An Analysis of Cases Demonstrating Financial Accounting Fundamentals

Matthew Conroy

Follow this and additional works at: https://egrove.olemiss.edu/hon_thesis

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation
https://egrove.olemiss.edu/hon_thesis/1803

This Undergraduate Thesis is brought to you for free and open access by the Honors College (Sally McDonnell Barksdale Honors College) at eGrove. It has been accepted for inclusion in Honors Theses by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.
An Analysis of Cases Demonstrating Financial Accounting Fundamentals

By
Matthew Conroy

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 2021

Approved by

Advisor: Dr. Victoria Dickinson

Reader: Dr. W. Mark Wilder
Abstract

Matthew Conroy: An Analysis of Cases Demonstrating Financial Accounting Fundamentals
(Under the direction of Dr. Victoria Dickinson)

The purpose of this paper is to analyze key financial accounting fundamentals through the completion of case studies administered during the 2020-2021 academic school year. These case studies have included in-depth analysis designed to provide insight into accounting topics that transcends what was learned through prior academic instruction. Over the last year, these cases have provided more practical applications of topics including taxation, financial reporting, investment decisions, and thorough analysis of a company through a mock case study presented in front of industry professionals. Ultimately, these case studies have afforded me the opportunity to develop my knowledge of financial accounting that deeply surpasses what was learned through exams and lectures.
# Table of Contents

Case Study 1 ......................................................................................................................... 5

Case Study 2 .......................................................................................................................... 20

Case Study 3 .......................................................................................................................... 29

Case Study 4 .......................................................................................................................... 39

Case Study 5 .......................................................................................................................... 42

Case Study 6 .......................................................................................................................... 51

Case Study 7 .......................................................................................................................... 59

Case Study 8 .......................................................................................................................... 64

Case Study 9 .......................................................................................................................... 75

Case Study 10 ........................................... 81

Case Study 11 ........................................... 97

Case Study 12 ........................................... 106
Case Study 1

Two Cities

Matthew Conroy

September 22, 2020
Executive Summary

This case serves the purpose of forcing students to thoroughly examine the costs and benefits of two different cities for potential post-graduate employment. The comparison is structured by using an all-encompassing group of questions to force an in-depth analysis of the two cities. These questions include topics surrounding various aspects of the two cities like population, climate, industry, recreation, and taxation. Ultimately, the case concludes with a decision being made as to which city I would prefer to live in based on the preceding analysis. For this case study, the two cities I chose to compare are Atlanta, Georgia and New York City, New York.

My main takeaway from this case centers around the idea that I must choose a city based on a wide array of considerations. A decision cannot be made rashly. The city that I ultimately choose will have an unquantifiable impact on the rest of my life. This is why I must make a rational decision based off of all accumulated information from this case. These two cities are starkly different in several unique aspects. One particular piece of information I had not previously considered was the difference in taxation between Atlanta and New York. Tax considerations will have a significant impact on my cost of living. The accruing of a noticeably larger income tax liability would greatly impact the ability to live with greater financial and physical comfort. However, financial considerations cannot be the sole driver in this decision-making process. Social and recreational considerations must be thought of as I will not be working throughout the entire week, generally. These questions will continue to be of tremendous benefit as I move closer to a final decision regarding my first full-time job.
Atlanta

What is the population?
The population of the city of Atlanta, Georgia, as estimated by the United States Census Bureau, is 506,811 (U.S. Census Bureau). But, the metropolitan area sprawls miles outside of the city limits. As a result, the population of the Atlanta metropolitan area is much larger, with a population of 5,949,951 people (Peebles and Habersham).

Describe the climate and seasonal fluctuations of Atlanta.
Residents of Atlanta will experience hot, humid summers coupled with mild winters. The summers in Atlanta are often hot, with an average daily temperature peaking at 89° Fahrenheit, with high humidity. In the winter, the daily averages typically hover around 52° Fahrenheit at the coldest point of the year (Atlanta, GA - Detailed Climate Information and Monthly Weather Forecast). The climate of Atlanta shares many similarities to that of Oxford, MS, as both have similar ranges in daily temperatures. So, I would be well accustomed to the weather in Atlanta. Below is a chart to depict monthly average temperatures.

Describe the city’s topography, scenery, and other geographic/geologic features.
Atlanta sits in the foothills of the Appalachian Mountains, along the Chattahoochee River. A notable characteristic of Atlanta is its abundance of trees within city limits. The dense tree canopy has contributed to Atlanta having the nickname, “the city in a forest.”

What are the individual tax rates with the city?
The applicable sales and use tax within city limits are 8.9 percent (Georgia Department of Revenue). The city of Atlanta does not charge an income tax, but the state has imposed a 5.75
percent tax for incomes over $7,000 (Loughead). The property tax rates will not apply as I will not be purchasing property for at least five years after graduation.

**What transportation hubs are in the city?**

Atlanta is home to the Hartsfield-Jackson International Airport, one of the busiest airports in the United States. With Delta Airlines being headquartered in Atlanta, the airport serves as the primary hub for Delta and has a large contingent of every major airline. In addition to the airport, Atlanta’s MARTA, the metropolitan public transport service, maintains operations throughout the city and surrounding area. MARTA oversees an extensive rail track system coupled with a fleet of public-use buses. The airport, combined with MARTA, makes intracity, domestic, and international travel convenient for residents of the immediate area.

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

Atlanta does not have a distinct industry that maintains a strong presence within the city; instead, the city has a diverse array of Fortune 500 companies headquartered within the area. The companies with the largest number of employees are in order as follows: Delta Airlines, Home Depot, Publix Super Markets, Kroger, and AT&T (Metro Atlanta Top Employers). Several other companies maintain large workforces within the city, and this includes Coca-Cola, UPS, SunTrust Bank (now Truist), and Cox Enterprises.

**Describe the quality of the city’s healthcare and school districts.**

The city houses an extensive network of state-of-the-art facilities such as Northside Hospital, Emory Healthcare, Piedmont Healthcare, and Grady Health System. Along with the expansive network of hospitals and treatment facilities, Atlanta contains the Centers for Disease Control and Prevention, a federal health agency. The Atlanta public schools are not consistently well-
regarded amongst residents of the city; however, there are many esteemed private schools within city limits.

**What types of crime are common within the city, and where should you avoid?**

Much like any other heavily-populated city, Atlanta has some dangerous areas that expose residents to a greater risk of being the victim of criminal activity. The most dangerous areas of Atlanta are primarily south of downtown. The downtown and adjacent area have higher incidents of crime; however, these areas are also the most densely populated.

**How much rent do you expect to pay for the first three years of your career?**

According to Zillow and The Atlanta Journal-Constitution, Atlanta’s median rent has increased at one of the highest rates in the country. However, the rental options within the city remain affordable, with a median monthly rent price of $1,394 (Kanell). After browsing rental options on brokerage services, I could expect to pay less than $1,500 per month, while still living in a desirable area.

**What is the typical mode of commuting?**

The most common form of commuting is by car, but the city has MARTA to allow for residents to utilize public transport. Also, the Beltline, a recently-created paved trail running throughout the city, has become a popular option in allowing people to commute throughout the city by bicycle.

**Where will you do your grocery shopping?**

There are plenty of options for grocery shopping within Atlanta. Both Publix and Kroger maintain a strong presence within the city, and Whole Foods has many locations throughout the city, as well. So, I, along with most other Atlantans, would likely do grocery shopping at one of those three places.
How will you do your laundry?

Given the fact that the rental market is not excessively-priced, it would not be difficult to find a living space that contains an in-unit washer and dryer. There may be a small premium for a washer and dryer, but this alternative is preferable to being forced to do laundry at a laundromat.

