Summer 8-1-2020

Building Professional Development Through The Research Of Financial Accounting

Amanda Starrett

Building Professional Development Through The Research Of Financial Accounting

By

Amanda Grace Starrett

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

ABSTRACT

AMANDA GRACE STARRETT: Building Professional Development Through The Research Of Financial Accounting
(Under the direction of Dr. Victoria Dickinson)

The following work is compiled from twelve cases assigned by Dr. Victoria Dickinson over the course of an academic year. The program used in creating this work was designed to enhance students' professionalism and enhance their exposure to real world examples of accounting methods. Each case provided different outlooks on accounting standards and provided the opportunity to examine specific issues regarding financial statements. Public accountants face a wide variety of problems when working with clients; learning from real world situations, students are able to create a better understanding of what challenges may await them in their future careers. By the end of the year, students came away with a greater sense of the standards set in place by governing boards and what it will be like to serve as a public accountant.

Table of Contents

List of Figures and Tables

Case One: Data Analytics

By

Amanda Grace Starrett

Introduction

Data analytics is becoming the "next big thing" in the business world. It is taking over as the top buzzwords in any industries and it is taking center stage as companies look towards the future. Data analytics is the process of taking data and sorting it to make decisions. Given the right data, this is an especially useful concept for companies. One of the qualities of accounting is relevance; information needs to be useful for decision making. Relevance is the biggest factor to why data analytics is important, accountants are looking for ways to take data from companies and make it relevant.

The following case study delves into the world of data analytic tools, specifically Domo, to find ways to help businesses run the day-to-day operations. Data analytic tools greatly improve the efficiency of work for any business and can help companies process through all their data within one platform. These tools have multiple uses that can help in all aspects of running a business. The purpose of this case is to understand how data analysis provide benefits to companies and in what ways accountants can use it to serve their clients.

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

Domo is a cloud-based tool used to bring a company's data together in one place for anyone to access. It can bring every department's information together and any third-party information that might be involved in the business. Anyone with permission can access the information anywhere they are, in real time. Since the data can be accessed as soon as it is entered, it makes it easier to handle problems as they arise. As a company is trying to come up with a solution to whatever the problem might be, they can use Domo to look at other companies in their industry and see if they had similar problems and what solutions worked. Using this tool lets managers efficiently and effectively run their departments or branches. (Domo)

2. How, specifically, would you use the tool in the following business settings?
   i. Auditing
   ii. Tax Planning

Auditing

Through Domo, all the data within a company can be found in one place making it easier to keep track of how each department is doing. It is also easier to make sure each department is complying with both the company standards and the law. For example, if there was an accounting error made during the collections from a sale, it would be simple to track all the relating information back to the very beginning and find out who made the error, when the error occurred, etc. With the data being more transparent, it will become even more difficult for an employee to commit fraud. Another useful part of Domo is it can help predict when there might be a period with high returns or drop-in sales. Not only does the data from the company get uploaded, Domo also can pull information from social media or news sites. For retailers, this can be extremely useful to help track when their products are in demand. It can be used to pull complaints about products, which is an indicator that unsatisfied customers will return items.

Tax Planning

As previously discussed, all the data for every division in a company are brought together, making it easy to compare them. This enables executives to analyze aspects of each branch or department and determine if they are being as efficient as possible. It can be the case the one branch is spending more than all the others, and management will be able to recognize it as soon as it becomes a problem. In addition to using the comparisons to minimize expenses in branches, a company can use their data and other resources to look for places to expand. Domo can help with expanding either an existing branch or establishing a new one. It can pull data from other sources to help establish potential growth areas. While it compares all the branches, executive members can then look at which branch or department has the best growth potential. There is also the potential that the business is not ready to expand, and that can be analyzed and communicated through Domo. Since Domo can pull information and news from other sources, it can also keep up with any new tax laws or rates. It enables everyone in the company to be able to easily access any new regulations.

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.

TO: John Doe, CPA

FROM: Grace Starrett

DATE: September 18th, 2018

SUBJECT: Use for Data Analytics Tool

I believe our firm should invest in the data analytics tool, Domo as it will improve the efficiency of our work in all aspects. Our main purpose is to effectively serve our clients and to do so in the most efficient way and Domo will help with this. We would be able to access and sort through the client's data much easier. Any team member would be able to share their work and access the information anywhere. We would be able to integrate our existing systems together so that all the information would be in one space. The reviews seem to be generally positive and indicate it is well accepted within other businesses (Straight). The way of the future is by having all readily available information within our grasps, and I believe this will put us ahead of other firms.

Case Two: Rocky Mountain Chocolate Factory, Inc.

By:

Amanda Grace Starrett

Introduction

In this case, I recorded a company's transactions within a general ledger for the year. The ledger includes the adjusting and closing entries needed for the end of the year. As any accountant must do, I prepared financial statements for the company at the year end. Additionally, I recorded which section of the Statement of Cash Flows each transaction would appear in. This case puts the basic concepts of accounting to test. I had to correctly record each entry into the trial balance, make the correct entries to adjust the accounts, then make the necessary entries to close the temporary accounts. Once I had done that, I had to prepare the income statement and balance sheet for the year. In this case I was given a check figure for the unadjusted retained earnings balance, but in a real-world scenario I would not have that. I would need to be able to go through entries and make sure they comply with accounting standards. I learned how to effectively use excel while preparing financial statements and how to use different functions that will automatically calculate totals. At a firm or company, I will be working with trial balances, income statements, and balance sheets all the time and while places may have different programs for preparing them, excel is the most basic form for anybody to use. I need to know how to use excel and how to use the functions it has in order to do my job efficiently. The formulas in excel can help save time and quickly update when there are changes and it is always good to practice how to use it.

1. Prior to examining the company’s actual balance sheet, what accounts do you expect to see on the balance sheet? Which accounts constitute the major assets? Which accounts constitute the major liabilities?

I expected to see the major assets and liabilities on the Balance Sheet. Including: cash, accounts receivable, supplies, inventory, property, plant, and equipment, accounts payable, and notes payable.

2. Prepare and post transactions to the general ledger.

See Table 2-1 below.

3. Based on the unadjusted trial balance, list at least three adjustments or reclassifications that might need to be made prior to preparing the final financial statements.

I expected there may need to be an adjustment or correction to inventories. Plant and property needs to be adjusted for depreciation. I also thought there may need to be an adjustment to one of the accrual accounts. Table 2-2 shows the adjustments that needed to be made to the company's ledger.

Table 2-1: Unadjusted Trial Balance

		Beginning Balance (February 28, 2009)	1. Purchase Inventory	2. Incur Factory Wages	3. Sell Inventory for Cash and on Account	4. Pay for Inventory	5. Collect Receivables	6. Incur SG&A (Cash and Payable)	7. Pay Wages	8. Receive Franchise Fee	9. Purchase PPE	10. Dividends Declared and Paid	11. All Other Transactions	Unadjusted Trial Balance
	Cash and Cash Equivalents	1,253,947			17,000,000	(8,200,000)	4,100,000	(2,000,000)	(6,423,789)	125,000	(498,832)	(2,403,458)	790,224	3,743,092
	Accounts Receivable	4,229,733			5,000,000		(4,100,000)						(702,207)	4,427,526
	Notes Receivable, Current	-											91,059	91,059
	Inventories	4,064,611	7,500,000	6,000,000	(14,000,000)								(66,328)	3,498,283
	Deferred Income Taxes	369,197											92,052	461,249
Dr	Other	224,378											(4,215)	220,163
	Property and Equipment, Net	5,253,598									498,832		132,859	5,885,289
	Notes Receivable, Less Current Portion	124,452											139,198	263,650
	Goodwill, Net	1,046,944												1,046,944
	Intangible Assets, Net	183,135											(73,110)	110,025
	Other	91,057											(3,007)	88,050
	Accounts Payable	1,074,643	7,500,000			(8,200,000)							503,189	877,832
	Accrued Salaries and Wages	423,789		6,000,000					(6,423,789)					-
	Other Accrued Expenses	531,941						3,300,000					(2,885,413)	946,528
	Dividend Payable	598,986										3,709	(1)	602,694
	Deferred Income	142,000								125,000			(46,062)	220,938
Cr	Deferred Income Taxes	827,700											66,729	894,429
	Common Stock	179,696											1,112	180,808
	Additional Paid-In Capital	7,311,280											315,322	7,626,602
	Retained Earnings	5,751,017										(2,407,167)		3,343,850
	Sales	-			22,000,000								944,017	22,944,017
	Franchise and Royalty Fees	-											5,492,531	5,492,531
	Cost of Sales	-			14,000,000								693,786	14,693,786
	Franchise Costs	-											1,499,477	1,499,477
	Sales & Marketing	-						1,505,431						1,505,431
Dr	General and Administrative	-						2,044,569					(261,622)	1,782,947
	Retail Operating	-						1,750,000						1,750,000
	Depreciation and Amortization	-												-
	Interest Income	-											(27,210)	(27,210)
	Income Tax Expense	-											2,090,468	2,090,468

Table 2-2: Adjusted Trial Balance

		Unadjusted Trial Balance	12. Adjust for Inventory Count	13. Record Depreciation	14. Wage Accrual	15. Consultant's Report	Pre-Closing Trial Balance	16. Closing Entry	Post-Closing (Ending) Balance
	Cash and Cash Equivalents	3,743,092					3,743,092		3,743,092
	Accounts Receivable	4,427,526					4,427,526		4,427,526
	Notes Receivable, Current	91,059					91,059		91,059
	Inventories	3,498,283	(216,836)				3,281,447		3,281,447
	Deferred Income Taxes	461,249					461,249		461,249
Dr	Other	220,163					220,163		220,163
	Property and Equipment, Net	5,885,289		(698,580)			5,186,709		5,186,709
	Notes Receivable, Less Current Portion	263,650					263,650		263,650
	Goodwill, Net	1,046,944					1,046,944		1,046,944
	Intangible Assets, Net	110,025					110,025		110,025
	Other	88,050					88,050		88,050
	Accounts Payable	877,832					877,832		877,832
	Accrued Salaries and Wages	-			646,156		646,156		646,156
	Other Accrued Expenses	946,528					946,528		946,528
	Dividend Payable	602,694					602,694		602,694
	Deferred Income	220,938					220,938		220,938
Cr	Deferred Income Taxes	894,429					894,429		894,429
	Common Stock	180,808					180,808		180,808
	Additional Paid-In Capital	7,626,602					7,626,602		7,626,602
	Retained Earnings	3,343,850					3,343,850	3,580,077	6,923,927
	Sales	22,944,017					22,944,017	(22,944,017)	-
	Franchise and Royalty Fees	5,492,531					5,492,531	(5,492,531)	-
	Cost of Sales	14,693,786	216,836				14,910,622	(14,910,622)	-
	Franchise Costs	1,499,477					1,499,477	(1,499,477)	-
	Sales & Marketing	1,505,431					1,505,431	(1,505,431)	-
Dr	General and Administrative	1,782,947			639,200		2,422,147	(2,422,147)	-
	Retail Operating	1,750,000			6,956		1,756,956	(1,756,956)	-
	Depreciation and Amortization	-		698,580			698,580	(698,580)	-
	Interest Income	(27,210)					(27,210)	27,210	-
	Income Tax Expense	2,090,468					2,090,468	(2,090,468)	-

