

Liabilities are owed by the business and are broken down into the categories of current and long-term liabilities. Current liabilities are made up of accounts such as short-term debt, which is debt accrued that is to be paid off in one year or within the next business cycle. Accounts payable is made up of amounts owed for products or services purchased on account. Accrued salaries and related expenses result from salaries incurred, but not yet paid. Sales taxes payable are the amount of sales taxes that a business has collected from customers on behalf of a governing tax authority. Deferred revenue is money received for goods or services which have not yet been delivered. Income taxes payable are total taxes due to the government within one year.

Long-term debts are often paid in installments. The current installments of long-term debt are amounts due within one-year. Other accrued expenses are all other expenses which have been incurred or obtained, but for which no invoices have been received nor payments made. The total current liabilities account is made up of all previously listed accounts. Deferred income taxes are liabilities recorded on a balance sheet resulting
from a difference in income recognition between tax laws and the company's accounting methods. Total liabilities are all current and long-term liabilities.

c. Stockholders’ Equity

Stockholders’ equity is what remains when liabilities are subtracted from assets. Common stock is a type of entity ownership which are distributed by the company and pay dividends to its holder. Paid-in capital is defined as the total amount of cash and assets the corporation receives from its stockholders in exchange for its stock. Retained earnings are used to pay debt or get reinvested in the company. Accumulated other comprehensive loss are defined as unrealized gains and losses reported in the equity section of the balance sheet. Treasury stock is stock that has been repurchased by the issuer and intended for retirement or resale to the public. Treasury stock can also be defined as the difference between the number of shares issued and the number of shares outstanding. The total stockholders’ equity account is made up of all the accounts listed above.

d. Estimates and Judgements

In its notes section, Home Depot states the following regarding the use of estimates and judgements in its accounts. “We recognize revenue, net of estimated returns and sales tax, at the time the customer takes possession of merchandise or when a service is performed. We estimate the liability for sales returns, including the estimated gross profit impact, based on our historical return levels and believe that our estimate for sales returns is a reasonable reflection of future returns… We amortize the cost of other finite-
lived intangible assets over their estimated useful lives, which range up to 12 years. Intangible assets with indefinite lives are tested in the third quarter of each fiscal year for impairment, or more often if indicators warrant. The majority of our merchandise inventories are stated at the lower of cost (first-in, first-out) or market, as determined by the retail inventory method. Independent physical inventory counts or cycle counts are taken on a regular basis in each store and distribution center to ensure that amounts reflected in merchandise inventories are properly stated… Net property and equipment are depreciated using the straight-line method over their estimated useful lives. We capitalize certain costs related to the acquisition and development of software and amortize these costs using the straight-line method over the estimated useful life of the software, which is three to six years. Certain development costs not meeting the criteria for capitalization are expensed as incurred… We do not amortize goodwill, but assess the recoverability of goodwill in the third quarter of each fiscal year, or more often if indicators warrant, by determining whether the fair value of each reporting unit supports its carrying value… We enter into ASR agreements from time to time with third-party financial institutions to repurchase shares of our common stock. Under an ASR agreement, we pay a specified amount to the financial institution and receive an initial delivery of shares.”

These details about the use of estimates and judgements in the balance statement accounts provides users of the financial statements with important
information that allows them to better judge the accuracy of the financial statements and better understand how these numbers are calculated.

III. Revenues and Expenses

In its 10K, Home Depot reports, “We generated $13.0 billion of cash flow from operations during fiscal 2018. The main source of revenue for Home Depot is selling products to its customers.” It is also important to note that Home Depot recently adopted ASU No. 2014-09, which pertains to revenue recognition using the modified retrospective method and that financial information prior to fiscal year 2018 will not be altered because the modified retrospective method does not permit it.

a. Changes Over the Last Three Years

Both revenues and expenses have increased steadily over the past three years. Net earnings increased from $7,597,000,000 in 2016, to $8,630,000,000 in 2017, to $11,121,000,000 in 2018. Total operating expenses increased from $18,886,000,000 in 2016 to $19,675,000 in 2017, to $21,630,000 in 2018. Interest expense increased from $936,000,000 in 2016, to $983,000 in 2017, then dropped to $974,000,000 in 2018.

Both gross net sales have increased from $32,313,000,000 in 2016, to $34,356,000,000 in 2017, to $37,160,000,000 in 2018. Net sales have also increased over the last three years from $94,595,000,000 in 2016, to $100,904,000,000 in 2017, to $108,203,000,000 in 2018.

b. Articles from the Business Press
According to the Wall Street Journal, Home Depot sales are forecasted to take a hit in the coming year due to rising lumber prices. However, in another article, the Wall Street Journal still predicted that Home Depot will remain much more profitable than competitors such as Sears, who provides many similar products.

