A Study of Financial Reporting Principles through Analysis of Case Studies

Molly E. Maroney

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A Study of Financial Reporting Principles through Analysis of Case Studies

By
Molly Elizabeth Maroney

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
May 2020

Approved by

Advisor: Dr. Victoria Dickinson

Reader: Dr. W. Mark Wilder
ACKNOWLEDGMENTS

There are several people and institutions I would like to thank upon the completion of my thesis. First off, I would like to thank Dr. Victoria Dickinson for offering this program and class to the Honors students in accounting. Secondly, I would also like to thank Dr. Samonds and Dr. Wilder for allowing this program to happen. I would also like to thank the Sally McDonnell Barksdale Honors College for the opportunities it has provided me to get to this point. Finally, I would like to thank my classmates who turned into friends during the duration of this project.
ABSTRACT
MOLLY ELIZABETH MARONEY: A Study of Financial Reporting Principles through Analysis of Case Studies
(Under the Direction of Victoria Dickinson)

The following thesis provides solutions to twelve case studies on various financial accounting standards in agreement with Generally Accepted Accounting Principles as set forth by the Financial Accounting Standards Board. In conjunction with the topics learned in Intermediate Financial Accounting, each case focuses on a separate area of financial reporting through application within specific companies. The thesis displays understanding of accounting principles, financial statement preparation and analysis, and current accountancy topics. The case studies were completed under the direction of Dr. Victoria Dickinson in fulfillment of the requirements for the University of Mississippi, Sally McDonnell Barksdale Honors College, and Patterson School of Accountancy ACCY 420 course in the 2018-2019 academic year.
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CASE STUDY 1: TABLEAU DATA ANALYTICS CASE

Prepared By: Molly Maroney

September 5, 2018
Tableau is data analytics software specifically targeted at businesses and organizations as a simplified way of viewing interactive data in order to increase company understanding and utilization. The company has done an extraordinary job at making data both visual and informative. Tableau has four different forms: Tableau Desktop, Tableau Server, Tableau Prep, and Tableau Online. Each one has a specific purpose and is useful for a specific entity. Tableau Desktop is the self-proclaimed “gold standard” in visual analytics and is made for anyone to use. Desktop is designed to where anyone, even those with little to no business or accounting knowledge, can easily access and interpret data and statistical findings. Tableau Server is analytics that are specific to organizations. It is designed especially for businesses that are ready to employ cutting-edge technologies and increase user knowledge and understanding of data and statistical findings. Tableau Prep, similarly to Desktop, is software anyone can use and is made especially for data prep. Prep can clean and shape up data on your computer screen right in front of you. Tableau Online is a way to share and collaborate the same type of data as Tableau Server without having to manage a physical server. All of these interactive analytical tools are available for less than one hundred dollars per user per month.

Tableau empowers both organizations and employees. It is no secret that within every organization not everyone has an equivalent education and understanding of data; Tableau is able to break those barriers in how it presents data and thus interprets it. It is known for its usability and enlightening features. This software can also be used anywhere such as a desktop, web browser, smartphone, or embedded; it also can be used on an organization’s premises or via the Cloud. Finances Online Magazine named Tableau the winner of their Best Business Intelligence Software award for 2017 and gave it a ninety-three percent user satisfaction rating.
As an organization, Tableau Software aims to make their data interesting in order to elevate work climates. The unique color schemes it employs and psychology behind the visual data will make meetings more bearable, not to mention more informative. The software organization is also known for having superb customer support and an outstanding deployment team to get Tableau up and running as soon as it is bought. Simply said, Tableau is at the top for data analytics software.

1) Identify the purpose of this tool and describe, in general, how it is used to make business decisions.

Tableau Software’s entire purpose is to aid in data visualization and make it more interactive while being user-friendly and simple to understand. Each entity within Tableau (Desktop, Server, Prep, and Online) empowers users and protects data. It is able to produce interactive data while making its main focus to increase business intelligence. Tableau can help employees at any level within an organization view data and understand how to interpret said data in order to make decisions that can affect the business. In regards to helping with business decisions, users who don’t have programming skills are going to be able to create and publish dashboards and easily share with business colleagues at any level. If anyone is able to interpret these visual statistics and prepare reports on such data, this can highly increase efficiency within a company. Tableau exists to improve company performance and allow its users to easily see areas where changes can be made.

2) How, specifically, would you use the tool in the following business settings? Create at least three specific scenarios for each category in which the tool would lead to more efficiency and/or better effectiveness. Be sure to describe what kinds of data your tool would use for each scenario.
a. Auditing

b. Tax Planning

For an auditor within an organization, having the Tableau software would be beneficial to view company data and quickly be able to see where discrepancies lie and mistakes have been made. In regards to an external auditor, he/she might be able to view and review a company’s data prior to an official company audit in order to more efficiently perform his/her job. This software would also help an auditor in better explaining his/her corrections to a company by allowing for interactive and informative data.

Tax planning would be more efficient if tax accountants had access to software such as Tableau because, in nearly an instant, a user is greeted with data and an accountant would be able to see trends across clientele. In tax, there lies a greater possibility for fraud; Tableau could help prevent that with its usability and governance. Also, if a tax accountant were to come across a discrepancy that called for viewing data to see where the problem might lie, he/she could access the organization’s records on Tableau and be able to easily understand this industry.

3) Write a few paragraphs to your future public accounting partner explaining why your team should invest in the acquisition of and training in this tool. Explain how the tool will impact the staffing and scope of your future engagements.

I believe as an organization we should absolutely invest in Tableau. Not only is it priced at an economic rate, but it also comes with priceless benefits. Tableau would take us to the next level in data analytics and allow every single person within our business—from the CFO to the Marketing Director’s secretary—to be able to interpret and understand our data. The visual aids will make our meeting livelier and keep the business exciting and innovative.
Tableau Software will allow each one of our employees to feel as though he/she understands this data, and each person truly will understand it. By allowing simple access to it, our staff will feel empowered. As previously mentioned, meetings will be more colorful. Tableau employs a psychologist who develops the color schemes within the data in order to perk up employees who view it and to make said data give off positive emotions. This could help boost workplace morale exponentially and make our staff feel in control of certain aspects of our organization. Empowering employees who could potentially work here for twenty plus years into the future helps us to develop leaders early on and allows us to continue to recruit the most competitive, top workers coming straight out of undergraduate and graduate programs. Also, by using this software, we prove to potential future staff that we are here to stay and are keeping up with the technology age and our society’s demand for visual proof.

This data gives our employees who do not understand data a way to finally see what it means and to truly be able to interpret it. By increasing staff knowledge, our staff will be able to see issues and positives more clearly and be able to work towards improving every aspect of our workplace. By becoming more efficient and not spending time straining over medial tasks, we are allowing ourselves to compete on a larger scale with other organizations and to be a top-notch business. Tableau’s impact would be impressive and leave a major impact on the future of this company.
CASE STUDY 2: ROCKY MOUNTAIN CHOCOLATE FACTORY

Prepared By: Molly Maroney

September 12, 2018
I. Case Introduction

In this Case Study, we as a class were given a thorough review of the accounting cycle, but instead of on paper, with Excel. I have little to no experience with Excel, so this has definitely been a learning process for me. We were given transactions by Rocky Mountain Chocolate Factory and prior periods Balance Sheets and Income Statements. I journalized the entries on paper and then inserted them onto my tables on Sheet 2, then completed the Income Statement and Balance Sheets. On the Balance Sheet, I expect to see all accounts given in the chart on p. 5 of the case study, but as for the Income Statement I expect to see the Revenues and Expenses which would yield an Income less taxes, therefore including that also on that financial statement. I believe that accrued salaries and wages would constitute a major liability due to how large that amount will be seeing as it includes all not yet paid wages to workers of this large corporation. It was beneficial to my accounting studies to be able to see legitimate financial records from an actual company and be able to interpret that and create financial statements.