4. Construct an Income Statement and Balance Sheet

Table 2-3: Income Statement

Income Statement For Period ended Feburary 28, 2010	
Revenues:	
Sales	22,944,017
Franchise and Royalty Fees	5,492,531
Total Revenue	28,436,548
Costs and Expenses:	
Cost of Sales	14,910,622
Franchise Costs	1,499,477
Sales & Marketing	1,505,431
General and Administrative	2,422,147
Retail Operating	1,756,956
Depreciation and Amortization	698,580
Total Cost and Expenses	22,793,213
Operating Income	5,643,335
Other Income (Expense):	
Interest Income	(27,210)
Other, Net	(27,210)
Income Before Income Taxes	5,670,545
Income Tax Expense	2,090,468
Net Income	**3,580,077**
Basic Earnings per Common Share	0.60

Table 2-4: Balance Sheet

Balance Sheet As of February 28, 2010	
Assets	
Current Assets:	
Cash and Cash Equivalents	3,743,092
Accounts Receivable	4,427,526
Notes Receivable, Current	91,059
Inventories	3,281,447
Deferred Income Taxes	461,249
Other	220,163
Total Current Assets	12,224,536
Property and Equipment, Net	5,186,709
Other Assets:	
Notes Receivable, Less Current Portion	263,650
Goodwill, Net	1,046,944
Intangible Assets, Net	110,025
Other	88,050
Total Other Assets	1,508,669
Total Assets	**18,919,914**
Liabilities and Stockholders' Equity	
Current Liabilities:	
Accounts Payable	877,832
Accrued Salaries and Wages	646,156
Other Accrued Expenses	946,528
Dividend Payable	602,694
Deferred Income	220,938
Total Current Liabilities	3,294,148
Deferred Income Taxes	894,429
Stockholders' Equity:	
Common Stock	180,808
Additional Paid-In Capital	7,626,602
Retained Earnings	6,923,927
Total Stockholders' Equity	14,731,337
Total Liabilities and Stockholders' Equity	**18,919,914**

5. For each transaction, indicate whether the transaction would appear in the "operating," "investing," or "financing" section of the statement of cash flows.

Each transaction corresponds to the entry in Table 2-1, indicated with the same title.

1. Purchase Inventory	Operating
2. Incur Factory Wages	Operating
3. Sell Inventory for Cash and on Account	Operating
4. Pay for Inventory	Operating
5. Collect Receivables	Operating
6. Incur SG&A (Cash and Payable)	Operating
7. Pay Wages	Operating
8. Receive Franchise Fee	Operating
9. Purchase PPE	Investing
10. Dividends Declared and Paid	Financing

Case Three: Recruitment and Professionalism for an Accounting Student

By

Amanda Grace Starrett

Introduction

Within this case, I explore three different scenarios regarding questions accounting students need to focus on in their junior year. In class we were posed with three real situations and everyone had differing perspectives regarding the scenarios. Hearing other people's opinions made me realize that there is not a definite "right" answer. Everyone will have differing views, but we can all learn from the students that came before us. Starting as early as sophomore year (or for some freshmen year), when an accounting student meets with firms, there are two common questions the firms' representatives always ask, "where do you want live?" and "do you want to do audit or tax?". These questions can be difficult to answer as the majority of twenty-year-olds do not know where they want to live for a long period of their life right out of college, nor do they know which field they want to practice. Most students do not take classes pertaining to either audit or tax until junior or senior year. Even then most professionals will say that the class is not a good representation of what the work is like, yet students are expected to have an idea of what they want. Indecisions could lead to a weak application and give reasons for a firm not wanting to hire someone. As an individual who wants to seek out internships and opportunities for experience, it is important to start planning early on (so you are prepared when you get asked these questions). My biggest take away from discussions about the following scenarios is that it is always best to be transparent with the firms while going through the recruitment process. While going through recruitment I am reminded that I must really think about what I want for the next three to five years. I want to be a CPA and set myself for a successful career which means I need to plan what I want.

Scenario One

The first scenario was a conversation between two students at the University of Mississippi discussing what they wanted to do after they graduated. One student mentioned how he wanted to go to law school to practice tax law instead of going into a master's accounting program. The student wanting to go to law school had two points: one being that he would make more money working in tax law, and the second being that he would still be applying for the internship because it would look better on his application for law school. Neither of these points outweighs other options long term. The typical length of law school is three years, whereas many master's programs for accountancy is only one year because 150 credit hours are required for the Certified Public Accountant (CPA) exam. The less time someone is in school equals less money that person must spend, meaning they're saving the amount it would take to go to law school. The starting salary working in a law firm under tax law is higher than coming out with of school as a CPA; however, after a few years the salaries even out and depending on a person's performance it can be higher than that at a law firm. With the difference in how long one is in school, one can be going into their third year at an accounting firm, while another will just be coming out of law school, already starting to close the gap between salaries. The student's other point to just use the senior internship as a "resume booster" is troublesome. The firms take a great deal of time and money to recruit students and when students go into an internship with the intention of not working there long-term, it reflects poorly on the University of Mississippi (or any school the student attends). In the scenario, the student made no indication that he would be informing the firms of his plans to go to law school. Students should try to be as transparent as possible, and then it is on the firms to decide whether they still want to recruit that student. If someone is not transparent with the companies then he/she is wasting the time and money of the firm who hires him/her.

Scenario Two

The second scenario describes two students discussing the advantages of remaining as an accountancy major, knowing that they want to do banking and finance in the future, to another student. While there is nothing wrong with staying in accounting, the students should also double major in banking and finance. Accounting is the language of business; one can use their knowledge of accounting and apply it to many other business fields. Banking and finance are similar enough to accounting that transferring over the skills would be an easy process. In the Patterson School of Accountancy, the senior internship is not a requirement, which means if these students know for sure they do not want to do accounting, they do not have to take an internship. There are also other options for internships if a student still wants to gain experience. If a student knows they do not want to be in public accounting, they could find an internship with a company that fits their plans. When senior year comes around and the student is still not completely sold on one set path, it would be a good option to do an internship, then stay for two or three years to decide what they want to do. After a student spends some time with a company and decides to move on to a different field, they can take their knowledge and apply it to everything else. Most companies want to hire individuals with experience and a few years with an accounting firm would provide an individual with plenty of experience to transfer to another career in banking and finance.

Scenario Three

The third scenario describes a student who took an internship in Washington DC but wanted to either try and transfer his/her offer to his/her hometown in Dallas or decline his/her offer in order to move home. The internship is only eight to ten weeks, which is not a long time to fully experience a city or its culture; however, in some cases, a person can tell right away whether they will fit in at a business. Eight weeks is long enough to determine whether one can make relationships with the people in one’s workplace. Being in a new place alone, and not being able to get along with the people one is seeing most often is stressful, and there is no problem realizing it will not be a good fit for one to stay. Also, there could always be family matters that arise and need to be taken care of that cause someone to move back home. The most important part in this scenario is for the student to make certain he/she wants to leave. As long as it was not a preconceived thought that the student was going to deny the offer, there is not a problem with wanting to move somewhere else. The student can take the experience he/she learned during their time with the firm and apply it to their future job.

Case Four: Securities Sales and Impairments

By

Amanda Grace Starrett

Introduction

Within this case, I examined an updated Financial Accounting Standard Board (FASB) Accounting Standards Update (ASU) on credit losses, specifically impaired available-for-sale securities. I learned about debt securities and how to account for them. Generic Bank is considering selling seven securities and needs to know whether to record it as an impaired loss. In the first four scenarios, the bank wants to sell the securities to increase their liquidity for employees' year-end bonuses and potential acquisitions. The case assumes that the bank is well capitalized and has the ability to raise funds by other means. The fifth scenario assumes the bank is adequately capitalized and is limited on their ability to raise funds in other ways. Each question requires a subjective response because each scenario has different factors that could affect Generic Bank's decisions.

1. Does Generic Bank have an impairment loss on the seven securities designated above in 20x2?

The first criteria for an impairment loss is, "for individual debt securities classified as available-for-sale securities, an entity shall determine whether a decline in fair value below the amortized cost basis has resulted from a credit loss" (ASC 326-30-35-2). Generic Bank has stated that all their security declines have not been due to a credit loss. The other factor in deciding if a loss is impaired is, "if an entity intends to sell the debt security (that is, it has decided to sell the security) […] any allowance for credit losses shall be written off and the amortized cost basis shall be written down to the debt security's fair value at the reporting date with any incremental impairment reported in earnings" (ASC 326-30-35-10). To summarize the preceding statement, a security is impaired if the bank has no intention or no ability to keep it, which is why Generic Bank has an impairment loss. Since Generic Bank wants to sell the seven securities (only five of which are losses), they need to record them as impaired.

2. 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?

Generic Bank does not have an impairment loss on the other securities. As stated above, all their security declines are not due to a credit loss, and the bank has made no indication that they intend to sell any securities other than the seven. Since Generic Bank has the financial ability to keep the securities and they intend on keeping them, the other securities would not be impaired.

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?

The answer would not change for the seven securities Generic Bank wants to sell; however, from the perspective of an external auditor or bank regulator, the answer would change for the other securities. From an outside perspective, an external auditor or bank regulator should question whether Generic Bank actually has the intention to keep the other securities. If Generic Bank wants to sell the seven securities for employees' year-end bonuses, then what is stopping them from selling other securities to free up more liquidity? It is the job of an external auditor and bank regulator to make sure companies provide accurate information to creditors, so they would put Generic Bank under more scrutiny about their intentions with the securities.

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?

If all the securities were gains it would not change the existence of the impairments. Impairments can include gains, “impairment shall be assessed at the individual security level […] individual security level means the level and method of aggregation used by the reporting entity to measure realized and unrealized gains and losses on its debt securities” (ASC 326-30-35-4). As long as the securities met the requirements to be classified as an impairment, then they would be classified as an impaired gain.

