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## Case Studies on Special Topics in Accounting

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CASE STUDIES ON SPECIAL TOPICS IN ACCOUNTING

By  
Anna Stephens

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

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First Reader: Dean Mark Wilder

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## ACKNOWLEDGEMENTS

To my wonderful parents, Bill and Anita Stephens, thank you for your investment in my future career and for showing me that accountants can have a personality

To the incredible Accounting Department at Ole Miss, especially Dean Wilder and Dr. Dickinson, for dedicating time and energy to help me carve my own path in the accounting world without losing my mathematics background.

## ABSTRACT

ANNA STEPHENS: Case Studies on Special Topics in Accounting  
(Under the Direction of Dr. Victoria Dickinson)

This thesis is a collection of twelve different case studies that investigate various accounting concepts and financial issues. During the fall of 2019 and the spring of 2020, I compiled my thesis under the direction and guidance of Dr. Dickinson. The cases cover a variety of topics that include personal opinions on world-wide financial topics, interviews of current professionals in the field, and analyses of different scenarios. Each case study is independent of one another, but together they demonstrate a comprehensive understanding of the accounting curriculum. These cases further developed my technical skills and enhanced my understanding of accounting concepts learned throughout my different accounting courses.

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**CASE 1: CITY SELECTION CASE**

September 2019

## INTRODUCTION

The City Selection Case is about choosing two cities that I see myself potentially starting my career in. Then I will evaluate both of those cities on taxes, cost of living, and commute times related to an estimated starting salary. After evaluating the cities, I will then choose which city makes the most sense to start my accounting career in. I will be evaluating the costs and the benefits of each place. I will be looking at the prevalent industries and major companies of each city. I will also be comparing the climates and the tax rates. With each city I will find a place to live and estimate my commute times to work. I will create a monthly budget for the two cities based on rent, groceries, and other expenses. The money I have left will be the money I can use for experiencing the city. The two cities I have chosen are Memphis, TN and Nashville, TN.

I chose the city of Nashville because I was born and raised in the Nashville area. I have watched it grow and change into a vibrant city, and I would love to live there one day. Through my research and prior experience of living there, I know that it's also a great place to raise a family with great schools. It also has a lot of healthcare which is an industry that I am interested in. Nashville offers a lot of things to do and the crime is fairly low for a city. However, the rent is very high so I would be left with minimal money to use fun activities.

I also chose the city of Memphis because the rent in Nashville can be very high. Memphis is an affordable city to live in and still offers all the conveniences of a larger city without the high price tag. The crime rates are higher in Memphis, but it's similar to any other city. I had always been opposed to moving to Memphis but after doing some research it would be a great city to start my career in. I could save money and I would



only be about three hours from home. I'm not sure it is where I would like to stay but I think it's an excellent place to start out.

## CASE 1

- 1-1 What is the population?
- 1-2 Describe the climate and seasonal fluctuations. Are you accustomed to living in this weather? If not, describe some challenges from this climate.
- 1-3 Describe the city's topography, scenery, and other geographic or geological features of the area in which the city is located.
- 1-4 What are the individual tax rates within the city? Consider federal, state, and local income tax, property tax, and any other taxes you'd be likely to pay. Quantify what this means based on a starting salary of approximately \$55,000 per year.
- 1-5 What transportation hubs are in the city?
- 1-6 What are the city's most prevalent industries? What are the city's five largest companies?
- 1-7 Describe the quality of the city's healthcare. Describe the quality of the city's school districts. Would your children attend public or private school?
- 1-8 What types of crime are common within the city and where are the locations within the city to avoid?
- 1-9 Based on where you see yourself living for the first three years, how much rent do you expect to pay? Back up this assertion with sample properties from each location. Describe the square footage, amenities, need for a roommate, availability of parking, etc.
- 1-10 What is the typical mode of commuting? Based on your answers identified in the prior question, what are your likely commuting times?
- 1-11 Where will you do your grocery shopping?

- 1-12 How will you do your laundry?
- 1-13 Name at least three civic, religious, or charitable organizations you would like to be active in for each city.
- 1-14 What are the sports, entertainment, or recreational activities that you would be most likely to engage in within the city?
- 1-15 What are the modes of traveling back to your hometown from this city? What is the average cost you'd incur for each trip back home? How long will it take you to reach your home?
- 1-16 Based on your findings, develop a model monthly operating budget for each city for Year 2 assuming that with bonuses for being a high performer, your annual salary is \$60,000.
- 1-17 Determine which city you prefer and why.

- 1-1 The population of Memphis is 650,618 according to the US Census Bureau. The population of Nashville is 669,053. These are both great sized cities for me because it gives me the big city feel without being too overwhelming and crowded like New York, Chicago, or Dallas.
- 1-2 The climate of Memphis is fairly mild. It has all four seasons and the highs in the summer are low 90s, and the lows in the winter are low 30s. The city of Nashville has a similar climate. It also has all four seasons and the highs in summer are typically around 89 degrees, and the lows in winter are around 28 degrees. Since I am from Nashville, TN, I am fairly accustomed to living in this type of climate. I also went to school in Mississippi, so I have gotten used to the heat and humidity of summer in the south. Participation throughout the year of both of these cities is fairly consistent with the wettest months being around late spring.
- 1-3 The city of Memphis is located on the east bank of the Mississippi River. The elevation is fairly flat. Nashville is also located on a river. It is located on the Cumberland River. The surrounding area of Nashville has lots of hills so it is a beautiful landscape. I don't really have a preference about the topography.



<https://www.educationpioneers.org/where-we-work/locations/memphis>



<https://www.policingproject.org/nashville>

1-4 The property tax rates within the city of Memphis are approximately \$3.2714 per \$100 assessed value. The property tax rates within the city of Nashville are \$2.755 per \$100 of assed value. At the moment property taxes will not affect because I am looking to rent, but it is good to note for the future. Nashville and Memphis have the same sales tax of 9.25. There is no state income tax for Tennessee which is extremely favorable. Therefore, the two cities will have very similar taxes when looking at the federal taxes only.<sup>1</sup>

	Memphis		Nashville	
City Taxes:				
Property Tax	3.27%		2.75%	
State Taxes:				
Income Tax	None		None	
Federal Taxes:				
Federal Tax	11.27%	\$6,198.50	11.27%	\$6,198.50
FICA	7.65%	\$4,207.50	7.65%	\$4,207.50
Income After Taxes				
	\$44,594.00		\$44,594.00	

<sup>1</sup> <https://smartasset.com/taxes/tennessee-paycheck-calculator>

- 1-5 The Nashville International Airport is located less than 15 minutes outside of the city. This airport is a huge hub and offers many flights all over the country daily. The Memphis International Airport is located only 15 minutes south of the center of the city. Both of these cities have a great airport set up, which makes catching flights fairly easy. I love to travel so I know that being close to a major airport with a lot of flight options is important to me.
- 1-6 The most prevalent industries in Memphis are transportation, distribution, and logistics, manufacturing, agriculture, and medical devices. The most well-known company in Memphis is FedEx. The other top companies are International Paper, AutoZone, ServiceMaster, and St. Jude Children's Research Hospital. The most prevalent industries in Nashville are healthcare, finance, higher education, music production, printing and publishing, and many others. The five largest companies are Vanderbilt University Medical Center, Nissan, HCA Healthcare Inc., Saint Thomas Health, and Envision Healthcare. I am interested in the healthcare industry so that is a huge draw to Nashville.
- 1-7 The healthcare in Nashville is great. There are so many hospitals such as Vanderbilt and St. Thomas. Also the school systems in the surrounding suburb of Brentwood are very good. I would have my kids in public school through elementary and then in middle or high school I will have them switch to a private school. This is similar to what I did, and I believe the private schools in Nashville and Brentwood provide excellent preparation for college. Nashville and the surrounding area are an overall great place to raise a family. Memphis also has a

decent amount of hospitals like Baptist Memorial Hospital and St. Jude. I think if I lived in Memphis I would want to live in a suburb like Germantown where it's very family oriented. I would probably have my kids go to a private school if I could afford it as I know it leads to great college prep.

- 1-8 Memphis is known for having a much higher crime rate than Nashville. There are a lot of property crime, theft, and burglary. The violent crimes in Memphis are also very high. The five worst neighborhoods<sup>2</sup> are Shelby Forest-Fraser, Parkway Village-Oakhaven, Downtown, White Haven-Coro Lake, and Berclair-Highland Heights. Theft is the most common crime in Nashville. Burglary and assault are next on the list. East Nashville is an area that should be avoided. I have always thought of Memphis as being unsafe, but as long as you stay in a good area and maintain good street smarts it's no different than Nashville.
- 1-9 I see myself living in an apartment for the first few years that I am working. The range of rent is between \$500 and \$800. I can rent a two-bedroom, 982 square foot apartment just outside of the city for about \$850 total. If I got a roommate, then that would only be \$425 per month. I feel like this is a reasonable amount to pay.

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<sup>2</sup> <https://www.roadsnacks.net/worst-neighborhoods-in-memphis-tn/>

2 Bedrooms, 2 Bathrooms - The Marigold

\$841 - 1,045 | 982 Sq Ft



<https://www.apartments.com/waterview-memphis-tn/ybrgbfv/>

An apartment in Nashville is much more expensive and the range is approximately \$900 and \$2,000 per month. I found a listing for a two-bedroom, 1,400 square foot apartment for \$2,150. The address is 205 31<sup>st</sup> Ave N, Nashville, TN 37203. Each room can be rented separately for \$1,250 per month. Therefore, I would definitely get a roommate to help offset the cost. That's a lot of money to pay for each month. I really hate paying that much each month.

**Zillow** Save Share More

**\$2,150/mo** 2 bd | 2 ba | 1,400 sqft  
205 31st Ave N, Nashville, TN 37203  
Apartment for rent

Apply now Request a tour

**Overview**

Days listed	Contacts	Applications
1	1	0

Fantastic corner unit with open floor plan. Furnished and ready to move in. Cozy living space with TV and gas fireplace. Rooms can be rent separately for \$1250/month per room. Each bedroom has own bath. Spacious balcony. Super convenient to I-440, Vanderbilt University, Centennial Park, Downtown Nashville, West End Ave Restaurants and Shopping. Secure Parking and building entry.

