Fundamental Principles of Accounting: A Series of Case Analyses

Bridget McMillan

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FUNDAMENTAL PRINCIPLES OF ACCOUNTING: A SERIES OF CASE ANALYSES

By
Bridget McMillan

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, MS
May 2021

Approved By

Advisor: Professor Victoria Dickinson

Reader: Dean Mark Wilder
DEDICATION

This thesis is to Madeline Grace Dyess, without whom this work would not have been possible.
ABSTRACT

BRIDGET MCMILLAN: FUNDAMENTAL PRINCIPLES OF ACCOUNTING: A SERIES OF CASE ANALYSES (Under the direction of Dr. Dickinson)

Over the past four years at the University of Mississippi, I acquired knowledge about the accounting profession and the application of accounting principles that have arisen throughout the evolution of modern professional accounting. For the thesis requirement in accordance with the standards set by the Patterson School of Accountancy and the Sally McDonnell Barksdale Honors College, I completed a series of case studies covering a variety of topics related to the study of accounting. Under the direction of Victoria Dickinson, I completed these cases over the 2019-2020 academic year. Each case introduces a unique topic and presents findings about various accounting concepts. Through guided academic research, I developed educated conclusions about the modern accounting issues presented in the compilation of case analyses.
TABLE OF CONTENTS

CASE STUDY 1: TALE OF TWO CITIES ................................................................. 1
CASE STUDY 2: OVERVIEW OF BREXIT ............................................................ 14
CASE STUDY 3: AFLAC ANNUAL REPORT ......................................................... 19
CASE STUDY 4: EXCEL CRASH COURSE .......................................................... 28
CASE STUDY 5: REG FD .................................................................................... 30
CASE STUDY 6: ECONOMIC INEQUALITY ....................................................... 34
CASE STUDY 7: TAX LAW .................................................................................. 37
CASE STUDY 8: MONOPOLY MEETS BLOCKCHAIN ......................................... 41
CASE STUDY 9: ACCOUNTING BIOGRAPHY INTERVIEW .................................. 47
CASE STUDY 10: ACCOUNTING INTERNSHIP INTERVIEW .............................. 53
CASE STUDY 11: SYNTHESIS OF THE CURRENT VIRUS CRISIS ..................... 59
BIBLIOGRAPHY ................................................................................................ 67
CASE STUDY 1
TALE OF TWO CITIES
INTRODUCTION AND PURPOSE

This case outlines the two cities in which I considered starting my career, Nashville, Tennessee and Birmingham, Alabama. The scope of my analysis included both my research and my feelings about the findings. The analysis was both quantitative and qualitative in an effort to evaluate the cities as a whole. The analysis attempted to assist me in identifying my first-choice city. It used the following criteria for consideration: population, climate, topography, cost of living, transportation, healthcare, education quality, entertainment, travel home, and expected city involvement.

I chose Nashville and Birmingham because of their location in the southeast and their relatively small firm sizes compared to larger cities. Their proximity to my hometown of Long Beach, MS, and firm sizes of less than 300 people appealed to me.

Through the case study, I found Nashville to be my top choice. There are many things I love about both cities, but ultimately, Nashville offers more opportunities for my long-term career growth than Birmingham. I began my college career studying engineering, with an emphasis in pre-medicine. While I loved my classes, I decided against a career in medicine. After I changed my major to accounting, I continued to desire a career in the medical industry. My research confirmed Nashville as the hub of the medical industry in America. Four out of the top five largest companies in Nashville are hospitals or medical care facilities. Beginning my career in the healthcare capital of the nation would provide me opportunities for growth and connections that would assist me in my long-term career goals.

NASHVILLE

Population
What is the population?

Nashville has a population of 691,243 as of the 2017 census. The city’s size is large in comparison to my small hometown but is by no means a huge city. Nashville has many of the benefits of a larger city while maintaining a smaller feel.

Climate

Describe the climate and seasonal fluctuations. Are you accustomed to living in this weather? If not, describe some of the challenges from this climate.

Tennessee’s climate can be described as mixed-humid, with mild winters and hot summers. This climate is very comparable to what I experienced growing up in the deep south. With slightly colder winters and more bearable summers, Nashville will be a wonderful introduction to the beauty of seasons and an enjoyable summer day.

Topography

Describe the city’s topography, scenery, and other geographic or geological features of the area in which the city is located. Include pictures where appropriate.

Nashville is located in a scenic area of the country with rolling hills, plenty of hiking trails, and the Smoky Mountains nearby. I have visited several times and been struck by the beauty of the city.

Tax Rates

What are the individual tax rates within the city (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/year?
The 2017 tax rate for Urban Services District of Nashville is $3.155, and the rate for General Services District is $2.755. Residential property tax is based on the assessed value, which is 25 percent of the appraised value. Tennessee has no income tax but does have a "hall tax.”

Nashville also has a 9.25 percent sales tax. Marginal federal income tax rate is 22.00 percent while the effective federal income tax rate is 13.13 percent. Considering the marginal federal income tax rate, I would pay $12,100 my first year.

Transportation

What transportation hubs are in the city?

Nashville, one of only six cities in the nation where three interstates connect, gives easy access to Louisville, Indianapolis, Chicago, Birmingham, Montgomery, and Mobile. With more than 28,000 parking spaces, the city makes it easy to bring a car downtown. Nashville is home to an award-winning airport and has a commuter rail that operates during the workweek for peak commute hours.

Industry

What are the city’s most prevalent industries? What are this city’s five largest companies?

Nashville hosts a variety of industries including finance, healthcare, music, entertainment, and publishing. It is the nation’s health care center and the largest publishing center in the Southeast.

1. Vanderbilt University and Vanderbilt University Medical Center: 26,400
2. HCA Holdings Inc.: 10,180
3. Nissan North America Inc.: 10,100
4. Saint Thomas Health: 7,100
5. Community Health Systems Inc.: 5,000

Healthcare and Education

Describe the quality of the city’s healthcare. Describe the quality of the city’s school districts (k-12). Would your children attend public or private schools?

As the nation’s health care center, Nashville provides access to some of the finest healthcare in America. The city is home to many wonderful school districts, with both great public and private school selections. My future children will most likely attend private school.

Crime

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

With a crime rate of 52 per one thousand residents, 80 percent being property crime, Nashville has a relatively high crime rate compared to the rest of the country. According to smartertravel.com, residents and visitors alike should avoid Dickerson Road and Trinity Lane. It concerns me that Nashville has such a high crime rate, especially with property crime. I would be especially careful when selecting an apartment to ensure that I was located in a safe area.

Rent

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 form each location (including pictures). Describe the square footage, amenities, need for a roommate, availability of parking, etc.
I expect to pay between $700-1200/month for rent depending on the number of roommates I have. I would prefer to live with roommates to save on costs. All of the apartments I looked at included parking, a pool, and a fitness center. The average square footage was 1000 square feet.

Commute

What is the typical mode of commuting? Based on your answers identified in the prior question, what are your likely commute times?

I would drive my car to most places. My commute time would most likely be 10-20 minutes depending on traffic.

Grocery

Where will you do your grocery shopping?

There are a variety of grocery shopping options in downtown Nashville such as Kroger, H.G. Hill Urban Market, and local farmer’s markets.

Laundry

How will you do your laundry?

Most of the apartments I looked at had laundry access within each unit.

City Involvement

Name at least three civic, religious, or charitable organizations you would like to be active in for each city?

I would get involved in a local Catholic Church, volunteer to lead a women’s bible study, and find a running club.
Entertainment

What are the sports, entertainment, or recreational activities that you would be most likely to engage in within the city? Name at least five activities.

Nashville is home to a professional hockey team, the Predators and Titans football. I am a sports enthusiast and would love to attend several games. Known for its music, there are thousands of concerts happening in Nashville each week, many of them free, and I would love to listen to live music during my off time. I would also explore local museums and check out Nashville’s best thrift stores.