II. Trial Balance
| Cash and Cash Equivalents | 3,618,092 | -697,580 | 2,919,512 | 0 | 3,743,092 |
| Accounts Receivable | -697,474 | -697,474 | 0 | 0 | 4,627,526 |
| Inventories | 91,059 | 91,059 | 91,059 | 91,059 |
| Deferred income taxes | 3,898,283 | -216,836 | 3,281,447 | 0 | 3,281,447 |
| Other | 220,163 | 220,163 | 220,163 | 0 |
| Property and Equipment, Net | 5,885,289 | 5,885,289 | 5,885,289 | 5,885,289 |
| Goodwill, net | 1,046,944 | 1,046,944 | 1,046,944 | 1,046,944 |
| Intangible assets, net | 110,025 | 110,025 | 110,025 | 0 |
| Other | 88,050 | 88,050 | 88,050 | 88,050 |
| Accounts Payable | 7,277,832 | 7,277,832 | 7,277,832 | 0 |
| Accrued salaries and wages | 646,156 | 646,156 | 646,156 | 0 |
| Other accrued expenses | 5,653,472 | 5,653,472 | 5,653,472 | 0 |
| Deferred income | 220,938 | 220,938 | 220,938 | 0 |
| Deferred income taxes | 894,429 | 894,429 | 894,429 | 0 |
| Common stock | 180,808 | 180,808 | 180,808 | 0 |
| Additional paid-in capital | 7,626,602 | 7,626,602 | 7,626,602 | 0 |
| Retained earnings | 8,157,184 | 8,157,184 | 8,157,184 | 0 |
| Sales | 1,897,182 | 1,897,182 | 1,897,182 | 0 |
| Franchise and royalty fees | 5,157,065 | -500,000 | 11,078,065 | 0 | 5,492,531 |
| Cost of sales | 19,707,929 | 216,836 | 19,987,765 | 0 | 19,987,765 |
| Franchise costs | 3,218,072 | 3,218,072 | 3,218,072 | 0 |
| Sales & marketing expenses | 3,000,853 | 3,000,853 | 3,000,853 | 0 |
| General and administrative expenses | 3,806,898 | -639,200 | 2,147,347 | 0 | 2,147,347 |
| Total operating expenses | 2,857,872 | -695,692 | 2,850,916 | 0 | 2,850,916 |
| Depreciation and amortization expenses | 698,580 | 698,580 | 698,580 | 0 |
| Interest income | 5,653,472 | 5,653,472 | 5,653,472 | 0 |
| Income Tax Expense | 4,196,440 | 4,196,440 | 4,196,440 | 0 |
| **Total** | 3,618,092 | -697,580 | 2,919,512 | 0 | 3,743,092 |
### Rocky Mountain Chocolate Factory

#### Income Statement

28-Feb-10

<table>
<thead>
<tr>
<th>Revenue</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales</td>
<td>$22,944,017</td>
</tr>
<tr>
<td></td>
<td>Franchise and Royalty Fees</td>
<td>$5,492,531</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(Expenses)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Sales</td>
<td>($14,910,622)</td>
<td></td>
</tr>
<tr>
<td>Franchise costs</td>
<td>($1,499,477)</td>
<td></td>
</tr>
<tr>
<td>Sales &amp; Marketing</td>
<td>($1,505,431)</td>
<td></td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>($2,422,147)</td>
<td></td>
</tr>
<tr>
<td>Retail Operating</td>
<td>($1,756,956)</td>
<td></td>
</tr>
<tr>
<td>Depreciation and Amortization</td>
<td>($698,580)</td>
<td></td>
</tr>
</tbody>
</table>

| Operating Income | $5,643,335 |       |
| (Interest) | ($54,420) |       |

| Income Before Income Taxes | $5,670,545 |       |
| (Income Tax Expense) | ($2,090,468) |       |

| NET INCOME | $3,580,077 |       |
IV. Balance Sheet

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Rocky Mountain Chocolate Factory, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$3,743,092</td>
</tr>
<tr>
<td>A/R</td>
<td>$4,427,526</td>
</tr>
<tr>
<td>N/R</td>
<td>$91,059</td>
</tr>
<tr>
<td>Inventories</td>
<td>$3,281,447</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>$461,249</td>
</tr>
<tr>
<td>Other</td>
<td>$220,163</td>
</tr>
<tr>
<td>Property and Equipment</td>
<td>$5,186,709</td>
</tr>
<tr>
<td>N/R, less current portion</td>
<td>$263,650</td>
</tr>
<tr>
<td>Goodwill</td>
<td>$1,046,944</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>$110,025</td>
</tr>
<tr>
<td>Other</td>
<td>$88,050</td>
</tr>
<tr>
<td>ASSETS TOTAL</td>
<td>$18,919,914</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND STOCKHOLDERS’ EQUITY</th>
<th>Rocky Mountain Chocolate Factory, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Liabilities</td>
<td></td>
</tr>
<tr>
<td>A/P</td>
<td>$877,832</td>
</tr>
<tr>
<td>Accrued Salaries &amp; Wages</td>
<td>$646,156</td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>$946,528</td>
</tr>
<tr>
<td>Dividend Payable</td>
<td>$602,694</td>
</tr>
<tr>
<td>Deferred Income</td>
<td>$220,938</td>
</tr>
<tr>
<td>Deferred Income Taxes</td>
<td>$894,429</td>
</tr>
<tr>
<td>Stockholders’ Equity</td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td>$180,808</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>$7,626,602</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>$6,923,927</td>
</tr>
<tr>
<td>LIABILITIES AND STOCKHOLDERS’ EQUITY TOTAL</td>
<td>$18,919,914</td>
</tr>
</tbody>
</table>

V. Cash Flows

a. Operating
b. Operating
c. Operating
d. Operating
e. Operating
f. Operating
g. Operating
h. Operating
i. Investing
j. Financing
CASE STUDY 3: IN-CLASS SCENARIO ANALYSIS

Prepared By: Molly Maroney

September 19, 2018
For our previous Accounting 420 class, we discussed various scenarios that often occur within the Patterson School of Accounting at Ole Miss. The first was when a student pursues an Accounting degree and thus an internship, but then decides to go to Law School because of potential financial prospects. The second detailed a student who wanted to be a financial analyst one day, but rather than obtain a Finance degree has chosen to instead go with Accounting. The third and final scenario detailed a student who has come to the conclusion that he/she would rather head back to his/her hometown for a full-time job rather than practice accounting in the city of his/her internship. Discussing these scenarios was helpful for me. These are issues I have faced and could see myself potentially face. Discussing this early on in my accounting schooling, and with a professor, has helped me be able know what decisions I may encounter in the future.

Our first role-play detailed a student who would like to complete his Accounting degree, but rather than stay on that track, he would like to pursue a Doctor of Jurisprudence degree and head to New York City. Our discussion focused on this student’s reasoning as well as him potentially taking up someone else’s spot. This was the issue where our class was most evenly split. I believe this student should instead pursue a legal internship in order to see if that is truly where his interests lie. His pursuit of an accounting internship when he has no intention of staying on that career path is unfair to that firm because he is taking the spot of another potential employee as well as harmful to himself when he could be taking time to instead prepare for the LSAT, law school itself, or perhaps even complete an internship at a law firm.

Our second scenario discussed a student who plans on eventually taking a career in the banking and finance industry as opposed to the profession of accounting. The majority of our class sided with the student and agreed that it is okay for a student to obtain a degree in accounting, work in the field for a while, and then trail a new career path in the banking and
finance world. Accounting is the language of business. I see no issue with a student who has an interest in finance pursuing a degree in accounting. With an accounting degree, you can enter any number of career fields; also, many who stay with the same firm for several years tend to progress at a steady rate through the company. Several students argued that this scenario was similar to the last one and questioned why so many of us had differing views on this scenario as opposed to the last one. I beg to differ stating that law and banking/finance are in fact very different, and, as previously stated, accounting is the language of business and anyone who plans to be in the business world should pursue this premier business degree. Also, the Patterson School of Accountancy here at Ole Miss is nationally ranked and includes a superb education that any corporation would be lucky to hire out of, whereas the Ole Miss Business School does not have similar accolades.

The third and final scenario is one with which I relate to the most. The student emailed Dr. D asking her advice on switching offices after a completed internship and taking the full-time offer elsewhere, for example this student’s hometown. I often thought that I might like to do my internship in New York City then transfer a full-time offer to Dallas or Austin. Dr. D brought up two good points in why that might not be attainable. The first is that you know people at the location where your initial internship took place; they recruited you and out of respect you should stay there for three to five years. Obviously, there are exceptions such as family emergencies, but without these no student should expect that an offer would be easily transferrable. Secondly, an office such as Dallas is highly competitive to even obtain an internship, even more so for a job. Their recruiting pool includes every competitive Texas school such as Texas Christian University, Southern Methodist University, the University of Texas at Austin, and Texas A&M University, as well as others that any other office would recruit from.
This scenario helped me think seriously about where I would like to go for my internship and seriously think about the consequences of that decision in accordance with what I would like to do with my life and where I might like to end up. The three to five years spent at a firm, typically during a young professional’s twenties, can definitely determine the trajectory of one’s life, so that is something to consider when making internship choices.

The situations we discussed in class were beneficial in that we could be presented with real-life issues that could arise on our accounting paths here at Ole Miss. Situation one outlines a student whose aims had changed from CPA to JD and planned to pursue his law degree following his accounting internship thus causing an issue for the firm he was hired at as an intern and taking someone else’s spot away. Situation two detailed a common accounting scenario of students who do not want to be life-long accountants and instead switch to financial analyst or investment banking jobs. Their dilemma is one many are faced with, but choosing the accounting path could prove to do more good than harm in the long run. Our final scenario was email correspondence between Dr. D and a formal student whose internship in Washington D.C. had reminded him of his love for his hometown of Dallas, Texas, and why he would rather work there as opposed to our Nation’s capital. Dr. D’s response was relevant for most of us who would like to do an internship somewhere we’ve never been, but would rather return to a more comfortable setting for our careers. It was a good reminder that we need to be consistent and stay in the same location where our internship occurred for at least three years out of respect for those who recruited us and out of respect for ourselves. No job is without challenges and typically it is possible to find some good in any profession in any city. Our class dialogue definitely stirred emotions and evoked some discourse, but overall our conversations were both positive and enlightening and I am glad that we were able to have them.
CASE STUDY 4: ACCOUNTING FOR DEBT SECURITIES SALES AND IMPAIRMENTS

Prepared By: Molly Maroney

October 3, 2018
1. Assume that Generic Bank does sell the aforementioned securities shortly after year end in early 20x3. Does Generic Bank have an impairment loss on the seven securities designated above?