Owner pays for water and HOA

[https://www.zillow.com/homedetails/205-31st-Ave-N-Nashville-TN-37203/81086411\\_zpid/](https://www.zillow.com/homedetails/205-31st-Ave-N-Nashville-TN-37203/81086411_zpid/)



- 1-10 The typical mode of commuting for Nashville is to drive. From the apartment I found in Nashville the commute would be around 10 minutes. It is only 10 minutes from the downtown area. I will also drive if I live in Memphis as well. Driving means that I can be on my own time frame come and go when I need to. The apartment I found would be less than 10 minutes from the offices of Deloitte and EY. A short commute would be ideal. Both of these living locations provide great commute times.
- 1-11 In Memphis I would go to whatever grocery store was closest. I'm not picky about where I buy my food so I wouldn't have a specific place. I'd go to Kroger or the local grocery in my area. In the apartment I found in Nashville, there is a Piggly Wiggly close by. I'll simply go to wherever is most convenient
- 1-12 It is important to me to have a laundry machine in my apartment. Therefore, wherever I live I will want to have an in unit washer and dryer. If I absolutely had to I would use a coin operated laundry mat. I believe finding an apartment with a laundry machine and dryer will be possible in either city.
- 1-13 I would like to be involved in a Catholic Church so Saint Louis Church would be my go to if I lived in Memphis. Since St. Jude's Children's Research Hospital is located in Memphis I would like to be involved in that organization as well. I would also love to coach a recreational basketball or soccer team. I can do this through any YMCA in either Memphis or Nashville. If I lived in Nashville, I would probably take the time to go to church with my family which would be at Holy Family Catholic Church. I would also get involved in Graceworks which is a

charity organization similar to Goodwill. I think both cities will provide ample opportunities to serve and be involved.

- 1-14 If I lived in Memphis, I would want to go to NBA basketball games and watch the Memphis Grizzlies play. I would also probably make a trip or two to Oxford for an Ole Miss football game since it's only an hour away. I know Memphis has a great barbeque scene so I'd like to try as many places as I could. Since Memphis is the "Home of the Blues" and "Birthplace of Rock and Roll" I would definitely have to visit Beale Street and other concert venues. I also just started doing CrossFit, so I would join a local gym to meet people and stay in shape. I'm a huge hockey fan, so if I lived in Nashville I would want to go to as many Predator games as I could. I would also go to Titans games or any other professional sporting event. I would also spend some weekend nights on Broadway listening to live bands at different country music stars' bars. I also really enjoy trying new restaurants and Nashville always has new food scenes popping up. I would also join a local CrossFit gym here, because the workouts are sometimes the highlight of my day. I would also visit short hiking trails like Radnor Lake and Percy Warner Park. There are so many different things to do in Nashville, so I don't think I would ever be bored.
- 1-15 My parents live in Brentwood, TN, which is 20-25 minutes south of Nashville. Therefore, going back to my hometown would be a short trip and not cost a lot of money if I lived in Nashville. I would probably only use a quarter of a tank of gas. This would only cost me about \$8. If I lived in Memphis, I would need to plan a little more as it would require a three-hour drive to get home to visit my parents. I

would probably use about a tank and a half of gas to get to Brentwood and then back to Nashville. This would cost me about \$45. A trip to visit my parents is priceless, although I'm thankful it would be fairly cheap.

1-16 After taxes my income would be about \$48,600 per year. Therefore, my monthly income would be \$4,050 per month. Based on an estimate costs, I will have the remainder of the money to put toward fun thing like going to sporting events, eating out at restaurants, or saving for future travels.

	Memphis	Nashville
Monthly Income after Taxes	\$4,050.00	\$4,050.00
Savings	\$(500.00)	\$(500.00)
Rent	\$(425.00)	\$(1,250.00)
Electricity	\$(200.00)	\$(200.00)
Groceries	\$(800.00)	\$(800.00)
Gas	\$(100.00)	\$(100.00)
	<u>\$2,025.00</u>	<u>\$1,200.00</u>

1-17 While I was born and raised in Nashville, TN, I believe the best city for me to start out in is Memphis, TN. It offers me all of the benefits of Nashville with half the cost of living. I would hate paying over \$1,000 is rent. After doing some research I feel like Memphis is a great place to start my career. I would really like to be able to travel some so by saving around \$800 of rent a month, I can make that happen. I would probably look to move back to Nashville when I'm older and ready to start a family, but at the moment I think Memphis gives me everything I need to start out.

**CASE 2: EXCEL CRASH COURSE**

September 2019

## INTRODUCTION

In this case we had the opportunity to participate in an Excel Crash Course. The course we completed was from the Corporate Finance Institute. Through this program we watched videos about basic excel functions and also completed assignments to learn shortcuts on the keyboard. This will be an important skill for the workplace. Almost every corporate job utilizes excel in some fashion. Therefore, it is important to learn how to be as efficient while using it as possible. Having this certification will help me tremendously in my future accounting career. It was interesting to learn about shortcuts on the keyboard because they can save a lot time in performing basic functions.

Before this course I only knew the basic Ctrl + C and Ctrl + V. These are the basic copy and paste functions. I learned how to move throughout the Excel spreadsheet without using the mouse. The one thing I found challenging was the fact that I was using a Mac computer and not a PC. Most companies do not use Mac products and some of the shortcuts are different for the different products. I found it easier to complete the course while using a PC when compared to a Mac. Overall this experience was a great introduction to the basic Excel shortcuts, and I hope to learn more and become more efficient as I pursue my future career. Since this case was an online course I have included my certificate of completion.



*The Board of Directors of the  
Corporate Finance Institute® have conferred on*

*Anna Stephens*

*who has pursued studies and completed all the  
requirements for the certificate of*

*Excel Crash Course*

*with all the rights and privileges  
pertaining to this certificate.*



*Certificate number  
13846425*

*Tim Vipond*      *Scott Powell*      *Lyn Dalton*  
*Chair of the Board*      *Director*      *Director*

*Oct 1, 2019*

**CASE 3: BREXIT**

October 2019

## INTRODUCTION

The case about the Brexit is a summary of different viewpoints about the effects of Britain leaving the European Union. It is such a debated topic amongst the citizens of both Britain and the EU. It's fairly easy to see the reasoning behind both sides of the argument. The key is going to be deciding which side has the higher benefit to cost ratio. Leaving the EU would not be a clean break for Britain, and it definitely will not solve all of their problems. It could, however, contribute to a free trade environment and less regulations that were created without the consent of Britain's citizens. The flipside is that leaving the EU will create a lot of new tariffs and possible trade restrictions that were formerly nonexistent due to the EU's free trade agreements amongst its countries. Staying in the EU would mean retaining the benefits of free trade and free movement across European borders. There are so many possibilities and so many unknowns, which is why it has taken so long for Britain to follow through after the vote back in 2016 in favor of leaving.

I personally had never paid attention to the Brexit before this class. I was blind to the affairs happening overseas. After completing this assignment, I feel that I have gained a better understanding of the Brexit. I can understand both sides of the argument, but I believe that the exit needs to take place. It is what the citizens of Britain voted on and what the majority wants, so the government needs to follow through and give the people what they want. That is the purpose of government. Democracy was created to serve the people. Therefore, if Britain wants to maintain their ideas on democracy, they need to listen to the vote. From this case I have gained a better understanding of how foreign



affairs influence my life. I have also learned to take notice of world events and research different viewpoints on a key issue.

### CASE 3

The British Exit from the European Union, better known as the “Brexit” is portrayed as both an economic and social event. It is highly controversial and there are many different opinions on the matter. A public vote on whether Britain would leave the European Union was held back on June 23, 2016. The vote was 52 percent to 48 percent in favor of leaving the European Union. The Brexit was originally supposed to occur on March 29, 2019, but it has been postponed twice due to disagreements. The reason this event is so historic is that if the United Kingdom leaves, then it will be the first member state to withdraw from the European Union. This decision is controversial, because the two powers have not come to an agreement over the terms of UK’s exit. This could impact the two powers economically and socially as the EU has been a longstanding political and economic union of a large majority of European countries. The EU allowed for citizens of the EU to live and work in any country they wanted. It allowed for free trade and free movement of people and goods across most of Europe.

“Brexit- the Movie” gives one opinion in support of the historical event. Those in favor of the deal say that it will bring economic freedom to the UK. The strong opinions supporting the Brexit believe that the EU is a failing dictatorship. They argue that there is no transparency and the EU operates without any check and balances. The citizens of Britain feel restricted by the EU and also feel in the dark about how the EU actually operates. The movie made the point that once something is passed as an EU law, then there is nothing that any of the countries can do to change that law. This power without accountability is a major red flag to Britain citizens. The EU has the right to tax Britain without their consent. This goes against the basic democratic ideas of Britain. The movie

demonstrates that the main supporters of the EU are those that directly benefit from the so-called charity of the EU bureaucracy. According to the movie, the EU purchases the loyalty of universities, museums, and charities, by contributing to their organizations. The EU builds museums and donates funds to charities, but where do they get the money to do that? It all comes from the taxes that no citizen has a say in. Part of the secrecy of the EU involves the fact that the officials are never voted in by the people, and that they set their own salaries. About 25 percent of the EU are paid more than the British Prime Minister. This contributes to the distrust towards the EU. One of the largest aspects of the EU's control is the regulations it places on industries. For example, the fishing industry in Britain has been detrimentally affected by the quotas put in place by the EU. These quotas also gave shares of the fishing industry to other countries in the EU. Therefore, the British local fishermen are no longer to fish the same waters their family fished before them. The EU pays these local fishermen to leave the industry and destroy their boats and what they're left with is a graveyard of washed-up, broken fishing boats. According to the movie, the EU uses protectionism to regulate business and trade. This protectionism involves tariffs, quotas, and complex, cleverly drafted regulations. The tariffs and regulations protect inefficient business. Companies that would likely suffer from international trade are those that are inefficient and lethargic. They petition the EU to protect them and the EU puts those regulations in place which limit the ability for foreign companies to import their goods to the EU. This inefficient business mainly causes customers to suffer and in return increases the cost of living. Also protecting inefficient producers hurts the ability of efficient ones. The threat of increased competition is what keeps industries efficient and proactive and helps keep the focus on the consumer. The

EU regulations also hurt small or new companies. The regulations are expensive to comply with because the amount of laws and regulations stacks up higher than some monuments. Large corporations love the regulations because it means there is less competition. They also have the ability to lobby the EU to create more regulations in favor of their company. This system only hinders business and hurts the consumer. The movie states that regulation is the enemy of competition and competition is the engine of growth. The movie demonstrates that the EU's regulation stops growth and hurts the small businesses while protecting the large corporations.

Those in favor of the Brexit, look to the thriving Switzerland economy for what the British economy could be. Switzerland is famous for never taking a side, and this attitude has contributed to their impressive economic growth. Switzerland is not a member of the EU and still experiences large amounts of trade. The citizens of Switzerland experience the highest quality of life in the world. There is lower unemployment and higher exports. According to the movie the GDP per head is double that of the EU. They also have a low tax rate and high levels of income equality. Their structure is opposite of the EU and the citizens have a huge say in government. The politicians in Switzerland are forced to fulfil the interests of the people and to top it all off, their economy is one of the least regulated economies in the world.