Hometown

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 to reach your home?

Nashville is within driving distance of my hometown Long Beach, MS, only taking 7 hours by car. Each trip home would cost me around $100 in gas. Nashville also offers me the option of flying home with a non-direct flight into Gulfport, MS with a 3.5 hour flight at around $200 roundtrip.

Cost of Living

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.

<table>
<thead>
<tr>
<th>Starting Salary</th>
<th>$5,000 per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Rent Exp</td>
<td>1000</td>
</tr>
<tr>
<td>Less: Food Exp</td>
<td>500</td>
</tr>
</tbody>
</table>
Less: Entertainment Exp  
300

Less: Travel and Car Exp  
450

Less: Utilities Exp  
350

Less: Income Tax Exp  
1100

Net Income for the month  
1300

BIRMINGHAM

Population

What is the population?

Birmingham has a population of 1.086 million, with just over 200,000 residing in the metro area as of 2017, according to world population review. Birmingham has all the charm of a small southern town with many of the benefits of a larger city.

Climate

Describe the climate and seasonal fluctuations. Are you accustomed to living in this weather? If not, describe some of the challenges from this climate.

Birmingham is situated in the heart of the south, home to a humid subtropical climate, characterized by hot summers, mild winters, and abundant rainfall. Only a 4 hour drive from the town I grew up in, Birmingham’s climate is nearly identical to where I was raised.

Topography

Describe the city’s topography, scenery, and other geographic or geological features of the area in which the city is located. Include pictures where appropriate.
Birmingham, lying in the Jones Valley between a ridge of hills, is a very hilly region of the United States. The city is surrounded by hiking trails and small mountain ranges. I visited the city this summer and was shocked by the natural beauty in the surrounding areas.

Tax Rates

What are the individual tax rates within the city (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/year?

Birmingham residents pay a flat city income tax of 1.00 percent on income, in addition to Alabama’s income tax and the Federal income tax. The Alabama state income tax has scaled rates of 2 percent, 4 percent and 5 percent. Birmingham has a 10 percent sales tax. The Birmingham income tax of 1 percent would come to $550 and the state income tax would be either $1100, $2200, or $2750, depending on what percentage is used in the calculation. Federal income tax would be $12,100.

Transportation

What transportation hubs are in the city?

The city has an airport called the Birmingham Shuttlesworth international airport. Ease of interstate access places Birmingham an attractive stop for travelers throughout the deep south.

Industry

What are the city’s most prevalent industries? What are this city’s five largest companies?
Birmingham's economy focuses heavily on the medical, trade, automotive, finance, and distribution industries. I really appreciate how diversified Birmingham’s industries are and the opportunity to learn about several different markets.

1. Encompass Health
2. Regions Bank
3. UAB
4. BBVA Compass
5. Vulcan Materials.

Healthcare and Education

Describe the quality of the city’s healthcare. Describe the quality of the city’s school districts (k-12). Would your children attend public or private schools?

Birmingham is home to several wonderful hospitals including UAB’s school of medicine. Birmingham has great suburban school districts, with many options for both public and private educations. My children would most likely attend public school in the suburbs of Birmingham.

Crime

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

Birmingham has a crime rate of 72 per one thousand residents, with just over 80 percent being property crime. Those visiting Birmingham are advised to avoid the Druid Hills and Central City areas.

Rent
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 form each location (including pictures). Describe the square footage, amenities, need for a roommate, availability of parking, etc.

I expect to pay between $600 and $750 a month, with a roommate. I would prefer to have roommates to keep costs down. All the apartments I looked at were about the same size, coming in around 900 square feet a unit. They all included parking and laundry units.

Commute

What is the typical mode of commuting? Based on your answers identified in the prior question, what are your likely commute times?

I would drive my car to most places. My commute time would most likely be 10-20 minutes depending on traffic.

Grocery

Where will you do your grocery shopping?

There are a variety of grocery shopping options in downtown Birmingham, such as Trader Joe’s, Kroger, and local farmer’s markets.

Laundry

How will you do your laundry?

Most of the apartments I looked at had laundry access within each unit.

City Involvement
Name at least three civic, religious, or charitable organizations you would like to be active in for each city?

I would get involved in a local Catholic Church, volunteer to lead a women’s bible study, and find a running club.

Entertainment

What are the sports, entertainment, or recreational activities that you would be most likely to engage in within the city? Name at least five activities.

There are several hiking trails around Birmingham, and I would love to go on weekends to enjoy a day in nature. The SEC baseball tournament is hosted in Birmingham every year and I would love to go cheer on the Rebs in my new town. Birmingham also has a minor league team that I would like to watch play. I would also go thrift shopping and coffee shop hopping on weekends.

Hometown

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 to reach your home?

At only 4.5 hours away, Birmingham is within driving distance of my hometown Long Beach, MS. Each trip home would cost me around $50 in gas and 300 miles of depreciation on my car. I love how close Birmingham is to my hometown and appreciate the ease of going home for a weekend to visit family or travel back for special occasions.

Cost of Living

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.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tr>
<td>Less: Food Exp</td>
<td>500</td>
</tr>
<tr>
<td>Less: Entertainment</td>
<td>250</td>
</tr>
<tr>
<td>Less: Travel and Car Exp</td>
<td>500</td>
</tr>
<tr>
<td>Less: Utilities</td>
<td>350</td>
</tr>
<tr>
<td>Less: Income Tax Exp</td>
<td>1100</td>
</tr>
<tr>
<td>Net Income for the month</td>
<td>1600</td>
</tr>
</tbody>
</table>

**FINAL ANALYSIS**

Finally based on your full analysis, determine which one is your preferred city and why?

While I love both cities for everything they have to offer, Nashville is my preferred city. It has what I am looking for both professionally and personally. Nashville offers more growth potential for my career because of its position as the capital of the nation’s healthcare industry and its vibrant and growing economy. Nashville is the perfect size city, allowing me to have a big city experience with all the charm of a small southern town.
CASE STUDY 2
OVERVIEW OF BREXIT
INTRODUCTION AND PURPOSE

This case outlines the current events happening in Britain regarding the country’s decision to either leave the European Union or remain a part of the alliance and the subsequent global impact of the decision. This decision has been highly debated within the public sphere for years and is coming to a climax as the latest deadline, October 31st, 2019, approaches. The British exit from the EU, or Brexit, was voted upon by the United Kingdom over three years ago, but the ultimate departure from the union has been delayed as a result of the complicated and wide-ranging implications. Because the British have been a part of the EU for more than 40 years, their affairs are largely entangled, including trade, citizenship, and border regulation. Britain and the EU are working to negotiate a new agreement but have faced extraordinary complications because of the complexity of the situation, leading to a three-year delay and much confusion regarding the magnanimous decision.

We watched the film Brexit: The Movie, a documentary that unapologetically advocated for the United Kingdom’s withdrawal from the European Union. The movie featured a solely conservative cast who promoted a more democratic and financially independent Britain with large undertones of British nationalism and conservatism. The movie outlined the negative impact of Britain’s involvement in the EU on both industry and global trade. The documentary represented a side of Brexit rarely portrayed in modern media and news outlets, most of whom focus on the vast financial and social implications and the seeming impossibility of determining a fair and beneficial agreement within a reasonable time frame.

Through this case, I learned more about both sides of the Brexit issue and have a better understanding of the subsequent impact of the decision on both a continental and global scale. I
was exposed to the importance of current affairs in relation to the accounting profession, more specifically within the tax industry.

BREXIT: THE MOVIE

The film outlines several issues with the EU as an institution, calling it confusing, anti-democratic, and overly involved. To display the general public’s lack of understanding, the film interviewed people on the streets, asking them to identify members of the EU parliament or list the institutions contained within the EU. All of the people interviewed were unable to name the members or list the institutions, most were completely unaware of how many there were.