Name at least three civic, religious, or charitable organizations you would like to join.

Habitat for Humanity has its headquarters in Atlanta, so I would be interested in volunteering with that organization. Another organization I would be interested in joining is the Buckhead Business Association. This group serves as an opportunity to network amongst a group of both young professionals, like myself, and established members of the Atlanta business community. Like Habitat for Humanity, the American Cancer Society has its headquarters in Atlanta, so it would be an excellent opportunity to be involved with such an esteemed philanthropic organization.

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

Atlanta has professional sports franchises in all major leagues, except for a recently departed NHL team. The city has the NFL’s Atlanta Falcons, MLB’s Atlanta Braves, NBA’s Atlanta Hawks, and the MLS’s Atlanta United FC. In addition to professional sports teams, there is an abundance of musical venues, public parks, golf courses, and countless other recreational activities available to residents.
What are the modes of traveling back to your hometown from this city?

In order to travel back to my hometown of St. Louis, Missouri, I would utilize the city’s airport to take advantage of a large number of daily outgoing flights.

Based on your findings, develop a model monthly operating budget for this city.

This budget operates under the assumption of a pre-tax starting annual income of $60,000. After tax, this would equate to a post-tax income of $46,178. This post-tax income would equate to a monthly income of $3,848. I have budgeted for monthly expenses of a $1,650 rent expense (including utilities), $65 television expense, $60 wireless internet expense, $700 expense for food, $500 allocation for entertainment, and $200 for clothing. The remaining portion of the paycheck would be saved. Immediately following the conclusion, I have attached the link to a rental unit within the desired price range to serve as an example.

New York City

What is the population?

According to data provided by the City of New York, the population is estimated to be 8,550,971 people as of 2020 (Calgary, Open).

Describe the climate and seasonal fluctuations of New York City.

The weather in New York City can be characterized by humid summers and cold winters, with year-round rainfall. The city will see four distinct seasons throughout any given year. The summers will see average daily highs at approximately 85° Fahrenheit, and the winters will see average daily temperatures of around 39° Fahrenheit (Weather Averages New York, New York).
The winters are not quite comparable to Oxford, Mississippi; however, I am accustomed to cold winters, having grown up in St. Louis, Missouri.

Describe the city’s topography, scenery, and other geographic/geologic features.
New York City sits at the mouth of the Hudson River, and it occupies Long Island, Manhattan, and Staten Island. The city is the aggregate of the five boroughs: Brooklyn, The Bronx, Manhattan, Staten Island, and Queens.

What are the individual tax rates with the city?
Assuming a salary of $60,000, the average tax rate for New York City would be around 3.5 percent (Instructions for Form IT-201 Full-Year Resident Income Tax Return). The state income tax rate, under the same assumption, utilizes an average tax rate of around 5.5 percent (Instructions for Form IT-201 Full-Year Resident Income Tax Return). In addition to income taxes, New York City imposes a tax rate of 25 percent of supplemental income, such as annual bonuses (Bieber).

What transportation hubs are in the city?
The city has two international airports, LaGuardia and John F. Kennedy. Along with the airports, the Metropolitan Transportation Authority (MTA) services the city’s residents with an extensive bus and rail system.
What are the city’s most prevalent industries? What are the city’s five largest companies?

As the image above suggests, the most prevalent industry in the city is the financial sector. Manhattan contains the headquarters of countless banks and other financial service companies. However, there is also a diverse group of Fortune 500 companies that are headquartered within the city. The largest employers in the city are as follows: J.P. Morgan Chase, Verizon Communications, Citigroup, MetLife, and Pfizer (Business & Headquarters).

Describe the quality of the city’s healthcare and school districts.

As a large city, there are a plethora of options for healthcare within city limits. New York is home to some of the most renowned hospitals throughout the United States. So, the healthcare found in the city is among the best throughout the entire country. There is a vast array of options for primary and secondary education. The city has a large number of esteemed public schools. Also, there are plenty of options to attend well-regarded preparatory schools in the surrounding area.

What types of crime are common within the city, and where should you avoid?

Much like any other big city, New York City has its more dangerous areas that may be wise to try to avoid. The most dangerous neighborhood in the city is the Meatpacking District with a non-violent crime rate of 164 crimes per 1,000 residents (Smith).

How much rent do you expect to pay for the first three years of your career?

The cost of living in New York City is the highest in the United States, so the price to rent an apartment will be considerably more expensive than the vast majority of the country. The
average rent in Manhattan is $3,475 per month; however, approximately 40 percent of rental
apartments in the city are rent-stabilized (Kopp). So, the price cannot be raised for the
foreseeable future. Yet, I could still expect to pay between $1,500 and $2,000 per month for a
very small studio unit.

What is the typical mode of commuting?
The most financially viable mode of communication in New York City is the use of the city’s
extensive public transit network. The subway system allows for millions of residents to move
freely amongst the city every day. Furthermore, the cost to keep a car is not financially viable
due to the cost of parking throughout the city.

Where will you do your grocery shopping?
With the rise of Amazon’s same-day delivery, the most viable option for grocery shopping seems
to be online fulfillment. The biggest complicating factor for grocery shopping in New York is
not having a car to easily transport food back home. This would require either going to the
grocery store almost every day or carrying lots of heavy bags through the crowded streets of the
city. Thus, it makes more sense doing the majority of grocery shopping using online fulfillment
or other means of avoiding in-person shopping.

How will you do your laundry?
Due to the city having among the highest costs of living in the United States, the most viable
option to do laundry is at a laundromat. For at least the first few years of employment, it may
not be possible to afford an in-unit washer and dryer given the starting salary of an associate.
Name at least three civic, religious, or charitable organizations you would like to join.

One charitable organization I would join in New York City is the local Meals on Wheels affiliate. Homelessness is a serious problem within the city, so it would be rewarding to be able to give back to the homeless community. Another organization I would consider joining is the New Immigrant Community Empowerment. This organization works with recently settled immigrants in becoming accustomed to transitioning to life in the United States. A third organization I would consider joining is the Central Park Conservancy. This organization works in maintaining Central Park, both directly and indirectly, by doing, or sponsoring, physical labor at the park.

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

For professional sports, the city has the New York Giants and Jets of the NFL, the Knicks and Nets of the NBA, the Islanders and Rangers of the NHL, and New York City FC and the Red Bulls of the MLS. For other recreational activities, there is Broadway and countless critically acclaimed restaurants scattered throughout the five boroughs.

What are the modes of traveling back to your hometown from this city?

The distance between St. Louis, Missouri and New York City is around one thousand miles. Given the fact I would not be able to afford a car in New York, I would be unable to drive back home, so I would have to fly from one of the two airports in the city.
Based on your findings, develop a model monthly operating budget for this city.

This budget operates under the assumption of a pre-tax starting annual income of $60,000. After tax, this would equate to a post-tax income of $44,203. The post-tax income would equate to a monthly income of $3,684. I have budgeted for monthly expenses of $1,850 rent expense (including utilities), $65 television expense, $60 wireless internet expense, $700 expense for food, $500 allocation for entertainment, and $200 for clothing. The remaining portion of the paycheck would be saved. After the conclusion, I have attached the link to a rental unit within the desired price range to serve as an example.

Conclusion

Based on your findings, which city would you prefer to live?

Based on my research, I would prefer to live in Atlanta. The costs associated with living in New York are too much to justify while living on an industry-standard salary. A dollar in Atlanta can be used much more efficiently than in New York. Although New York may have a more desirable social life, the cost cannot justify the extraordinary premium.
Works Cited


“Business & Headquarters.” *NYdata: Largest Companies Headquartered in NYC*, 2019

Calgary, Open. “Projected Population 2010-2040 - Summary.” *NYC Open Data*


*Georgia Sales and Use Tax Rate Chart*. Georgia Department of Revenue.