In contrast to the views of the movie and those in favor of the Brexit, are those that believe the Brexit will only hurt Britain's position in the world. According to David Edgerton, the majority of large corporations are opposed to the Brexit. The main players in the industries of the British economy are foreign-owned corporations that would be negatively affected by an increase in tariffs and lack of trade agreements. The foreign

capital is interested in keeping the EU intact, because of the ability for free movement of goods and people. Since a citizen of the EU can live and work in any country they want, then the idea of Britain leaving would potentially uproot many people that live and work in Britain.

A large claim of those in support of the Brexit, claim that the exit will lead to Britain reclaiming their fishing industry. David Powell has a different take on this debate stating, “The sad reality is that Brexit will almost certainly leave most fishing communities worse off than they were before” (Powell). The fishing industry is made up of many different types of fishers. It is diverse and complicated and leaving the EU would require more regulations. The large majority of the fish are exported to the EU, thus leaving the EU would create high tariffs and cripple the already small fishing economy. The promises of those in power could also lead to a risk of overfishing. The EU would still have control over a lot of the fishing grounds and Britain would basically only be increasing their quotas. This is one of the reason trade agreements have been difficult because, “Nobody wins if we promise to take rights to fish that the EU has no intention of letting go voluntarily. Overfishing is, after all, the ultimate destroyer of fishing communities” (Powell).

The outlook for Britain appears grim. The Brexit will most likely continue to be pushed back as an agreement between the UK and EU seems highly unlikely. Both powers are not willing to give in. The vote is supposed to happen this month, but it looks unlikely as neither side could come to an agreement. It really just seems like a divorce gone wrong. Neither side will come out happy and they both will be spending more on “legal fees” than on economic growth. Benjamin Nabarro and Christian Schulz offer

insight into the economic impacts of Britain's options of staying or leaving the EU. Leaving the EU will hurt Britain's local economy in the first few years. It will be a massive adjustment as barriers will likely have to be put up and new border regulations put into effect. This will have an impact on tourism as new procedures on border security will cause delays, especially between Britain and those countries still in the EU. If Britain leaves the EU with a deal, then they will be better off economically and the trade between them and the EU would be able to continue. This deal seems unlikely, so if Britain left the EU without a deal, we would see a huge economic decline. Britain would basically need to restart their economy and develop new trade deals and relations with other countries. This might be a better scenario in the long run, but it would seem bleak for many years after the exit occurs. Another outcome would be revoking the Brexit. This would mean the Britain would stay in the EU and continue to operate as it was previously. This would keep Britain in the same economic position. However, it could leave a distaste in the mouth of the EU bureaucracy, which could negatively affect Britain's social standing within the EU. It could also leave a feeling of distrust amongst British citizens towards the government because the people originally voted to leave. The outcome will have an impact on all countries around the world. It could lead to new trade agreements for the United States or China, who has no agreement with the EU at the moment. It's really a tossup at the moment and it all depends on whether Britain stays or leaves the EU.

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**CASE 4: COMPANY CASE**

October 2019



## INTRODUCTION

In part one of the Company Case we were divided into groups of about four and then given a company to research and answer a list of questions about. The team members in my group were Mary Dixon, Sim Mosby, and Richard Sankey. Together we researched information on The Coca-Cola Company, specifically related to their 2018 10-K and financial statements. This case was very interesting as I had never looked at a company's 10-K reporting statements before this. The information we research ranged from balance sheet accounts to the company's auditors and areas of business. I was excited to research Coca-Cola as it is such a well-known and iconic brand. Coca-Cola's roots are in America, but their reach expands across the entire globe.

The first question looked at the company's primary business and operations. The second question asks us to find the auditors for Coca-Cola. The third questions had us describe each balance sheet account, assets, liabilities, and equity, and put the descriptions in terms that are easy to understand for those unfamiliar with accounting processes. The fourth question had us analyze the company's consumer base and the revenue the company received from outside the United States. It was interesting to learn how much revenue is generated by Coca-Cola's sales around the world. They are selling in over 200 countries and territories. The fifth question had us research the company's suppliers. Here we needed to look at the raw materials that Coca-Cola uses in order to make and bottle their products. Question six asked us to explain the other operating expenses on the income statement and how these expenses contributed toward Coca-Cola generating revenue. The seventh question had us analyze the changes in revenues and expense over the past three years. Outside research allowed us to understand more about

the reasons for these changes and fluctuations. Question eight was about comparing the company's net income to their cash flows from operations and figure out what accounts for the difference in the two items. Question nine, the last question, had us identify which accounts on the balance sheet contained estimates and judgements.

Overall this case was interesting and relevant to our future careers in the accounting industry. It allowed us to become familiar with the financial statements in the 10-K, which is what most of us will be auditing one day. The case was daunting at first but as I spent more time exploring the 10-K, I became more familiar with the setup and language of the statement. Learning about Coca-Cola was a great experience and a unique company to study.

## CASE 4

- 1-1 What is the nature of your company's business? Based on what you read in the company's Annual Report, how do they generate profit? Where are the headquarters? Where do they do business? What is their fiscal year-end?
- 1-2 Who are your company's auditors? Name the firm and city.
- 1-3 Describe each asset on your company's balance sheet. Determine any relevant accounting policies related to these accounts. Now do the same for liability and equity accounts.
- 1-4 Describe your company's customer base. Who are they and how do they use your company's products or services. Describe your company's specific sources of revenue and their revenue recognition policies. How much revenue comes from outside the U.S.?
- 1-5 Describe your company's suppliers. Who are they and what products do they provide to your company? What types of costs are included in your company's cost of goods sold?
- 1-6 Describe each category of other operating expenses on the income statement. How do these expenses help generate revenue?
- 1-7 How have revenues and expenses changed over the past three years? Can you find any articles in the business press to support what you're seeing in the financial statements?
- 1-8 Compare your company's net income to their cash flows from operations. What accounts for the difference?

1-9 Which accounts on your company's balance sheet contain estimates or judgements?

- 1-1 The Coca-Cola Company is the largest nonalcoholic beverage company. They own or license more than 500 nonalcoholic beverage brands. They generate profit through bottling and selling their beverage product and also through distribution to wholesalers and retailers. Coca-Cola also generates profit through trademarks the company owns or licenses. The headquarters for Coca-Cola are located in Atlanta, GA. Coca-Cola is a globally operated business. They participate in five different operating regions: Asia Pacific, Europe, Middle East & Africa, Latin America, and North America.<sup>3</sup> Coca-Cola's fiscal year end is December 31.
- 1-2 The auditors for The Coca-Cola Company are Ernst & Young, LLP based out of Atlanta, GA.<sup>4</sup>
- 1-3 Assets reported on Coca-Cola's balance sheet include:<sup>5</sup>

#### **Current Assets**

**Cash & Cash Equivalents-** Cash consists of currency and deposits. Cash equivalents are short-term, highly liquid investments that mature in three months or less.

**Short-Term Investments-** Short-term investments are classified as time deposits and other investments that have maturity dates of greater than three months but less than one year.

**Marketable Securities-** Marketable securities are securities or debts that are to be sold or redeemed within one year. They are easily converted to cash.

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<sup>3</sup> The Coca-Cola Company 2018 10-K, pg. 2

<sup>4</sup> The Coca-Cola Company 2018 10-K, pg. 148

<sup>5</sup> The Coca-Cola Company 2018 10-K, pg. 73

**Trade Account Receivable-** Trade account receivables are amounts billed by a business to its customers when it delivers the goods or services during the ordinary course of business. Receivables are the uncollected amounts that the customer owes the company. This account is the total receivable less the allowances for doubtful accounts.

**Inventories-** The inventory balance is a current asset that shows the ending balance of the cost of the company's products waiting to be sold. It is the amount of unsold goods that the company still has in their possession. It includes all costs necessary to acquire and sell the item.

**Prepaid Expenses and Other Assets-** Prepaid expense are future expenses that are expected to be incurred at a later date that the company has already paid for in advance.

**Assets Held for Sale-** Assets held for sale are long-lived assets that the company has plans to sell in the near future.

**Assets Held for Sale (Discontinued Operations)-** Assets held for sale in discontinued operations are parts of a company's core business or product line that have been divested or shut down, and the assets are now for sale.

**Equity Method Investments-** Equity method investments are investments in other entities where the company has controlling interest.

**Other Investments-** Other investments are long-term investments that consist of investment in securities, such as bonds, common stock, or notes, investments in tangible fixed assets, investments set aside in special funds, such as a sinking fund

or pension fund, and investments in nonconsolidated subsidiaries or affiliated companies.

**Other Assets-** Other assets include investments in infrastructure programs with bottlers aimed at strengthening the bottling system and increasing unit case volume. Other assets also include any asset the company accounts for that is not presented in another category on the balance sheet.

**Deferred Income Tax Assets-** Deferred income tax asset is an asset that is used to reduce the company's taxable income. This can occur due to overpayment of taxes in the previous years by a company or taxes paid in advance. The overpayment is eventually returned to the company in the form of a tax relief, which is why it is considered an asset on the balance sheet.

**Property, Plant, and Equipment-** Property, plant, and equipment are tangible long-lived assets that are used in the regular operations of the business. This category consists of physical property such as land, buildings, machinery, furniture, tools, and resources. These items are normally depreciated, except land, so the balance reported for this category is the book value of the asset less the accumulated depreciation.

**Trademarks with Indefinite Lives-** Trademarks with indefinite lives are intangible assets that are non-monetary and cannot be seen, touched or physically measured. A trademark is a symbol, word or words, that are legally registered or owned by a company. An example of this would be a logo. Indefinite life means that the life of the trademark is without limit and will be in existence forever or until further notice.

**Bottlers' Franchise Rights with Indefinite Lives-** This another aspect of intangible assets. This includes the rights of the bottlers' franchise to continue to produce and distribute products forever or until further notice.

**Goodwill-** Goodwill is the value of an asset that is considered intangible but has a quantifiable value in the company. It arises when a company buys or invests in another company or business. It represents assets that are not separately identifiable.

**Other Intangible Assets-** Other intangible assets include all other long-term resources of a company that have no physical existence. There are limited-life intangible assets that can be amortized based on the life of the asset. There are also indefinite-life intangible assets or unlimited-life intangible assets that cannot be amortized and are expected to continue until further notice.

Relevant policies related to these accounts include the basis of representation, principles of consolidation, assets and liabilities held for sale, discontinued operations, revenue recognition and net income per share.

Liabilities and Equity are reported as the second half of the balance sheet and include:<sup>6</sup>

### **Current Liabilities**

**Accounts Payable and Accrued Expenses-** The accounts payable is total of the money a company owes to its creditors. An accrued expense is an expense that has been recognized on the books but has not actually been paid. They are liabilities that are due to be paid and are an obligation for a

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<sup>6</sup> The Coca-Cola Company 2018 10-K, pg. 73



company to make future cash payments. Accounts payable and accrued expenses are considered current liabilities because they are due within one year.