Overall, the film emphasized the lack of clarity in authority, division, and power within the EU. The movie defined the EU as “power without accountability,” equating it to a dictatorship. It views the EU as more than just undemocratic, repeatedly calling it “anti-democratic.” It hinged the British vote on how highly the people value democracy, saying the country’s decision to leave the EU would show the world that they want to be genuinely democratic. The institution is highly bureaucratic; the movie even goes so far as to say it’s the “heaven of the bureaucrat.” The movie created an analogy of the EU as intellectuals looking down on the people saying, “You aren’t bright enough (to decide for yourself).” The EU involvement in British affairs led to over-regulation, hurting the economy as a whole.

The film also highlighted the EU’s effect on the British economy, claiming it obliterated the fishing industry, hurt small businesses, increased tariffs, and pushed prices up. The EU’s protectionism mentality led to tariffs, quotas, and higher regulation. This in turn increased prices, cut down efficiency and innovation, and led to shortages on certain products. The regulations helped corporations by cutting down competition but upset customers and smaller businesses. The film dubbed competition as the engine of growth, saying that protectionism is the death of
competition and therefore, growth. The film claimed that the EU is almost entirely to blame for Britain’s stagnant economy and ailing industry.

To predict how Britain would do outside the EU, the film compared it to Switzerland, labeling the country as the opposite of the EU. The movie raved about Switzerland’s thriving economy, low unemployment rate, and high quality of life. They pointed to the wealthy country as a sign that Britain didn’t need the EU’s trade deals to do business. In fact, they thought that being in the EU, cut Britain off from trading with the rest of the world.

AN OPPOSING VIEW

A lot of the tension involved in the decision, derived from the British vote three years ago to leave the EU, with a close margin of 2 percent deciding the issue. At the time, many of the general public were largely unaware of the complexity of the decision and the implications it would have on nearly every aspect of British life.

Contrary to Brexit: The Movie, the media is largely concerned of how Britain would do outside of the EU due to the wide-ranging implications of deciding to leave. Many believe that the EU is good for trade and that leaving would hurt the British economy by upwards of 9 percent, depending on the deal that Britain negotiates. The cost of membership is reasonable for what Britain receives in return, through trade and economic stimulation. Leaving would mean higher tariffs, which would be especially harmful to farmers. It will be incredibly expensive to leave, some estimations put it as high as 100 billion pounds. Financially, leaving may not be their best option.

Many Brits were concerned about regaining control of the borders; however, if Britain were to leave, they would still most likely remain a part of the single market, requiring them to abide by
the EU’s rules for trade and therefore would not have complete control of their borders. The people will not get the Britain they are envisioning.

For the past 40 years, Britain has been a part of the EU. Leaving would be difficult for a variety of reasons, namely border patrol, customs inspections, tensions between Northern Ireland and the Republic of Ireland, trade within the EU, and economic instability. The largest roadblock thus far has been the shaky peace between Northern Ireland and the Republic of Ireland. Adding customs inspections and border control along their border will likely disturb the already fragile peace. Many solutions have been offered up and cast down because of unfeasibility. The complexity of the situation will likely require an equally complex solution.

WHAT THIS MONTH ENTAILS

If the EU and Britain agree to a deal with enough time for legislation before the deadline of October 31st, the deal will be in place. If they agree but do not have enough time for legislation, then the government will seek a short delay to which the EU must agree. Following the delay for legislation, the deal will be in place. If the EU doesn’t agree, there will be yet another delay until January 31st, 2021 at which time a new deal will be proposed. Boris Johnson’s plan involves North Ireland continuing to follow the EU’s rules, removing the need for regulatory check on goods crossing the Irish border. Northern Ireland would remain within the customs territory of the UK, so there would be a need for a customs border between them and the Republic. To avoid increased tensions in the area, the government plans for all customs check to be made away from the border. The EU has yet to accept this offer.
CASE STUDY 3

AFLAC ANNUAL REPORT

Bridget McMillan, Samantha Stershic, Mason Quaka, Kyle Liebert
INTRODUCTION AND PURPOSE

This case assessed our team’s ability to navigate a company’s annual report and draw conclusions from the information contained within the 10-k. This is essentially a public document required by the United States Securities and Exchange Commission (SEC) to be released publicly for use by potential investors, explaining a company’s financial position, current operations, finances, risks, and opportunities. From the annual report, an investor can determine how a company generates profit, what markets it currently operates within, and risks faced by the company. The 10-k contains financial statements including the income statement and balance sheet and disclosure of any accounting practices used to record information about policies, inventory, etc. The 10-k also includes signed letters from the CEO and CFO that signifies the accuracy of the books.

Our group was assigned Aflac, a supplemental insurance company. Aflac was founded in 1955 and is based in Columbus, GA. The company focuses its efforts primarily on policies that are not covered by primary insurance companies; they help cover expenses that health insurance does not. The company generates revenue through health insurance premiums, voluntary supplemental insurance, and life insurance, doing business in both Japan and the U.S.

Through the annual report, our team obtained information about the company’s auditor, KPMG. We also evaluated Aflac’s balance sheet, looking at its assets, liabilities, and equity accounts. We determined the amount of revenues generated within the United States and outside as well as the income generated from other operating expenses. We found the costs included in the cost of goods sold and noted who the suppliers were. We were also able to analyze the change in expenses and revenues over the past three years and draw conclusions based on the information
found within the annual report as well as supplemental articles to support what we saw in the financial statements. We compared net income to cash flow from operations and noted what accounted for the difference. This case helped us learn to better navigate a 10-k, a skill undoubtedly valuable in the accounting industry. It gave us the opportunity to evaluate the information contained within the annual report and draw conclusions about the position of the company.

AFLAC REPORT

1. What is the nature of the company? Based on what you read in the company’s annual report, how do they generate profit? Where is it headquartered? Where do they do business? What is their fiscal year end? If this date differs from the calendar year-end, why did they choose it?

Aflac is a supplementary insurance company. The company focuses on policies that pay cash to help cover expenses that health insurance does not. The company generates profit through health insurance premiums, voluntary supplemental insurance and life insurance. This information was gathered from the annual report under Item 6. According to Item 8 Note 2, Aflac is headquartered in Columbus, GA and does business in Japan and the U.S. The Fiscal year end was found in Exhibits, Financial Statement Schedules, showing that Aflac reports its year-end as the calendar year-end, December 31.

2. Who are your company’s auditors? Name the firm and city.

KPMG audits Aflac. The firm is located in Atlanta, Georgia.

3. Describe each asset on your company’s balance sheet. Determine any relevant accounting policies related to these accounts. Now do the same for liabilities and equity accounts.
Aflac has many assets on the company’s balance sheet, all recorded in millions. These include securities available for sale, which are priced at fair value and are worth $82,895, securities held to maturity that are worth $30,218 at amortized value, equity securities at fair value of $987, and other investments of $7,706. It is important to know that for the mortgage and asset backed securities, Aflac uses a constant effective yield, which is recalculated to consider the actual adjustment had the new effective yield been applied at the time of purchase. Cash and cash equivalents are valued at $4,337 and cash on hand, money market instruments, and other debt investments with a maturity of 90 days or less when purchased, make up this value. PPE is made up of land with a value of $168, equipment and furniture with a value of $400, buildings at $456, and accumulated depreciation at $581. This depreciation is computed on a straight-line depreciation where buildings have a life of 50 years and furniture and equipment have lives of 20 years. Accrued investment interest is another asset on the balance sheet that is valued at $773. Receivables is the last asset recorded at a value of $773.