“Instructions for Form IT-201 Full-Year Resident Income Tax Return.” *New York State Department of Taxation and Finance*, 2019,


Kopp, Carol M. “How Expensive Is New York City to Live In?” *Investopedia*, Investopedia, 28 Aug. 2020,


Smith, Virginia K. “The Safest and Most Dangerous Neighborhoods in NYC.” *Brick Underground*, 10 July 2014,


“Weather Averages New York, New York.” *U.S. Climate Data,*
The Honor Code:

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

Signed ____________________________
Case Study 2

Financial Statement Concepts

Tyler Burke, Matthew Conroy, Adam Lalejini, and Madison Todd

September 30, 2020
Executive Summary

The FASB, Financial Accounting Standards Board, is a nonprofit organization working to improve and establish GAAP, Generally Accepted Accounting Principles. This second case evaluates different viewpoints addressing the creation and existence of two different FASB standards, and the manner that modern accounting will be changed by these decisions. This case is broken down into three different questions. The first question addresses the practicality of the balance sheet versus the income statement in assessing the financial position of a company. Overall, the group concluded that the income statement more accurately communicated the financial position of a company due to the reliability and steady nature, as opposed to the balance sheet. The second question assesses the “value-in-exchange” versus the “value-in-use” approach for the measurement of assets. The conclusion reached on this second question was that the “value-in-use,” rather than the “value-in-exchange” approach was a better measurement of assets because of the acknowledgment that value is created by the use of an asset. The third, and final, question relates to the second question; it evaluates the adjustments that will have to be made to journal entries due to the use of the “value-in-use” rather than the “value-in-exchange” approach. The group found that under the “value-in-use” approach, versatility increases the value of an asset, thus affecting assets such as land, machinery, and buildings. The discussion of these questions helped our group have a better appreciation and understanding of all that goes into the creation and decision making of FASB standards.

Question 1

The first question of the case presents two conflicting viewpoints that essentially center around the balance sheet and income statement. Viewpoint one argues, “the proper valuation of assets and liabilities is the primary goal of financial reporting, with income concepts occurring as
the result of changes in the asset and liability values”. Through group discussion, we determined that this statement places the reliability of balance sheet values above those of the income statement. There are some upsides to this. For one, asset and liability accounts would be more accurate as changes in assets and liabilities are primary with changes in income secondary. Because the balance sheet represents a point in time, a firm’s true enterprise value could more accurately be assessed by investors and creditors. However, there are some major flaws in this argument. “Under this view, firms are essentially ‘asset greenhouses’, where the primary mission of the firm is to earn money by acquiring assets… and earnings represent the realized or unrealized growth in these assets”. We disagree that the primary mission of the firm is to acquire and grow assets. Instead, the growth of a firm should be measured in the earnings associated with the assets. If the valuation is derived primarily from balance sheet accounts, firms that see material growth in sales will not grow unless assets are purchased during the same year. Additionally, if earnings are tied to the change in the value of assets, this could skew the relevance of information for users of financial statements, as a change in fair value is not directly related to a firm’s core operations. Assets can also be difficult to properly value, often involving subjective estimates of depreciation or subjective changes in fair value estimates.

Considering these issues, our group agreed with viewpoint two: “The determination of revenues, expenses, and especially earnings is the primary goal of financial reporting, with asset and liability values being updated by changes in the income statement accounts”. At the end of the day, what values are users of the financial statements primarily concerned about? Investors and creditors use earnings, above all, to determine a firm’s present and future financial position. Growth in revenues is not necessarily tied to an increase in assets. Perhaps a firm improves its processes, hires new management, or some other change impossible to reflect in the
balance sheet accounts. Only the income statement can reflect the results of these changes. Under this perspective, a firm’s share price would be derived from the objective results of a firm’s operations and not the often-subjective valuation of assets or liabilities. Critics would argue that, under this viewpoint, asset-heavy firms would be undervalued in comparison to other firms that generate slightly more revenue with fewer assets. This is true; however, firms should be incentivized to generate more revenue with fewer assets to encourage asset efficiency. “Under this view, firms are essentially ‘asset furnaces’, where acquired or internally created assets are continually sacrificed or transformed for the larger goal of producing revenue and earnings”. Looking at assets as a means to an end rather than the end itself would provide far more relevant information, more reliable projections, and better valuations for users of the financial statements.

**Question 2**

Similar to the first question, the second question of the case study provided us with two different viewpoints. After analyzing the two viewpoints, the students chose the viewpoint that they believe the FASB should put into effect when creating new standards. The first viewpoint stated assets should be measured as “value-in-exchange”. This means that assets realize their contribution to firm value on a standalone basis in exchange for cash or other economically valuable assets. By using these assets along with other firm assets, hardly any incremental firm-specific value is generated, and sometimes no value is generated. The main benefit of this viewpoint would be each step in the asset creation process creates a marginal value that can be ascribed to the specific step in the process. After determining the main benefit, several disadvantages of this viewpoint were discovered. If assets are measured as “value-in-exchange”, the importance of the use of capital assets in creating inventory available for sale during
continuing operations will be underestimated. The first viewpoint also makes it difficult to determine how much value from each step in the asset creation process is provided to the value of a finished good. Lastly, fair value can be subjective by using this viewpoint.

After determining the benefits and disadvantages of the first viewpoint, an analysis of the second viewpoint was performed. The second viewpoint declared assets should be measured as “value-in-use”. This method states assets realize their contribution to firm value by being consumed or used in combination with other assets. Firm-specific value incremental to the sum of the assets’ values-in-exchange is generated by using these assets with other firm assets. We determined the second viewpoint should be the FASB’s main focus after coming up with the benefits this viewpoint provided. By using the second viewpoint, value is also created through the use of an asset, like PPE, to create other assets that can be sold to generate revenue. This means the value of an asset can be directly tied to usage. Another main benefit of the second viewpoint is its ability to match depreciation expenses to revenues. Finally, internally generated assets that may go unrecorded will be accounted for. The second viewpoint also includes some disadvantages that were determined. The greater use of an asset does not necessarily equate to additional value being created. The value derived from asset use can be very difficult to determine, especially in combination with other assets. Although disadvantages of this viewpoint arose, these disadvantages can be avoided. It will be very beneficial to the accounting field if the FASB decides to focus on measuring assets as “value-in-use” when they are creating their new standards.

**Question 3**

In order to accommodate the accounting for value-in-use, current accounting standards will have to make minor adjustments in the carrying value of capital assets. Current accounting
standards have capital assets carried on the balance sheet at historical cost, less any accumulated depreciation. However, given our response to the second question, the carrying value of a capital asset may be inaccurate due to consumption in conjunction with other capital assets. For example, in the manufacturing process, a unique piece of machinery that serves a singular purpose will only have marginal value by itself, but that single piece of machinery when used along with other machinery produces inventory, which leads to a firm deriving revenue. Our group is not arguing that machinery serving a singular purpose is carried on the balance sheet at an inaccurate price; instead, our proposed change centers around the idea that capital assets that are capable of serving a variety of purposes are inaccurately carried at historical cost. Some types of machinery are capable of pivoting, with minimum burden, to produce a different type of asset than what may have been produced in prior days. Thus, we propose that current accounting systems will need to adjust the fair value of the previously outlined capital assets to reflect the versatility of assets serving a wide range of purposes. In effect, an account called “versatility premium” would need to be created which represents the estimated potential savings a firm would incur from utilizing an asset that can fulfill a variety of needs in the production process.