5. Does Generic Bank have an impairment loss on securities other than the seven securities sold?

The other securities would be considered an impairment loss. If Generic Bank needs to sell seven securities to improve ratios, and other forms of borrowing are limited, then that limits Generic Bank’s ability to hold securities. If they need to sell some securities in part to satisfy obligations, then that indicates they will need to sell more securities. For a security to not be considered an impairment, the company needs to have the intent and ability to keep it. Generic Bank is showing that they do not have the ability to keep securities, indicating an impairment loss.

Case Five: City Comparison

By:

Amanda Grace Starrett

Introduction

This case reflects two cities I would potentially like to intern and work in: Nashville, Tennessee and St. Louis, Missouri. I will be examining each city in many different aspects that could affect my decision. I am considering Nashville because I love the city, and I think it would be a fun place to live. I love that it is still in the south and that it is the middle of all my family members. However, I grew up about forty minutes away from St. Louis, and I am considering going back. I know the city and surrounding areas and ultimately, I know that I would love being there.

Nashville, TN:

1. What is the population?

In 2017, the estimated population for Nashville is approximately 691,243. However, Nashville has become more popular and around one hundred people move there per day.

2. Describe the climate and seasonal fluctuations.

The average temperature over the course of a year is 59ºF, with an annual high temperature of 70ºF, and an annual low temperature of 49ºF. The average humidity is 69.8 percent, and the average rainfall is three and nine tenths inches (Data, US Climate).

3. Describe the geographic features

Tennessee has a wide range of mountainous and flat lands; however, Nashville is in a low range surrounded by farmland. The Cumberland River runs through the middle of Nashville, and it is the second largest US city by land mass.

4. What are the individual tax rates (based off a starting salary of approximately $50,000/year)?

Tennessee has no state income tax; however, there is a four percent rate on interest and dividends. The marginal tax rate for federal income tax would be 25 percent, and the Federal Insurance Contributions Act (FICA) tax would be seven and sixty-five hundredths percent. Based off 2017 taxes, the total income taxes would have been just under $9,500. The base sales tax for Tennessee is seven percent, with local rates that can total up to two and seventy-five hundredths percent. Homeowner's in Tennessee pay some of the lowest property taxes in the United States. Certain professionals must pay an annual fee of $400, including accountants; the gas tax is 25 cents per gallon. (Tennessee Income)

5. What transportation hubs are in the city?

Currently Nashville has a bus system, taxis, and a commuter rail. There is currently a project in development of a brand-new transportation system that will improve commuting. However, traffic is awful, and people can spend around an hour in their cars for their commute, and that does not include if there is a wreck.

6. What are the city's most prevalent industries?

One of the biggest industries in Nashville is the healthcare industry. Automotive manufacturing, higher education, and insurance are other prevalent industries within Nashville.

7. Describe the quality of the city's healthcare.

Nashville has very good healthcare options, especially with healthcare being the top industry in the city. Nashville has top hospitals and medical centers including the Vanderbilt University Medical Center.

8. What types of crime are common within the city and where are the locations within the city to avoid?

Out of Nashville's reported crimes, property crimes are three times the reported violent crimes. Compared to the rest of Tennessee and the national average, the crime rate is not great. The crime rate is 38 percent higher than the average for Tennessee and 69 percent higher than the national average (Areavibes). According to "25 Most Dangerous Cities in America" from USA Today, Nashville is the seventeenth most dangerous city based on violent crimes. When looking at a crime map, the highest crime seems to be downtown and a few areas in Whites Creek, north of downtown Nashville.

9. How much rent do you expect to pay (within the first three years)?

After considering crime and cost of living in different areas of Nashville, I would look for an apartment in the McMurray-Huntingdon area. On average a single bedroom apartment in Nashville is about $1,200 and two bedrooms is about $1,330. According to their website and their office, Knolls Apartments have one bedrooms starting at $935 with about 450 square feet, and two bedrooms starting at $1,150 with about 935 square feet. The utilities are about $40 for one bedroom, and $50 for two bedrooms. There is close-to-door parking and access to the public transportation. Within the first three years, if I paid the average price for a one-bedroom apartment, the cost would be over $43,000. The ideal situation would be to find a roommate and split rent in half, and I could save

$20,000 over the three years. Below are some of the floor plans, sourced from The Knolls website.

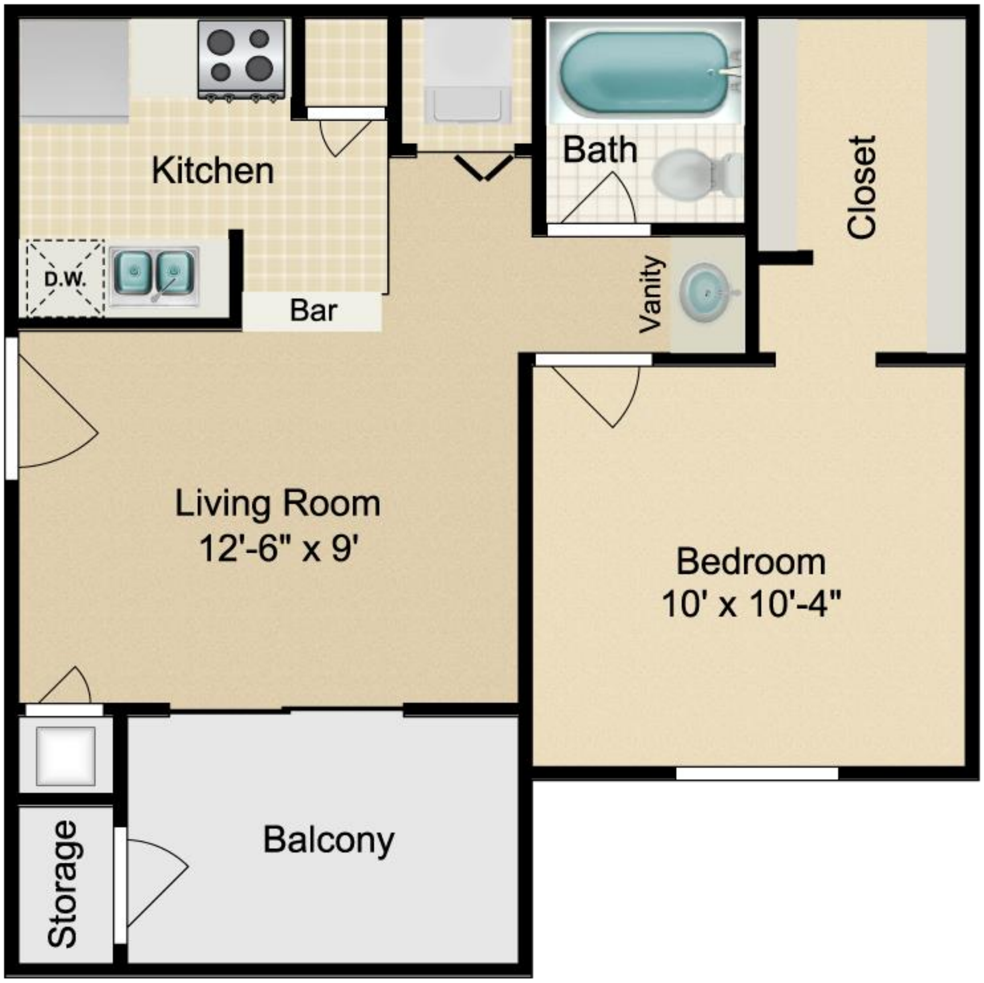

Figure 5-1: One Bedroom-Knolls

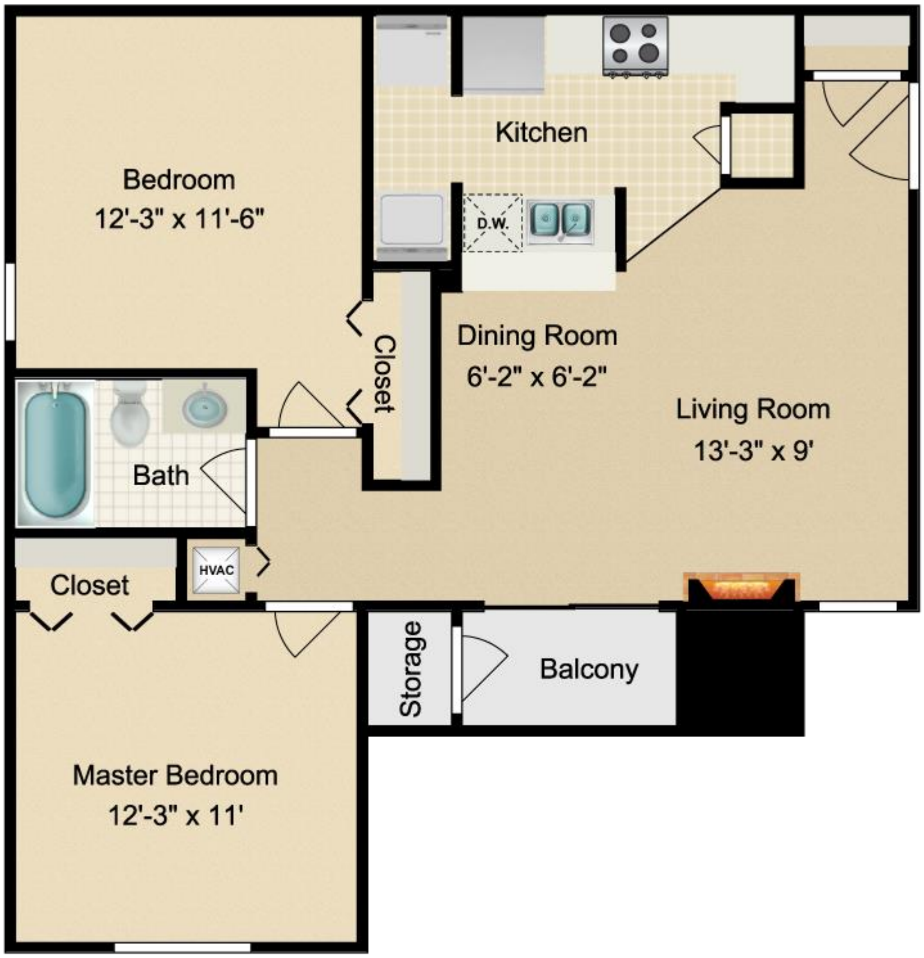

Figure 5-2: Two Bedroom-Knolls

10. What is the typical mode of commuting? What are your likely commute times?

In the McMurray-Huntingdon area, there are multiple public transit options. The area is only twenty minutes away from downtown Nashville, so I would try to drive to work to start with. Knowing the traffic is not good, I would estimate an hour commute.

11. Where will you do your grocery shopping?

Within the McMurray-Huntingdon area there are several shopping districts or mall crossings. There appears to be multiple Krogers and Wal-marts throughout the area.