The liabilities and equity on the balance sheet are also recorded in millions. Policy liabilities, with a value of $86,368, unpaid policy claims worth $4,584, unearned premiums valued at $5,090, and other policyholders’ funds, with a value of $7,146 are a large portion of the liabilities section. Unpaid policy claims are estimates computed on an undiscounted basis using historical statistical analysis adjusted for current trends and conditions. Additionally, the insurance premiums include those for cancer, accidents, hospitals, critical illnesses, dental, vision, term life, whole life, long-term care and disability, and are recognized as revenue over the premium-paying periods. Notes payable has a value of $5,778 while payables for return of cash collateral on loaned securities is worth $1,052. Income taxes are valued at $4,020 and other liabilities have a value of $2,906. Other liabilities include derivatives from consolidated variable
interest entities. Common stock under the equity section of the balance sheet is at $10 at par value. 1,900,000 shares were authorized in 2018 and 2017, but only 1,347,540 shares in 2018 and 1,345,762 shares in 2017 were issued. Additional-paid-in-capital has a value of $2,177 and retained earnings is worth $31,788. An unrealized foreign currency transaction loss of $1,847 documented, along with an unrealized gain on fixed maturity securities valued at $4,234 and an unrealized loss on derivatives worth $24 were reported. A pension liability with a value of $212 was recorded in the equity section, in addition to the treasury stock, valued at average cost, worth (12,789). A two for one stock split did occur in February 2018, which affected the liabilities and equity of Aflac. Finally, it is crucial to know that the assets, liabilities, outstanding principal, and related accrued interest accounts are translated from Japanese yen to dollars at an end-of-period exchange rate. Other revenues, expenses, and cash flow are translated using average exchange rates for the period. Aflac is a large company and therefore has many assets, liabilities, and equity, all with separate accounting policies.

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 of the U.S.?

Because Aflac is an insurance company, the company’s target customer is 35-54-year olds. This target market is addressed through the Aflac Duck commercials. Aflac specializes in cancer expense insurance, but has expanded its market into supplemental insurance, which helps customers pay out-of-pocket expenses not covered by primary issuers. Aflac’s supplemental health and life insurance policies are classified as long-term contracts, which is where the revenue comes from. Generally, the contract provisions cannot be changed, but the premiums
can be adjusted for prescribed guidelines. The premiums, as stated above, are recognized as revenue while related amounts of benefits and expenses are charged against the revenues. The premiums are collected over a shorter period than the length of the period for which the benefits are provided. Any possible gross premium in excess is deferred and recorded in earnings, so that profits are recorded in a constant relationship with insurance. Any benefits are recorded as an expense when they are incurred and liabilities for future policy benefits are recorded when premiums are recognized. Interestingly enough, 70 percent of the company’s revenue comes from Japan, which besides the United States, is the only other market for Aflac.

5. Describe your company’s suppliers – who are they and what products or services do they provide to your company? What types of costs are included in your company’s COGS? Aflac’s suppliers are unlike many other industries. There are basic needs of insurance companies, that are costs all companies incur. Aflac has simple suppliers for things such as office supplies, office equipment, and material for insurance cards. Much of Aflac’s business is not, however, generated from the sale of insurance cards. The main suppliers of Aflac’s insurance policies are the policy holders themselves and banks. Policy holders pay forward for insurance policies, which in turn finance their own and others insurance policies. Insurance works by pooling policyholders’ of similar risks monthly payments to cover losses. Risk and savings plans play an important role in the supply of the company. Because Insurance is a service company with no tangible product changing hands, most of the costs of goods sold will be incurred from salaries. The direct materials associated with cost of goods sold are minimal and are hardly calculated. Items like insurance cards are pennies on the dollar to distribute. The largest cost of goods sold incurred is through the issuance of salaries of
workers directly involved in the sales and service of insurance policies. All other expenses are indirect costs.

6. Describe each category of other operating expenses on the income statement – how do these expenses help generate revenue?

The list of operating expenses include amortization of deferred policy acquisition costs, insurance commissions, insurance and other expenses, and interest expense. There is an expense for amortization of the DAC. A deferred acquisition cost is when the costs for acquiring a new customer are drawn out along the period of the insurance contract. This expense allows Aflac to not incur such high costs at the beginning of an insurance policy, rather the expenses are stretched across the term of the contract. Insurance commissions are closely tied to employees’ salaries. As incentive for selling insurance policies, employees are given percentages of sales. This expense encourages workers to excel in their issuance of policies. On the consolidated statement of comprehensive income is the expense for insurance and other expenses. This includes insurance claims. A claim is request to the insurance company to cover the costs for a loss. This is the intangible product, that drives revenues for an insurance company. When an incident happens, people file for claims to Aflac for events covered in their contract. Aflac then provides their customers with compensation. The last expense on the statement is an interest expense. The interest expense covers interest incurred on cross currency, interest tax, and any outstanding debts. Interest expenses are basic expenses of doing business.

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?
In the year 2016, Aflac had revenues of $19,225,000,000 and expenses of $18,492,000,000. The following year their revenues dropped by 3.6 percent to $18,531,000,000 and their expenses dropped by 4.6 percent to $17,649,000,000. Last year Aflac had revenues of $18,677,000,000 and expenses of $17,775,000,000; rises of 0.8 percent and 0.7 percent, respectively, from 2017’s revenues and expenses. The revenues from 2018 were still down 2.9 percent from two years prior with expenses being down 3.9 percent. One article from the CFO talks about this small decline in Aflac’s revenues. The article, titled “For Aflac, Slow Growth Means Extra Cash Flow”, says that the reason for Aflac’s fall in revenues over the last couple of years is because they are able to acquire more profitable cash while in this low-growth mode. When Aflac’s growth rate slows down, their cash flow and capital generation start to pick up. On average, Aflac is investing $800 million towards the company’s common stock dividend yearly and also has a $250 million venture capital fund.

8. Compare your company’s net income to their cash flows from operations. What accounts for the difference?

In 2018, Aflac’s net income was $2,920,000,000 and their cash from operations was $6,014,000,000. The difference between the net income and the cash from operations is because there are accounts and other factors that affect net income but are non-cash. The accounts receivable account and capitalization of deferred policy acquisition costs both increased that year, this increase in these accounts increases net income but are both non-cash. The other accounts that affect this difference between net income and cash from operations are amortization cost, policy payable and income tax payable, and a loss in an investment. All of these accounts increased over the year, which caused a decrease in the net income. But because
all of these accounts are non-cash, they do no decrease cash flow so must be added back to net income in order to find the cash from operations.

9. Which accounts on your company’s balance sheet contain estimates or judgement?

Aflac’s balance sheet includes a few estimates and predictions requiring judgement from the company. It carries a reserve as a liability which is predicted based on how much is required to pay future benefits. The company calculates as an estimate the amount of tax that is payable. Aflac also estimates the fair values of its security on a monthly basis. The company uses judgement to estimate its deferred Policy Acquisition Costs and the liability for future estimates.
CASE STUDY 4
EXCEL CRASH COURSE
Corporate Finance Institute®

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

Bridget McMillan

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 13810-434

Chair of the Board

Director

Director

Sep 26, 2019
CASE STUDY 5
REG FD RESPONDING TO A CLIENT
INTRODUCTION AND PURPOSE

This case expanded my knowledge of the WorldCom scandal and the Regulation Fair Disclosure ruling. In 2000, the Securities and Exchange Commission (SEC) made a ruling called the Regulation Fair Disclosure, or more commonly, Reg FD. In short, Reg FD reinforces the fair disclosure principle. As Confessions of a Wall Street Analyst put it, “…companies shouldn’t provide information to a single analyst that they’re not willing to simultaneously share with the entire world.” Financial analysts exist to assess the financial condition of firms to determine the investment risk involved. They require a level of proximity to the companies they are analyzing; however, they should not be privy to private or insider information, as this would be a violation of the fair disclosure principle.