Our proposed versatility premium would only apply to firms that carry capital assets with the ability to pivot to produce a new, distinctly unique product that an alternative type of machinery would be unable to produce, primarily manufacturing companies. This versatility would be of value due to its ability to serve as a hedge against potentially lessened demand for a specific product. For example, some firms will experience sharp downturns in demand of carried inventory due to the seasonal nature of some industrial sectors. This ability to pivot should be capitalized by projecting costs to switch to production of a separate inventory, so the versatility premium would be held on the balance sheet as the projected number of manufacturing changes
multiplied by the costs associated with switching. Initially, the versatility premium will serve as a contra asset account. The premium is carved out of a portion of the purchase price and computed as the number of switches in manufacturing multiplied by the associated switching costs. Additionally, the versatility premium would be amortized over the useful life of the capital asset using whichever method is used in depreciation of the corresponding asset (straight-line, units of production, sum-of-years-digits, and double-declining balance). Ultimately, our proposed change would only lead to a slightly higher carrying value of a capital asset.

To demonstrate our proposed change, the following example will show the necessary journal entries associated with the versatility premium. This example involves the purchase of machinery that the versatility premium can be applied to the book value. In addition, the first example will show the journal entries for the annual depreciation expense utilizing the straight-line method of depreciation, and the second will show the same given information with the sum-of-years-digits method. The examples uses machinery purchased (with only cash) for $1,500,000 with a salvage value of $150,000 and a useful life of 10 years. The cost saved in purchasing this equipment compared to the purchase of two separate non-versatile machines is $25,000 per switch, and the company can expect to switch production once per year over the useful life of the machinery.

**Example 1 Journal Entries**

Entry for Purchase of Equipment:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery</td>
<td>$1,375,000</td>
</tr>
<tr>
<td>Versatility Premium</td>
<td>$125,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$1,500,000</td>
</tr>
</tbody>
</table>
Entry for Amortization of Versatility Premium in Conjunction with Depreciation of Machinery:

- Depreciation Expense- Machinery $122,500
- Amortization Expense- Versatility Premium $12,500
- Accumulated Depreciation- Machinery $122,500
- Accumulated Amortization- Versatility Premium $12,500

**Example 2 Journal Entries**

Entry for Purchase of Equipment:

- Machinery $1,375,000
- Versatility Premium $125,000
- Cash $1,500,000

Entry for Amortization of Versatility Premium in Conjunction with Depreciation of Machinery for First Year of Use:

- Depreciation Expense- Machinery $222,727
- Amortization Expense- Versatility Premium $22,727
- Accumulated Depreciation- Machinery $222,727
- Accumulated Depreciation- Versatility Premium $22,727
The Honor Code:

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

Signed ________________________________
Case Study 3

Presidential Debate

Matthew Conroy

October 7, 2020
Executive Summary

This case serves the purpose of forcing students to analyze the impact of a Trump or Biden presidency on the United States. As college students about to enter the job market, this election is likely the most important in our lifetimes, so each candidate’s views and policies must be fully evaluated. Amongst great political division, this coming election will serve as an indicator of where the voting majority may stand from an ideological standpoint. Regardless of the results in the election, Americans must put forth an effort to try and work to some sort of compromise for the purpose of maintaining relative economic prosperity. To do this, citizens of the United States must work to become open-minded towards the views of the opposite political ideology. The development of open-mindedness and compassion will ultimately lead to an alleviation in the constant gridlock present in the political sphere.

The primary takeaway from this case centers around the idea that both parties wish for the United States to maintain economic strength, in the shadow of an unprecedented pandemic. While I may agree with one side on more issues, the realization that this election will be the most impactful of my lifetime casts a shadow over the nation. My peers and I should be diligent in deciding who to vote for. The coming election will be a clear display of the ideological direction to which voting Americans may desire change to occur for the foreseeable future. The decisions made by millions of Americans this coming November has the potential to represent a radical shift in future policy, barring seemingly growing political polarization. Ultimately, the likelihood of impactful change hinges on the ability to mitigate congressional and personal gridlock. Amidst a period of radical uncertainty, the presidential leadership must navigate carefully to provide assurance to my peers and me as we move into the professional world.
What Causes Unity in the United States?

In the simplest terms, the United States is the aggregation of fifty states and additional territories. However, the collection of land is not the basis for the United States being legitimately “United.” What forms the United States into a united nation is, instead, the collective ideal of American exceptionalism. This shared ideal continues to be the driving force for American cultural and economic development. Since the United States’ founding as a beacon of democracy, the nation has continued to evolve from a lowly colony to a world superpower and to the dominant global economic and political force. Presently, the United States sits atop the global hierarchy and will continue to do so for the foreseeable future.

After the Industrial Revolution, the United States became the primary hub for industrial innovation and sweeping economic development. Titans like John D. Rockefeller, Andrew Carnegie, J.P. Morgan, and Henry Ford catalyzed the modern American economy by eschewing in a new era with an increasingly diverse economy. Captains of industry, or robber barons, organized the framework for a shift from Thomas Jefferson’s self-sufficient agrarian society to a modern economy with a Gross Domestic Product (GDP) in excess of twenty-trillion dollars. Ultimately, the ideal of American exceptionalism has been developed by the perpetual drive to innovate. The desire to innovate has been driven by the collective goal of improving the livelihood of the American population. Thus, the unity of the United States has remained intact due to continually placing the drive to innovate at a position of utmost importance.

With the impending election, the United States will remain united, regardless of whatever increasingly louder voices may say. However, further political polarization will continue to contribute to a lack of unity amongst Americans. But all Americans still have the same desire, and that desire centers around continuous prosperity. The election represents the present
ideological differences seeking to achieve prosperity using their respective party’s methods. While millions of Americans may disagree with opposing ideals, the growing polarization can be mitigated by remaining open-minded and fostering a willingness to refrain from becoming entrenched in established ideas. Americans must treat other Americans, regardless of political ideology, with mutual respect, so the United States can continue the steady economic growth realized since inception. Continued economic growth lends itself to the enduring attainment of cyclical prosperity. And, the cyclical prosperity will foster the perpetual unity amongst citizens of the United States.

**Economic Impact of Each Candidate**

As previously stated, both presidential candidates have a vested interest in maintaining relative economic prosperity in the United States. However, Donald Trump and Joe Biden have differing viewpoints on how prosperity can continue to be realized on a domestic scale. A Donald Trump presidency would likely continue the trajectory that has been seen over the president’s first term. A Joe Biden presidency would likely result in increased regulation on an economy that may be perceivably unfair to lower socioeconomic classes. In the meantime, the Coronavirus pandemic will continue to serve as a major complicating factor in creating an accurate prediction for either candidates’ impact on the economy.

Over an extended period, the major stock market indices can generally reflect the nation’s overall economic health. Since Donald Trump has taken office, the S&P 500 has risen by nearly fifty percent, with the 2019 fiscal year seeing returns in excess of 30 percent. However, the Coronavirus pandemic has caused the United States to witness an unprecedented contraction of economic growth. Critics of Donald Trump may argue that the president could have handled the
pandemic more effectively, but a near-total shutdown of the economy for more than a fiscal quarter would have resulted in further irreversible economic contraction. As a result, the unemployment rate and the livelihoods of millions of Americans would have been worsened significantly. Perhaps millions of residents would have been reduced to poverty, with the viability of regular meals coming into question. The unprecedented move of providing all qualifying Americans with a stimulus check served the purpose of being a governmental stopgap. Sort of like an acknowledgment that the federal government has the obvious desire to help, but the compounding federal debt and deficit spending inhibits the ability to allow for more effective aid.