12. How will you do your laundry?

In Knolls Apartments, they have both shared laundry and in-unit laundry. It appears that most apartments have either in-unit laundry or shared laundry. However, if that was not an option, there are always laundry mats that one could use.

13. Name at least three organizations you would like to be active in?

The Nashville Food Project is an organization that provides people with meals, and I think that would be one of the best things to get involved with. I love reading, so I would try to find a book club or volunteer with my local library. On Hands on Nashville, I found Play Like a Girl which is an organization to provide young girls to play sports and do other physical activities. I think it would be a lot of fun to work with kids and encourage them to try new things.

14. What are five activities that you would be most likely to engage in?

I love watching sports and I would go to a few Tennessee Titans games and Nashville's Minor League Baseball games. Nashville is the "Music City" and I would take advantage of all the artists performing at different festivals or concerts. With Tennessee being full of forests and mountains, I can find several places to go hiking or camping.

15. What are the modes of traveling back to your hometown from this city? What is the average cost you would incur for each trip back home?

Nashville is a mid-point from all my family, and I would drive to any of their locations. Currently to fill up the gas tank in my car it costs about $30. My brother and his family still live in Illinois, and that is about 330 miles away from Nashville; my extended family (grandparents and cousins) lives in Indiana and live about 330 miles away. Both places are roughly five hours away, and I could travel there on one tank of gas. Currently I travel the same distance from Oxford to go home, and I estimate that either of those trips would cost $50 including food and gas. My parents live on the coast of Mississippi and are about 500 miles away from Nashville, equating to a seven-hour trip. Using the same reasoning as before, I estimate the cost to travel from Nashville to Biloxi would be around $75. That includes filling up on gas twice and some money for food.

16. Based on your findings, develop a monthly operating budget for each city for Year 2, assuming your annual salary is $60,000.

The following table shows a simple budget for living in Nashville. Before any taxes, my monthly income would be $5,000. I assumed the same costs that have already been mentioned in previous sections. When it came to the savings/loans section, I decided on a fifteen percent contribution to my 401k. The student loan repayment was calculated by using a standard plan for the loans I have, plus an additional amount since I would like to pay off my loans soon after I graduate. While the excess amount would be put into my savings, I know that I want to save $200 every paycheck, so I made a separate line item. Included in the miscellaneous section, I included activities I do that require money.

Monthly Budget - Nashville, TN	
Housing:	
Rent	$1,200
Utilities	40
Total Housing	1,240
Food:	
Groceries	300
Eating Out (2x per week)	160
Drinks	50
Total Groceries	510
Gas:	
Total Gas	100
Savings/Loans:	
401k Contribution	750
Student Loan Repayment	400
Savings	400
Total Savings/Loans	1,550
Miscellaneous:	
Movies	40
Shopping	100
Other	100
Total Misc.	240
Total Expenses	$3,640

Table 5-1: Nashville-Monthly Budget

St. Louis, MO:

1. What is the population?

In 2017, the estimated population of St Louis is approximately 308,626.

2. Describe the climate and seasonal fluctuations.

The average temperature is 55ºF, with an annual high temperature of 65ºF and an annual low temperature of 44ºF. The average humidity is 70 percent, and the average rainfall is three and four tenths inches. (Data, US Climate) Growing up near St. Louis, I know that it can get extremely hot in the summer and extremely cold in the winter. During spring and fall, there is a mix of temperatures, where one day it is sunny and 75°F and then the next day it is snowing.

3. Describe the geographic features

St. Louis sits between the Mississippi River and Missouri River. It is located near the geographic center of the United States. In the surrounding areas of St. Louis are bluffs that overlook the rivers. A downside is that depending on the amount of rain, the rivers will flood causing shutdowns of both roads and businesses.

4. What are the individual tax rates (based off a starting salary of approximately $50,000/year)?

If I worked in St. Louis, I would end up living on the Illinois side of the Mississippi River. Living in Illinois and working in Missouri complicates the tax amounts being paid to each state. An apportionment percentage would need to be used to determine how much is owed to each state. The general sales tax for Illinois is six and twenty-five hundredths percent, with a one percent Fairview tax rate and a county tax of one and one tenth percent.

5. What transportation hubs are in the city?

The main transportation in St. Louis are the Metrobus and MetroLink systems, and cars. The Metro systems even include stops in Illinois.

6. What are the city's most prevalent industries?

The big industries in St. Louis are aviation, bioscience, and food and beverage manufacturing. Industries that have been on the rise in recent years are the health care industry and education.

7. Describe the quality of the city's healthcare.

St. Louis has several hospitals, including one of the top ranked hospitals, Barnes-Jewish Hospital.

8. What types of crime are common within the city and where are the locations within the city to avoid?

Overall, reported property crimes are about three times higher than reported violent crimes. Total crime is 136 percent higher when compared to Missouri's average crime rate, and 176 percent higher compared to the national average crime rate. St. Louis is definitely not the safest city, and according to "25 Most Dangerous Cities in America" by USA Today, it is ranked first of the most dangerous cities for violent crimes. From both growing up near St. Louis and looking at a crime map, people know to avoid East St. Louis, which is the worst area in the city.

9. How much rent do you expect to pay (within the first three years)?

For the first year, I plan on living with family or a family friend to save up money for an apartment. The average rent in Fairview, Illinois for a one bedroom is $767. Park Terrace Apartments have one bedrooms starting at $740, with everything except for electricity is included. They also have two bedrooms for $885. There are assigned parking spaces for residents. Based on the average for Fairview and my plan of living with my family for a year, the expected rent expense would be just over $18,000. The apartments seem spacious from the floor plans on Park Terrace's website.

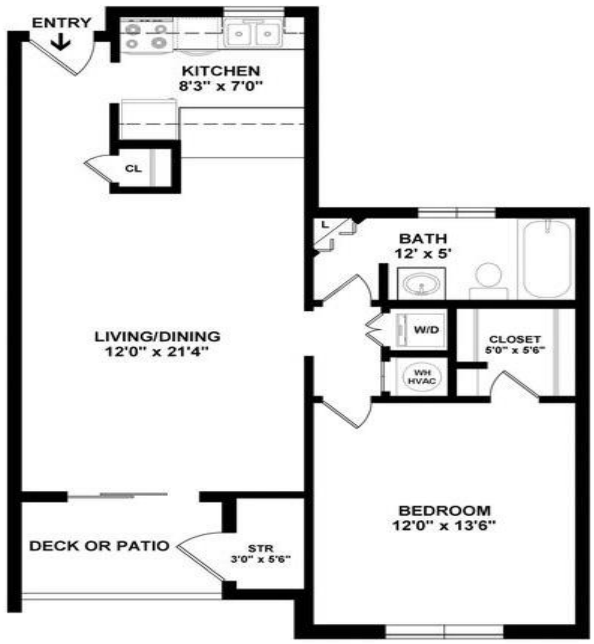

Figure 5-3: One Bedroom-Park Terrace

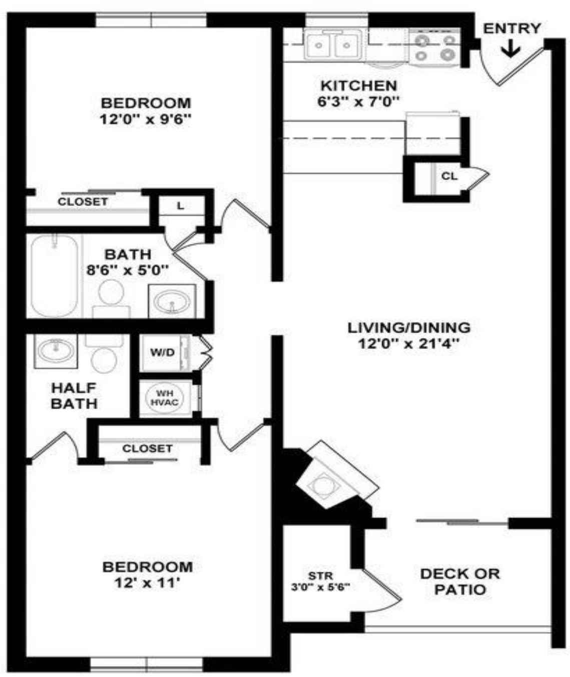

Figure 5-4: Two Bedroom-Park Terrace

10. What is the typical mode of commuting? What are your likely commute times?

Based off the plan of living in Illinois, I would commute via driving my car to work. A typical commute time can be anywhere from forty minutes to an hour.

11. Where will you do your grocery shopping?

In Fairview there is an abundance of shopping options. They have a large shopping mall for miscellaneous shopping. There are farmer's markets, Walmart, Schnucks, and an Aldi's.

12. How will you do your laundry?

Most apartments or houses for rent have in-unit laundry.

13. Name at least three organizations you would like to be active in.

I would like to get involved and volunteer with my high school and/or the school district. There is also a Boys and Girls Club in Alton, Illinois that I could volunteer with. Also, there is a senior center in my hometown that I used to volunteer at that I could go back to and help with.

14. What are five activities that you would be most likely to engage in?

I love going to sporting events, and I would go to both Cardinals and Blues games. St. Louis has a lot of concerts at the Hollywood Amphitheater that I would love to attend. Right across the river, there are great hiking trails along the bluffs. I also love going to lakes and fishing, and there are several lakes within an hour of where I would be living. Not too far from where I grew up there is a drive-in movie park that I love attending.

15. What are the modes of traveling back to your hometown from this city? What is the average cost you would incur for each trip back home?

I grew up across the Mississippi River from St. Louis, and my brother's family and several of my friends still live in the area. I could regularly see everyone and would not incur a significant cost to visit them. To visit my extended family in Indiana, it would be about 290 miles and take a little less than five hours. I used the same considerations as previously stated and would estimate I would only spend about $40. To go visit my parents in Mississippi, it would be around 650 miles and take around ten hours. I would want to be conservative with a trip more than 500 miles and would budget about $100 for this trip. It would cost more, but I could also fly to see my parents during holidays.

16. Based on your findings, develop a monthly operating budget for each city for Year 2, assuming your annual salary is $60,000.

In table 5-2, I created a budget for living in Fairview. Not much needed to change from the Nashville budget. However, the rent and the grocery bills would decrease.

Monthly Budget - St. Louis, MO	
Housing:	
Rent	$740
Utilities	40
Total Housing	780
Food:	
Groceries	200
Eating Out (2x per week)	160
Drinks	50
Total Groceries	410
Gas:	
Total Gas	100
Savings/Loans:	
401k Contribution	1,350
Student Loan Repayment	400
Savings	200
Total Savings/Loans	1,950
Miscellaneous:	
Movies	40
Shopping	100
Other	100
Total Misc.	240
Total Expenses	$3,480

Table 5-2: St. Louis-Monthly Budget

Do you still want to live in both cities, and if so, which one is your preferred city and why?