WorldCom was the biggest accounting scandal in US history. In order to hide their income losses, the company inflated their net income, recording expenses as investments. This led to a profit exaggeration of $3 billion, a lack of trust in the integrity of the accounting profession, and the ruling of Reg FD. Jack Grubman was a financial analyst who violated the SEC’s regulation of fair disclosure. Grubman Grilled-Solly Analyst Bumbles Before Lawmakers by Jessica Sommar summarized Jack Grubman’s first public account explaining his role in the WorldCom scandal. He admitted to having attended multiple board meeting for WorldCom, well outside the realm of his role as an analyst. He inflated the stock price of the company and enabled “insiders to dump their stock at high prices while the rest of the public” was burned.

A deeper understanding of this scandal and the regulation that followed will be helpful in my future profession in accounting. I have a greater awareness of the integrity required within this profession, the gravity of financial reports, and the history of the current regulations.
RESPONSE TO CLIENT

Client,

To answer your question regarding Regulation Fair Disclosure, or Reg FD, it was an effort by the Securities Exchange Commission to prevent selective disclosure by public companies. In other words, it means that if a publicly traded company discloses information to a select group, the firm must release that information to the public as well. The goal of Reg FD was to restore the general public’s confidence in the market by leveling the playing field for all investors. This is relevant to you as CEO because it affects the way that you report any material financial information. Be careful not to disclose any information to a private party that you are not prepared to release publicly.

Reg FD was created in response to the WorldCom scandal. As the biggest accounting scandal in US history, WorldCom forced the SEC to take action, requiring publicly traded companies to abide by stricter disclosure regulations. In order to hide their income losses, WorldCom exaggerated their net income by recording expenses as investments. This overstated their assets and led to a profit exaggeration of $3 billion. Jack Grubman was a financial analyst who violated fair disclosure in the WorldCom scandal. He inflated stock prices of the company which enabled insiders to sell out and left the general public to eat the loss. It created a lack of trust in the integrity of the accounting profession and resulted in the creation of Reg FD which is still in effect today.

As the CEO, you are unable to share information that could impact the decision of an investor without reporting it publicly. Even nonfinancial performance metrics could be material. To be
safe, you should refrain from posting any information that could be a breach of Reg FD on your personal Facebook page.

After reading the article *Can Elon Musk Tweet That? The SEC May Have an Opinion* by Bloomberg, it changed my opinion slightly. Social media is an acceptable form of public disclosure as of 2013. Posting nonfinancial performance metrics like the number of customer orders and magnitude of web traffic is fine to release online as long as it is accessible to the public. Please reach out if you have any more questions regarding this policy.

Sincerely,

Bridget McMillan
CASE STUDY 6
VIDEO REVIEW
“THOMAS SOWELL ON THE MYTHS OF ECONOMIC INEQUALITY”
INTRODUCTION AND PURPOSE

This case was a combination of both an internal reflection of personal thought and an external commentary on points of economic inequality. Our class began with an opportunity for reflection on two questions that probed our opinions about the electoral college and the potential institution of UBI in the United States. This set the stage for the remainder of the class period which consisted of an open dialogue discussion surrounding both questions and the implications of the implementation of each, followed by a video titled, “Thomas Sowell on the Myths of Economic Inequality.” The video centered on Thomas Sowell’s book, A Conflict of Visions in which he comments on socialism, poverty, inequality, and their relationship with the economy. This case is a summary of the video and what I learned from it.

As I watched this video, I gained a broader understanding of the influence of economic inequality in the public sector. I learned more about one of the greatest economists of my time and heard his thoughts on relevant social issues that my generation is sure to face in the upcoming years. I also learned more about the common misconceptions that are often publicly pronounced as facts through modern media outlets and the implications that this has had on my generation’s worldviews. I found a deeper appreciation for theories and information that are purely evidence-based which Thomas Sowell repeatedly emphasized the importance of. Through this video, I gained a greater appreciation for the work of economists and the ability that their work has to influence the public sector for good.

VIDEO SUMMARY AND REVIEW

“Thomas Sowell on the Myths of Economic Inequality” is a 55-minute video covering an interview with Thomas Sowell for the Hoover Institution. It was recorded on November 15, 2018.
and posted to the Hoover Institution’s website. In the interview Sowell discusses economic and racial inequality as well as the myths that have permeated conversations about the system of poverty for decades. Sowell breaks down the economic theories used to justify the myths and proposes facet-based solutions to replace them.

As a young person, Sowell was struck by the poverty and housing inequality found in the poor parts of New York City. In looking for an answer, he “stumbled upon Marxism,” and it “seemed to make sense.” Sowell continued his education in economics at Harvard, earned a master’s degree from Columbia, and finished with a PhD from the University of Chicago. It wasn’t until his job working for the Department of Labor that Sowell began to question Marxism. He became discouraged by selfish institutional interests and began searching for better solutions to the problems presented through economic inequality. Eventually he became dissuaded of Marxism and government in general saying “the fundamental problem is not nature but institutions.” He shed light on the human-and American-tendency to want to fix large problems with simple solutions, but he has found that some issues are deeper than an institution can fix.

Much of the discussion was guided by Sowell’s work A Conflict of Visions, throughout which he explains the limitations of institutions. He touched on the harm of affirmative action, the false reality of socialism, the disservice of welfare, the futile attempts to make amends of the harm caused by slavery, and the corruption in modern politics and economics.
CASE STUDY 7

TAXES

BRIDGET MCMILLAN AND CONNOR MCCARTHY
INTRODUCTION AND PURPOSE

In summary, this case outlines the tax laws associated with YouTube influencers and the potential ramifications of misrepresentation of tax information. For this case, we were asked to put ourselves in the place of a tax accountant who specializes in international tax. This tax accountant has worked with an important audit client for nearly twenty years, filing his personal tax returns.

During lunch with the client one day, the tax accountant realized that the client’s thirteen year old daughter, Emma, had been a YouTube star for the past four years, with her monthly revenue averaging between $10,000 to $15,000 per month. The tax accountant is concerned upon hearing this news because it could have major implications on the accuracy of the client’s personal tax returns.

The following case outlines a memo from the tax accountant to the partner group back at the firm, outlining the potential ramifications of the misrepresentation of personal tax information. The case also includes a memo from the tax accountant to the CEO explaining what the new information means for his past tax returns.

Overall, by examining this prompt, I feel that I was able to strengthen my capability of researching previous years’ tax laws, interpreting tax laws, and relaying difficult information to partners and clients.

According to prior set standards, students are unlimited by word count or citation expectations, but it is generally expected that students follow the case format found on Blackboard.
Dear WRpR Nashville Partner Group,

It has been brought to my attention that David Smith, CEO of Tooth Shine, inc. requires a brief retrospective examination of the information supporting his tax filings, specifically as it relates to his previous two-child-dependent status and subsequent qualification for Dependency Exemptions and Child Tax Credits.

As of February 12th, the facts as they stand lead Bridget and I to believe that Emma’s online music entertainment services may have led her to become self-sustaining. This suspicion creates a need to examine supporting documents to determine whether Emma has exceeded the 50 percent of support qualifier for her Qualifying Child status.

We do not expect this to have material ramifications as Mr. Smith has remained in the highest tax bracket for the entire duration of Emma’s operational materiality, and this eliminates the influence of a child tax credit or personal exemption amount.

Best regards,

Bridget McMillaan
Connor McCarthy
Dear Mr. Smith,

I enjoyed meeting you for lunch the other day. It was wonderful hearing about Emma’s YouTube success; however, it did raise some concerns on my end, as she will most likely have to file a 1040 for every year she made more than the relevant standard deduction for her appropriate filing status, and to pay associated penalties for the lateness. I would like to meet with you again to discuss these matters. We will need to determine Emma’s filing status as far back need be to pay the appropriate tax liabilities.