Yes, Generic Bank must recognize an impairment loss on the seven securities designated on p. 4-5. According to ASU 2016-13 issued by FASB, if a bank has the intent of selling securities that have declined in fair value and the bank has knowledge of this as CFO Joshua Winters said they have, the bank must write down the amortized cost basis of the security to its fair value. The bank must recognize this credit loss by establishing an ACL and they will achieve fair value by writing off any ACL.

2. Assume that the Generic Bank does sell the aforementioned securities shortly after year end in early 20x3. Does Generic Bank have an impairment loss on securities other than the seven securities sold? If so, how would you determine the extent of the impairment?

No, they should not have an impairment loss. They did not recognize a loss on other securities thus they did not recognize any loss that would be caused by these. Winters recognized they had an unrealized holding loss; however, one was not recognized on these other securities. According to FASB’s ASU 2016-13, factors must be considered when impairment losses are assessed and Generic Bank’s criteria and realizations do not see said factors.

3. Does your answer change if you assume the role of Heather Herring, the external auditor? Does your answer change if you assume the role of a bank regulator? What other factors might an external auditor or regulator consider in making their determination?

Upon reading this case, I was initially suspicious of the assumptions made by Generic Bank and its CFO. Were I an external auditor, I would likely conduct an in-depth
investigation into Generic Bank’s debt securities and the knowledge CFO Winters had of such prior to his disclosure of the information. External auditors or bank regulators might consider what caused these impairment losses, the capability of the bank to produce funds as well as the potential that this event could happen again in the future.

4. How would your assessment of the existence of an impairment in both requirements 1 and 2 change if the securities sold had been collectively in a net gain position? What if all the securities sold were in gain positions?

A gain would not be viewed in a negative sense therefore I believe that the specific steps and criteria taken in steps one and two would not be necessary. A gain should be recognized on a fair value scale as well, similarly to question one’s loss except in this case it should be calculated using a premium cash flow approach such as that listed in ASU 2016-13’s Bank Accounting Advisory Series.

5. Assume that Generic Bank does sell the aforementioned securities shortly after year end in early 20x3. Does Generic Bank have an impairment loss on securities other than the seven securities sold?

I believe the answer to this would not change from the answer in question two. Although Generic Bank’s financial standing has changed from well capitalized to adequately capitalized, the fact that they have not acknowledged any impairment losses on the other securities will not change.
CASE STUDY 5: ANALYSIS OF LIFE AS AN ACCOUNTING IN NEW YORK, NEW YORK AND DALLAS, TEXAS

Prepared By: Molly Maroney

November 7, 2019
Abstract

I. Introduction

My top two cities for my accounting internship and a future profession are New York City and Dallas, TX. Throughout this report, I learned how vastly different these two cities are. They are not only different because of geographical location, but also in terms of cost of living and life for someone in his/her 20s. Both cities come with a great opportunity to make friends and have a home like feel in a city of over one million strangers. After going through a thorough analysis of both cities, I found that Dallas costs more than I thought to live there. While Dallas may be closer to my home in Tennessee, I actually have more family in New York City living in the Upper West side. This assignment allowed me to truly research the cities. It also confirmed my love for both. Both are filled with thousands of restaurants, churches, stores, and people to meet. New York City is more compacted and on top of each other, and Dallas is much more spread out. I am confident that New York City is where I would like to intern and ultimately work and I appreciate the opportunity to research and confirm my choice.

II. Case

New York City’s population is about 8.623 million. In New York, cold winters and hot summers are the normal, but one interesting fact about the weather is that on the island of Manhattan, the nights are about five to seven degrees warmer than surrounding areas such as Brooklyn or Hoboken, NJ. This degree difference is due to the mass of people living within the city. New York State has a number of hilly and mountainous areas, but the city is primarily flat with a couple of hills. There is the famous Central Park in the middle of the city that is 1.317 miles of the 13.4 miles of Manhattan. New York is known for its wide variety of transportations;
there are the obvious option of walking and taking a taxi or an Uber, but a cheaper alternative is to purchase a Metro card and take a subway, or perhaps a city bus.

Living in New York City comes with many taxes. There is a state income tax ranging from 4 to 8.82 percent, a 4.5 percent NYC sales tax, 4 percent New York State sales tax, a federal tax rate ranging anywhere from 15 to 25 percent. All of these hefty taxes could mean that a $50,000 salary comes down to around $38,000. The six industries that dominate the NYC economy are financial services, health care, retail, manufacturing, educational services, and professional and technical services. The quality of New York’s healthcare is similar to the rest of the nation in that there is no national healthcare, however due to the large number of hospitals NYC is known for a better quality of healthcare than other cities even though it does come with a cost that is unaffordable to some.

Being a single woman in her twenties living in NYC will cause me to have to be cognizant of my surroundings. New York does have crime typically burglary and grand larceny, but most crime does occur in the Theatre District likely due to the high number of tourists in this area. Harlem and the Bronx are other areas of concern, but due to New York’s efforts in modernizing these areas, reason for concern has declined. It is always a good idea, though, to be wary of one’s surroundings and not walk alone in the dark.

In regards to living, find an affordable apartment in New York City can be trying. However, I came across several for under $1000 a month, including one at 200 Central Park South for $900 a month. Granted I would need to tour it first, but according to photos, it is a one bedroom, one-bathroom studio apartment. This cost is without utilities, but there would be no cable bill (as I would use Netflix or Hulu) and I would not be paying for car insurance (as I would sell my car), so the large charge from rent would be easier to make when not accounting for these other
additional costs. If I were to live in this location for three years, rent would come to about $32,400 over the three years with $10,800 each year.

I would commute via the metro due to its affordability and quickness. I would need to leave my apartment about thirty minutes to an hour before work and would be heading home at a late time each day. There is both a Whole Foods Market and a Morton Williams Supermarket within walking distance from my potential apartment and a Walgreens/CVS on nearly every street corner. There is a downstairs laundry room in 200 Central Park South where residents typically care of those needs. I would like to join the Chi Omega Alumnae chapter of New York City, the Ole Miss Alumni Association of New York City, and the Saint Thomas Church on Fifth Avenue. Within the city, there is a plethora of sporting teams. I could frequent the New York Yankees, New York Giants, New York Knicks, New York, Jets, and New York Mets games. In order to get home, I would fly from a New York City area airport into Nashville, TN, where my parents would pick me up. A round-trip flight is around $200 if booked early enough in advance.

New York Monthly Operating Budget: Salary $60,000

- $13,000 taxes/bills
- $10,800 rent
- $400 flights (2 flights home)
- $2000 recreation events
- $10,000 food/eating out/cocktail hours/groceries/etc.

The population of Dallas, TX, is around 1.341 million. The weather is pretty warm year-round. Winters can get into the 50s and 60s, but the summers can be extremely hot in the East
Texas sun. Texas is primarily flat, and Dallas is no change from that; however, there are plenty of trees and parks within the city. Texas has no state income tax and that is a huge plus for this location. Texas has a sales tax of 6.25 percent along with the same federal tax rate as for New York. Based on a $50,000 salary, I would be able to keep roughly $42,000 of this. Dallas is primarily a commuter city and I would be able to keep my car and use it to drive to work every day. The major industries in Dallas are defense, financial services, information technology, life sciences, and telecommunications. The quality of healthcare is among the best in the nation in Dallas. They are known for outstanding hospitals, as well as great perks for healthcare benefits. Unbeknownst to most, Dallas is among one of the most dangerous cities for violent crime. Crimes including rape, murder, armed robbery, and aggravated assault can be common within some parts of the city. Areas to avoid include South Boulevard-Park Row, Northwest Dallas, South Dallas, Lake Caroline, and Urbandale-Parkdale.

Uptown is a popular area for young Dallas residents to live in and an apartment’s rent for one month is similar to the cheaper ones in New York, costing around $975/month, $11,700/year, and $35,100 over three years. As previously stated, most people in Dallas drive to work and choose to use a car for transportation, but there is Uber available. Commute times will take me about an hour before and after work due to the high volume of traffic. There are many area grocery stores including Whole Foods and HEB.

Seeing that my apartment amenities include parking and laundry service, I will be able to do my laundry in the comfort of my personal apartment. Similarly to New York, I would plan to be involved in the Chi Omega Alumnae chapter or Dallas, an Ole Miss Alumni organization, and Church of the Incarnation located near my home in Uptown. Dallas has a wide variety of sporting events I could attend including the Dallas Cowboys, Dallas Mavericks, Texas Rangers,
Dallas Stars, or Dallas Fuel. Whenever I would commute back home to TN, I could either drive of have a round-trip flight of about $150.