**Loans and Notes Payable-** Notes payable are liabilities that a company records for the face amounts of promissory notes the company issues. The balance of notes payable is the amount that remains to be paid. The promissory note is an agreement the company, or borrower, obtains for a specific amount of money from a lender that they promise to pay back with interest over a certain period of time. A loan is an amount borrowed that is expected to be paid back with interest. Loans and notes payables are considered current liabilities as long as they are expected to be paid back in less than a year.

**Current Maturities of Long-Term Debt-** The current maturities of long-term debt refer to the portion of a company's liabilities that are coming due in the next 12 months. This includes any long-term debt, such as bonds, that are maturing soon.

**Accrued Income Taxes-** Accrued income taxes represent the money a business owes at the reporting date to the Internal Revenue Service (IRS) and also other state, county, and city officials. Since it is accrued, this means that the income tax is recognized before it has been paid.

**Liabilities Held for Sale-** Liabilities held for sale are liabilities where it is highly likely that they will be realized through sale rather than continued use.

**Liabilities Held for Sale (Discontinued Operations)-** Liabilities held for sale from discontinued operations are liabilities that will be sold in the near future due to the discontinuation of a product line or company's core business that has been shut down.

**Long-Term Debt-** Long-term debt are liabilities or obligations that the company does not reasonably expect to liquidate within the normal operating cycle, or one-year period. The company expects to pay these debts at a later date of at least one year. These include bonds payable, notes payable, lease obligations, and pension obligations.

**Other Liabilities-** Other liabilities include all other long-term liabilities not included in any other liability category.

**Deferred Income Tax Liabilities-** A deferred income tax liability is a tax that is assessed or due for the current period but has not yet been paid. It results from a difference in income recognition between tax laws and the company's accounting methods.

### **Shareowners' Equity**

**Common Stock-** Common stock is the par or stated value of the shares issued by a company.

**Capital Surplus-** Capital surplus is also known as additional paid-in capital in excess of par value. This means that it represents the amount the company raises on the issue of shares in excess of the par value. It is the amount the investor pays for a share of stock less the value of the common stock issued.

**Reinvested Earnings-** Reinvested earnings, also known as retained earnings, are the company's undistributed earnings. They are the profits a company has earned to date less any dividends paid to investors.

Reinvested earnings are basically taking the profit a company has produced and reinvesting it back into the company.

**Accumulated Other Comprehensive Income (Loss)-** Accumulated other comprehensive income or losses accumulates the unrealized gains and unrealized losses a company has within their other comprehensive income category. These can include gains or losses on certain types of investments, pension plans, and hedging transactions.

**Treasury Stock-** Treasury stock is the cost of shares that the company has repurchased. It is previously outstanding stock that has been bought back from shareholders by the company that originally issued the stock. It decreases the total number of shares outstanding in the open market.

1-4 The Coca-Cola Company has a worldwide client base. They sell their product in 5 separate regions which encompasses more than 200 countries and territories. Coca-Cola will sell and distribute their products directly to consumers and distributors. There are two main operations: concentrate operations and finished product operations. Finished product operations generate higher net operating revenues but lower gross profit margins than the concentrate operations.<sup>7</sup> The customer base is largely made of distributors looking to resell the beverage product to the average consumer. Another portion of revenue comes from the

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<sup>7</sup> The Coca-Cola Company 2018 10-K, pg. 3

concentrate operations, which is selling the beverage concentrates and syrups to authorized bottling partners. In the finished product operations, the main product sold is sparkling soft drinks, but they also sell water, enhanced water, sports drinks, juice, coffee, tea, and energy drinks to retailers, distributors, or wholesalers. The Coca-Cola Company adopted the Accounting Standards Codification 606, Revenue from Contracts with Customers, on January 1, 2018. It states that revenue is recognized when performance obligations under the terms of the contract with the customer are performed and satisfied.<sup>8</sup> The general performance obligation consists of a promise to sell concentrates of the finished products to a distributor or bottling partners. The control of the product is transferred from Coca-Cola to the distributor or partner upon shipment or receipt of goods. Revenue is recognized after the completion of Coca-Cola's performance obligations. Net operating revenues<sup>9</sup> and the operating income<sup>10</sup> for the different segment operations of Coca-Cola are shown in the graph below.

	Operating Income 2018		Net Operating Revenue
	%	Amount (millions)	Amount (millions)
Europe, Middle East & Africa	42.7%	\$3,714	\$7,702
Latin America	26.7%	\$2,321	\$4,014
North America	28.2%	\$2,453	\$11,768
Asia Pacific	26.2%	\$2,278	\$5,197
Bottling Investments	(7.5%)	\$(649)	\$3,771
Corporate	(16.3%)	\$(1,417)	\$105
	100.0%	\$8,700	\$32,557

<sup>8</sup> The Coca-Cola Company 2018 10-K, pg. 40

<sup>9</sup> The Coca-Cola Company 2018 10-K, pg. 142

<sup>10</sup> The Coca-Cola Company 2018 10-K, pg. 54-55

The amount of revenue from outside the United States is \$16,913 million. This is found by adding the net operating revenue totals for Europe, Middle East & Africa, Latin America, and Asia Pacific.

- 1-5 The Coca-Cola Company needs raw materials from different suppliers in order to create the products they sell. The main suppliers for the raw materials that Coca-Cola uses are located mainly in the United States and China. Coca-Cola purchases a main ingredient, sucralose, from these suppliers, which is used in a large majority of their beverages. Orange juice and orange juice concentrate primarily from Florida or Southern Hemisphere countries like Brazil. Glass and aluminum bottles and cans are purchased from many different suppliers as well.

Polyethylene terephthalate resin, also known as PET, is a common raw material that Coca-Cola purchases from suppliers. The names of suppliers are not reported in the 10-K due to the competitive nature of the business. The large majority of Coca-Cola's Cost of Goods Sold (COGS) can be attributed to the following raw material inputs: sweeteners, metals, juices, and PET.<sup>11</sup>

- 1-6 The other operating expenses are selling, general, and administrative expenses and other operating charges. The table below shows how SG&A expenses<sup>12</sup> are broken down into the specific expenses and also contains the total amount for the other operating charges.<sup>13</sup>

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<sup>11</sup> The Coca-Cola Company 2018 10-K, pg. 51

<sup>12</sup> The Coca-Cola Company 2018 10-K, pg. 52

<sup>13</sup> The Coca-Cola Company 2018 10-K, pg. 53

Other Operating Expenses	
Selling, General, and Administrative Expenses	(millions)
Stock-based Compensation Expense	\$225
Advertising Expenses	\$4,113
Selling and Distribution Expenses	\$1,701
Other Operating Expenses	\$4,268
Total SG&A	\$10,307
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Other Operating Charges	\$1,079

The stock-based compensation expense is an expense associated with the stock-based compensation plans that Coca-Cola puts in place. Certain employees of Coca-Cola are granted awards through the stock-based compensation plans. The expense associated with this is the total unrecognized compensation costs related to nonvested stock-based compensation awards.<sup>14</sup> This cost does not include and future awards and do not generate revenue. Advertising expenses account for a huge portion of the SG&A expenses. They are the cost of advertising Coca-Cola's products to the consumer, such as commercials, billboards, and ads. They are expensed as they are incurred and help to contribute to creating sales. Marketing and advertising contribute to revenue as they keep the consumer interested and informed about the products of the company. Selling and distribution expenses are related to the logistics of getting the goods from the company's bottling factories and warehouses to the consumer. This expense helps generate revenue because it gets the product to the customer which completes the transaction and allows for the revenue recognition process to take place. Other operating expenses refer to expenses incurred from any other aspect of the business that are not included in

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<sup>14</sup> The Coca-Cola Company 2018 10-K, pg. 112

production, distributions, advertisement, stock-based compensation. They reflect the productivity and reinvestment initiatives and the impact of refranchising.<sup>15</sup>

The other operating charges are related to CCR asset impairments and the company's productivity and reinvestment programs, along with cost incurred for refranchising. These are costs incurred to hopefully increase future revenues.

1-7 Net operating revenues have decreased over the past three years. In 2016 the revenues totaled \$41,863 million, then decreased to \$35,410 million in 2017. In 2018 the revenues were even less with \$31,856 million.<sup>16</sup> The fluctuations in net income are also attributable to the changes in the expenses for each of the years. Selling, general, and administrative expenses have decreased over the past three years. In 2016, 2017, and 2018, these expenses were \$15,370 million, \$12,654 million, and \$10,307 respectively.<sup>17</sup> In 2017 Coca-Cola also had an unusually high tax rate due to a \$3.6 billion dollar one-time tax. This explains the major fluctuation in net income from continuing operations over the past three years of \$6,727 million, \$1,182 million, and \$6,550 for 2018, 2017, and 2016, respectively.<sup>18</sup> Other than the major tax expense in 2017, net income appears fairly consistent even though revenue has steadily decreased. This can be attributed to a decreasing selling, general, and administrative expense, as well as a decreasing cost of goods sold over the past few years. An article written by Trefis Team in Forbes analyzed this decrease in SG&A expense and cost of goods

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<sup>15</sup> The Coca-Cola Company 2018-10-K, pg. 52

<sup>16</sup> The Coca-Cola Company 2018 10-K, pg. 142 (Net Operating Revenue)

<sup>17</sup> The Coca-Cola Company 2018 10-K, pg. 71 (Selling, General, and Administrative Expenses)

<sup>18</sup> The Coca-Cola Company 2018 10-K, pg. 71 (Net Income from Continuing Operations)

sold.<sup>19</sup> Coca-Cola has been able to decrease its total expenses despite a shrinking revenue. This decrease in cost of goods sold is mainly driven by the refranchising programs Coca-Cola recently put into place due to the fact that bottling productions are capital intensive and low-margin. The decreases in SG&A are attributable to reducing expense related to bottling and are also from benefits of productivity and reinvestment initiatives. These initiatives should help lower selling a distribution costs.