Based off the analysis, I would still want love to move to both cities. Both cities have their selling points and their drawbacks. As of now, Nashville is my preferred city. The first big reason is because of the relatively equidistance from all my family. In St. Louis, I am living right next to my brother; however, I am about three hours farther away from my parents. I would rather give up the proximity to my brother to be closer to my parents. Another big factor regards the industries in each city. Nashville has a large healthcare industry and along with that includes the insurance industry. I would ideally want to work with the insurance industry, and I think Nashville has good opportunities with it.

Case Six: WorldCom Inc.

By

Amanda Grace Starrett

Introduction

During 2001, WorldCom Inc. falsified accounting records by improperly capitalizing nearly $4 billion. Costs were being spread out in hopes of recognizing them with future revenues that never came. In this case, I analyze the improper accounting of WorldCom Inc, and look at how the capitalization of costs work. Working this case has opened a new light into ethics and how some choices can have major consequences. The decision to inaccurately record expenses caused half a million employees to lose their jobs. On top of the effect it has on others, the effects it has on the person committing the fraud should deter anyone from it. First think of the humiliation that would follow someone for the rest of their lives after an incident such as this; they would never be able to put it in their past and get away from the distrust the public would have for them. The humiliation of searching for jobs is one option, but the other could be imprisonment. While most of the officers involved in the WorldCom incident have been released from prison, the former CEO Bernie Ebbers remains, with the earliest possible release of 2028. Upon reflection, I could never imagine a situation where incriminating oneself for a company to look good for investors would be worth the risk of everything that could be lost.

1. Explain the definition of “asset” and “expense.”

An asset is a future benefit obtained through a past transaction. An expense is when there is an asset being used up during ongoing operations.

2. In general, when should costs be expensed and when should they be capitalized as assets?

Costs should be capitalized when it has improved the future benefits of an asset. Expenditures are merely maintenance or service to an asset.

3. What becomes of "costs" after their initial capitalization?

Costs will be depreciated in the same manner as before the capitalization. Initially before any depreciation, the balance sheet will be affected by an increase to the effected asset.

4. 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 what these "line costs" are.

The transactions recorded (in millions) would have been:

Dr. Line Costs	14,739	
Cr. Cash		14,739

According to a WorldCom SEC filing, the line costs consisted of access and transport charges. Under the Generally Accepted Accounting Principles (GAAP), these costs would be reported under a general operating expense. So, it would appear line costs are simply a way of funneling the costs away from where they should be. In the way WorldCom accounted for the line costs, they can be amortized over a period instead of accounting for the costs all at once.

5. Refer to the *Wall Street Journal* article. Describe the types of costs that were improperly capitalized at WorldCom. Explain what transactions give rise to these costs. Do these costs meet your definition of assets in part *1* above?

According to the article, 15 percent of the costs WorldCom was incurring were not producing a revenue. Most of the costs were regular operating expenses that should have been accounted for all at once. The recorded costs do not meet the definition from part *1*. There should be a foreseeable benefit of an asset, and neither access charges nor transport charges fit that.

6. 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?

The following journal entry is in millions:

Dr. Plant, Property, and Equipment	3,055	
Cr. Cash		3,055

The costs would be incurred under Plant, Property, and Equipment in the balance sheet, and the statement of cash flows would be under investing activities.

7. 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.

The calculations for the depreciation expense are as followed:

Quarter 1: (771/22) * (4/4) = $35.045 million

Quarter 2: (610/22) * (3/4) = $20.795 million

Quarter 3: (743/22) * (2/4) = $16.886 million

Quarter 4: (931/22) * (1/4) = $10.580 million

The total amount needed to be depreciated is $83.306 million.

Dr. Depreciation Expense	83,306,000	
Cr. Accumulated Depreciation		83,306,000

8. Use your answers to parts 6 and 7 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?

The following amounts are in thousands:

Net Income (currently reported)	2,393,000
Add: Depreciation Expense	83,306
Less: Line Costs	(3,055,000)
Loss Before Taxes	(578,694)
Taxes	202,542
Net Loss	(376,151)

In 2001 the net income was reported at $1.5 billion but should have been reported as a loss of $376,151,568. The difference in net income is material.

Case Seven: Starbucks Corporation

By

Amanda Grace Starrett

Introduction

In the following case, I analyzed several components from Starbucks' financial statements. Every line item has a specific meaning to the operations of a business and accountants need to know how to interpret those items. I dug into several components and explained what that component was pertained to within the business. Through this case, I learned how to build a common-size statement by dividing each line by the net revenues for the income statement and dividing each line by the total assets. A common-size financial statement just shows line items in percentages for easier analysis.

1. What is the nature of Starbucks' business? That is, based on what you know about the company and on the accompanying financial statements, how does Starbucks make money?

Starbucks is both a retailer and wholesaler in the food and beverage industry. The company sells coffee and sandwich items to consumers, and they also sell products for grocery store to resell.

2. What financial statements are commonly prepared for external reporting purposes? What titles does Starbucks give these statements? What does "consolidated" mean?

Typical financial statements include the income statement, balance sheet, statement of cash flows, and statement of retained earnings. Starbucks names their income statement, "statement of earnings" and for their statement of retained earnings, "statement of equity". Consolidated means the financial statements include subsidiaries that Starbucks owns.

3. How often do publicly traded corporations typically prepare financial statements for external reporting purposes?

Public companies need to file quarterly financial statements and year end statements.

4. Who is responsible for the financial statements? Discuss the potential users of the Starbucks financial statements and the type of information they are likely interested in.

Starbucks management is responsible for preparing the company's financial statements. Aside from the Securities and Exchange Commission, investors and potential investors are interested in the statements. They are interested in earnings to see how much the company is making and what are the most profitable sectors. They are also interested in the business's cash flows. That can indicate if a company is using a lot of money to invest in the company, or if they are paying off debts.

5. Who are Starbucks' external auditors? Describe the two "opinion" letters that Starbucks received in 2013. In your own words, what do these opinions mean? Why are both opinions dated several months after Starbucks' year-end?

Starbucks' auditors are Deloitte & Touche LLP in the Seattle where the headquarters for Starbucks is located. Opinion letters are a way for an accounting firm to express whether a company's financials are abiding by accounting standards and are reasonably accurate. The letters also provide a firm to express what measures they took to review the financials and any changes that needed to be made, if any. There are two different letters made by Deloitte; one was an opinion on the actual financial statements Starbucks prepared and the other was an opinion on the internal controls Starbucks has implemented for their preparation of financials. The first letter expresses the financial statements are fairly recorded and in accordance with accounting standards. The other letter indicates that Starbucks' internal control is effective over their financial reporting. The opinions are dated after the year-end because it takes time to conduct an audit, especially for a large company. This time is taken into consideration and that is why corporations have a grace period before they must file their financial statements.

6. Use a spreadsheet to construct a common-size income statement and balance sheet for 2013 and 2012.

Below Table 7-1 indicates an income statement and Table 7-2 indicates a balance sheet.

Table 7-1: Consolidated Statement of Earnings

Consolidated Statements Of Earnings (USD $)	12 Months Ended				
In Millions, except Per Share data, unless otherwise specified	**Sep. 29, 2013**	**Sep. 30, 2012**	**Oct. 02, 2011**	**2013 common-size**	**2012 common-size**
Net revenues:	‘	‘	‘		
Company-operated stores	$11,793	$10,535	$9,632	79%	79%
Licensed stores	1,361	1,210	1,008	9%	9%
CPG, foodservice and other	1,739	1,555	1,061	12%	12%
Total net revenues	14,892	13,300	11,700	100%	100%
Cost of sales including occupancy costs	6,382	5,813	4,916	43%	44%
Store operating expenses	4,286	3,918	3,595	29%	29%
Other operating expenses	457	430	393	3%	3%
Depreciation and amortization expenses	621	550	523	4%	4%
General and administrative expenses	938	801	749	6%	6%
Litigation charge	2,784	0	0	19%	0%
Total operating expenses	15,469	11,513	10,176	104%	87%
Gain on sale of properties	0	0	30	0%	0%
Income from equity investees	251	211	174	2%	2%
Operating income	(325)	1,997	1,729	-2%	15%
Interest income and other, net	124	94	116	1%	1%
Interest expense	(28)	(33)	(33)	0%	0%
Earnings before income taxes	(230)	2,059	1,811	-2%	15%
Income taxes	(239)	674	563	-2%	5%
Net earnings including noncontrolling interests	9	1,385	1,248	0%	10%
Net earnings attributable to noncontrolling interest	1	1	2	0%	0%
Net earnings attributable to Starbucks	$8.30	$1,383.80	$1,245.70	0%	10%
Earnings per share – basic	$0.01	$1.83	$1.66		
Earnings per share – diluted	$0.01	$1.79	$1.62		
Weighted average shares outstanding:	‘	‘	‘		
Basic	749	754	748	749.3	754.4
Diluted	762	773	770	762.3	773
Cash dividends declared per share	$0.89	$0.72	$0.56	$ 0.89	$ 0.72

Table 7-2: Consolidated Balance Sheet

Consolidated Balance Sheet (USD $)	**Sep. 29, 2013**	**Sep. 30, 2012**	2013 Common-size	2012 Common-size
In Millions, unless otherwise specified				
Current assets:	'	'		
Cash and cash equivalents	$ 2,576	$ 1,189	22%	14%
Short-term investments	658	848	6%	10%
Accounts receivable, net	561	486	5%	6%
Inventories	1,111	1,242	10%	15%
Prepaid expenses and other current assets	288	197	2%	2%
Deferred income taxes, net	277	239	2%	3%
Total current assets	5,471	4,200	48%	51%
Long-term investments	58	116	1%	1%
Equity and cost investments	497	460	4%	6%
Property, plant and equipment, net	3,201	2,659	28%	32%
Deferred income taxes, net	967	97	8%	1%
Other assets	185	145	2%	2%
Other intangible assets	275	144	2%	2%
Goodwill	863	399	7%	5%
TOTAL ASSETS	11,517	8,219	100%	100%
Current liabilities:	'	'		
Accounts payable	492	398	4%	5%
Accrued litigation charge	2,784	-	24%	0%
Accrued liabilities	1,269	1,134	11%	14%
Insurance reserves	179	168	2%	2%
Deferred revenue	654	510	6%	6%
Total current liabilities	5,377	2,210	47%	27%
Long-term debt	1,299	550	11%	7%
Other long-term liabilities	358	345	3%	4%
Total liabilities	7,034	3,105	61%	38%
Shareholders' equity:	'	'		
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	0.8	0.7	0%	0%
Additional paid-in capital	282	39	2%	0%
Retained earnings	4130	5046	36%	61%
Accumulated other comprehensive income	67	23	1%	0%
Total shareholders' equity	4480	5109	39%	62%
Noncontrolling interests	2	6	0%	0%
Total equity	4482	5115	39%	62%
TOTAL LIABILITIES AND EQUITY	$11,517	$8,219	100%	100%

7. i. What are Starbucks' major assets? Calculate the proportion of short-term and long-term assets for 2013. Does this seem appropriate for a company such as Starbucks?