Dallas, TX, Monthly Operating Budget: Salary $60,000
- $9,000 taxes/bills
- $11,700 rent
- $450 flights (3 flights home)
- $2000 recreation events
- $10,000 food/eating out/cocktail hours/groceries/etc.

Based off of my analysis and findings, I still believe my first choice is New York City and it will remain that way. Yes, it is costly to live there; however, the opportunities are boundless and the industries are amazing. I also would love to do work internationally and from my research I see that a majority of those who work abroad for a few years are living and returning to a New York-based office. I have been to New York many times and fell in love with the city the first time I stepped off the plane. I know that no career and city will come without its challenges, but that is a risk I am willing to take.
New York City apartment

Dallas, TX, apartment
Central Park in Manhattan (New York City)
CASE STUDY 6: WORLDCOM

Prepared By: Molly Maroney

November 16, 2018
Abstract

I. Introduction

I very much appreciated the opportunity to delve into the WorldCom scandal and the accounting event that changed the way accounting operates and is viewed. I had heard about Enron, WorldCom, and Arthur Andersen in the past, but never exactly knew the background. I especially had no idea that the individual who made the journal entries was an alumnus of the same accounting school I attend. I also enjoyed getting to look into the specific financial statements of WorldCom and obtain a greater understanding of how the company was able to fudge the numbers. I never would even consider doing the things David Myers did (as I’m sure he once said), but when approached by a superior and faced with an ethical dilemma, I’m sure he felt a great deal of pressure to keep up his lifestyle and his job.

The same week we were assigned this case, I also had to write a paper for my Cost class outlining what happened at WorldCom and how it changed the world of accounting. While the work done in these classes was different, I appreciated an assignment that allowed me to gain insight into the scandal from a different perspective.

II. Case

a. FASB Statement of Concepts No. 6 (a replacement for SCON No. 3), *Elements of Financial Statements*, describes the building blocks with which financial statements are constructed.

i. Explain, in your own words, how SCON 6 defines “asset” and “expense.”

Assets are likely future economic benefits controlled by a particular entity as a result of a past event. Expenses are the using up of assets due to operational activities.
ii. In general, when should costs be expensed and when should they be capitalized as assets? An item should be capitalized when it is recorded as an asset, and should be expensed when it isn’t necessarily gaining an asset, but rather a fee.

b. What becomes of “costs” after their initial capitalization? Describe, in general terms, how the balance sheet and the income statement are affected by a decision to capitalize a given cost.

When a cost is capitalized and the balance in assets increases, the balance sheet amount will increase and as for the income statement, those balances will stay the same seeing as the costs are not being expensed.

c. Refer to WorldCom’s statement of operations. What did the company report as line costs for the year ended December 31, 2001? Prepare the journal entry to record these transactions for the year. Explain in your own words, what these “line costs” are.

$14,739 is the amount reported as line costs for the year ended December 31, 2001.

Dr. Line cost expense

Cr. Cash

These line costs are charges paid to local telephone networks to complete calls.

d. Refer to the Wall Street Journal article. Describe the types of costs that were improperly capitalized at WorldCom. Explain, in your own words, what transactions give rise to these costs. Do these costs meet your definition of assets in part a above?

The costs that were improperly capitalized at WorldCom include line costs, which were an ongoing activity/cost for the telecommunications company and therefore should have
been expensed rather than capitalized. The transactions that gave rise to these costs were from WorldCom would pay or set aside money for customer’s telecom access and transport charges which were not long-term investments. These costs are not assets as my definition indicated, but rather expenses.

e. Prepare a single journal entry to record the improperly capitalized line costs of $3.055 billion for the year. Where did these costs appear on the balance sheet? Where on the statement of cash flows?

Dr. Line Costs Expense 3.055 billion
Cr. PPE 3.055 billion

These costs appeared under assets on the balance sheet, and more specifically under Transmission equipment. On the statement of cash flows, these costs were in the “cash flows from investing activities” section.

f. In a sworn statement to the Securities and Exchange Commission, WorldCom revealed details of the improperly capitalized amounts (in millions) in 2001: $771 in the first quarter, $610 in the second quarter, $743 in the third quarter, and $931 in the fourth quarter. Assume that WorldCom planned to depreciate these capitalized costs over the midpoint of the range for transmission equipment as disclosed in note 1. Further assume that depreciation begins in the quarter that assets are acquired (or costs capitalized). Calculate the related depreciation expense for 2001. Prepare the journal entry to record this depreciation.

Depreciation Expense 169,722,222
Accumulated Depreciation 169,722,222

g. Use your answers to parts e and f above, to determine what WorldCom’s net income would have been in 2001 had line-costs not been improperly capitalized. Use 35% as an approximation of WorldCom’s 2001 marginal income tax rate, in your calculations. State any other assumptions you make. Is the difference in net income material?

Net income would have been 1,698 (in millions) with income taxes being 896. I assumed all income statement data excluding income tax, depreciation expense, and line charges remained the same. This difference is significant and, in my opinion, material. For a struggling company, several million dollars could essentially help shareholders, executives, etc.
CASE STUDY 7: STARBUCKS

Prepared By: Molly Maroney

March 6, 2019
I. Introduction

For this case, we looked through Starbucks financial statements from 2013 in order to see how such a large organization works. To me, the most interesting thing about Starbucks financial statements is that their titles differed from what we have learned in school. This is a glimpse into the real world of accounting and how it might differ from what we are taught. Starbucks is a major corporation who owns several subsidiaries and thus their financial statements are representative of all of these wholly earned subsidiaries. I appreciated the opportunity to look into such a large organization's financials.

II. Case

a.) Starbucks is an international coffeeshop company known for its homey feel and social justice coupled with a great cup of coffee. Starbucks coffeehouses sell merchandise, snacks, and drinks, but their primary business is in selling coffee.

b.) The four financial statements for external users are Income Statement, Balance Sheet, Statement of Cash Flows, and Statement of Stockholders' Equity. Starbucks refers to these statements as Consolidated Statement of Earnings, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, and Consolidated Statements of Equity. The term "consolidated" refers to the combined financial statements of each Starbucks franchise as well as all other subsidiaries Starbucks owns including Seattle's Best Coffee and Teavana.

c.) Each company under the SEC delivers the four aforementioned financial statements at the end of each quarter and financial year end.
d.) The CEO and CFO are required to sign off on each financial statement prepared, authorizing its integrity and accuracy. The management of a company prepares financial statements. Users of these financial statements include investors who want to see if their investment is worthwhile and if they are making money. Outsiders who do not invest in Starbucks, but keep up with finances also are interested in order to see the profitability of the company and risks it poses.

e.) Starbucks external auditors are Deloitte & Touche LLP. The first opinion states that Deloitte & Touche LLP audited Starbucks in accordance with PCAOB standards and the second opinion is an unqualified opinion stating that Starbucks believes Deloitte & Touche audited them according to PCAOB standards. In my opinion, these opinions are simply stating the accuracy of these financial statements and that they were audited and prepared correctly. These opinions were published several months after the period because audits take time to look over and check and can take up to several months.

gi.) *See Sheet 2*

gii.) Starbucks major assets are Cash and Cash Equivalents, Inventories, and PPE. 45.51% is short term asset proportion to 52.49% for long term.

giii.) Intangible assets include patents, copyrights, trademarks, brand recognition, etc. Goodwill arises when a company, such as Starbucks, acquires another business and this amount is the cost of said purchases minus the tangible assets fair market value, intangible assets, and liabilities. Starbucks has brand recognition that no other company could have due to its worldwide recognition. Starbucks also has patents, trademarks, and copyrights.
giv.) Starbucks is financed by debt and investors. Non-owners finance 36.97%.

hi.) Starbucks uses Cash-basis accounting and the gift card revenue is recognized when the card is redeemed or estimated to be redeemed. Challenges include measuring revenue from gift cards as well as the company expands into other sectors.

hii.) The major expenses include store operating expenses such as store upkeep.

hiii.) The total operating expenses rose by nearly twenty percent in the most recent year. In addition, the most recent year had a litigation charge that the previous year did not incur.

hiv.) Starbucks did not include this as a general and administrative expense because this charge is not a general charge. It occurred as a result of operations of Starbucks and should thus be categorized as such.

hv.) I consider Starbucks profitable if their total revenues exceed their overall expenses. In both 2012 and 2013, Starbucks was profitable by this criterion.

ii.) The difference in net earnings and net cash provided by operating activities is attributable to the numerous adjustments (including depreciation and amortization, litigation charge, and stock-based compensation) that make the amount of cash much higher than merely earnings.

iii.) Starbucks used $1151.20 for property, plant, and equipment expenditures during 2013.

iii.) In the Statement of Cash Flows, the amount of cash dividends paid is $628.90. In the Statement of Equity this amount differs and is $543.70
There are several accounts that require the use of estimates. These accounts include inventory, litigation charges, accounts receivable and allowance for bad debts, goodwill, intangible assets, property, plant, and equipment, and equity investments. Cash and cash equivalents are an account that would be estimate-free.