Since the crash of the major indices in mid-March, the stock market has seen growth arguably based on illogicality. The FAANG (Facebook, Amazon, Apple, Netflix, and Google) stocks have seen tremendous gains through inflating share prices; meanwhile, small businesses continue to close at an alarming rate. This phenomenon brings the Wall Street vs. Main Street and the “too big to fail” argument back into the national spotlight. The impending election has brought the United States to an economic crossroads in which only time will be able to determine future economic prosperity. On a personal level, this election could be the most important of our generation as I, along with my peers, prepare to enter a job market ripe with a high degree of uncertainty.

Over the past four years, Donald Trump has shown to be particularly friendly to large corporations. One particular instance has been the reduction of corporate tax rates to 21 percent from 35 percent. The basis for the cuts are founded on the long-standing conservative economic theory of trickle-down economics. As a result, corporations have smaller tax liabilities which represents an immediate increase in cash flows. The idea behind this centers around the notion
that a more profitable corporation will be able to expand; thus, additional jobs should be created for lower classes. Ultimately, from a purely economic standpoint, another term of Donald Trump as president will represent the status quo being maintained, contingent on the nation’s ability to get through the pandemic.

Looking into the future, a second term with Trump will see similar tax rates on an individual and corporate level. There is nothing to suggest Trump’s intention to raise or lower corporate tax rates in the near-term; however, Trump can be known to act rashly, so no one can confidently say the current tax rates will be the same in four years. Additionally, the president is likely to continue his policy of allowing states to set individual minimum wage thresholds. In general, regulations on industry will likely not be adjusted too starkly from current levels. An interesting change that would be likely to occur is the impact of a worsening trade relationship with China on the global supply chain. Tensions between the United States and China are seemingly intensifying at an increasing rate. It is naïve to think that manufacturing can sustainably return to the United States. The most likely situation would involve manufacturing being moved to a less-developed, emerging economy that has the capability to produce goods at low costs due to lax regulations or other economic considerations. President Trump being re-elected will likely result in the maintenance of the status quo.

A common theme echoed by Joe Biden and the more progressive wing of the democratic party has focused on growing wealth disparity in the United States. This vocal group likes to point out the rapidly increasing wealth of the richest Americans, and this group argues that the accumulation of wealth by the hyper-rich is at the expense of the lower and middle classes. To combat the growing disparity, Joe Biden has proposed raising the corporate tax rate and closing loopholes in the present tax code. However, this sentiment has been reiterated time and time
again, but tax loopholes have continued and likely will continue to exist, barring a radically leftward shift in ideology. In addition to corporate tax rates, individual tax rates for the highest earners will be raised to accommodate for personal gains in net worth attained by the upper class, during the pandemic. However, the desired adjustment to corporate and personal income tax rates will be heavily impacted by the high likelihood of a republican senate.

Aside from taxes, a Biden presidency will presumably result in further regulation in the energy industry, particularly. Climate change has increasingly become a hot-button issue. As a result, the non-renewable energy sector has faced growing scrutiny from liberal lawmakers over being primary contributors to ecologically harmful carbon emissions. Exxon-Mobil, an American institution, recently fell out of the Dow Jones Industrial Average, and a Biden presidency could potentially doom the other giants in a sphere that employs hundreds of thousands of people in the United States alone. While a shift to renewable energy is necessary for long-term environmental health, renewable technology is years away from being able to economically support the domestic infrastructure.

In terms of employment, increasing regulations will equate to higher costs, and higher costs will prove to impede the hiring of younger employees, such as myself. From a purely economic standpoint, there is no logic in paying a higher price for the same good or service. So, no company will have any incentive to hire domestic employees if there is a cheaper option to outsource applicable jobs. However, with the strong possibility of ensuing political gridlock, the extent of change in industry regulation will be difficult to estimate. In the short-term, the major indices will likely falter due to lessened profitability across all firms. Shrinking profitability lends itself to uncertainty, and uncertainty equates to a higher likelihood of industry selectivity in
early employment. The likelihood of a recession is low, but a pullback from current market highs will be likely to occur in the near-term time frame of a Biden presidency.

**Moving Forward**

Regardless of the results of the election, the increasing polarization present in American politics must be lessened going forward. The tendency to become entrenched in one’s views leads to gridlock and further division. The only clear means of alleviating political division is through establishing a bipartisan willingness to compromise. However, this solution is significantly easier said than done as neither side has shown any indication of working with the opposing side to make any sort of change. With the current political system, even with unilateral control at the federal level, there are a wide array of obstacles that must be overcome for any impactful change to be instated.

At an individual level, the only solution to achieve peace with those on the opposite end of the ideological spectrum is to show compassion. Americans from both parties need to treat members of the opposite party as fellow citizens rather than enemies. Despite the current political climate being particularly hot, citizens must be open-minded in order to realize the internal motivations of other voters. Until this shift in open-mindedness occurs, there will almost assuredly not be any drastic change to combat the growing division in American politics.

On a more personal level, I have yet to put a sufficient level of thought into how I will act after the election. Even though this is the most significant election of my lifetime, the notion that any drastic change occurs seems relatively unlikely given the current political polarization. As a result, I likely will not experience too drastic of a change in the immediate aftermath of the election. This is because in the near-term I will remain a college student insulated from the real
world, to an extent. However, depending on the winner of the election, I will most definitely experience some level of uncertainty in the job market due to the COVID-19 pandemic. What remains to be seen is how either candidate will navigate the pandemic post-election in order to maximize the trade-off between an unprecedented contraction in the economy and a growing number of COVID deaths.
The Honor Code:

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

Signed ___________________________
Case Study 4

Excel Certification

Matthew Conroy

October 14, 2020
Executive Summary

This case focused on attaining a certification on Excel through the Corporate Finance Institute online program. The online program was a course designed to introduce students to Excel shortcuts and formulas commonly used by business professionals. This program involved watching a set of multiple videos demonstrating the use of Excel. While watching the videos, we were tasked with following along on our own Excel file. At the end of the course, we were required to pass an extensive written test in order to attain the certification. The test quizzed students on their memorization of the shortcuts and functions aimed to be taught during the course.

Prior to this course, I had an existing understanding of how to most effectively use Excel cultivated through previous school projects, personal projects, and from my internship last summer. However, there were still plenty of aspects of Excel that I had never learned, and this class was effective in providing me with a more solid comprehension of the multitude of tools that Excel can offer. As I saw in my internship the previous summer, Excel is very commonly used by accounting professionals, so it is paramount that I enter the workforce with adept knowledge of the program. Ultimately, this course was perhaps the most practical case as it helped to develop fundamentals critical to ensuring initial success as I begin my professional career.
The Honor Code:

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

Signed __________________________
Case Study 5

A Study of Corporate Tax Rates

Matthew Conroy

October 28, 2020
Executive Summary

This case serves the purpose of investigating the often-publicized issue of corporations avoiding the payment of taxes. Further, the case delves into the reduction in the marginal corporate tax rate under the Tax Cuts and Jobs Act (TCJA) that went into effect in 2018. The goal of this case was to investigate and develop an opinion of what the optimal corporate tax rate would be. My conclusion was that the domestic economy would likely prosper with a lower marginal tax rate. The basis for this rate centers around the necessity to allow for industry to be uninhibited in establishment from government intervention. The United States contains some of the greatest intelligence in the entire world, so a consideration, like taxation, should not be an inhibiting factor in forming a technologically innovative business entity. Private industry has been instrumental in developing revolutionary technology since the industrial revolution, so the government should merely be watching from a distance in fostering, rather than preventing, innovation.