To do this, we will need to gather verification of the level of support Emma has provided to herself and that which has been provided by your own resources. If she is providing more than 50 percent of her own support then she no longer qualifies as a dependent and will need to file under the single status.

Her advertising revenues of roughly $12,500 a month will result in her being taxed under self-employment regulations, about 15.3 percent, as YouTube does not withhold any taxes for their channel providers. Additionally, her interest revenue and income from vendor packages/deliveries will need to be tallied up to generate a taxable income amount.

Best regards,

Bridget McMillaan
Connor McCarthy

BONUS: Emm’s Gems
CASE STUDY 8
MONOPOLY MEETS BLOCKCHAIN
INTRODUCTION AND PURPOSE

This case defines what Blockchain is, how it would work on a global scale, and how a better understanding of its concept will benefit my future career. It also outlines my experience with “Monopoly meets Blockchain.”

Having a deeper understanding of Blockchain will be valuable to my future career because of the likelihood of Blockchain being implemented to some degree in one of my potential future client’s companies during my time working at a public accounting firm. I could be asked to audit or design a Blockchain database for a company and would require a vast understanding of the complexities of the system.

I learned that Blockchain is essentially a growing list of records, referred to as blocks. The system is designed to prevent data manipulation. Every block in the chain is linked using cryptography, making each individual block unique and connected to the subsequent block. Due to this, it would be incredibly difficult for a hacker to change the information of one block because it would require the manipulation of every block after.

Blockchain would be difficult to implement on a global scale because of the complexity of its design. There is less room for data manipulation but more room for error as there are so many moving parts in a Blockchain. However, Investopedia in their article “Blockchain Explained” found a survey published by Deloitte showed that out of a thousand companies, 34 percent had already implemented Blockchain to some degree and an additional 41 percent expected to implement a system in the next year.
SUMMARY OF EXPERIENCE

Investopedia in their article “Blockchain Explained” defined Blockchain as a growing list of records, referred to as blocks. The blocks are linked using cryptography which essentially contains three elements: transactional data, blocks representing the participants in the blockchain, and a unique code distinguishing the block from other blocks. The transactional data includes data, time, and dollar amount. The parties are recorded using unique digital signatures that can be equated to a username. The unique code is called a “hash” and distinguishes individual economic transactions from one another. In order to be recorded as Blockchain, a transaction must occur, be verified, stored in a block, and be given a hash. The newly added block is also given the hash of the most recent block added to the blockchain. When a new block is added, the block is then available for public viewing, meaning anyone can view the contents of the Blockchain.

Every computer in the Blockchain network has a copy of the chain which is how it is resistant to data manipulation. A hacker would have to access every copy of the Blockchain in the entire network in order to manipulate any of the data. To change one single block, a hacker would need to change every subsequent block. This is where the idea of a “distributed ledger” comes from.

When we explored the concept of Blockchain using monopoly, I found that it required the information to pass through the hands of so many people that it was impractically slow. There was initially a massive backup due to the amount of information flowing through one central input system, “Big Momma” and “Big Poppa.” There was a lot of room for human error as the information passed through each level before it reached the cloud.
I was a business manager and was able to make it through seven turns during the two and a half hours we played. Using Blockchain, significantly slowed down the average turn time for a game of Monopoly. As a business manager, I would roll the dice, move my piece, and purchase any property I landed on. Then I had to register the purchase of the property with Big Momma and Big Poppa. To do so, I would tell them the property I wanted to by, the amount the property cost, my state and my unique key, 29. My property was partially owned by Big Momma and Big Poppa until another person from a different board also bought the same property and then began to receive the other half of the rent. Every time someone owed me rent, I had to notify one of the runners. Every time I passed “Go”, incurred an expense, or received additional cash, I had to notify another member of Big Momma and Big Poppa’s team.

I purchased 4 properties:

St. Charles Place
Kentucky Avenue
Indiana Avenue
Oriental Avenue

None of the properties had any houses or hotels.
FINANCIAL STATEMENTS

Balance Sheet

TODAY'S DATE: 3/12/2020

ASSETS:
- Cash $417
- Properties $686
- Buildings $6

Total ASSETS: $1097

Total of CASH, PROPERTIES and BUILDINGS

LIABILITIES
- $0

EQUITY:
- Stock $1666

Ending Retained Earnings $4027

Enter amount from ENDING RETAINED EARNINGS from Statement of Retained Earnings here

Total LIABILITIES PLUS EQUITY: $1097

Total of LIABILITIES, STOCK AND ENDING RETAINED EARNINGS

Statement of Retained Earnings
For the First Period of Operations

Beginning Retained Earnings $0

NET INCOME $4027

Enter amount from INCOME STATEMENT here

minus

Dividends $0

Equals

Ending Retained Earnings $4027
YOUR NAME: Bridget McMillan

Income Statement
For the First Period of Operations

REVENUES 5477

minus

EXPENSES 88407

equals

NET INCOME 4102 (if this number is negative, you have a NET LOSS)
CASE STUDY 9
A BIOGRAPHY
BASED ON AN INTERVIEW WITH REATHA HUEY CLARK
INTRODUCTION AND PURPOSE

The purpose of this case was to give our class the opportunity to speak with a professional that was well established or retired from a career in the business sector. We were encouraged to ask them questions about both their personal and professional life to gain a better understanding of their journey to where they are now. We were permitted to interview family friends or relatives to learn more about our loved ones in a context in which we might not already be familiar.

This case summarizes an interview with Reatha Huey Clark from March 28, 2020. I lovingly refer to her as my Aunt Reatha, although we share no blood relation. I grew up around her and saw the final years of her career in public accounting. It was a pleasure to hear her speak about her life from childhood to retirement. I learned so much about a career in accounting from hearing about Reatha’s path to becoming a partner with PwC.

I will outline what I learned about Reatha's career from my interview with her in a biography-styled summary. I will touch on her childhood, college years, and career. Reatha shared a few stories with me that influenced her throughout her life. Each story was full of life and career advice that I will hold onto as I head into a career in accounting.

Through this case, I learned more about the changes that occurred in accounting over the past several decades and have better insight into the personal life of a partner at a Big 4 accounting firm.

BIOGRAPHY

Reatha Clark grew up in the small town of Louisville, Mississippi, known by many as the “Front porch of the South.” She was shaped by her childhood years spent in central Mississippi
surrounded by her many brothers and sisters, as the second oldest of seven. During her high school years, she was actively involved in her school and town as a member of the band, a Girl Scout, and the editor of the school newspaper.

As her high school graduation approached, Reatha began preparing for college. She applied to many schools, and her decision was ultimately influenced by her dad, who wanted her to go to Mississippi State, so she could continue to live at home. She visited Ole Miss and immediately fell in love with both the campus and the opportunity to move out of the house.

Before leaving for school, Reatha earned college credit for a number of courses allowing her to basically skip her freshman year and complete her degree in three years. She entered college as a journalism major, inspired mainly by her time as editor of her high school newspaper and her mother, who was also a journalism major. Reatha took principles of accounting as a freshman with Dr. Jimmy Davis. Many people told her to drop the class because of the difficulty of the professor, but she loved him.

Reatha treated class as her job, taking between eighteen and twenty-one course hours a semester. She was a member of Pi Phi sorority and president of a campus organization during her time at Ole Miss.

Reatha changed her major after a dispute with the head of the journalism department, a conflict that shaped her life in countless ways. The department head told Reatha she was going to be a failure. He critiqued her writing by calling it "rushed" and that she wouldn't make it in journalism. This confrontation came as a complete shock to Reatha who had always done well at
things and been told she could be anything she wanted. She says that years later, she was able to see he was only trying to help her to stop procrastinating, but she did not hear that at the time. She walked straight from his office to the registrars and switched her major to accounting.