III. Consolidated Statement of Earnings

<table>
<thead>
<tr>
<th>Consolidated Statements Of Earnings (USD $)</th>
<th>12 Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Millions, except Per Share data, unless otherwise specified</td>
<td>Sep. 29, 2013</td>
</tr>
<tr>
<td><strong>Net revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Company-operated stores</td>
<td>$11,793.20</td>
</tr>
<tr>
<td>Licensed stores</td>
<td>1,360.50</td>
</tr>
<tr>
<td>CPG, foodservice and other</td>
<td>1,738.50</td>
</tr>
<tr>
<td>Total net revenues</td>
<td>14,892.20</td>
</tr>
<tr>
<td>Cost of sales including occupancy costs</td>
<td>6,382.30</td>
</tr>
<tr>
<td>Store operating expenses</td>
<td>4,286.10</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>457.2</td>
</tr>
<tr>
<td>Depreciation and amortization expenses</td>
<td>621.4</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>937.9</td>
</tr>
<tr>
<td>Litigation charge</td>
<td>2,784.10</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>15,469</td>
</tr>
<tr>
<td>Gain on sale of properties</td>
<td>0</td>
</tr>
<tr>
<td>Income from equity investees</td>
<td>251.4</td>
</tr>
<tr>
<td>Operating income</td>
<td>-325.4</td>
</tr>
<tr>
<td>Interest income and other, net</td>
<td>123.6</td>
</tr>
<tr>
<td>Interest expense</td>
<td>-28.1</td>
</tr>
<tr>
<td>Earnings before income taxes</td>
<td>-229.9</td>
</tr>
<tr>
<td>Income taxes</td>
<td>-238.7</td>
</tr>
<tr>
<td>Net earnings including noncontrolling interests</td>
<td>8.8</td>
</tr>
<tr>
<td>Net earnings attributable to noncontrolling interest</td>
<td>0.5</td>
</tr>
<tr>
<td>Net earnings attributable to Starbucks</td>
<td>$8.30</td>
</tr>
<tr>
<td>Earnings per share - basic</td>
<td>$0.01</td>
</tr>
<tr>
<td>Earnings per share - diluted</td>
<td>$0.01</td>
</tr>
</tbody>
</table>

**Weighted average shares outstanding:**

- Basic: 749.3
- Diluted: 762.3
- Cash dividends declared per share: $0.89

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IV.) Consolidated Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,575.70</td>
<td>22.36%</td>
<td>$1,188.60</td>
<td>14.46%</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>658.1</td>
<td>5.71%</td>
<td>848.4</td>
<td>10.32%</td>
</tr>
<tr>
<td>Inventories</td>
<td>561.4</td>
<td>4.87%</td>
<td>483.9</td>
<td>5.91%</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>1,111.20</td>
<td>9.63%</td>
<td>1,241.50</td>
<td>15.10%</td>
</tr>
<tr>
<td>Deferred income taxes, net</td>
<td>277.3</td>
<td>2.41%</td>
<td>238.7</td>
<td>2.90%</td>
</tr>
<tr>
<td><strong>Total current assets:</strong></td>
<td>5,471.40</td>
<td>47.51%</td>
<td>4,195.60</td>
<td>51.09%</td>
</tr>
<tr>
<td><strong>Long-term investments:</strong></td>
<td>58.3</td>
<td>0.51%</td>
<td>136</td>
<td>1.64%</td>
</tr>
<tr>
<td><strong>Equity and cost investments:</strong></td>
<td>496.5</td>
<td>4.31%</td>
<td>453.9</td>
<td>5.62%</td>
</tr>
<tr>
<td>Property, plant and equipment, net</td>
<td>3,200.50</td>
<td>27.79%</td>
<td>2,856.90</td>
<td>32.35%</td>
</tr>
<tr>
<td>Deferred income taxes, net</td>
<td>967</td>
<td>8.40%</td>
<td>97.3</td>
<td>1.18%</td>
</tr>
<tr>
<td>Other assets</td>
<td>185.3</td>
<td>1.61%</td>
<td>144.7</td>
<td>1.76%</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>274.8</td>
<td>2.39%</td>
<td>143.7</td>
<td>1.75%</td>
</tr>
<tr>
<td>Goodwill</td>
<td>862.9</td>
<td>7.49%</td>
<td>399.1 (1)</td>
<td>4.86%</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS:</strong></td>
<td>11,516.70</td>
<td></td>
<td>8,219.20</td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>491.7</td>
<td>6.09%</td>
<td>398.1</td>
<td>12.82%</td>
</tr>
<tr>
<td>Accrued litigation charge</td>
<td>2,784.10</td>
<td>35.58%</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>1,269.30</td>
<td>18.04%</td>
<td>1,133.80</td>
<td>36.52%</td>
</tr>
<tr>
<td>Insurance reserves</td>
<td>178.5</td>
<td>2.54%</td>
<td>167.7</td>
<td>5.40%</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>653.7</td>
<td>9.29%</td>
<td>510.2</td>
<td>16.43%</td>
</tr>
<tr>
<td><strong>Total current liabilities:</strong></td>
<td>5,377.30</td>
<td>76.44%</td>
<td>2,209.80</td>
<td>71.18%</td>
</tr>
<tr>
<td><strong>Long-term debt:</strong></td>
<td>1,299.40</td>
<td>18.47%</td>
<td>549.6</td>
<td>17.70%</td>
</tr>
<tr>
<td><strong>Other long-term liabilities:</strong></td>
<td>357.7</td>
<td>5.09%</td>
<td>345.3</td>
<td>11.12%</td>
</tr>
<tr>
<td><strong>Total liabilities:</strong></td>
<td>7,034.40</td>
<td></td>
<td>3,104.70</td>
<td></td>
</tr>
<tr>
<td><strong>Shareholders’ equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock (0.001 par value) - authorized, 1,200.0 shares, issued and outstanding, 753.3 and 749.3 shares (includes 3.4 common stock units), respectively</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>0.77%</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>282.1</td>
<td>6.29%</td>
<td>39.4</td>
<td>0.77%</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>4,130.30</td>
<td>92.15%</td>
<td>5,046.20</td>
<td>98.60%</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>67</td>
<td>1.49%</td>
<td>22.7</td>
<td>0.44%</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity:</strong></td>
<td>4,480.20</td>
<td>69.95%</td>
<td>5,109</td>
<td>99.89%</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>2.1</td>
<td>0.05%</td>
<td>5.5</td>
<td>0.11%</td>
</tr>
<tr>
<td><strong>Total equity:</strong></td>
<td>4,482.30</td>
<td>69.90%</td>
<td>5,114.50</td>
<td>99.99%</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY:</strong></td>
<td>$51,516.70</td>
<td></td>
<td>$5,815.20</td>
<td></td>
</tr>
</tbody>
</table>

(1) In conjunction with the change in reportable operating segments, we reclassified goodwill by segment as of October 2, 2011.
I. Introduction

The BP oil spill is the largest oil spill to ever occur in U.S. history with over 184 million gallons being spilled into the Gulf of Mexico, damaging humans, wildlife, the environment, and the economies of Texas, Louisiana, Mississippi, Alabama, and Florida. Nearly twelve million pounds of oil residue was collected from the coastlines bordering the Gulf of Mexico. The litigation surrounding the oil spill continues to haunt BP now, nearly nine years later.

The BP Gulf of Mexico Deepwater Horizon Oil Spill of 2010 is a disaster that hits close to home. I still remember where I was when I heard about the oil spill that would come to change so much of our lives. I was in my sixth grade Earth Science class in Jackson, TN. Like many families in the Southeast, mine had a summer vacation lined up in the Gulf of Mexico and I was counting down the days eagerly. At the time, all I could think of was how this spill would cancel thousands of vacations and change my summer plans. Little did I know then of the economic ramifications for our region and all that this disaster would ultimately cause.

My next encounter with the 2010 BP oil spill was in the eleventh grade in my AP Environmental Science class when we spent an entire week discussing and examining this event and how it damaged much of the environment. That year’s DBQ on the AP exam was actually about the oil spill. Upon opening this case, I felt like I would know a lot of information due to my exposure to this topic for almost nine years now. I had no idea the consequences this spill had on accounting. I appreciate how this case opened my eyes to the relevancy of accounting in major events and how much this profession matters for more than just crunching numbers.