- 1-8 When comparing net income to cash flows from operations, it's noticeable that cash flows are higher than net income. Net cash flows from operations are \$7,320 million.<sup>20</sup> Net income from continuing operations is \$6,476 million.<sup>21</sup> Differences in net income and net cash flows from operations are due to depreciation and amortization expenses which are added to net income to create net cash flows. Other accounts like deferred income taxes and foreign currency adjustments are considered in the calculation of net cash flows. Net cash from operating activities increased by six percent, or \$390 million from 2017 to 2018. This increase was primarily driven by the growth of operating income and efficient management of working capital with the impact of refranchising.
- 1-9 Significant judgement is required for determining Coca-Cola's annual income tax expense. This impacts the deferred income tax liability and the accrued income tax expense which do not always match the income tax expense reported. Also

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<sup>19</sup> <https://www.forbes.com/sites/greatspeculations/2019/09/30/how-does-coca-cola-spend-its-money/#319fe74650ab>

<sup>20</sup> The Coca-Cola Company 2018 10-K, pg. 74

<sup>21</sup> The Coca-Cola Company 2018 10-K, pg. 74



estimation and judgment are required to estimate the litigation contingencies. These are potential losses the company is more than likely to pay due to legal proceedings and litigation claims. These amounts are based on estimates of potential losses. This affects the other liabilities account. Yearly advertising expenses are estimated which is reflected in the prepaid expenses account on the balance sheet.<sup>22</sup> Goodwill and trademark intangibles are also estimated as they are not physical items that can be accounted for and the value of a trademark will need to be an estimate.<sup>23</sup>

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<sup>22</sup> The Coca-Cola Company 2018 10-K, pg. 78

<sup>23</sup> The Coca-Cola Company 2018 10-K, pg. 78

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**CASE 5: IN CLASS ASSIGNMENT**

November 2019

**CASE 6: DR. THOMAS SOWELL INTERVIEW**

November 2019

## INTRODUCTION

We began this case by responding to two questions. The first question was about whether we thought the electoral college should be abolished or left alone. The second question looked at our thoughts on the universal basic income proposal. We responded to these questions individually and then discussed our thoughts as a group. The discussion brought opinions on both sides and brought a great conversation. After our discussion, we watched an interview of Dr. Thomas Sowell from the Hoover Institution at Stanford. He has written many books about the economics tied to his social theories. In the video, he discussed his childhood and how he has seen society change. Dr. Sowell also discussed topics relating to current social unrest like socialism, white supremacy, white guilt, and retrogression. In his responses to questions, he presented facts and always emphasized the concept of looking at the evidence.

In this case I learned about the economic divide in society. I was surprised by a lot of Dr. Sowell's responses to the quotes and questions the interviewer brought up. From the discussion, I learned about different ideas that are being discussed for the upcoming election debates. Many want to abolish the electoral college, which was something I had never really thought about. I learned that the electoral college was set up to help keep everyone's interests on an equal playing field. For example, without the electoral college, the election would basically be decided by a handful of cities. This would leave out the interests of the people in more rural areas. I definitely believe the system needs to be revised, but it does not need to be abolished. The system will work better if more people become educated on the process. Through this case I learned how important it is to look at the evidence in front of you. Words and stories can be

misleading, but numbers and history doesn't lie. I learned that I need to be willing to do my research to form an educated and evidence based opinion about the current issues of our society.

## CASE 6

Dr. Thomas Sowell is an economist that has written many books about the statistics of society. He is not afraid to question the norms of both society and his occupation. Because of his continuous search for evidence, he has become a great economist with some uncommon opinions. I agreed with a lot of the claims he made about society and how lifestyle choices strongly contribute to where you are in life. He was not afraid to call out things as he sees them, and I really agreed with his points on socialism versus democracy. Dr. Sowell points out the evidence that is blatantly in front of our eyes. Venezuela went down the path of socialism and now the citizens are starving and struggling to survive. Socialism is great idea to help take care of everyone, but it's a horrible reality that will never be implemented effectively. I was also surprised by his support towards the current president. He stated that based on the evidence and the facts unemployment among low income people is at its lowest percentage in a really long time. The economy is booming in a way no one could have predicted. While Dr. Sowell turns off the television anytime the president speaks, he says he did so for the president's predecessor, and also does not understand how people can just ignore the facts that the country is thriving economically. I thought it was interesting how Dr. Sowell suggested that African American family structures have been affected by the implementation of a welfare state. Before 1960 most children were raised in a two parent home. Now, Dr. Sowell suggests that because of the welfare state, there is a disillusion of the family structure where if a man stays with a woman she receives no welfare, but if he leaves then she will get checks for being a single parent household. This was an interesting point that I struggled to understand, but I recognize the underlying point of his argument. He is

arguing that the African American community would have been better off without government interference. He says that they might be better off economically because of it, but the corresponding crime rates are way higher than they were before the welfare state. Dr. Sowell makes a variety of interesting arguments that do not necessarily align with the viewpoints you would think he would have based on his race and background. He throws all prejudices aside and forms his conclusions and opinions based on the facts presented. I really appreciated his thoughts and ideas. The way he presented the facts truly made you stop and think and reevaluate your own thoughts on society.



**CASE 7: REGULATION FAIR DISCLOSURE**

January 2020

## INTRODUCTION

Before working on this case, I knew very little about Regulation Fair Disclosure. Researching for this case was my first real exposure to the SEC's regulation. In this case we were given some questions regarding Regulation Fair Disclosure, or Regulation FD. We explained what Regulation FD was and how it related to our client's financial reporting actions. We also read different opinions about Regulation FD in order to help explain why it even exists. I learned that Regulation FD came about around the same time as the Enron and WorldCom scandal was happening. An analyst, Jack Grubman, that worked with WorldCom was crossing the line of objectivity. He became the face of the analyst's scandal, which further pushed the importance of the regulation. Some say that these breaks in ethics brought about a necessary change to the stock market. The Regulation FD protects the individual trader and allows them access to the same information that firms and other companies have access to. This transparency is also spurred by the rise of social media. Since the favorable ruling of Netflix releasing some of their internal statistics over social media platforms, more companies have been changing the way they release information. Sometimes, like in the case of Elon Musk and Tesla, the release was unknown to bankers until it was made public to everyone over Twitter.

In this case I learned that the Regulation Fair Disclosure is going to become even more prominent because of social media. Regulation FD has made companies and the stock market more transparent, but it has also brought new concerns to the fluctuations of stock prices. With social media becoming a new way of broadcasting company information, new trends will form and fluctuate on both social media and the stock prices.

It will be interesting to see if any new regulations are created to standardize the social media platforms as they pertain to the release nonpublic company information.

## CASE 7

- 1-1 Regulation Fair Disclosure is a regulation placed on publicly traded companies. It requires a company to disclose material, nonpublic information in a public and non-selective way. This means that if a company wishes to disclose information that could affect trading of their stock, they must disclose the information to the public and not to a selected group of individuals. Any financial information that you want to disclose to someone outside of the company, will have to be disclosed to the public as well. This affects my client's financial reporting actions because they have to think about the information they disclose. If the information is something they would not want their consumers, investors, or competitors to know, then they should not disclose it an outside analyst. It makes it difficult to outsource anything to an analyst. Most of the time the company will release a quarterly update or report that is available to the public. In essence, companies should not provide information to an analyst that they would not want to share with the entire world.
- 1-2 Regulation Fair Disclosure, also known as Regulation FD, was created by the Securities and Exchange Commission, or SEC, to protect the individual investors and promote fair disclosure to all parties. It was created to stop companies from disclosing important information to only specific shareholders or market analysts. A major component of Regulation FD is the role of an analyst. The regulations came around in part because there needed to be a clear distinction in how analysts maintained the fine line between offering objective advice to a company and directly participating in their decisions. Regulation FD follows the major

accounting scandals of Enron and WorldCom. This fine line between analyst and investment banker is highlighted in Jack Grubman, where he participated in company board meetings as an analyst. The questions that were debated centered around whether he maintained his objectivity despite having information no one else had access to.<sup>24</sup> His defense was that he never actually invested in WorldCom. However, his conflict of interest was never disclosed to the public, and thus an outside analyst was given information that was not disclosed to the public. Regulation FD is a difficult regulation to understand. The intent of it is to allow everyone fair access to knowledge that can affect the market or stocks. It is to help protect the individual investors that would not normally have access to such potentially important information. It allowed the individual investor to directly participate in a world that was closed off to a select few. It was created to bring transparency and trust into the marketplace.<sup>25</sup> However, previous untrustworthy atmosphere also hurt the jobs and reputations those that followed the rules when Regulation FD made all disclosures transparent. The Regulation FD has created a divide between the analysts and the companies, which can hurt their prospects. Regulation FD exists to regulate when and to whom companies disclose information. This regulation addressed a real problem in the marketplace, but also greatly limited the role of analysts.<sup>26</sup>

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<sup>24</sup> <https://nypost.com/2002/07/09/grubman-grilled-solly-analyst-bumbles-before-lawmakers/>

<sup>25</sup> <https://www.fool.com/investing/general/2010/08/11/pop-the-champagne-regfd-turns-10.aspx>

<sup>26</sup> <https://www.fool.com/investing/general/2007/02/27/confessions-of-a-wall-street-analyst.aspx>

- 1-3 The client informs me that he released some of the company's nonfinancial performance metrics on his personal Facebook page. While this is a nonconventional way to release information, I do not believe he is in violation of the Regulation Fair Disclosure under the condition that his Facebook page is public and accessible to anyone that searches him. As long as his account is public and accessible by the majority of people, I believe that he did not violate Regulation FD. He did not disclose the information to a small specific group of people and now the information is public and available to everyone that may own stock or be interested in the company. He might not have complied with company rules, but I do not believe he is in violation of Regulation Fair Disclosure.
- 1-4 The article about Elon Musk's tweet about taking Tesla private supports my initial claim that the client is not in violation of Regulation Fair Disclosure as long as access to his Facebook page is not restricted.<sup>27</sup> As I was reading the case above, I was actually thinking about this exact case. I could not remember what the ruling was, but I believed Elon Musk was not in violation of the Regulation Fair Disclosure. Thus, my client would not be in violation either. It is an interesting perspective as social media becomes the predominate way for companies to directly communicate with their customers. This article only confirms my initial thoughts. In the future I can see companies implementing some kind of protocol, or they may have some rule or regulation internally already that my client may have violated, but they did not violate the SEC's regulation.

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<sup>27</sup> <https://fortune.com/2018/08/08/what-is-reed-hastings-rule/>

**CASE 8: TAX CASE**

February 2020

## INTRODUCTION

For this case, we were presented with a situation that is extremely relevant in today's social media and online world. We, Anna Stephens and Evan Poag, theoretically, have been doing the personal tax returns for David Smith, the CEO of a company, for the past five years. As the return for this year were wrapping up, David decided to take us to lunch. He told us after five years of doing business together, that he has a daughter that has been earning anywhere from \$10,000-\$15,000 a month for the past four years as a YouTube star. Along with those earnings, she also received at least a dozen packages a day for free with the hopes that she will wear and mention that clothing in her videos. David proudly tells us how she will not only be able to pay for her college on her own, but she also is car shopping several years before she can even drive. As the conversation continues, we realize we need to reevaluate Mr. Smith's tax filings. Since we were never told about the income generated by David's daughter, we have possibly been filing his tax returns wrong. We drafted a memo to our company and also a letter addressing our plan of action to David Smith.