Following her time at Ole Miss, Reatha went to Memphis to work for Touche Ross and Company, where she remained from 1979-1983. In 1983, one of her former managers offered her a job in his healthcare company, Care In. She began as the CFO and later ran the consulting department for the company. After years of consulting work with Care In, Reatha went to work for Coopers and Lybrand in Memphis, doing healthcare consulting with them. She admitted a partner in 1997 in Atlanta, where she remained until her retirement in 2015.

Reatha reminisced on the many lessons she has learned over the years. She says she wished she had learned to take criticism better earlier. She took every criticism personally, but now knows “it means they don’t like your work, not you.” Reatha admitted that some people do not deliver criticism well, saying, “This lesson is important, but I don’t have to let them treat me badly while they deliver it,” in speaking about how to diffuse a yeller in the workplace. She says you have to hear it, accept it, and let the rest wash away.

Reatha said she saw the world change in many ways over the course of her career. She remembers when the first PCs came out, in all their bulky glory. She watched how technology transformed the accounting industry and the impact that it has had on the way individuals add value to the firm. She sees this as the biggest challenge for the newest generation of accountants. The digital age and globalization are changing how a career in accounting looks. She says young
people need to be better prepared to think about what the data means and learn how to interpret it; it is not enough to know how to do the work.

Reatha also witnessed the industry grow in diversity, claiming inclusion was the biggest challenge for her generation. When she began in Memphis in 1979, Reatha was one of two women on staff. At least one person from every job she interviewed with saw her wedding band and asked what kind of birth control she used. Reatha said, “They wanted to know if I was going to have babies and quit. It wasn't unusual. Everybody did it. Nobody would dream of doing that now. It's just the way it was.” She remembers sitting in an office-wide meeting when one of the managers said, in front of everyone, "We don't think the women should be on the jobs where you have to travel because it makes our wives jealous." She was one of only four women in the office, making it hard not to take the statement personally. She saw an industry-wide effort that focused on having a whole life, allowing women to be mothers and men to be fathers.

Life outside of work saw Reatha as a loving wife and dynamic mother of four. Reatha decided early in her career that she wasn't going to work on weekends. She worked hard and long hours during the workweek, but when she was home, she was one hundred percent home. She believes that there will always be more work to do, but it was rarely necessary to go into the office on a Saturday. She was a field trip chaperone for her children’s classes and the cookie mom for her daughters when they were scouts. When asked what she was most proud of, Reatha answered immediately, “My children. I look at their lives and their accomplishments and think ‘We did it right.’”
Family is at the heart of so much for Reatha Clark, so it is no surprise that her favorite vacation was a road trip out west to the Grand Canyon with most of her siblings and their children. As she was preparing to leave, she emailed her team at PwC the times she would be available to check her email and take calls. At the time, she was working on a global team, and many of her colleagues were from London. They thought she was crazy. They taught her so much about disconnecting because in England, when they take vacations, they completely leave work behind. They taught her to delegate and trust her team while she was gone. Reatha left her mark on the industry and is a model to countless women. She learned many lessons throughout her career and taught many more.
CASE STUDY 10
ACCOUNTING INTERNSHIP
BASED ON AN INTERVIEW WITH RIDGE BROHAUGH
INTRODUCTION AND PURPOSE

The purpose of this case was to spend time speaking with a current senior following the end of their accounting internship with a public accounting firm in order to gain a better understanding of the experience as a whole. I interviewed Ridge Brohaugh, a current senior at the University of Mississippi. Ridge is an accounting major and manufacturing minor. He completed his internship with KPMG’s Nashville office in the spring of 2020.

This case summarizes an interview with Ridge Brohaugh from April 7, 2020. Throughout the interview, we touched on why Ridge chose Nashville for his internship, what kind of work he did over the course of his time with the firm, and advice he would give rising seniors regarding coursework, internship preparation, and internship decisions.

Throughout this case, I will outline what I learned about Ridge’s internship experience and how it will translate to my own future internship. I will cover a typical day in the life of an intern. Ridge shared a number of stories with me that summarized different aspects of his internship. Each story was full of life and career advice that I will hold onto as I head into my accounting internship.

Through this case, I learned more about what to expect as an accounting intern with a Big Four firm. I gained great insight into how to select the firm I will do an internship with. I also learned more about life in Nashville, the city I also chose to do my internship in.

SUMMARY OF INTERVIEW

Originally from Madison, MS, Ridge Brohaugh headed a few hours north to Oxford, MS to pursue a degree in accounting from the University of Mississippi. He is a member of the Center
for Manufacturing Excellence, a program that combines engineering, business, and accounting majors into a collaborative learning experience to earn a minor in manufacturing.

As Ridge began the accounting internship recruiting process his junior year, he was immediately drawn to Nashville. He loved that it felt like a big city but had all the charm of a smaller town. Being from Mississippi, he thought New York might be too big of a jump, and Nashville had a lot to offer saying, “It’s a booming city. The kind you want to be a part of in your 20s.” Looking into the future, Ridge could see himself working in real estate development, so a growing city had a big appeal.

Ridge also noted the benefits of an internship in a smaller city like Nashville. He didn’t want to go to a huge city and get stuck on one client or only be exposed to one account during his entire internship. He knew that in a smaller office, he would have slightly smaller clients and being working on smaller teams. “This really rang true during my internship,” he says.

Ridge spoke to his decision process during accounting recruiting. He liked all of the people that he met through recruiting with KPMG. He says that even though he didn’t work directly with any of the people that recruited him during his internship, the culture was still very much the same. His advice is to go with the firm where you know you recognized as important. He spoke further to this saying, “You don’t want to have to prove your worth to them once you get there. You want to be seen as an important part of the team from the beginning.” He knew KPMG saw a lot in him and wanted to work for a company that would continue to grow him.
Over the course of his ten-week internship with KPMG, Ridge had the opportunity to work with three different clients in a variety of industries. His first job was with a manufacturing company called Astec Industries. The Chattanooga based company primarily manufactures specialized equipment for asphalt roads. He spent two weeks working with Astec. Because the job was based out of Chattanooga, the firm paid for his team to stay in a nice hotel and gave them a daily allowance of $70 for food and gas.

During his time working with Astec, Ridge said he worked upwards of 80 hours each week. He was on a team of four and really enjoyed working with them. He laughed saying that his team loved to eat very good food, so he would often spend a few hours each day planning lunch and dinner. He especially enjoyed working with this client because of his background in manufacturing. He said it was cool to see so much of what he learned in class in a real-life accounting setting.

His next two clients were both in the restaurant industry. He worked on J. Alexander’s for three weeks, where he averaged about fifty hours a week. He spent his last four weeks at Hardee’s, working about fifty-five hours a week. He noted that Hardee’s had the best office. He thought it was cool to the see the branding everywhere and know he was working with a household brand name.

Ridge said he made a large effort to maintain a consistent morning routine to avoid traffic and get some personal time in. He would go on a run most mornings and try to be out of the house by 6:30. He didn’t have to be in the office until 9:00, so he would usually go to a coffee shop to
spend some time reading. His days typically consisted of running tests on different accounts for the client. There was a protocol for each test, so he was able to reference how it had been done the year before. He would pull a sample selection of journal entries and run tests specific to that account, looking for any areas of concern. Ridge said it was nice because people were always willing to show you how to find the account file and follow the procedures. He laughed saying, “You will feel dumb the entire time. But, good news is they don’t actually expect you to know anything.”

Ridge said he spent ninety nine percent of the day working in excel. He said it wasn’t complicated excel work, mostly just v-lookup and pivot tables, but knowing how to do that helped speed up his tasks tremendously. Ridge also spoke to the importance of going to social events with other people from the firm. He said it helps to enjoy the work you are doing if you know the people you are working with.