II. Case

a.) A contingent liability is a future liability which may occur depending on the outcome of an uncertain future event. A company records a contingent liability if such a contingency
is likely (greater than fifty percent chance of occurrence) and if this liability could be reasonably estimated. This liability would be recorded as an expense on the income statement and a liability on the balance sheet. Examples of contingent liabilities include pending lawsuits, product warranties, and pending investigations. Contingent assets, or contingent gains, are not recorded on a company’s balance sheet due to the uncertainty of future events. However, such gains should be placed in the footnotes to financial statements dependent upon certain conditions. If the contingent asset in the footnotes does indeed come to fruition then such an asset would be characterized as a realized gain and noted in the financial statements of that period. GAAP requires any contingent assets to be disclosed in the financial statements.

b.) From BP’s perspective, a product warranty on a telescopic joint is a guarantee from the manufacturer (GE Oil and Gas) that if the product were to defect within a two-year window from date of purchase then BP could return or exchange said product to the manufacturer. From GE Oil and Gas’s perspective, a warranty on a product they manufactured and sold, in this case a telescopic joint, means that if said product were to defect they would have to accept a return on the telescopic joint or exchange it such a defect were to occur in the two year window from date or sale.

c.) The management would need to see how likely it is that a contingent liability or loss will actually occur. In accounting for warranty costs, a company would need to debit an Expense account and credit an Accrued Liabilities account when the warranty is sold. Once the warranty is claimed then the Accrued Liabilities account would be debited and the credit would be to Cash or Accounts Payable account. In a warranty claim the amount to be debited and credited has already been established. The process is much more black
and white as opposed to a claim for damages. In a claim for damages, the amount of the liability has to be estimated and finding such a number can be problematic, especially when such multitudes of people have been hurt.

d.) The true amount of contingent liability BP had to and will have to face as a result of the Deepwater Horizon Oil Spill is to be determined and too large to even estimate. There are a variety of costs that BP has to estimate as a result of the devastating oil spill. BP has to estimate costs such as personal, business, and government (both state and local) claims, final judgments and settlements, state and local response costs, and natural resource damages and related costs. These do not even begin to cover the amount of fines BP will owe due to regulations such as the Clean Water Act. Many costs are unable to be estimated due to the uncertainty of the depth of where this spill reached and just how many people it affected. The timing of the spill could not have been worse; the oil spill hit less than two years after the United States’ 2008 financial crisis and recession. Millions of Americans had already taken a hit without the addition of the Deepwater Horizon Oil Spill. As mentioned in the summary, this region of the country affected by this spill (Gulf of Mexico region) gained a huge profit from summer tourism, which took a major hit due to both the recession and the oil spill. Thousands of businesses were hit hard by the oil spill. Upon researching the oil spill and its ramifications today, I found that as of July 14, 2016, BP had spent $61.6 billion in court fees, penalties, and cleanup costs. The amounts they have paid since are also in the billions, with around $3 billion being spent yearly in cash payments. Their Clean Water Act fine totaled $18 billion. The industries this oil spill affected include tourism, real estate, fishing, restaurants and food to name a few. There have been hundreds of lawsuits filed with potentially more to come.
The $20 billion BP allotted to an escrow account to cover claims and various other costs will not even begin to cover the amount of money they will have to ultimately pay. Lawsuits will likely continue to pop up for many years to come. There is no way to make an estimate on the amount BP will have to pay due to the uncertainty of future events and whether or not cases will be ruled for or against BP.
CASE STUDY 9: WENDY’S AND TIM HORTON’S JOINT VENTURE

Prepared by: Molly Maroney

April 10, 2019
I. Introduction

In this case study, we examined a joint venture agreement in which Wendy’s and Tim Horton’s Inc. entered regarding a Canadian restaurant “TimWen.” This case allowed us to examine further into the Equity method of investments in ways not previously discussed in our Intermediate Accounting class. I appreciated the opportunity to look into joint ventures, see the benefits of such agreements, and why companies should enter into them. We further examined the Equity method and were able to apply it into a real-life applicable situation, not just a textbook example.

By working on this case, I feel an advantage heading into an Advanced Accounting course. One such thing that was challenging, though, was referencing a specific note (in this case, Note 8) and learning how exactly to process the information and understand the meaning behind the numbers and why they were accounted for in such ways.

A. In general, why do companies enter into joint-venture agreements?

A joint-venture agreement occurs when two or more parties sign an agreement agreeing to collaborate with one another on a business project. This could be beneficial for companies to enter into because it allows for learning from one another and combined idea formation. Joint-venture agreements also alleviate all of the risk from being all on one single company. Such agreements can help companies with gaining a competitive advantage and even open doors to other opportunities to enter into new markets.

B. Consistent with U.S. GAAP, Wendy’s uses the equity method to account for its joint venture in TimWen. Briefly explain this accounting method. In your answer, be sure
to comment on how the investing company accounts for its initial investment and any subsequent income and dividend activity of its investee.

The equity method is used when one company (in this case Wendy’s) purchases another company’s stock (in this case TimWen). The number of stocks purchased allows the purchasing company to exert significant influence over the other company. Purchasing 20 to 50 percent of another company attains this significant influence. The investing company records their investment at cost and once the company invested in receives income and pays dividends, the initial investment cost is adjusted in proportion with the investing company’s share.

C. When a company purchases shares (ownership) in another company, the investment amount may exceed their share of the book value of the underlying net assets of the investee. How does the investing company account for this excess amount under the equity method?

If an investing company paid more than the book value for their shares in another company, this is a case of goodwill. The investing company would need to take the excess purchase price and allocate it to investor’s assets and liabilities and write up all investee’s fair values at the time of acquisition. This excess amount if called an acquisition account premium, and this account is separated into two pieces. As previously mentioned, half of this excess is used to write up identifiable assets and liabilities to their fair value and the other half is accounted for as goodwill. We do not amortize the goodwill portion, but instead test it annually for impairment. The only way our income statement will be hit is if this impairment occurs.
D. Consider the information in Note 8. What amount did Wendy’s include on its 2012 and 2011 balance sheets for their equity method investments? Where does this appear on Wendy’s consolidated balance sheet?

Amounts: Calculations:

2012: $87,620 [89,370 + (1,750)]
2011: $91,819 (91,742 + 77)

These amounts appear on Wendy’s consolidated balance sheet in the “Equity Investments” section under the “Investments’ section.

E. Using information in Note 8, compare the amount recorded for Wendy’s investment in TimWen at December 30, 2012 with Wendy’s 50% share of TimWen’s equity at December 30, 2012. What accounts for the difference between these two amounts?

On December 30, 2012, Wendy’s investment in TimWen is $87,620 (as noted in part D). On this same day, Wendy’s share of TimWen’s equity is $35,282. The reason for the $54,088 difference in these accounts is the carrying value of Wendy’s investment in TimWen. This difference is due to the acquisition account premium account.

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

i. How did Wendy’s equity method investment in TimWen affect their earnings before taxes in 2012 and 2011? Where does this appear in Wendy’s consolidated
statements of operations?

It affected their net operating expenses. Looking at the Equity and Earnings for the period, which is $13,680 in 2012, is where one can see the value of the share of TimWen’s net income.

ii. Prepare the journal entry to record Wendy’s share of TimWen’s 2012 earnings.

Dr. Equity Investment $13,680

Cr. Equity Income $13,680

iii. What is the amount of the amortization of the purchase price adjustments in 2012? Prepare the journal entry to record the amortization of the purchase price adjustments for 2012.

In 2012 the amount of amortization of the purchase price adjustments is $3,129. The journal entry to record such amortization is:

Dr. Amortization Expense $3,129

Cr. Investment in Joint Venture $3,129

iv. What amount of dividends did Wendy’s receive from the TimWen joint venture in 2012 and 2011? Prepare the journal entry to record the receipt of dividends from TimWen for 2012.

The amount of dividends Wendy’s received from their TimWen joint venture in 2011 and 2012 were $14,942 and $15,274, respectively.

The 2012 journal entry is as follows:

Dr. Cash $15,274

Cr. Investment in Joint Venture $15,274
G. Consider the information in the statement of cash flows.

i. The operating activities section of the statement of cash flows reports a negative adjustment for “Equity in earnings in joint ventures, net” of $8,724 in 2012. Reconcile this amount to the information disclosed in Note 8. Explain why a negative adjustment is made to arrive at net cash from operating activities.

There is a negative adjustment that must be made to arrive at net cash from operating flows. This adjustment occurs because such earnings were initially included in the net income. In looking at Note 8, one will notice that in order to reconcile this amount, the $1,827 loss from the joint venture in Japan must be subtracted from earnings before taxes of $10,551.

ii. The operating section also reports a positive adjustment for “Distributions received from joint venture” of $15,274 in 2012. Reconcile this amount to the information disclosed in Note 8. Explain why a positive adjustment is made to arrive at net cash from operating activities.

There is a positive adjustment in this operating activities section because the dividends were received in cash, unlike in part i. where it was a non-cash transaction. This cash was not initially included in net income, so it must be added in now in the operating section of the Statement of Cash Flows.
CASE STUDY 10: JOHNSON & JOHNSON

Prepared by: Molly Maroney

April 17, 2019
I. Introduction

In our study of Johnson & Johnson and its retirement plans, our class was better able to apply our knowledge of pension worksheets and pension obligations to be able to understand the workings of a company. While using a real-life example, we were able to see how companies view retirement, how such retirement is funded, and how true financial statements can look for such balances. I appreciated the exposure to these financial statements as it helped me better prepare for my Intermediate test on pension obligations.

My primary take-away from this project was a better understanding of the journal entries surrounding pension obligations and how exactly to apply them to a pension worksheet. By reviewing the financial statements and the notes to the financial statements, we were able to see just how complex pension obligations can be.

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

i. How do these two types of plans differ? Which type does Johnson & Johnson have?