Starbucks biggest current assets were Cash and Cash Equivalents and Inventories, while their biggest long-term asset was Property, Plant, and Equipment. Those accounts make sense for Starbucks to have. They sell beverages and have a lot of ingredients to buy, and they buy equipment to make their products, as well as renting or buying store locations.

ii. In general, what are intangible assets? What is goodwill? What specific intangible assets might Starbucks have?

Intangible assets are simply assets that are not physical; Starbucks would probably have copyrights, trademarks, franchises, and goodwill. Goodwill comes when a company buys another business.

iii. How is Starbucks financed? What proportion of total financing comes from non-owners?

Starbucks debt to equity ratio is one and fifty-sevenths, meaning it has been growing with more debt.

8. i. Does Starbucks record revenue when they receive cash from their customers or do they follow a different rubric? How does Starbucks record revenue on stored value cards? What challenges in measuring revenue do you observe?

For the company operated stores, CPG and other revenues, and the store value cards are all accounted on a cash basis. The license operated stores are accounted on an accrual basis. It seems challenging that different stores use different ways to account for revenue.

ii. What are Starbucks' major expenses?

Starbucks biggest expenses are cost of goods sold and store operating expenses. Cost of goods sold will include the supplies they need to make the food and drinks (e.g. coffee beans). Store operating expenses will include the cost of employees' salaries and the cost of rent and utilities. These operating expenses will be the day-to-day costs to run the stores.

iii. Were there any significant changes in the cost structure during the most recent year?

There was a large increase in litigation charges.

iv. In fiscal 2013, Starbucks separately reported a litigation charge and included it in operating income. Why didn't the company just include this amount within the line item for general and administrative expenses? Why is it an operating expense?

If a claim is probable and reasonably estimated, then it needs to be reported. It is not reported under general and administrative expenses because it is a one-time case in 2013, and not a reoccurring claim. This charge came from a payment Starbucks made to Kraft over a distribution dispute.

v. Was the company profitable during 2013? During 2012? Explain your definition of “profitable”.

Starbucks was profitable in both 2012 and 2013. However, 2013 had a significantly lower net income than in 2012. I would still consider any income that is above the break-even point as profitable.

9. i. Compare Starbucks’ net earnings to net cash provided by operating activities and explain the difference.

Different components go into net earnings and net cash. Net earnings is calculated by taking revenues minus expenses. Whereas net cash is a change in assets. The difference for Starbucks’ net earnings to net cash was primarily made by the depreciation/amortization expense and the litigation charge.

ii. How much cash did Starbucks use for expenditures for property, plant and equipment during fiscal 2013?

Starbucks used $1,151.2 million.

iii. What amount of dividends did Starbucks pay during the year? How does this amount compare to the amount of dividends declared as shown in the statement of equity?

Starbucks paid $628.9 million in dividends, and the amount declared was $668.6 million. The difference comes from the journal entries used. For the amount paid, dividends go through a payable account before a company credits cash. When a dividend is declared you credit cash first, which shows up on the statement of equity.

10. Several notes to the financial statements refer to the use of “estimates.” Which accounts on Starbucks’ balance sheet require estimates?

The accounts that would require estimates are accounts receivable, inventories, goodwill, and insurance reserves. There is also estimates used for the depreciation and amortization expense and warranty expenses.

Case Eight: BP Case

By

Amanda Grace Starrett

Introduction

This case centers around the accounting aftermath BP faced after the Deepwater Horizon oil spill in 2010. BP will have significant prolonged costs that need to be dealt with and accounted for. Within the costs there is a sense of uncertainty in how much BP will have to pay. Using this example, I analyzed how companies establish contingent liabilities and how companies establish litigation concerns. I learned in greater detail how much consideration needs to be made when estimating liabilities. There are criteria that must be met for a company to recognize a contingent liability and even deciding where a situation falls under the criteria is not easy to do. While dealing with situations such as oil spill is not something anyone wants to deal with, it (or something like it) could always happen again. I think this is beneficial for me because I do not know what my future will hold and what potential problems I will have to deal with.

1. What is a contingent liability? Explain when a company would record a contingent liability on its books. List some types of contingent liabilities. Do companies ever record contingent assets?

A contingent liability is a future circumstance that may or may not occur. A company should record contingent liabilities if they are probable and reasonably estimated, they would include things like lawsuits or warranty costs. Companies can have a contingent gain, but they are not recorded and are disclosed in the notes.

2. Product warranties are a common contingent liability. Consider a piece of equipment such as a telescopic joint, which BP purchases from GE Oil and Gas.

The telescopic joint compensates for heave and offset on drilling vessels and is sold with a two-year warranty against defects. From BP's perspective as the purchaser of the telescopic joint, what is a product warranty? From the perspective of GE Oil and Gas, the manufacturer of the telescopic joint, what is a warranty?

This is an assurance-type warranty, meaning it is a general warranty that is included with the telescopic joint at the time of purchase. From BP's perspective the warranty is just a part of the cost to purchase a telescopic joint. GE Oil and Gas would expense the warranty in the period the goods are sold and establish a warranty liability based upon the average number of defects from previous years.

3. What judgments does management need to make to account for the contingent liabilities in general and accrued warranty costs in particular? How does a claim for damages resulting from the Deepwater Horizon oil spill differ from a warranty claim on a piece of equipment such as a telescopic joint?

To record a contingent liability, management needs to decide if it is probable and reasonably estimated; however, if a contingent liability is merely reasonably possible then it is only needed to be disclosed in the footnotes. Accrued warranty costs use past sales to determine the likely amount of warranties incurred. However, consideration must be taken for anything that may have affected past defects or may affect the current goods being sold. The claims from the oil spill are generally going to be significantly more expensive than warranty claims. Warranty claims generally have a shorter time span than claims stemmed from the oil spill; warranties are only going to last a set number of years, whereas an oil spill can cause lasting effects making it hard to determine how long there will be claims towards BP.

4. a. Describe some of the estimates that BP must make to account for the contingencies associated with the Deep Horizon oil spill.

One of the estimates is going to come from environmental liability and the cleanup costs. Given the nature of offshore drilling, companies are liable for the removal and cleanup of the rig. In BP's case, they are responsible for cleaning up the gulf and the affects the oil had on the ocean life, along with the fines and penalties from the Environmental Protection Agency. BP also needs to account for the litigation charges they will incur. That includes law suits from businesses affected and lawsuits from employees and families of employees.

b. What industries are likely to sue BP? What would BP be liable for? How do you draw a boundary between what to account for?

The industries that have a direct impact from the oil spill and will sue BP includes commercial fishing, charter boats, and businesses in tourism. BP will be held liable for most claims that come from the industries, but it will also be held liable for claims made from the shareholders. Shareholders claimed the company misled them into thinking BP was financially better off than it was. (Reuters) BP will also be liable for lawsuits from employees and their families regarding deaths and injuries, and any health-related suits from residents near the oil spill. BP is not solely responsible, as it was found that Transocean, Halliburton, and Cameron International may also be legally responsible. (Goguen) A hard line is knowing that BP will probably be held liable, but not being able to estimate how much the courts will find BP liable for. Short term, BP may be able to estimate an amount based on average incomes of the affected businesses and immediate cleanup costs, but in the long run there will be lawsuits for years into the future.

Case Nine: Wendy's Equity Investment

By

Amanda Grace Starrett

Introduction

It is a common occurrence for a company to invest in other companies, typically by buying shares, known as equity investments. There is a potential to make more money than what was investing through dividends or even selling the shares. Through this case I focused on accounting for investments using the equity method by looking at the joint venture between Wendy’s and Tim Hortons Inc. Not only did I analyze the financial statements, but I also utilized the footnotes for more in-depth information on the investment. The footnotes are always a great source for additional information and this case provided me the opportunity to use those more. Since the information in footnotes is not required to be in the financials, there is more detail on specific line items that are helpful for investors or auditors. In the case’s footnotes, I was informed there was another investment in a Japan entity which affected the numbers included in the financials. Going forward, this case is in thousands whenever dollar amounts are indicated and the joint venture between Wendy’s and Tim Hortons Inc. will be referred to as TimWen.

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

Companies enter into joint-venture agreements to try and accomplish the same goal. The idea of a joint venture has both companies sharing profits and losses. Companies can enter a joint venture when they want to enter certain markets, but do not have the resources or knowledge to do so (Hall).

2. Consistent with US GAAP, Wendy’s use 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.

When companies hold between twenty percent and fifty percent of interest in another company, they account for that using the equity method. According to *Intermediate Accounting*, “under the equity method, the investor and the investee acknowledge a substantive economic relationship”. The investor accounts for their share of income every period along with adjustments made for amortization and depreciation. Examples of the entries a company would make are as follows:

To record acquisition	Dr. Equity Investment Cr. Cash
To record share of income	Dr. Equity Investment Cr. Equity Income
To record dividends	Dr. Cash Cr. Equity Investment
To record excess amortization and/or depreciation	Dr. Equity Income Cr. Equity Investment

3. 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?

Under the equity method, the amount the investor paid is “split” into what the investee has on their books (the net value) and the acquisition accounting premium (the excess amount). The acquisition accounting premium is comprised of two parts, goodwill and assets and liabilities to be written up to fair value. Goodwill is tested annually for impairments and are adjusted accordingly. The investor never has the investee’s assets on their records; however, the investor needs to account for the depreciation of those assets as it affects their investment. Every year the investor makes a charge to an equity investment account to record amortization and depreciation.

4. 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?

Wendy's included their investment in TimWen under "investments" on the balance sheet, and reported $89,370 and $91,742 in 2012 and 2011, respectively. Wendy's investment in Japan was included under "other liabilities" in 2012 and "investments" in 2011. Wendy's reported negative $1,750 and $77 in 2012 and 2011, respectively.

5. 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?

Tim Horton's financials recorded $70,565 under partner's equity. Wendy's accounted for $89,370 as their joint venture with Tim Horton. Wendy's has fifty percent ownership, so part of the $89,370 is $35,283 (fifty percent of $70,565). The remaining amount is an excess of $54,088.

6. 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?

Wendy's includes their investment in Tim Horton under "other operating expense, net" because it is a strategic investment meaning it is in the operating section. In 2012 and

2011 Wendy's share for net earnings from TimWen were $10,551 and $10,571, respectively.

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.