Looking back on his internship, Ridge said he had a couple pieces of advice. He wishes that he would have looked at the bigger picture more while he was doing the small tasks. He thinks he would have enjoyed small pieces of it more had he taken a step back to understand the whole picture rather than just following procedure. He also spoke about the importance of having a positive attitude and keeping perspective. He noted that having a good attitude helps your whole team. “There will be days when you are tired and don’t want to be there. Sometimes you can’t be happy automatically, but you have to keep the perspective. You can look back on everything you learned and be proud of yourself.” He equated audit work to a puzzle; it isn’t always fun while you are doing it, but when you finish, it feels good.
Overall, Ridge had a positive experience during his internship with KPMG in Nashville. He looks forward to returning to work for them again next winter during his grad year internship.
CASE STUDY 11
A SYNTHESIS OF THE CURRENT VIRUS CRISIS AND ITS EFFECTS ON THE ECONOMIC CLIMATE IN THE UNITED STATES
INTRODUCTION AND PURPOSE

The purpose of this case was to gain a better understanding of the history of economic crises in the United States in light of the current economic crisis resulting from the global pandemic of COVID-19. For this case, we looked at the American financial sector from the time of the Great Depression to the 2008 Recession through a series of videos and articles in order to apply that insight to the current virus crisis.

This case summarizes what was discussed in the materials given and evaluates my personal thoughts and opinions about what this knowledge means for the future, including my own role in society both personally and professionally. I will also touch on the potential effects COVID-19 will have on both the economic and political climate in the United States.

Throughout this case, I will outline what I learned from the source materials, provide an overview of my beliefs before and after consuming the information, and discuss my thoughts on the potential impact that this knowledge has for the future. In my discussion of the potential impact of the information presented, I will examine my own role in society, the effect on the economic climate in the United States, and how the entire discussion can and should be applied to the current situation that the world is facing.

Through this case, I learned more about the history of regulation in the financial sector in the United States. I also had the opportunity to develop my own beliefs surrounding the topic and analyze the potential effects of the virus on the global economy, regulation in the United States, and my career.
SYNTHESIS

Before this case, I had little knowledge of the history of financial crises in the United States. With that, I had a very limited understanding of the impact that regulation has on the financial sector, specifically on investment banks. I did not have particularly strong beliefs about the way our country needed to handle regulating this industry. I had no idea the implications that this regulation could have on the lives of so many.

After watching the YouTube video What is Crony Capitalism, I was appalled to learn about the unfair and wasteful concept of cron manipulation. The video highlighted the idea that limited government would eliminate cron manipulation; however, after consuming more information about the history of corruption in politics, specifically lobbying on behalf of the big banks, I felt that deregulation was the cause of much of the economic turmoil of the past. While the video highlighted the important issue of cron manipulation, it failed to recognize the important role the government must play in regulating the industry.

The movie Inside Job broke open the corruption and deregulation that led to the housing bubble and the 2008 recession. Following the Great Depression, banks were tightly regulated. Deregulation of the banks began with the Reagan administration, allowing banks to make risky business moves with people’s savings. Policies were made in favor of deregulation. The Gramm-Leach-Bliley-Act overturned Glass Steagall and allowed for large mergers. This gradual deregulation led to investment banks taking larger risks without making the general public aware of the true status of the investments they were putting their money in. They all justified the risk by saying, “Everybody is doing it.”
Through the use of derivatives, banks could gamble anything with almost no regulation. With the banks making tens of millions of dollars on derivatives, they put up a huge battle against the regulation of it. This matched what the YouTube video *What is Crony Capitalism* explained. Big banks would lobby politicians to vote in favor of deregulation and with millions of dollars to back them up, the banks normally got what they wanted. This corruption in policy left millions of Americans in the dark about the safety of their investments for many years.

During this time, there was a shift in the mortgage industry. Lenders began selling the mortgages they were making to investment banks who created CDOs which were sold to investors. The entire system was a ticking time bomb. Essentially no one was on the hook for the money. Rather than banks being incredibly selective of who they provide home mortgages to as they had been in the past, almost anyone could get a mortgage regardless of whether they were in the position to make consistent payments or not. Lenders no longer cared if homeowners could pay because they no longer bore the entire risk.

This led to an increase in mortgage loans, with the number nearly quadrupling right before 2008. Home purchases boomed. Housing prices doubled. Meanwhile, Wall Street got rich. The banks were borrowing more money than they had, consistently increasing their leverage. At the height of the crisis, there were banks with a staggering leverage of 33:1. Investment banks were selling CDOs they knew would fail and then turning around and making money off the probability that they did fail. It was an unprecedented level of industry wide corruption.
At this time, Li Gaussian’s copula function became widely used throughout the industry. His formula modeled risk using price instead of real-world data. There were holes in the formula that started to show as the model was used beyond the capacity that it was initially created to serve. “The corporate CDO world relied almost exclusively on this model,” according to the article “Recipe for Disaster: the Formula that Killed Wall Street.” The model made no allowance for unpredictability, so investments were given unwarranted Triple-A ratings and people invested their money accordingly. The model was used to price billions of dollars’ worth of CDOs, with millions pinning their hopes on the continuation of the trend of rising real estate values.

The entire system collapsed. As loans went bad, lenders failed. The market for CDOs disappeared. Investments that were given the highest rating dissipated. As the entire economy fell apart, unemployment skyrocketed and millions lost their homes. The whole world paid the price, and the poorest paid the most.

Regulators didn’t step in when they should have, and as a result, the whole world suffered. The article “The Great American Bubble Machine” addressed the issue that lack of regulation has led to since the Great Depression, pointing out tech stocks, the housing craze, commodity stock price manipulation, government bailouts, and global warming. Investment banks spent billions in lobbying which allowed them to rewrite policies in their favor. The lack of regulation essentially allowed the banks to commit securities fraud during the housing craze. It also allowed the investment banks to trade commodities like stocks, eliminating the supply and demand side of economics and providing room for price manipulation in various commodities, namely oil. Goldman Sachs wrote to the Commodity Future Trading Commission and convinced the CFTC
to allow for greater liberty in commodity trading. They used threats of global warming to attempt
to rig oil prices in advance. Following the collapse of the market, the government paid the
biggest bailout in its history in an attempt to stabilize the economy. Rather than addressing the
heart of the issue, the government provided a band aid fix. This left all the power in the hands of
the top one percent and all the work of recovery to the other ninety-nine.

Reading the material gave me a greater awareness of the importance of regulation in the financial
sector of the United States. It gave me a broader understanding of the implications that these
policies have on the lives of every single American, from their jobs, to their homes, to their life
savings. I feel a greater sense of responsibility to the citizens of this country as I begin a career in
an industry that directly impacts financial statements and calculations that determine people’s
retirements and livelihoods. It also changes the way that I feel about corporate tax policies and
regulation.

I think this current virus crisis will have major implications on the political climate in the United
States. The economy was doing well up until recent events with the pandemic, and as the article
“Why Wall Street Hates the Trump Economy” stated, it was not because of the reasons President
Trump thinks. Trump’s supporters may lose their zeal over his economic policies during the
current crisis, and he may lose their support.

As for the economic climate, I believe that there is a lot to be learned from the United State’s
financial history, particularly with big company bailouts. As the government works to stimulate
the economy through stimulus packages and small business loans and grants, it is only a matter
of time before the government begins to consider bigger contenders. In the past, the United States has been quick to bailout big businesses, spending billions of taxpayer dollars to do so. This allowed CEOs to keep their millions while millions lost everything. The government should be careful in its consideration of big company bailouts, not only with the precedent it sets but also with the words the action speaks—who and what this country values most.
THE HONOR CODE

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

Bridget McMillan

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