This case brought a lot of things to light. The knowledge that we had concerning the taxation of child stars was almost nonexistent prior to this case. The main thing that we learned from this case was the concept known as the "Kiddie Tax". The Kiddie Tax helps decide whether or not a child's unearned income is taxed or not. In the year 2019, if a child's unearned income is greater than \$2,200, then that income would be taxed. Unearned income is defined as income that comes from investments rather than work. In the situation presented to us in the case, we were told that the money that Emma earns is put into a savings account. Since Emma has earned approximately \$720,000 in the past



four years, we know that there is at least that much in a savings account. The interest rate for the savings account is three percent, which would make Emma's unearned income far more than the \$2,200 threshold for 2016, 2017, 2018, and 2019. Therefore, it can be confirmed that Emma's unearned income would in fact be taxed. The main filing concern centered around who will claim this unearned income and how we should file it with the IRS.

## CASE 8

### MEMORANDUM

To: Best Accounting Group

From: Evan Poag, Anna Stephens

Date: February 19, 2020

Subject: Emma, aka Emmsta Famous, and her taxes

After having lunch with the CEO of our audit client, David Smith, I learned of some information that I did not have previously, pertaining to our client's daughter. He explained to me that his daughter was a famous YouTube star earning income of \$10,000 to \$15,000 per month for the past four years. We will assume she is making about \$180,000 per year to total \$720,000 for the past four years. These numbers will be used until we retain specific banking statements. She is age 13 and claimed as a dependent on her father's tax return. Emma Smith has also been saving the majority of her income in a savings account at three percent interest. Thus we can assume her unearned income for each of the past four years has been well above the \$2,200 limit of nontaxable unearned income for a dependent. This will subject her father to the Kiddie Tax. Thus we will need to reevaluate his previous tax returns and implement the effects of the Kiddie Tax.

To correct this, we will first need to file a separate tax return for Emma Smith. She makes well above the \$12,200 standard deduction which will require her to file an individual return. We also need to take into account the unearned income from Emma's savings account. We will either need to file a Form 8615 with Emma's 1040 or a Form 8814 with her father's 1040. These forms apply specifically to the Kiddie Tax and how to

tax Emma's unearned income. The Form 8615 is titled, Tax for Certain Children Who Have Unearned Income, and it is filed with Emma's tax return.<sup>28</sup> The Form 8814 is titled, Parents' Election To Report Child's Interest and Dividends. However, the Form 8814 applies only if the child's only income is from interest and dividends.<sup>29</sup> Emma has earned income so we will have to file the Form 8615. To fix these errors we will need to calculate the full extent of the Kiddie Tax on Mr. Smith's tax liability. To do this we will need bank statements pertaining to Emma's savings account and her annual interest earned. This will give us the correct dollar amount to calculate her unearned income for the past four years. We will then use these numbers to file a Form 1040X on behalf of Mr. Smith for 2016, 2017, and 2018 if there are any adjustments that need to be made.<sup>30</sup> We will need to correct his 2019 tax return to reflect this information as well. There is a lot of research to do and documentation to collect over the next few days. There is nothing to indicate fraud or tax evasion as it looks to be a simple misunderstanding of the filing rules pertaining to child stars that earn large sums of money. We will be in contact with Mr. Smith to correct these errors and file his tax return properly.

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<sup>28</sup> <https://www.irs.gov/pub/irs-pdf/i8615.pdf>

<sup>29</sup> <https://www.irs.gov/pub/irs-pdf/f8814.pdf>

<sup>30</sup> <https://www.irs.gov/forms-pubs/about-form-1040x>

Dear Mr. Smith,

After the conversation we had at lunch earlier regarding Emma, some things have come to my attention that requires corrective action. Emma has been earning income for the past four years that exceeds the maximum standard deductions. With that being said, we need to file individual tax returns for Emma. Another thing we need to make sure adjust for your tax return for anything that needs to be added pertaining to the amount of income Emma has earned. Emma's unearned income is more than the maximum amount that would disqualify you from the Kiddie Tax. Since the tax has not appeared on any of your tax returns over the past four years and has Emma has not filed one, we must fix it in order to avoid you being subject to tax evasion. In order to do this, we will need Emma's bank statements so we can derive the total amount of unearned income that Emma has made. Once we get these numbers, we can file a Form 1040X to correct your previous tax returns if needed. We will also file a Form 8615 for Emma. This form is to calculate the tax on her unearned income. Thank you for your understanding, and we look forward to meeting with you again. Please let us know if you have any questions or concerns.

Regards,

Best Accounting Group

**CASE 9: MONOPOLY MEETS BLOCKCHAIN**

March 2020

## INTRODUCTION

In this case we were given the game of Monopoly but with an unusual set of instructions. Dr. Dickinson created a simulation for us to learn about blockchain as we played a game we were all familiar with. The class was divided randomly into different groups, and each group had a different task to complete throughout the duration of the game. I was in the group called the business managers. I was also assigned to state three which was comprised of eight total business managers. Within our state we played Monopoly with the same role of a dice to move and with the same intention to purchase real estate. An explanation of events follows later in the case. My group got through about seven turns before class ended. The game was confusing at first, but as we settled in and became more familiar with the rules we started moving through turns.

During this case I learned that the case was designed to simulate the blockchain processes and interstate commerce. I had very little experience with what blockchain was before completing this case. I knew it was related to bitcoin and I had google searched it a few months back, but the whole process was intimidating. After completing this case I feel like I have a better understanding of how blockchain works. I obviously don't know the detail inner workings of it, but it will definitely be a new database process to explore further in the future. Blockchain is valuable in that it can potentially provide a more efficient way to keep records in sync and more secure. I believe that learning about blockchain is beneficial as many companies are looking to invest in it as both a cryptocurrency and also a way to store data. Through this monopoly case simulation, I learned that it can slow down commerce, but eventually once the system is implemented

properly and users are trained well then it could become a valuable piece of society's commerce.

## CASE 9

Blockchain is a record keeping technology that is basically set up like a block and chain with time-stamped records of data. The blocks store information about transactions and who's participating in those transactions. The blocks store information that uniquely pertains to it and distinguishes it from other blocks. An article in *The New York Times* describes how blockchain got its name because, "all of the transactions coming onto the network were grouped into blocks of data and then chained together using sophisticated math."<sup>31</sup> Blockchain, thus, consists of multiple blocks strung together. A block is added when a transaction occurs and then is verified through a network of computers. The transaction is then stored in the block with thousands of other transactions just like it. The block is then given a hash and is added to the total blockchain string. Blockchain allows digital information to be distributed but not copied. One thing that makes blockchain unique from other databases is the fact that there is no central institution that maintains the records stored in the database. Instead it utilizes a broad network of computers.

In our case we were given instructions that created a blockchain, interstate commerce type of monopoly game. It was a confusing concept to grasp at first. Everyone in the class was randomly divided into groups. One group was called Big Mama/Papa, and they acted as the main company that oversaw all of the different games. Another group was known as the cloud, and they acted as the bank and were involved in every transaction that occurred at each board. They basically simulated the role of the blockchain database. The auditors were another group, and they were in charge of

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<sup>31</sup> <https://www.nytimes.com/2018/06/27/business/dealbook/blockchains-guide-information.html>



making sure each group followed the rules and recorded the transactions properly. The final group was the largest, known as the business managers. The business managers were the ones that actually played the Monopoly game and were divided into four states. I was a business manager, so I sat with a group of seven other business managers in state three. We spent the class period playing the game and doing our best to implement the new rules. Our new instructions replaced the physical currency with digital currency. We started with \$1,500 each and about 8 people to a board. Also, when we landed on a piece of property and wanted to buy it, we had to go to Big Mama/Papa to purchase the property. When we purchased it we either had the piece that went with our board or one that was located on another board. If our property card was on our board we could collect the full rent. If our property was on another board then we could collect half on our board and half on another board when someone landed on our property. To complete these rent transactions, we had to flag down a runner from the cloud group and explain what had just occurred and who was paying or receiving the money. We each had a unique ID, which allowed our accounts to be tied to each transaction. It was a complicated process, but we eventually started to figure it out and work into a rhythm. We were the users of the blockchain system. We created the transactions that the blockchain recorded.

During the game I was able to purchase a few properties and collect rent. Since we didn't get to play for more than seven rounds we only scratched the surface with what the process would really be like. The early stages of the game were overwhelming with people running up to the Big Mama/Papa table trying to purchase property and the cloud runners barely knowing how to record the transactions. Eventually things settled down as the game progressed, but there were few problems that needed to be fixed. Each board or

state needed their own runner or point of access to the blockchain record. The game also needed some type of digital record so that the runners could reference and know who to submit payment based on who owned what property in each state.

I believe blockchain has the potential to work for the entire economy, but it will not be a quick change. Blockchain creates massive amounts of data that are difficult to rewrite or correct. It also slows down commerce, which would make it difficult to implement on a large scale. It is also expensive and takes training to learn how to use it properly. In time, blockchain could be used on a global scale, but there are so many transactions that take place in a second that affect people all over the world. It is not practical at the current state it is in. Blockchain is very secure since it does not have a central database, so it is not easily hackable. Blockchain will need to become more user-friendly if it is going to be used in the entire global economy.

Following this write-up, I have included a list of my final properties and cash total for the game. I also included a scan of the transactions I participated in during the seven turns of the game we completed. After the game finished we also calculated and created different financial statements. This includes an Income Statement, Statement of Retained Earnings, and Balance Sheet for the first period of operations. These are included the subsequent pages.