The most interesting thing I learned from this case was the level of complexity that multinational corporations utilize to reduce their tax burden. The largest corporations in the world will route their taxable income through countless countries and seemingly nonexistent locales in order to save millions, or billions, of dollars annually. This situation brings up an interesting ethical dilemma of whether the corporations or government is at fault for the avoidance of taxes. The government, who sets the tax code, has continued to allow these loopholes to exist, so the corporations are just following the governing statutes. Another topic comes to the forefront of this dilemma, if something is legal, are you obligated to abstain from the activity because it may be immoral? If the policymakers continue to complain about corporations not paying their “fair share” of taxes, then why do they continue to not change the
existing corporate tax code to eliminate these loopholes? The aforementioned questions are all an interestingly thought-provoking topic surrounding the polarizing nature of corporate taxation. All things considered, the nature of corporate taxation will likely continue to operate like a jigsaw puzzle with a lot of pieces hidden from the public view.

The Optimal Corporate Tax Rate

The goal of a corporate income tax centers around the government deriving tax revenue from profitable corporations. In 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law by President Donald Trump. As a result of the TCJA, the United States corporate tax rate fell from a marginal rate of 35 percent to 21 percent. While this represents a reduction of 40 percent in the marginal corporate tax rate, this begs the question of whether a reduction of this magnitude will be too much or too little. The policymakers of the future will have to determine the marginal rate that balances the tipping point between a loss of essential tax revenue or the creation of an economic environment less suitable for industry to continue its trajectory of growth and dominance on the global geopolitical stage. With that being said, the optimal marginal corporate tax rate for the United States would likely be in the vicinity of 10-15 percent.

Under current policy, tax revenues derived from corporate income contributes to less than five percent of total tax revenue collected by the United States government. Amidst increased deficit spending, both the federal and state governments are in dire need of trillions of additional dollars to maintain pace with necessary spending. As the population ages, the expenses to effectively meet growing entitlement spending will create a situation of wholly unsustainable, or possibly irreversible, deficit spending. So, policymakers are obligated to determine the proper course of action involving cutting future spending, raising taxes to pay for
further deficit spending or some combination of the two options. The most glaring problem with cutting spending, for entitlements especially, is the near politically suicidal nature of reducing benefits millions of Americans have counted on to retire at a reasonable age, for example. Ultimately, the corporate tax rate cannot be raised to quell deficit spending for the risk of potentially impeding economic growth in the world’s most dominant economy. While the cut to 21 percent under the TCJA is a step in the right direction, a lower tax rate with less availability to utilize offshore subsidiaries would be more beneficial to the economy.

The role of the corporate income tax, instead, should be a means of collecting a small portion of profits from established businesses while allowing incubation of growing businesses. In no circumstance should the tax rate be a factor that inhibits an entrepreneur from starting a business that could potentially lead to technological or cultural innovation. The United States has been a world power since the nineteenth century both from an economic and political standpoint. But, how can the United States remain a beacon of technological innovation if economic regulations do not allow for a relatively unencumbered establishment and sustainment of business? That is why a period of five to ten years after incorporation a business should be taxed at a reduced rate to allow for greater ease in growth. Stripping a growing business of essential liquidity could potentially be a death sentence; thus, the nation would be left without any technological advances that could have been created by a government-killed business.

After the proposed tax-free grace period, a business entity should be taxed at a marginal rate of between 10 to 15 percent. This low marginal rate will serve the purpose of incentivizing the use of excess capital on re-investment and growth. Excess liquidity provided by a lower tax burden will lead to the availability of previously unavailable capital that can be used for a wide array of purposes at the discretion of individual businesses. In effect, investment into fixed
assets, or other similar investments to catalyze growth, will result in the realization of multilateral prosperity across the economy. The resulting benefits could easily take the form of additional permanent jobs to effectively scale with the realized growth of industry contributing to reinvestment. Excess capital as a result of a lessened tax burden could also be distributed to some combination of shareholders and employees. Employees could potentially see greater increases in their wages due to ample liquidity provided as a result of unburdened growth. Additionally, greater reinvestment into most firms will require the additional hiring of external workers resulting in previously nonexistent jobs. The reduction in the marginal corporate tax rate will likely cause millions of Americans to plausibly attain immediate benefits.

The most glaring problem with corporate taxes has centered around the avoidance of multinational corporations avoiding paying taxes through the use of offshore subsidiaries to reduce their tax base. A corporate tax rate of approximately 10 to 15 percent would obviously result in a much smaller tax burden, so corporations would be less likely to use offshore subsidiaries to hide taxable income. An additional solution could include greater restriction on the use of offshore subsidiaries to effectively close loopholes allowing widespread corporate tax avoidance. A marginal rate of 10 to 15 percent could result in a single-digit effective rate for most corporations. While closing loopholes would be incredibly unpopular among industry, additional tax credits and tax breaks to allow for greater ease in transition to a system of taxation not reliant on widespread deception. However, the closing of applicable loopholes would have to be a concession to result in a marginal rate of half of the current rate under the TCJA. The ultimate result of a corporate tax should not impede the entrance into industry, but it should rather serve as a means of collecting a small piece of profits from companies that can easily bear the burden without inhibiting future growth.
With the increasing geopolitical strength of China on the global stage, the United States cannot afford to hinder its economy through the imposition of seemingly usurious tax rates. Instead, the United States must limit taxation for the purpose of better optimizing growth in all sectors and scales of industry. The United States currently has a gross domestic product (GDP) of approximately $21 trillion, and that figure will likely contract in the current year as a result of the COVID-19 pandemic. Although China has a markedly lower GDP of approximately $14 trillion, its economy continues to outpace economic growth realized in the United States. While China’s economy is not projected to pass the size of the United States for approximately another decade, the two countries will remain the global geopolitical leaders for the foreseeable future. Given the history of oppressive rule by the Chinese government, the United States is obligated to sustain strong economic growth to maintain viability as a check for when China becomes the dominant global superpower. A reduction in the marginal corporate tax rate to my projected target of 10 to 15 percent will not be sufficient to maintain greatly elevated long-term economic growth, but it could serve the purpose of driving economic growth due to immediate increases in free cash flows across every sector of industry.

**Tax Career**

This case increased my interest in pursuing a career in the tax-service line at an accounting firm. Last school year, I interviewed with a Big 4 firm for an internship in the mergers and acquisitions tax group, but I ended up accepting an offer to intern with a different Big 4 firm in their audit practice. In hindsight, the tax internship would have likely been more interesting than the audit internship. This case has exposed me to the unique complexities in serving the client by reducing the tax burdens associated with multinational corporations.
Conceptually, the creation of a corporation’s optimal tax liability represents a global puzzle involving research of the current tax code and applicable statutes. A focus on serving the client through the preservation of profits serves the corporation by maximizing the availability of capital for a wide array of potential means of spending. A corporation, or any business entity, with greater liquidity will possess the ability to provide greater benefits to employees. So, working on the tax staff of an accounting firm could potentially contribute to far-reaching benefits attained by employees multilaterally due to previously unavailable capital mitigated by a lessened tax burden. While this may not be a realistic expectation for every role on a tax staff, the ideal still holds true even at an entry-level role.

Conversely, the morality associated with assisting corporations in dodging their fair share of taxes could be weighty over an extended period of time. As I previously discussed, the federal government continues to spend more money than is collected. So, a corporation not paying their fair share of taxes could possibly be seen as equating to the deprivation of necessary tax revenue which would effectively assist in serving the common good. However, it is not my responsibility to determine the ethicality of the United States tax code; instead, my only role would be to ensure the client is properly adhering to the various rules and regulations. This would all be done under the shadow of a perceivably questionable unethical dilemma that may inhibit long-term success in a role on a tax staff at an accounting firm.