IV. Income Statement

Operating expenses are made of general and administration expenses and selling expenses, impairment loss, and depreciation and amortization expenses. General and administration expenses are the overhead costs of a business. These costs relate to the general ongoing operation of the business. Selling expense is related to the direct and indirect costs of generating revenue. Impairment loss will reduce income in and reduce total assets on the balance sheet. Depreciation and amortization expenses are methods of allocating the cost of an asset over its expected useful life. These can help “earn revenue” by allowing the company to spread the cost of the purchase of the asset out over the years. In Home Depot’s net earnings report, operating expenses are larger than operating income.

V. Conclusion

In conclusion, Home Depot is a large, highly profitable company engaged mainly in the business of supplying home repair products and services to a variety of customer types. Home Depot’s accounting process is complex, but this assignment allowed students to better be able to understand those processes and the 10K form that reports on those processes and the financial statements that come from them.
Case 10: Economic Inequality Case
Introduction:

For this case, we watched a video called “Thomas Sowell on the Myths of Economic Inequality” which aired on Uncommon Knowledge with Peter Robertson. Before watching this video, students were asked to blindly answer two questions. These prompts were “The electoral college should be abolished. What is your reaction to that statement?” and “A universal basic income (UBI) is an unconditional cash payment given at regular intervals by the government to all people living within a country. The cash payment given at regular intervals by the government to all people living within a country. The cash payment is intended to be a livable wage. Proposed UBI amounts are $1000 per adult per month and $300 per child per month. How would this affect the US economy overall? What are the benefits and what are the unintended consequences?” After answering these questions on my own and then watching the video, my answers to these questions have not changed much. However, I did find the video to be informative and enlightening. Thomas Sowell is an intelligent man who has many accomplishments and an interesting background.

These questions, and the ideas addressed by this video, are important topics to think about and understand, as they will come to affect the economy of the United States in the near future. If the Electoral College was abolished or a universal basic income was enacted, it could change the way Americans voted and spend. It is also very likely that a universal basic income will affect how Americans are taxed and further raise the prices on basic goods like milk and gas. The pros and cons for these ideas for the future of our nation should be heavily considered before making any decisions or proclamations because they have the opportunity to be either very helpful or very detrimental to society and the economy.
Summation of Video:

In this video, Thomas Sewell talks about economic and racial inequality and explains economic theories and his ideas for fact based solutions for those situations. He also talks about his past as a high school dropout. His first job was telegram messenger for Western Union. He then went on to join the Marines before studying economics at Harvard, earning a master’s at Columbia, and earning a PhD at the University of Chicago. He also discusses his change in ideals from dabbling in Marxism to libertarian conservatism. Sewell stated that he moved away from Marxism after his first job working in a professional capacity for the government as a summer intern while he was a graduate student. Peter Robertson and Thomas Sewell had excellent banter and conversation throughout the video.

Throughout the video, Sewell discusses the impact of minimum wage laws and welfare in both the United States and abroad. One significant idea that he had was gathering empirical data on whether jobs in Puerto Rico were diminishing because of the country’s minimum wage law or because of hurricanes ruining crops and, therefore, jobs. He suggested this idea during his time as an intern for the United States government. He also states that affirmative action is damaging to the minority youths that it attempts to help because it “mismatches” them with the colleges to which they are admitted - harming everyone in different ways. He describes his time teaching at Cornell as disparaging because the African American students were not being taught at the right pace, thus making those students feel inadequate.

One of the most prolific ideas presented in the video were the ideas of a “constrained vision” and of an “unconstrained vision”. According to Sewell, as published in his book, A Conflict of Visions, a constrained vision “sees the evils of the world as deriving from the
limited and unhappy choices available, given the inherent moral and intellectual limitations of human beings.” In other words, good things happen automatically and bad things are someone else’s fault. We rely on processes rather than the will of the people instituting changes to improve our conditions, not by ignoring government, but by having surrogate decision makers. Sewell points out that these decision makers do not know as much as each individual. In the unconstrained vision, “the fundamental problem is not nature or man but institutions.”

Conclusion:

Thomas Sewell offers impressive insights into his past and economic inequality in the United States and worldwide. Listening to his experiencing and ideas was refreshing because his ideas were unexpected. His insights could potentially help shape the economic state of the United States in the near future if politicians and economists listen to them and attempt to implement them.