<b>Digital Cash at End of Game:</b>	\$1,372	
<b>Properties Owned</b>	<b># of Houses</b>	<b># of Hotels</b>
Oriental Avenue	0	0
Electric Company	0	0

BUSINESS MANAGER TRANSACTION LISTING:

TURN #	DESCRIPTION OF EVENT	AMOUNT
0	Contributed DIGITAL CASH to start business.	\$1,500
1	Property Bought - Oriental Avenue	(100)
2	Property Bought - Electric Company	(150)
3	Rent Expense - Tennessee Avenue	(14)
4	Birthday Expense	(10)
4	Rent Expense - Illinois Avenue	(20)
5	Rent Expense - Pacific Avenue	(26)
6	Rent Expense - Boardwalk	(50)
7	Rent Revenue - Electric Company	36
7	Rent Revenue - Oriental Avenue	6
7	Salary Revenue	200

**Anna Stephens  
Incomes Statement  
For the First Period of Operations**

Revenues	\$242
Less: Expenses	<u>(\$120)</u>
Net Income	<u><u>\$122</u></u>

**Anna Stephens  
Statement of Retained Earnings  
For the First Period of Operations**

Beginning Retained Earnings	\$0
Net Income	\$122
Less: Dividends	<u>\$0</u>
Ending Retained Earnings	<u><u>\$122</u></u>

**Anna Stephens  
Balance Sheet  
For February 26, 2020**

<b>ASSETS:</b>	
Cash	\$1,372
Properties	\$250
Buildings	<u>\$0</u>
Total Assets:	<u><u>\$1,622</u></u>
 <b>LIABILITIES:</b>	
	\$0
<b>EQUITY:</b>	
Stock	\$1,500
Ending Retained Earnings	<u>\$122</u>
Total Liabilities Plus Equity:	<u><u>\$1,622</u></u>

**CASE 10: INTERVIEW CASE**

March 2020

## INTRODUCTION

This is the first case we were to complete after spring break and after the breakout of the Coronavirus or Covid-19 pandemic. We were asked to interview someone we knew that was well established in the business community. My parents are both accountants that have worked in the industry for many years, but I knew I wanted to interview someone that had a different path other than accounting. I reached out to our family friend, Lisa Dennison. Lisa is an extremely accomplished actuary that works in Brentwood, TN. She started her own company known as By The Numbers Actuarial Consulting, Inc. As an actuary, she is a Fellow of the Casualty Actuarial Society (FCAS) and a Member of the American Academy of Actuaries (MAAA). I chose to interview Lisa because she was my original mentor when I was trying to figure out what career path I wanted to pursue. She shared my love of math so I started college with the plan to become an actuary. I even had the opportunity to intern with her company after my first semester of college. After a few failed attempts at the first actuarial exam and a realization that I enjoyed my accounting minor more than my major, I made a switch to pursue more accounting instead of mathematics. However, I still admire Lisa and have a greater appreciation for the work that goes into accomplishing everything she has.

I learned from my interview with her, that everything happens for a reason. She has a strong belief and trust that God's plan is greater than our own. She gave me excellent advice to simply trust and understand that even the negatives can turn into even greater positives. Going back to the basics can be a key to success. I also learned that taking risks can be beneficial and you don't need to have everything figured out already. She also points out that God will point you in the direction you need to go and you will

eventually end up on the path you are meant to be on. I have always believed this to be true as I recently changed my career path to accounting instead of actuarial science and was given a great opportunity to develop both my math and accounting backgrounds. It's all about trusting the process and doing the best with what you are given.

## CASE 10

Lisa Dennison is a well-established business professional working in Brentwood, TN. Our families have been friends since before I was born. She was even at the hospital the day I was born. My parents met her and her husband at an apartment complex in middle Tennessee about thirty years ago. They have remained lifelong friends and we have been on many trips together throughout the years. She has two sons that are both beginning their professional careers. She may live in the south now, but her original roots are found in the north, New York to be specific. Lisa grew up in New York with her mom, step-dad, and brother. Her dad worked on Wall Street, and she told me how he shocked everyone by scoring a perfect 100 on an end of the year assessment test after being an average student. As a young student, Lisa always excelled in math courses and was encouraged by her teachers to pursue math in her future. She even did so well on an exam that her teacher kept her test and used it as an answer key for future years. When she applied to college, her original career goals were to follow in her father's footsteps and work on wall street, so she majored in finance. She applied to Drexel University and a second university that first put the actuarial career path into her mind. She ended up attending Drexel. After a few years, she realized that she no longer wanted stay at Drexel and transferred to Stony Brook, which was the same school her mom was attending at the time. She felt like God kept directing her towards the actuarial career path so she switched her major to applied mathematics and sciences and ended up getting a job as an actuary right out of college.

Her first actuarial job was working for Cigna, which is a large insurance company. She began work in their property and casualty department. The department had



about 100 people working in it and included secretaries and other support staff. She was hired with about ten other people right out of college. They were considered the first class and the idea was to begin hiring employees directly out of college and then promote them within the company as they passed exams and got their credentials. This practice is similar to what is seen in public accounting. If you're not familiar with the actuarial profession, then it is important to note that there are many exams, like the CPA exam. Each of these exams relates to a different area of study and as you pass exams then you gain credentials. The ultimate goal is to become a Fellow, which means you have passed all of the exams. With each exam passed you are given a raise. This was one of the reasons Lisa liked the actuarial career, because raises and promotions were objective and not based on who you know or who likes you. This became a personal challenge and motivation for her complete all of the exams and become a FCAS. Through this she learned what motivates her and what areas of the industry she preferred since through the program they also had a rotational training program where they worked in different areas of the practice.

Eventually her career directed her to Nashville, TN. She was working for a boss that was beginning to have a high turnover rate of employees. He had driven three people off in the last month. She took a risk and made the decision to start her own actuarial practice. She could either continue to work hard for a boss that didn't do the same or she realized she could do what he did and do it better. Since there was no non-compete agreement she began making calls to her former clients. This was one of the hardest things she had to do. Actuaries are risk adverse but in this case the risk needed to be

taken. She was able to get enough business to get started and her company, By The Numbers Actuarial Consulting, Inc., began to take off.

Her life outside of work is pretty normal. She was married and had two kids along with two fluffy dogs. She also started doing triathlons and competes throughout the year. She has been blessed to go on many vacations with family and friends. From mountain ski trips to Caribbean resorts she has seen many places. Her favorite vacation was to Tahiti. It was a trip to celebrate her parent's 40<sup>th</sup> wedding anniversary. She said she has been tremendously blessed to have both a family and a career. Her company originally started out in a small office, but one thing that set her small company apart was that most of her employees work out of their house. We discussed how the Covid-19 social distancing could eventually develop into more companies setting up to include working from home options. From her own experience she knows just how much money a company can save by having employees work directly from home. As we discussed this further she also mentioned how the fear from the Coronavirus is different than the fear that came from 9/11, but it still going to shape and impact our lives similar to what happened in the months after the horrific tragedy in 2001. The world is changing and it will be interesting to see how we move forward.

When asked if there was anything she would change about her life, she honestly said she wouldn't change anything. She joked about parenting better or attending a different university, but everything she did led her to where she is right now and it would have been different if things in her past had changed. To quote her on this she said, "God's plan has always been much better than Lisa's plan". This is a great lesson and advice. She later went on to say that some advice she would give would be to not sweat

the small stuff and disappointment always seems to work out better. She said that losing clients almost always ended up being a blessing in disguise. It was unfortunate and difficult to understand when it happened, but after a while new information would come to light that showed how bad the results could have been if that client had stayed with her. She also suggested to not take things personally in the business world.

Throughout her career, Lisa Dennison has accomplished so many incredible things. She maintained a healthy work-life balance, raised a wonderful family, and started her own company. She recently sold her company and is amazed with how the technology has advanced over her years of work. When she first started there were about three computers in the office and you would need a disk to start it. Now everyone in the office has at least one computer. Everything has become more efficient, but basic skills like organization, excel, and learning to prioritize can have a tremendous impact on your ability to succeed.

**CASE 11: HONORS INTERNSHIP INTERVIEW CASE**

April 2020

## INTRODUCTION

For our second case during the Covid-19 stay at home order, we were paired up with a senior accounting major that had recently completed their internship. We were asked to interview them about their experience with the accounting internship process in order to gain a better understanding of what we could expect in the future. I was paired with Haydn Brown. Haydn will be graduating with a double major in accounting and management information systems. We were asked to do a phone interview with them. Haydn had the opportunity to intern during the summer of 2019 with KPMG in Houston. He worked in the IT Audit department. His interview experience and internship were unorthodox, but he still offered great advice and had an interesting story to tell.

I learned a lot from my interview with Haydn. As a current senior, I had the opportunity to take a few classes with him, and we actually had similar experiences with our internship opportunities. We both sort of stumbled upon an opportunity in a big four accounting firm that was not your typical audit or tax path. This case is beneficial as it will be important to be able to effectively communicate questions to clients or other people on your team and take good notes to retain the information from their answers. As I learned from my interview with Haydn, it is important to be able to communicate and hold a conversation with those you work with. The internship and actually the job is a continuous learning experience so being able to ask questions and retain what you hear is a valuable skill. I also learned that IT Audit is different from a traditional financial statement audit. It also falls under the advisory branch of the KPMG firm. The IT Audit focuses more on the internal controls and the computer programs that clients use. It is a growing line of service for many large accounting firms as well.

## CASE 11

Haydn Brown grew up in Ocean Springs, Mississippi. His original career decision was between pursuing accounting or engineering. His future career choice would also decide if he would be yelling “Hail State” or “Hotty Toddy”. Mississippi State is known for its great engineering program, but Ole Miss is one of the top accounting programs in the country. Haydn decided against following in his father’s footsteps of being an engineer and chose to attend the University of Mississippi, majoring in accounting. Along with majoring in accounting, Haydn also pursued a degree in management information systems, or MIS, to boost his potential job opportunities since he had the space in his schedule. Double majoring in both accounting and MIS was not an easy path, but it ultimately led him to great potential career opportunity.

While in the honors college at Ole Miss, Haydn completed a thesis in the accounting department that also required him to compete in a big four sponsored case competition. This particular case competition was established by KPMG, one of the top four accounting firms in the world. Haydn and his team were given information and asked to come up with a creative solution and presentation. After two rounds of presentations, Haydn’s team was selected as the winners. He connected with one of the KPMG partners, who introduced him to an industry that is different from the typical audit or tax accounting career. Through his relationship with the KPMG partner and others at an office in Houston, Haydn learned about IT Audit. The IT Audit line of service falls under the advisory services of KPMG. IT Audits are mainly concerned with the internal controls within computer systems and is a newer and growing line of service. After a

phone interview with the managing director of the Houston IT Audit department, Haydn had an offer for a 2019 summer internship.

Originally Haydn was not sure about what city he wanted to work in. He was open to any opportunity, but he did prefer to stay in a climate similar to what he was used growing up near the coast of Mississippi. His interview process was unorthodox and he had his internship months before others were interviewing. He unfortunately missed out on the typical events and the “wooing phase” the large accounting firms put on, but he had an offer from one of the big four accounting firms which was something to be excited about. He weighed the options for a little while but ultimately decided that he really liked the people in the Houston office. He knew a former Ole Miss student that had gone to work there and he also didn’t have much else to do during the summer. He remembered advice others had given him that anywhere you go the work will pretty much be the same so make sure you like the people you talk to.

His advice to accounting students going through the interview process is to take the interviews seriously, but not too seriously that you come across as uncomfortable. If you are offered an interview, it means you have the credentials necessary, but they want to figure out if your personality will fit well within their company. There are plenty of jobs and openings especially if you are willing to work in any office.