Ultimately, I would prefer to work on an accounting firm’s tax staff rather than an audit staff. The research-driven nature of corporate tax accounting would be a relatively interesting topic to become well-versed with. The demonstrative value provided to business entities could potentially serve the purpose of benefitting an organization from the top down. Even though there may be a minorly considerable moral dilemma associated with taxation at a corporate level,
this case has definitely increased my interest in working on the tax service line of a major accounting firm.
The Honor Code:

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

Signed ____________________________
Case Study 6

Mentor Interview

Matthew Conroy

January 27, 2021
Executive Summary

The purpose of this case was to speak to someone well-established in their career. The interviewee could be a relative, family friend, or anyone meeting the aforementioned criteria. The reasoning for this case is to provide students with advice from the perspective of someone with an abundance of experience to assist in future professional endeavors. For this case, I decided to interview my father, John Scott Conroy. There is no other individual in the professional world that I admire more than my father. My father has served as an executive at multiple industrial companies throughout his career. Although I intend to enter into a profession in accounting, there is still plenty of transferrable advice that can be of great value to my impending entrance into the professional world.

My largest takeaway from this case was the importance of maintaining an effective network of professionals in a wide array of industries. Additionally, the willingness to work more effectively than one’s peers is another valuable piece of advice accrued from this case. One’s work ethic is purely a function of a willingness to put in the most effective effort to yield the optimal results. As students likely with decades until retirement, it is impossible to foresee how our interests will change and how modern society will evolve over our working lives. So, the cognizance to maintain a strong professional network could potentially end up contributing to desirable employment.
A constant theme in the youth of my father was moving around the country. Before ultimately settling in the metropolitan Atlanta area, my father had lived in North Dakota, Tennessee, and Delaware. His first exposure in a professional setting was in high school working miscellaneous summer and entry-level jobs at fast-food restaurants and department stores. While the work completed as a high school student may not have been memorable, the ideas and values contributed to a lifelong realization of the necessity to possess an impeccable work ethic to provide one with a remote chance of attaining success in any field. A common idea throughout this interview was that one must be willing to work harder than one’s peers, regardless of the professional setting. As a result of working these jobs, my father was able to save enough money to pay his way through college.

In the fall of 1980, my father enrolled at the University of Georgia with the intent to major in chemistry. In reflection, he said that college was a period in his life of realization that his actions over these four years in Athens would have far-reaching implications that would directly impact the remainder of his life. Much like any other young adult, college was a time spent balancing rigorous academic coursework and a vibrant social life. As an Ole Miss student, I can only envy the fact that my father was able to witness a national championship during his time in Athens. Four years later and degree in hand, my father was ready to move onto the next stage of his young career. Since his teenage years, my father had the desire to become a doctor. This desire to work in medicine was a result of wanting to hold a position that involved helping people. To bolster his medical school applications, he attained a research position at Emory University. After working at Emory for a few years, my father had decided he no longer had an interest in pursuing a career in the medical field. This situation created an immediate need to pivot into a new role in a new field.
The result of pivoting out of the arduous pursuit of a career in the medical field led my father to Georgia State University’s MBA program. Taking experience in project management learned in his research experience, my father excelled in his pursuit of a graduate degree, and he landed a role as a plant manager for Blue Circle Cement Company. The reasoning for working in industrial management was the heavy emphasis on project management with a particular focus on the necessity of the analysis of scientific data. This role with Blue Circle Cement provided him with experience managing cement plants in Ashbourne, England; Atlanta, Georgia; Baltimore, Maryland; Tulsa, Oklahoma; and St. Louis, Missouri. The ultimate result of these rotations was the ability to effectively lead a diverse workforce while upholding an unyielding focus on maintaining safety procedures. On any given day, my father oversaw teams of workers operating machinery that, if used improperly, could result in serious injury and millions of dollars in damage. After accruing experience in a leadership position, my father felt comfortable moving into an executive level of management.

In the past decade, my father has worked in executive positions at Continental Cement Company, a cement company based out of St. Louis, and U.S. Silica, a diversified mining corporation. The job at Continental Cement, working in a senior management position, afforded the opportunity to oversee a company from a more holistic view, while remaining active in the oversight of projects regardless of scope or scale. The largest takeaway from the aforementioned position was the experience of leading a larger group of people to maximize industrial output while ensuring the upholding of safety protocols. With the rapid downfall of construction starts beginning around 2008-2009, the cement industry suffered significant losses, so my father decided to take his project management and leadership skills to U.S. Silica. During his time at U.S. Silica, he has overseen mining plants throughout the Southeast and Midwest, and he has
been involved in large-scale acquisitions and corporate developments throughout the country. This position has taught my father important lessons in being a team player while still utilizing sound judgement based on experience. While work has been a significant part of my father’s life, a key piece of advice from this interview was to try and figure out an optimal work-life balance to meet one’s social and professional needs.

Outside of work, my father has been very involved in both me and my brothers’ lives through unyielding support. Another piece of advice learned from the interview was to continually develop hobbies for one’s time off. These hobbies do not necessarily have to be productive, but they should provide some sort of benefit in the form of improved fitness, knowledge, or experience. Further, some of my father’s hobbies have included bicycling, reading, and generally being active. All of the aforementioned hobbies provide a direct benefit by improving the state of one’s general well-being.

One of the best means of becoming rejuvenated and ready to maximize work efficiency is by regularly taking vacations. The best vacation my father has ever taken is not a single vacation. Rather, it is the routine trip to our family’s house on St. George Island, Florida. As the youngest member of an immediate family living in a few different states, we are not able to regularly come together and see one another, so each summer my family schedules a week-long vacation at our house in Florida. My father stated that being among one’s family is among the most fulfilling times and is the ideal vacation to take. Further, my father stated that his family is what provides him the greatest source of pride.

The main change my father would make to his life is that he would have already been retired. While this was mostly said in jest, the key takeaway from this desire is that one must find a career path that continually piques one’s interest to optimize work efficiency. Another
change my father would make to his life is that he would have networked to a greater degree earlier in his career. Possessing a large network with contacts in diverse fields will open doors that otherwise would not be available. So, my father stated that had he more effectively networked earlier in his career, then perhaps greater opportunities could have presented themselves to him.

The two things my father wishes he would have known at my age are the importance of networking and the ability to keep one’s options open. Networking, like what has been enabled in this class, are of the utmost importance to one’s early career. Having a diverse group of contacts at a multitude of companies can afford someone in my shoes the unmatched opportunity of choice and freedom in employment. The best means of networking is simply speaking to someone with experience, or a job, that you would like to have in the future. The importance of having a diverse network goes hand-in-hand with keeping one’s options open. Situations and desires change over time, so it would be unwise to back oneself into a corner by being overly attached to one’s place of work. That is why anyone, regardless of experience, must possess situational awareness to be aware of opportunities that may be present. It is imperative to always make an effort to leverage their network to seek out better opportunities.

The biggest challenge for my father’s generation will be moving into retirement and no longer dominating the workforce. The United States economy is still primarily dominated by my father’s generation, so it will be interesting to see what sort of changes may occur with future generations moving into corporate and political leadership positions. Additionally, the United States’ workforce, as a whole, is aging with the impending retirements of millions of workers. This situation presents the problem of dealing with entitlement spending. Barring major changes to federal fiscal policy, millions of retirees will not be able to attain the federal benefits, like
Social Security and Medicare, that were promised by politicians. These problems are situations that my generation will ultimately have to deal with in the near future.