The amount of amortization of the purchase price adjustments is a part of the write up to fair value. In 2012, the amortization decreased the overall equity earned by $3,129.

Dr.	Equity Income	3,129	
Cr.	Equity Investment		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.

In 2012 and 2011, Wendy's received $15,274 and $14,942, respectively, in dividends.

Dr.	Cash	15,274	
Cr.	Equity Investment		15,274

7. 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.

The amount on the statement of cash flows indicates $8,724 because it is the net investment earnings from TimWen and the Japan investment. TimWen had equity earnings of $10,551, while the Japan investment has a loss of $1,750. The net investment is reported as a negative amount on the statement of cashflows because the company has not received cash. When Wendy's report their share of income, they debit Equity Investment and credit Equity Income.

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.

The amount recorded in the statement of cash flows is the same amount recorded in Note 8. With the equity method Wendy's records dividends received by debiting Cash and crediting Equity Investment. Since they are receiving cash, it is a positive adjustment on the statement of cash flows.

Case Ten: Johnson & Johnson

By

Amanda Grace Starrett

Introduction

When people think about accounting, they usually think about filing taxes. That is an aspect of accounting all people and even companies should think about, but it is not the only thing the average person should know about. In life people should have a basic understanding for accounting to track their spending, plan budgets, and in general plan for their future. While planning for the future, people should think about their pensions and the plans they have for themselves. Different pension plans have different rules regarding when money can be accessed and can impose fines if the rules are violated. However, pension planning is not just for individuals, it is something that companies need to greatly consider. For a company, accounting for pension plans becomes complicated because long term there are considerations for employees' lifespans. This case explains how pension plans work and dives into every aspect of a pension plan. The case has helped me understand all the aspects that go into a pension plan and a lot of which are estimates about the employees. One day I will have my own retirement fund to consider and I think knowing how the entire process works will make it easier for me later in life to make decisions.

1. There are two general types of retirement plans—defined benefit pans and defined contribution plans.

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

With a defined benefit plan the employer tells their employees what their benefits will be when they retire. In a defined contribution plan, the employer takes a percentage out of the employees' paycheck and puts it into a pension fund. Johnson & Johnson has a defined contribution plan. Johnson & Johnson has a defined benefit plan for their retirees.

ii. Explain why retirement plan obligations are liabilities.

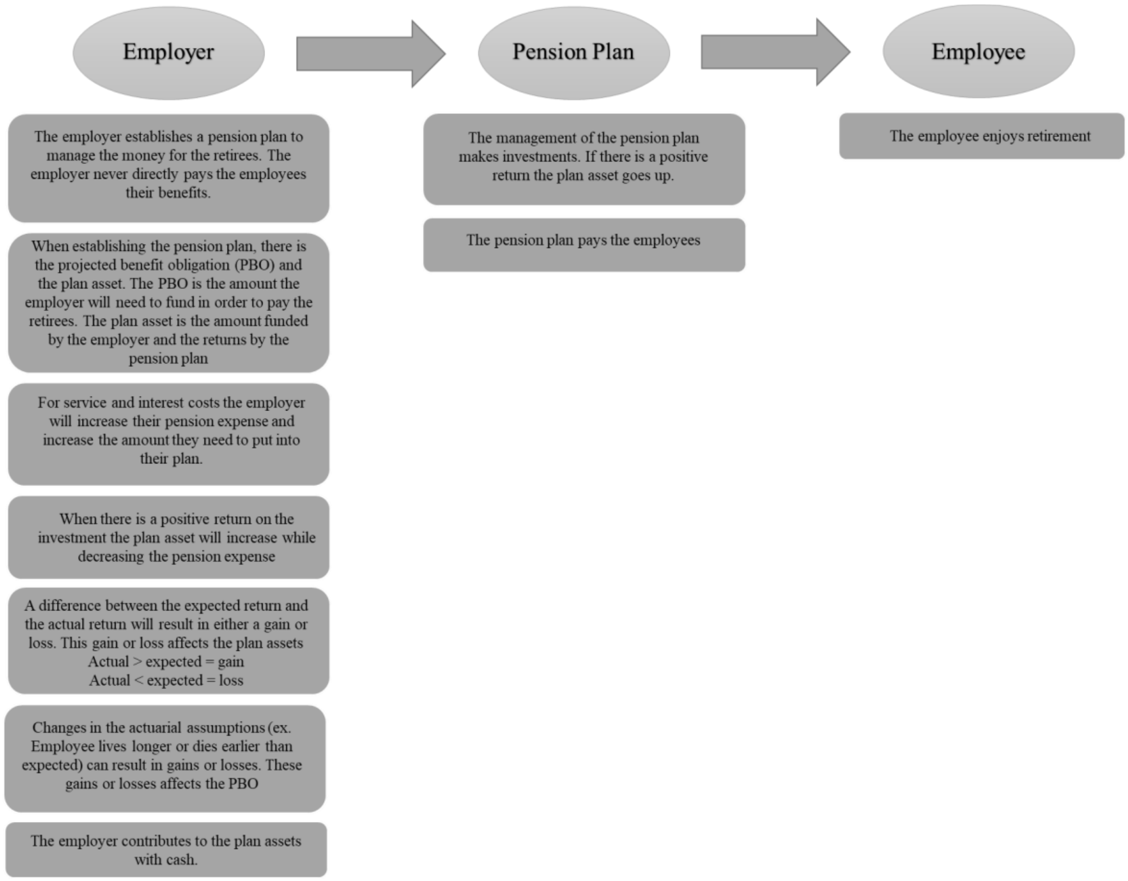

Figure 10-1: Pension Flow Chart

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

When estimating the amount an employer will pay in retirement plans a company needs to assume the expected return from investments. There are also considerations on what the employees' salary amounts will be when they retire, and how long the employees will live.

2. 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.

The service cost is the additional cost the company will incur for every year an employee works past their projected retirement. Interest costs are determined by the beginning balance of the projected benefit obligation (PBO) and the settlement rate for each period. Actuarial gains and losses can be determined in either a dramatic change in PBO or differences in the expected return and actual return. The benefits paid to retirees decreases the PBO as there is no longer an obligation to pay that amount. The amount paid is based off the formula the company established to pay the employees.

3. 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.

The actual return is determined by the difference of the ending and beginning amounts of the plan assets and deducting the difference of the contributions made by the company and the benefits paid to the retirees. The company makes contributions to the plan, increasing the plan asset. The benefits paid to the retirees comes out of the plan asset.

4. 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 return on asset increases the plan asset and decreases the pension expense because it is reducing the amount the company will need to put into the plan asset. The pension expense also uses the expected return to reduce market-induced volatility in the income statement.

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

Johnson & Johnson reported $646 million for pension expense.

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

The entry to record service cost (in millions of dollars) for 2007 is:

Dr.	Pension Expense	597	
Cr.	Projected Benefit Obligation (PBO)		597

The entry to record interest cost (in millions of dollars) for 2007 is:

Dr.	Pension Expense	656	
Cr.	PBO		656

6. i. 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?

On December 31, 2007 the company had $12,002 million in the retirement plan obligation. This value represents the liability that Johnson & Johnson has to its employees. This number is an estimate but is based on several factors and can be reliable.

ii. 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

The interest cost is $656 million for 2007. The average interest rate is 5.62 percent. Calculated by first taking the beginning PBO value plus the new prior service cost amendment ($11,660 and $14). Then take the interest cost divided by the total PBO to compute the interest rate ($656 / $11,674). This rate seems reasonable as the interest rate is in the same range as the domestic and international rates within the years 2005-2007.

iii. 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?

Retirees were paid $481 million during 2007, and this amount was not paid as cash by Johnson & Johnson. The money was paid through the retirement plan and no cash was directly from Johnson & Johnson. The benefits decrease both the PBO and the plan asset.

7. i. What is the value at December 31, 2007, of the retirement plan assets held by Johnson & Johnson's retirement plan? What "value" is this?

At the end of 2007 the value of the plan assets is $10,469 million. This value is how much is currently in the pension fund. The PBO at the end of 2007 is greater than the plan assets, meaning the plan is underfunded.

ii. 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 actual return in 2007 and 2006 is $743 and $966 million, respectively. The estimated return in 2007 and 2006 is $809 and $701 million, respectively. These differences are significant, in 2006 the return was $265 million underestimated and in 2007 the return was $66 million overestimated. I feel the 2007 estimate better reflects the economy. In 2006 they had too much of an underestimate.

iii. How much did Johnson & Johnson and their employees contribute to the retirement plan during 2007? How does that compare to contributions in 2006?

Johnson & Johnson paid $317 million and their employees contributed $62 million. Both increased from 2006.

iv. What types of investments are in Johnson & Johnson's retirement plan assets?

Johnson & Johnson has debt and equity securities.

8. 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?

In both 2007 and 2006, the retirement plan was under funded. In note 13, the company has a balance of $12,002 million and $10,469 for the PBO and plan asset, respectively. Below is a line called “funded status at—end of year” indicating the plan is under funded by $1,533 million.

Case Eleven: Balance Sheet-Based Model

By

Amanda Grace Starrett

Introduction

For this case I read "On the Balance Sheet-Based Model of Financial Reporting", by the Center for Excellence in Accounting and Security Analysis. The article goes into great detail on the differences between the balance sheet approach and the income statement approach of financial accounting. While the result of the article offers solutions to the current balance sheet method, the article establishes a clear favoritism to the income statement approach. This article has opened my eyes to opinions I previously never thought about, despite having differing opinions than what the article presents as superior. In this case, I summarized the article, then I wrote about the views I established because of it, and finally how this article may help me in my future career.

A. Summary

The article started by looking at two approaches to financial accounting, income statement and balance sheet, throughout history. The income statement approach views "the determination of revenues, expenses, and especially earnings, as the primary goal of financial reporting", whereas the balance sheet approach regards assets and liabilities as the primary goal. The income statement was the dominant way of accounting until the mid-1970s when the Financial Accounting Standards Board (FASB) established the balance sheet approach as the standard. In 2006, FASB released a document called Preliminary Views summarizing the board's view on the Conceptual Framework. The Preliminary Views emphasized the use of the balance sheet approach. The article then moves onto the four critiques it has about the balance sheet approach, comparing it heavily to the income sheet approach. The first critique is that the balance sheet approach does not match how businesses run; businesses run with their focus on revenues and expenses and not their assets. The article points out that a business invests in assets only in hopes to generate revenues, making it useful in only specific settings. For the most part, within the first critique the article claims the income statement approach is the "natural foundation for financial reporting."