Haydn’s internship was not a typical audit or tax internship. As an IT Audit intern, he worked during the summer which is not the busy season. He said his internship was pretty chill. He would go on walkthroughs with the client, listen and write-up and document everything he had learned in a work paper. He was mostly in the office and would do Skype conference calls since it was not the normal busy season for his

department. He highlighted that he did get the opportunity to travel to a client site in Springfield, Missouri. As an intern this was an excellent opportunity and he got to log more hours than normal. His typical work week was around 40 hours with a high of about 55 hours when he was traveling. Some of his favorite moments was hanging out with coworkers during happy hours.

After Haydn graduates in May 2020, he will attend graduate school at Ole Miss to complete his Masters in Accountancy and Data Analytics. His advice to future accounting interns is to go into a new job with an open mind. Every firm, partner, and job is different so you will use what you have learned in classes differently. However, you will learn the most through your job training. Even though he is almost done with school, Haydn remarked that there is still a lot more learning to be done and that the job is different from the classroom. The professor that had a major impact on his accounting career was Dr. Cantrell, whom Haydn had for the second introductory class to accounting. He appreciated Dr. Cantrell's commitment to answering students' questions even when he didn't know the answer and would come to class the next day with a solid answer. Haydn did not have your typical accounting route, but he was able to succeed and enter into a more technical area of the accounting workforce. His dedication to his double major and ability to communicate well have given him an opportunity and he is excited to see where his future in Houston takes him.



**CASE 12: FINANCIAL CRISIS CASE**

April 2020

## INTRODUCTION

For the third and final case of the Covid-19 stay at home order, I had the opportunity to gain knowledge on the 2008 financial crisis. We were given two videos to watch and three articles to read that related to the 2008 financial crisis and the current coronavirus. First I watched a video called “What is Crony Capitalism?” by PragerU. Then I watched the documentary *Inside Job* narrated by Matt Damon, which discussed the 2008 financial crisis. Then I read the article “Recipe for Disaster: The Formula That Killed Wall Street” by Felix Salmon, which highlighted the mathematical formula that led to multiple AAA ratings and the implications from the use of that formula without assessing the actual stability of that formula. The second article was titled “The Great American Bubble Machine” by Matt Taibbi. This article highlighted Goldman Sachs involvement in many of the country’s financial disasters. The final article was “‘We Don’t Want Him to Have the Self-Satisfaction’: Why Wall Street Hates the Trump Economy” by William D. Cohan. This article analyzed our current situation surrounding President Trump’s economy before the Coronavirus outbreak. We then analyzed what we had learned and answered questions concerning how our beliefs have changed and what we believe the future will be like.

Before completing this case, I had limited knowledge of the 2008 financial crisis because I was only about ten years old at the time. Therefore, I learned a lot about how there were so many different players that led to the economic downfall. It also helped me to realize that I am currently at a point where I need to develop my own financial awareness as I will be entering the workforce and beginning to plan for my own financial situations. Today’s current economy is at an unknown point, so I will be a part of a new

wave of reform. I need to learn where my beliefs are relating to the financial, social, and political environment we face today. I am ready to learn more and move forward as the world deals with the aftermath of this pandemic.

## CASE 12

The more you learn, the more you know, and the more you have to think and evaluate your beliefs. I've lived in a pretty sheltered bubble for most of my life. As a 22 year-old now, I am beginning to evaluate and create my own economic, political, and social identity. College is the first stepping stone into the actual game of life and my classes provide me with opportunities to learn and think about how my beliefs and opinions are changing. I am easily influenced. After watching the first simple video "What is Crony Capitalism?", I couldn't help but think crony capitalism is a horrible thing and that there needs to be limited government and less regulations. Then I watched *Inside Job*, which analyzed the destruction of the 2008 financial crisis. After watching this documentary, my thought process was how could the government remove so many regulations. This was a complete 180-degree flip from my previous thought process on the crony capitalism. I read through the remaining three articles and simply came to the conclusion that hindsight is 20-20 and everyone wants to point the blame at anyone and everyone.

I would say that my belief system changed slightly as I became a little more informed about what actually happened in the events leading up to the 2008 financial crisis. I was too young at the time to truly know what was happening and I am only beginning now to craft my outlooks and opinions on these types of situations. The financial crisis of 2008 did not affect me at the time it happened because I was too young to truly understand its impact. However, now that I am older I can start to lookback and see what mistakes were made and how that affects me today. I was raised in a fairly conservative household with two accountants as parents. Being an accountant, you will

typically have a more economic focused mindset. With that being said I have always believed in capitalism but I had never heard of “crony capitalism”. I do not like the idea of this form of capitalism because it hurts the individuals that congress is there to speak on behalf of. I have never been a huge fan of how the government operates, but I know that some of the things they do are needed and that there are regulations that are needed so that the individuals in the country are not taken advantage of. I think that crony capitalism is the predominant form in our society today. This mainly centers around the lobbyist side of politics. I believe that this supports those people with money and power and only aids in pushing their agendas forward. This was a part the reason for the financial crisis as the large investment corporations lobbied their way into major regulation reforms and certain bailouts.

I don't necessarily know what this knowledge means for the future. It has been about twelve years since this crisis took place and I honestly know very little about what has been done to fix some of the problems that were caused and created by this crisis. My beliefs moving forward will be skeptical towards large investment firms and government policies. I learned that these investment companies were basically playing both sides of the bet. They created CDOs which grouped home mortgages together. Banks would sell off those mortgages to another company and pass the risk off, while another side would be that the mortgages would fail. It became a never-ending cycle and the losses were becoming great. I think something that will always be consistent and present in Wall Street, is an overwhelming greed. Greed is the major factor that drives all of this. However, no matter what regulations are put into place, nothing can control greed. That

is something that is a personal decision. You place regulations in place to deter it, but you can't completely stop it.

Personally, this knowledge makes me want to be a more mindful person in society. I don't want to simply rely on the words and opinions of others. Instead I want to be able to understand the things that I involve myself in. Part of the problem was that the average citizen blindly trusted those on Wall Street to be investing in their personal best interest. This was not the case as the majority of the investors cared more about their company's success or their own success in the market. Insider trading left all of the average investors on the outs, believing they were investing on solid information. I think the most important thing that I have learned from learning about the financial crisis was that I need to be informed about what I am doing.

I also became aware to the major blame game as I like to call it that appears after a catastrophic event. I noticed through my research that everyone constantly pointed the finger at someone else. It was the investors fault or the investment company as a whole. Or it was the government's fault for reducing regulations. Or it was David X. Li's fault for creating the formula that led to so many AAA ratings. Or maybe it was the individual investor's fault for trusting investment banks and taking out such large loans. It's a constant cycle of whose fault it is. I've noticed this cycle with the Covid-19 crisis as well. Ranging from it being China's fault for starting it, to the President's fault for not shutting things down sooner, to the neighbor's fault for not correctly practicing social distancing. With everything you can always point the finger at someone else. I know that in my life personally I want to be able to take responsibility for my actions and the impact that I can

have on society. I'm tired of the blame game and am ready to see people take ownership of their faults so that we can move forward and begin to function as a society again.

Professionally, I will be going into a financial marketplace working for a large accounting firm. I want to utilize my knowledge for good. I may not be working on Wall Street, but I still may have an opportunity to work on an audit for a large firm. I will know the kind of impact our firm's opinion on the financial statements can have. This was seen with KPMG's audit of Iceland's banks. They failed to find anything wrong when there were major problems with enormous loans. This eventually led to a major economic disaster for a fairly stable country. I want to be part of a company that does not allow this to happen to the best of their ability. Accounting firms issue opinions on financials that consumers and investors trust. Therefore, it is important that these opinions actually reflect the company and are not just passed off like the rating agencies did for the AAA investment ratings. I want to make sure that in my professional career, I do not compromise integrity for greed. Greed is a major concern on Wall Street and there is no way to regulate or control it. Greed is an individual choice, but the Wall Street life style and other large corporations heavily support and encourage it.

The current Coronavirus crisis will have a major impact on the economic and political climate in the United States. Local businesses have been struggling to stay open during this time. People have been either laid off or furloughed. There is also a huge level of uncertainty at this point. It is unknown when everything will return to normal. This normal involves more than an economic peace of mind. It mainly focuses on the social security since the Covid-19 pandemic still has no cure or vaccine. There will be a long period of instability within the market place and a lack of trust globally. Before the

pandemic worldwide travel was a common occurrence. Now everyone is afraid of that extensive travel and there have been many travel restrictions due to social distancing. This is a type of crisis that has never been experienced before so it has been an intense period of trial and error. However, there are things that can be learned from former financial crises. We will most likely be in a recession before this is over and possibly instead of the bailouts focusing on the larger corporations that were better equipped to handle the storm, the focus can be turned towards the smaller businesses that did not have the same resources to keep their business running like it had before. One thing I noticed from my readings was that a large amount of the bailout money to the investment firms was given to CEOs that resigned. How is that fair to the millions of people that lost their life savings? If there is regulation, then it should focus on making sure that the people whose money was toyed with are able to recover some before the heads of the company receive their resignation package.

I personally think we are in a better situation to handle this upcoming financial crisis. President Trump is a business man, which is different than a career politician. He is not afraid to negotiate and I believe he has helped settle this country's fears by giving them hope that this virus will pass. The media likes to focus on the negative and currently there is plenty of that to go around, but the country needs hope and a belief that the future will be better. I don't believe a lot of reform will be done to the financial market place after this crisis, but I believe there will be more of a social and environmental reform as we see the impact our global influence has on the environment and other people. There will be a little more unity as we all want to see this crisis come to an end with as few casualties as possible.



It's interesting to note how the crony capitalism spreads into the financial marketplace. The lobbying mechanism allows for the large financial institutions of Wall Street to influence government decisions. This is one of the reasons we saw the major deregulation of the financial market place. It is also apparent in today's pandemic relief packages that are aimed to help businesses through this world-wide shutdown. Wall Street and other large institutions control the government similar to how they controlled the stock market. The average American citizen is on the outside and the insiders are the ones that reap the benefits through an economic crisis. American citizens do not know which government employee has been bought and paid for through crony capitalism and lobbying. This places ordinary American on the outside. Even though the deregulation appeared to look like a scaling back of government control, it was actually a major crony capitalist scheme that allowed the insiders to secure the benefits.

Financial crisis will never not occur. The market is always going to fluctuate. There is risk involved with every decision. I wish I knew the best way to prepare for these crises, but it's a major unknown. The world is so interconnected that some major event in another country can impact the market in America. This also provides for the opportunity to improve and become more diversified. The Coronavirus has showed us how interconnected the world is. The financial crisis of 2008 demonstrated that everyone plays a role in the functioning of the global market place. We have to take precautions without being afraid of failure. The economy built itself back up after the Great Depression and did so again after 2008. After the Coronavirus pandemic the world will rebuild and the market will stabilize again. It's not worth being afraid of the future because the past has shown us that we will move forward.

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