A defined contribution plan is one in which both the employee and the employer put a set amount of many into a plan with each paycheck. A defined benefit plan is one in which an employer gives the employee a set amount of money at the end of said employee’s career – for example, fifty percent of the employee’s three highest earning years. Johnson & Johnson employs both plans.

ii. Explain why retirement plan obligations are liabilities.
Retirement plan obligations are liabilities because these obligations are money that an employer is due to pay an employee upon said employee’s termination of employment. These monies are not payable until a future time causing them to be liability.

iii. **List some of the assumptions that are necessary in order to account for retirement plan obligations.**

Actuaries help make assumptions for these retirement obligation plans. Assumptions made by actuaries include assumptions on when the employee will retire, how long the employee will live post-retirement, and how long he/she will work with the company.

**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. Explain each of the four activities in your own words.**

Service cost is an amount that arises each additional year an employee works; each year
adds an amount to the retirement benefit obligation. Interest cost is an amount that occurs since retirement obligations are deferred compensation amounts that incur interest.

Actuarial gains or losses incur from those assumptions made by actuaries for employee retirement obligations. Benefits paid to retirees are essentially those benefits paid when an employee retires; it is the retirement obligation payout.

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. Explain each of the three items in your own words.**

Actual return on pension investments are the dividends and interest amounts received on plan assets. These assets are invested and companies make estimates on the yield they will return, so this “actual” amount is the return actually realized. Company contributions to the plan are amounts paid into retirement obligations each period. Benefits paid to retirees are the payouts retirees receive each period.

D. **In general, companies’ pension expense and pension plan assets both have a “return on plan assets” component. How do the two returns differ? Explain the rationale for this difference.**

The two returns are differentiated in order that companies can see how retirement obligations are performing and if such performance lines up with how a company and actuaries predict they will. One such return will predict the return on pension plan investments and the other measures the difference between the actual and expected rate
E. Johnson & Johnson provides other benefits to retirees including health-care and insurance benefits. What is the primary difference between the company’s other-benefits plans and its retirement plans?

Retirement plans are funded in advance and are determined by a formula that takes into consideration those actuarial assumptions mentioned in part A iii. Unlike retirement, health care and insurance benefits are not funded in advance and can be changed for future periods.

F. Consider Johnson & Johnson’s pension expense detailed on page 61 of the company’s annual report. Note that the company uses the term “net periodic benefit cost” to refer to pension expense.

a. How much pension expense did Johnson & Johnson report on its 2007 income statement?

Johnson & Johnson reported $646 million on its 2007 income statement.

b. Prepare the journal entry to record the service cost and interest cost portion of the 2007 pension expense.

*Entries in millions

Dr. Service Cost  597
Dr. Interest Cost  656
Cr. Projected benefit obligation  1,253
G. Consider Johnson & Johnson’s retirement plan obligation, that is, the pension liability, as detailed on page 62 of the company’s annual report.  

a. What is the value at December 31, 2007, of the company’s retirement plan obligation? What does this value represent? How reliable is this number?  

The value of the company’s retirement plan obligations at the end of 2007 equals $12,002 million. This number represents the amount of benefits Johnson & Johnson will pay to employees. This value is quite reliable seeing actuaries trained to be highly efficient in this art compute it. 

b. What is the pension-related interest cost for the year? Compute the average interest rate the company must have used to calculate interest cost during 2007. Does this rate seem reasonable? Explain.  

According to the notes to financial statements, the pension-related interest cost for 2007 was $656 million. The average interest rate Johnson & Johnson used was 5.6 percent. The rate seems reasonable because any rate used by Johnson & Johnson would have been computed according to competitors in the market and the rates they were using. 

c. What amount of pension benefits were paid to retirees during the year? Did Johnson and Johnson pay cash for these benefits? How do the benefits paid affect the retirement plan obligation and the retirement plan assets?  

Throughout 2007, Johnson & Johnson paid $481 million in pension benefits. Cash
was not paid for these benefits, but rather they were made as contributions to retirement plan assets. Benefits paid reduce the retirement plan obligation and, since they are being paid using the retirement plan assets, affect that as well.

H. Consider Johnson & Johnson’s retirement plan assets that is, the pension plan asset, as detailed on page 62 of the company’s annual report.

a. What is the value at December 31, 2007, of the retirement plan assets held by Johnson & Johnson’s retirement plan? What “value” is this?

The value of Johnson & Johnson’s retirement plan on this date was $10,469 million. This value is equivalent to the fair value of the retirement plan assets at year-end.

b. Compare the amount of the expected return on plan assets to the amount of the actual return during 2006 and 2007. Are these differences significant? In your opinion, which return better reflects the economics of the company’s pension expense?

The expected return on assets in the years 2006 and 2007 were $701 million and $809 million, respectively, while the actual returns during these same years were $966 million and $743 million. The difference in the 2006 numbers seems significant seeing as though the number is twenty-seven percent higher than projected. The 2007 number is closer and only an eight percent difference; this number likely better represents the economics of the company’s pension expense.
c. How much did Johnson & Johnson and their employees contribute to the retirement plan during 2007? How does that compare to contributions in 2006? (See page 63.)

In 2007, Johnson & Johnson contributed $317 million to retirement plans while employees contributed $62 million. In 2006, Johnson & Johnson contributed $259 million and employees contributed $47 million. The amounts in 2007 were higher, as shown on page 62.

d. What types of investments are in Johnson & Johnson’s retirement plan assets?

According to page 63, Johnson & Johnson’s retirement plan assets are invested domestically in equity and debt securities, while internationally they are additionally invested in real estate.

I. Is the company’s retirement plan under funded or over funded at December 31, 2007? At December 31, 2006? Where does this funded status appear on the company’s balance sheet?

At both the 2006 and 2007 year-end, Johnson & Johnson’s retirement plans are underfunded by significant amounts. In 2007, this amount is $1,533 million and in 2006, it is $2,122 million. The status of funding can be found in Note 13 of the financial statements on page 62 under the heading “Change in Plan Assets.” These totals are found on the bottom line.
CASE STUDY 11: ANALYSIS OF IASB AND FASB

Prepared by: Molly Maroney

May 1, 2019
I. Introduction

When I first opened this article, I had no idea what to expect. While I’ve done relatively well in my accounting courses, these courses were my only glance at the accounting profession and how much it affects. This commentary was my first exposure to real-world accounting discussions. This reading challenged my thinking and I will keep the topics it discusses at the forefront of my mind.

The reading begins by stating that both the FASB and IASB are working towards creating one single and universal set of accounting standards. Such a standard will begin to iron out inconsistencies between the two sets of standards. The new and improved conceptual framework will reflect the layout of the IASB with a hierarchy of financial reporting rules. While the author agrees this will be beneficial and is a good concept, the reevaluation of the balance sheet approach is not on the table and this omission is a grave error. FASB’s Preliminary Views published in 2006 is a discouraging reading for those who favor income statement approach over a balance sheet approach; it nearly leaves out words such as “revenue”, “expenses”, “earnings”, and “income” and opting instead for “changes in economic resources and claims to them.” This approach to accounting, which undervalues the extreme importance of the income statement and what it represents, is dangerous.

FASB claims that investors are the most important users of financial statements. Investors look for revenue and earnings values. These values, not assets themselves, help to determine factors surrounding a firm’s performance. Why then would the income statement not be viewed as the approach to accounting? FASB’s lack of income statement jargon in
“Preliminary Views” will change the way investors and outside sources will interpret financial statements.

The article continued on to critique four themes of balance sheet accounting. These themes are 1) the balance sheet approach is problematic because it is at odds with how most businesses operate, create value, and are managed, 2) the alleged conceptual superiority of the balance sheet approach is unclear, 3) balance sheet accounting is likely a major contributor to the substantial temporal decline in forward-looking usefulness of earnings, and 4) there are substantial problems with applying the balance sheet-based model of accounting in practice. These four areas of discussion were well-thought out and succeeded by a discussion of suggestions for a better conceptual framework including having two separate values on an income statement instead of one final figure and having revenue recognition as the cornerstone for operating income value, as well as placing an emphasis on matching in accounting. A sentence that sums up the article is found on page 23 and says, “If accounting aims to be a faithful reflection of the business, its core principles should reflect the core drivers of the business.”

From this case, I was able to see the importance of being up-to-date in accounting and what FASB is doing. FASB may set standards, but ultimately needs guidance from accountants and those working in the field. I appreciate the opportunity to read such a commentary that truly challenged the way I will approach my accounting courses and intellectual discussions surrounding accounting and changed to be made.

1) **How did reading this article change your current way of thinking?**

   This article completely changed the way I view accounting. I had never taken the time to read an article on accounting or the approaches accountants take when making
financial statements. This article challenged my thinking. I simply knew that FASB used a balance sheet approach, not the why behind such a usage. After reading this commentary, I wholeheartedly agree with the author that the balance sheet approach should be reevaluated and the income statement approach should be implemented.