In the second critique, the article suggests the balance sheet approach is unclear since assets can be difficult to put in useful terms. Whereas, the article expresses that the "income concept is universal" and is a better approach. The third assessment claims the balance sheet method is deteriorating the value of earnings because it uses market values which have unforeseeable changes. The last evaluation is the balance sheet approach feeds into every market by putting too much weight on the market value. It claims companies should be using "real economy wealth" to reflect their real activities. While the article provides their opinions on why the income approach is better suited throughout their critiques, it concludes with a better solution to the current model of financial reporting.

The article suggests redefining operating and financing activities. From what I interpreted, it suggests operating activities should now encompass the current "operating" and "investing" activities, indicating now there should only be two classifications. While the article suggests a divide between operating and financing activities, it notes there will be controversy and makes clear a distinction is the important part. With the distinction of the activities, the article suggests there needs to be two different stated earnings from each. It also suggest the need to separate the assets of a company into the newly defined operating and financing activities. The next major correction is to renew the emphasis on the matching principle, providing a clearer definition that follows the "economic logic of the business." The matching principle aligns with the income statement approach and according to the article should be "the cornerstone of financial reporting."

B. How did this article change your way of thinking?

Initially I had never given much thought to the type of approach used in the accounting standards as I just accepted what I was taught. Now I have given much thought to both approaches as discussed in the article. At first while reading the article I was being convinced that logically the income statement was the best option and their solution would be much better than the established balance sheet approach. After reading the entire article and taking what I know about accounting, I do not completely agree with what the article presents as a solution. Overall the article strongly indicates the income statement is supreme and while that is still a debate to have, I do not believe all their established flaws with the balance sheet approach. In the first section of critique, the article suggests that managers look through the assets for the cost to acquire it and the return that it will have, which is nearly always the case. However, the article also suggests that managers do not see the assets as the reason for added value, indicating the income statement as the smarter choice. I do not believe that to be necessarily true; the assets are the only reason for the added revenues. For example, if a company expands and establishes a new store the managers sees it as future revenues stemming from the new location. I agree that investors' first consideration is what is the net income that is stated on the income statement; however, I do not agree that the balance sheet approach is, "largely silent about the notions of business model and business performance." While the income statement reflects the daily operations, it is largely affected by what is happening on the balance sheet. Back to the example of establishing a new store, the net income may be significantly different (whether that is up or down) than previous years, and an investor would be able to tell why based off the balance sheet and the “assets” put into the new store. Another example being if you sold a line of business, the income statement would indicate a large increase or decrease in revenues that would be unexplained without the balance sheet. Both approaches give meaning to investors; however, I feel the balance sheet is more important than the article suggests.

Regarding the other sections of critique, the article indicates calculating the value of assets is more difficult than the concept of income. While I see the reasoning that income can be more straightforward, the article lists the flaws that come with calculating income in a long-term setting. To me that indicates both approaches have flaws and that the established approach is perfectly fine since the “better” approach is also problematic. The third and forth judgements seem to go hand in hand for the use of market values on assets. The article says, “earnings could tell you less and less about future earnings” which I found interesting as I never thought about this before. In my head, I envision the suggested real values that “should be used” instead of the market values establishing a harder time in comparing companies. The idea of market values is how society views assets that are alike and to be similar in value to each other. If companies chose “real values” that would be different for every company and there would be no way to compare them.

Within their proposed solution, I appreciate the article wanting change to the established balance sheet approach without outright saying to switch to the income statement approach. The idea of combining the current operating and investing activities to me seems strange. The idea of having two income values does seem useful and more transparent from the viewpoint of investors; however, I personally question why one would not want the extra identifier between operating and investing activities? I agree with the second part of their solution that there should be a more defined establishment on the matching principle and revenue recognition.

C. How will you use this information in your future career?

At the end of the day, I will have to follow the FASB guidelines on such matters. I think it is important to know the different approaches because the standards could always change and maybe one day the FASB decides the income statement approach is the way of financial accounting. It has also given me more insight into why accountants do certain things when it comes to accounting. I think this article is most helpful in establishing my own opinions on the approaches; I would have never thought to think about the differences in such detail if it were not for this article.

Case Twelve: Google Inc.—Earnings Announcements and Information Environment

By

Amanda Grace Starrett

Introduction

Within this case I read “Non-GAAP Performance Measures: Virtue of Vice?” by Allan Afterman. I then read a press release made about Google’s income for 2013, along with analyzing graphs evaluating Google’s Stock price. The article explains a few rules on how non-GAAP financials must be presented to the public. It is required that companies provide explanation as to why the non-GAAP measure is useful and why the managers used it. According to the article, “Item 10(e) expressly prohibits eliminating or smoothing items identified as ‘non-recurring,’ ‘infrequent,’ or ‘unusual’” when a similar event has occurred in the past two years or is likely to occur again in the next two years. The article also provides some history of non-GAAP and why companies would choose to include it, along with the cons of non-GAAP. Non-GAAP is not comparable with other companies as it is dependent on the discretion of each company of how they account for it, but some argue that the reported amounts are better indicators of future earnings. One of the most included non-GAAP among companies is earnings before interest, taxes, depreciation, and amortization (EBITDA).

Reading this article has given me insight into how non-GAAP measures are widely used in some form, even with the critiques about using them. Examining this article while looking at Google’s calculations for non-GAAP measures make me understand their reasoning beyond what is stated in their press release. Google claimed in the press release excerpts, “we use non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity …”. The other focus in this case is on the connection between earnings for a period and the affect it has on a company's stock price. Earnings are extremely important to investors and it makes sense that stock prices fluctuate based on a company's performance; however, a company's projected earnings are also a large factor. After the company releases their financial statements, press releases come out comparing the estimated and actual earnings. It is important in my future career to really pay attention to releases about my clients, to see what is affecting them. I also think it is important as a person who might choose to invest in stocks to stay up to date and understand what is going on within the financials (both GAAP and non-GAAP) of a company.

1. 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 made adjustments to eliminate stock-based compensation expense and all income tax effects related to it, to eliminate restructuring charges and all income tax effects related to it, and to eliminate net loss from discontinued operations. I agree with all of Google's adjustments as they all correlate to the article by Afterman on the most frequent adjustments for EBITDA. As for the net loss, I also find it acceptable. As previously stated, eliminating non-recurring items is not allowed, but only if it had happened in the prior two years or will happen again in the future two years, and Google made no indication this was more than a one-time event.

2. i. Compare Google's fiscal 2013 earnings performance with the movement in Google's stock price over 2013.

As mentioned in the introduction, stock prices are affected by a company's released earnings and revenues during the period. The chart indicates that in the first and second quarter the earnings must have been similar to the projected earnings. While the third and fourth quarters must have had larger earnings and/or revenue as their stock price significantly increased.

ii. 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).

For most of 2013, Google had higher stock prices than the average company on the NASDAQ exchange. Up until the third quarter, Google followed (while at a higher price) the same pattern as the NASDAQ index. The large spike for the third quarter caused more of a difference between the index and Google.

iii. 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.

The market perceived the press release as good news. There was a large spike right after the release, followed by a decrease before climbing back up. While the earnings per share were not as high as projected, there was only a difference of 19 cents. The small decrease right after the large spike was not very significant and quickly came back up to surpass the jump in stock price.

3. 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 fourth quarter revenues were higher than expected by $100 million; however, their earnings, while still higher than the previous year, were lower than the analysts' predictions. Google's non-GAAP earnings were $12.01 a share, whereas it was projected at $12.20 a share. These are consistent with the stock market reaction. The revenues beating the estimate had a role in the spike for Google's stock price. Although their earnings were higher than the previous year, the slight decrease in stock price most likely came from the fact earnings per share was just shy of the predicted earnings.

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?

Investors may be concerned with the fact the click per ad is decreasing due to mobile ads. Google gets paid less for mobile ads than they do on larger devices; however, Google is addressing this problem by changing the way ads are displayed on mobile devices. With the change, Google can raise their advertising prices without decreasing their advertiser's return on investment. While Google is addressing mobile ads and it is not currently affecting advertisers' investment, it could be something that causes more concern later on. Another factor is the successful, "other" revenue coming from purchases in the Google Play Store.

Bibliography

“25 Most Dangerous Cities in America.” *USA Today*, Gannett Satellite Information Network, 17 Oct. 2018, www.usatoday.com/picturegallery/travel/experience/america/2018/10/17/25-most-dangerous-cities-america/1669467002/.

“Amenities.” *The Knolls*, www.theknollsnashville.com/amenities/.

Areavibes. “Nashville, TN Crime.” *AreaVibes - The Best Places To Live*, www.areavibes.com/nashville-tn/crime/.

Data, US Climate. “Climate Nashville - Tennessee.” *U.S. Climate Data*, www.usclimatedata.com/climate/nashville/tennessee/united-states/ustn0357.

Data, US Climate. “Climate St. Louis - Missouri.” *U.S. Climate Data*, www.usclimatedata.com/climate/lake-saint-louis/missouri/united-states/usmo1692.

“Domo.” *Connecting Your Data, Systems & People*, www.domo.com/.

Financial Accounting Standards Board (FASB). 2016. *Financial instruments – Credit losses (Topic 326). FASB Accounting Standards Update No. 2016-13.* Norwalk, CT: FASB

Goguen, David, and J.d. “BP Oil Spill Lawsuits and Legal Issues.” Www.nolo.com, Nolo, 31 Dec. 2015, www.nolo.com/legal-encyclopedia/bp-oil-spill-lawsuits-legal-33442.html.

Hall, Mary. “What Are the Primary Advantages of Forming a Joint Venture?” Investopedia, Investopedia, 12 Mar. 2019, www.investopedia.com/ask/answers/033115/what-are-primary-advantages-forming-joint-venture.asp.

Kieso, Donald E., et al. *Intermediate Accounting*. 16th ed., Wiley Custom Learning

Solutions, 2016.

“Park Terrace Apartments - Fairview Heights, IL.” *Apartments.com*, 8 Nov. 2018, www.apartments.com/park-terrace-fairview-heights-il/l5xljyg/.

“Partner: Play Like a Girl!” *Hands On Nashville*, www.hon.org/organization/0011200001HXmd2AAD?layoutViewMode=tablet.

Reuters. “BP Will Pay $175M To Settle Shareholder Lawsuit Over Gulf of Mexico Oil Spill.” Fortune, fortune.com/2016/06/03/bp-oil-spill-lawsuit-settlement/.

“Straight Talk: Review of DOMO; The Pros and Cons.” *Yurbi*, 11 Feb. 2018, www.yurbi.com/blog/straight-talk-review-of-domo-the-pros-and-cons/.

“Tennessee Income Tax Calculator.” *SmartAsset*, SmartAsset, smartasset.com/taxes/tennessee-tax-calculator#zTDNoQNkYg.