A firm exists to create income. Assets and asset values are not the sole purpose for a firm. The changing values of assets exist only because of the changing values of earnings and the costs associated with such earnings. At the end of the day, all that truly matters for a firm are the revenues, costs, and earnings, not the assets. Assets are simply unexpired costs; they are a means to an end. This way of thinking will cause an income statement mindset when thinking of accounting. When a manager prepares a budget, he/she does not think of assets but yet considers projected revenues and costs associated with the period. I had never thought to consider this. Without this commentary, I doubt that I would have ever considered the reasoning behind using the balance sheet approach, nor would I have thought I would be in the group advocating for the income statement approach.

According to FASB, the balance sheet approach is used because assets are the most fundamental concept in accounting. However, the FASB definition for assets defines them according to expected earnings. How can FASB publish such a definition yet not place as much of an emphasis on the very terms within the definition? No matter what the business of a firm is, as stated previously, the entire goal is to earn income. When an investor looks at the horizon to view previous earnings in order to predict future ones, earnings are what are considered. The same cannot be said for assets. Changes in assets are not the primary focus of an investor.
FASB’s lack of concern in assessing the balance sheet approach is frightening. Prior to this commentary, I had always viewed FASB as an all-knowing accounting being. I had never considered that they could have such an err in judgment. Without placing more of an emphasis on earnings and the lines in an income statement, FASB is risking investors to no longer rely on GAAP and look instead to non-GAAP valuations of firms. The way in which FASB has allowed earnings to in some ways look useless and invaluable will lead to the downgrade of accounting and its profession.

The article also discusses how investors depend on income and earnings to make projections on if markets will go up or down. As anyone who read this article is well aware of, FASB places more value on assets and then earnings causing those who produce financial statements to have to do so, too. The fluctuations in asset value can skew earnings. Investors will neglect to view such fluctuating numbers when they are viewed as irrelevant. This will cause investors to look elsewhere for projections and causes accounting to head in a downward spiral. This is a risky venture to de-value the importance of the income statement and what it stands for. There is quite a stark difference in the real economy where economic value is actually generated and derived and the financial market world which thrives off of educated guesses. With FASB seemingly failing to see this difference, situations could arise that will lead to more cases like Enron. Reading this report honestly opened my mind to the thought of investors looking to other sources for valuable information. Without understanding this reality, accountants cannot accurately do their job.

After reading this commentary, I believe the gravest danger to the accounting profession is not technology, but rather FASB’s apathy towards the
income statement approach. Choosing to ignore the ramifications that the balance sheet approach causes is dangerous. To say the least, this article changed my thinking. Rather than being a student simply concerned with passing, I became truly passionate about this topic within accounting. I figured this article would be similar to many I have read for classes in college where I simply did what was assigned. Rather, I proceeded to research other accounts and analysis surrounding this topic. I had not become concerned for accounting and the value of my profession prior to reading this. Changes must be made and quickly. This commentary allowed me to finally truly feel like an accountant.

2) **How will you use this information in your future career?**

This article will affect various areas of my career. For starters, it will allow me to be a part of intellectual conversations surrounding this topic from an early point. I imagine most accounting students may view this topic apathetically before reading such an article. However, since I have read it, I will be able to understand what colleagues mean in discussions surrounding income statement and balance sheet statement approaches.

The primary way I will use this topic in my career is to address the ominous question most jobs are facing that says, “Will my job exist down the road?” I had never though that my career as an accountant would be jeopardized. I know there are many people who say technology will be the profession’s doom, but I strongly disagree. I believe technology can and will open new doors for accountants and the work we do. However, lack of concern for the income
statement approach to accounting and how it will affect the future is where I finally believe this career’s relevance could be in danger.

I plan to embark on a career in auditing for an accounting firm. Honestly, I am looking forward to working in public accounting and have even considered the partner track. Granted I have not yet worked a busy season in New York City and my views could very well change, but for now this is my plan. Although I cannot say with confidence what an auditor does on the regular, I imagine auditing financial statements of various firms will be my day-to-day job. From everything I have gathered, looking at the lines in a balance sheet and verifying such will be an important task in my future. While this certainly matters, I also think placing as much and if not more emphasis on the revenues, costs, and earnings associated with a firm will directly allow for the accounting profession to be more relevant and will help to curve any irrelevancy that could arise.

Throughout my career, I hope to be an advocate for the income statement approach and its relevancy. Depending on how and then the new conceptual framework is produced, my career as an accountant could vary drastically from what today’s accounting looks like. The information I gathered in this reading will allow me to have an upper hand if any income statement approach is one day adopted.
CASE STUDY 12: GOOGLE

Prepared by: Molly Maroney

May 8, 2019
I. Introduction

Google is a global company that likely most people in the world are familiar with in some form or fashion. According to the case and the Google dashboard, services it provides include web, image, group, news, and shopping. It is most people’s search engine of choice, but how often does anyone think of Google as an actual company with business units and financial statements? I know that personally these topics had not come to my mind concerning Google prior to this case. Not only were we able to see a glimpse into Google as a company, but also, we were able to learn about non-GAAP performance measures, a topic only briefly discussed in Intermediate Accounting.

The extent of my exposure to non-GAAP performance measures was a footnote in the Intermediate textbook discussing pro forma earnings. The informative article “non-GAAP Performance Measures” by Allan B. Afterman and published in the October 2015 edition of The CPA Journal provides insight into what exactly these earnings are and how companies use them. I appreciated this exposure and it gave me a much better idea of what exactly pro forma earnings are, which I am sure will be good going into upper level accountancy courses.

This case also gave us a glimpse at both a press release from Google and a Wall Street Journal article, both of which discussed Google’s 2013 fourth quarter earnings. Being able to compare these two pieces of literature and see how Google explained their numbers and figures was an interesting comparison to see how the Wall Street Journal interpreted the same numbers. This case had a good amount of real-world exposure into a topic in accounting we as students had not previously covered.

H. Read the excerpts of the press release titled “Google Announces Fourth Quarter and Fiscal Year 2013 Results” and review Google’s operating performance reported in the statements
II. The press release includes information about non-GAAP financial measures for the fourth quarter of 2013. Consider the table that reconciles GAAP measures to the non-GAAP measures. What explains the difference between GAAP net income and the non-GAAP equivalent? Do you agree with each of Google’s adjustments in computing non-GAAP earnings? Why or why not?

Google’s GAAP net income for 2013 is $3.38 billion while the non-GAAP equivalent is $4.10 billion. This difference is explained by the adjustments shown on page thirteen, which include adjustments to eliminate stock-based compensation, expense, restructuring and related charges, and the income tax effects related to the previously mentioned adjustments. I agree with the adjustments Google used to compute their non-GAAP net income because these are ordinarily costs that companies who use non-GAAP measures use to adjust their GAAP numbers, as noted in the “Non-GAAP Performance Measures” article by Allan B. Afterman in the October 2016 publication of *The CPA Journal*.

I. Use the attached stock-market charts for Google for the period January 1, 2013, through February 14, 2014, to answer the following questions.

c. Compare Google’s fiscal 2013 earnings performance with the movement in Google’s stock price over 2013.

As the earnings for each quarter increased, so did the stock price of *GOOG*. At the beginning of 2013, the stock price was $707 and ultimately reached nearly $1,200 by the February 14, 2014.
d. Compare Google’s 2013 stock price performance with the performance of the broader set of firms trading on the NASDAQ exchange (that is, the NASDAQ index).

The NASDAQ index as compared to Google stock is similar from the beginning of 2013 until around October 2013. The stock price grew fairly steadily, but Google was typically a little above the price of the NASDAQ index. In November 2013, Google’s stock price spiked and continued to rise while the NASDAQ continued to rise steadily, but experienced no such spike.

e. Based on the stock market chart, did the market perceive the earnings news in Google’s press release dated January 30, 2014, as “good news” or “bad news”? Note: the press release was made available after the close of trading for the day.

Seeing as Google’s stock price spiked significantly and continued to rise, the market certainly perceived the information in the press release as good news.

J. Read the Wall Street Journal article from January 30, 2014 titled “Google Reports Higher Profit.”

i. According to the article, how did Google’s fourth quarter revenue and earnings compare to the consensus analyst forecasts at the time of the earnings press release? Are these relations consistent with the positive stock market reaction following the press release?

Google’s performance in the fourth quarter in revenue and earnings was higher than analyst forecasts and such results are consistent with the spike in the stock price. Google’s results from the fourth quarter made a positive impression.
ii. What other factors does the article discuss that might contribute to the market’s positive reaction to the earnings press release? Are there any factors that might cause investors to be concerned about Google’s recent performance?

Google knows it must adapt in the technology age as users switch from desktop to mobile devices. Google’s “product listing ads” are both user-friendly and efficient for Google users on mobile devices and this change in ad may be contributing to Google’s excellent fourth quarter performance. Factors investors should be concerned about are that technology is rampantly changing and Google must be able to keep up with the times. Also, as smart phones and their apps become more specialized and upgraded, users are more wary of clicking ads and this could be an obstacle Google has to learn to overcome and face head on. While Google performed well, the Ad Watch chart shows that paid clicks are down from 2012. This is an item of concern.