Another, more pressing, issue that my generation will have to face is the impact of increasingly rapid technological innovation on the domestic workforce. My father began his career with limited technology used in daily operations, but the vast majority of current jobs are almost entirely dependent on near-constant use of technology. While technological innovation results in a net positive for society, near-term impacts of innovation may result in the obsoletion of previously in-demand jobs, or careers. Ultimately, my generation must be careful in operating the impact that technology has on a generation preparing to enter the workforce.
The Honor Code:

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

Signed ___________________________
Case Study 7

Week 1: Alphabet

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

February 3, 2021
Executive Summary

Our first task of the week was to introduce ourselves to the group. Kaitlin is a junior, studying accounting, and wishes to go to Nashville, Tennessee. Matthew followed, introducing himself as a senior studying accounting, going to PwC in Atlanta. Sean was next, and introduced himself as a junior studying accounting wishing to go to Buffalo, New York, or Denver, Colorado. Next up was Tyler, who is a junior studying accounting, wishing to go to Dallas, Texas. Finally, was Noah, a junior studying accounting wishing to go to Dallas as well.

Next, we had to select a firm to study. After some brief deliberation, we selected Google, or more specifically, Alphabet. Alphabet is a holding company, and primarily owns Google, a 1998 search engine startup that has dominated the online market. Today, Google employs over 132,000 employees, generates $134.81 billion in revenue, and is used for over 86 percent of all online searches. However, this large size and prominence comes with a cost; Google is at risk of being split up due to anti-trust action by the U.S. government.

Based on the consolidated notes Alphabet has included in their 2020 financial statements, Google’s “revenues are primarily derived from online advertising, the market for which is highly competitive and rapidly changing. In addition, [Google’s] revenues are generated from a multitude of markets around the world. Significant changes in this industry or changes in customer buying or advertiser spending behavior could adversely affect [their] operating results” (Securities and Exchange Commission). Although the advertising market sees rapid changes, the substantial market share occupied by Google allows the company to hold a secure position going forward. If the company’s revenue were to fluctuate in the near future it would more likely be from the result of lawsuits or other imposed regulations from the US, where 46 percent of the
company’s revenue is generated, rather than fluctuations in the global advertising market as a whole. However, Alphabet has faced increased scrutiny from regulatory agencies as a result of their extensive influence on consumers (Securities and Exchange Commission).

In the past two decades, Alphabet has made over 200 acquisitions in diverse groups of products and technological functions. Given the existing influence associated with Google, these acquisitions have been met with increasing scrutiny from both regulatory agencies and the press due to rapid expansion in Alphabet’s influence over global consumers. Some of Alphabet’s largest acquisitions include Motorola, Nest Labs, Youtube, and FitBit.

Finally, Google is expected to report an excellent fourth quarter. Due to Apple’s changes to increase user privacy, Google will see more in-app advertisers switch to them from Apple. Many analysts also predict Google Search to receive a 12 percent revenue growth from the continuous improved travel bans. Google was experiencing growth in the high teens before the pandemic, and the majority of areas besides travel and entertainment have remained at those levels.

From week one of this case, we learned some general information about the largest sources of Google’s revenue, as well as the stability of these sources of revenue in the near future. The overall position of Google is said to be very stable, with predictions of continued growth and innovative subsidiaries. Due to the vast range of products and services that Google and its subsidiaries are involved with, the financial stability of the company does not rely on a single industry. However, this vast portfolio of companies may prove risky in the form of lawsuits and government action in the future.
Works Cited


Schneider, Elena. “Google Will End Political Ad Ban This Week.” *POLITICO*, POLITICO, 9 Dec. 2020.

The Honor Code:

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

Signed: __________________________

Signed: __________________________

Signed: __________________________

Signed: __________________________
Case Study 8

Week 2: Google

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

February 10, 2021
Executive Summary

During this assignment, we first analyzed the accounts on the balance sheet and income statement and looked at some of the risks associated with the accounts. Next, we had to pick the six riskiest accounts and analyze them in greater detail, including their potential weaknesses, internal control implementations, audit assessment areas, and ways we could use data analytics to make the process more efficient. Overall, this case taught us a great deal about auditing, particularly the first part of the case, where we had to think like criminals to identify potential risk points and weaknesses.

Marketable Securities

This account is large in size, making it susceptible to misstatement, fraud, and misvaluation. With regards to misstatement, we need to verify the securities being counted. They should have expiration dates of no greater than 12 months and no less than three months. They should be mostly low-risk bearing investments. This can be done by reviewing the accounts, security information, and more physical testing. With regards to fraud, we need to verify that every security accounted for does indeed exist. Finally, we need to verify the valuation techniques used for these securities and make sure they are using the proper techniques. The risks associated with misstatement would be grave. Marketable securities is a current asset, making it very valuable to some key financial ratios, including the quick test, current ratio, and many more. Therefore, investors would be misled about the company’s financial performance in the event of a misstatement relating to marketable securities.
For the first internal control, we recommend the strict investment monitoring of all investments undertaken. Just like independence for auditors, we believe the treasurers in control of disbursements should have no conflicting interests. The securities purchased should mostly be of large corporations or governmental. For the second internal control, we recommend that there is a separation between the person responsible for disbursement, the person that makes the investment decision, and the person that makes the accounting entries surrounding the investment. This will help to eliminate fraud.

For the investments account, we can test by confirming that the balances are correct by vetting the general ledger. Additionally, we can inspect period-end activity for proper cutoff; this will help to verify that the securities belong in the three-to-12-month window. Finally, if there are any unusual investment types, we can use a securities specialist to confirm the company’s asserted valuations are not material (Hall). We can sift through transaction-level data with alteryx and use auditing software such as IDEA to look for patterns in investment data. Therefore, if something appears to be abnormal, then we can investigate it further and worry less about the typical transactions.

Accounts Receivable

Accounts receivable is another vulnerable account, as companies can misstate it to boost their financial performance. The risks could be severe; with no money flowing in from fake AR, the company could face solvency crunches. As well, we want to verify the company has taken covid into account for valuing its bad debt expense.

One of the controls we recommend is a separation of duties between the selling and lending, recording, and disbursement of cash and product. This would help to eliminate fraud,
and to make sure the balances reconcile when we audit. Second, we recommend that the company use a digitized payment format, making sure the payment is processed fully by the company rather than by an individual. This can tie directly to Google’s bank account, bypassing any need for cash handling. One way that we recommend this be done is through the use of automated clearing house (ACH) transfers, with account titles and numbers.

Finally, when auditing, we need to verify several elements, including the general ledger matching the account balance, current account receivable values, cash receipts, and the allowance for doubtful accounts. For the first three, we need to verify that the account balances line up across several areas, including receipts, customer verifications, bank reconciliations, and more. For the latter account, we need to verify the allowance is large enough to properly value the doubtful accounts that will occur (Bragg). For this account, transactional data will be highly pertinent. Using Alteryx would help us greatly in analyzing the accounts used and sifting through every transaction. This will help us to ensure accuracy, prevent fraud, and make sure accounts are not misreported.

**Property and Equipment, Net**

The Property and Equipment account includes all of Alphabet’s land and buildings, information technology assets, construction in progress, leasehold improvements, and furniture and fixtures. This account is highly material and a misstatement could result in a significant under or overstatement of assets on the balance sheet. Given that this account is net, rather than gross, depreciation has already been deducted. Considering the size of Alphabet, the company has a significant amount of unique assets that aggregate the account. The number of assets coupled with the availability of different depreciation methods could create an inconsistent
account balance for depreciation. Alphabet must ensure that each asset has a consistent
depreciation method applied to ensure that the proper amount of depreciation is recorded
annually.

One internal control that can be applied to this account is a digitized ledger to ensure that
all newly purchased property and equipment are accounted for at their proper cost. Additionally,
this ledger would show the date of purchase, expected life, and estimated salvage value. If all of
the aforementioned information is included and a depreciation method is selected, then
depreciation can easily be recorded, despite the wide array of assets in use. A substantive test to
adequately mitigate misstatement risk for this internal control is to regularly check fair market
values for assets to ensure salvage values are accurately recorded in the ledger. This means of
verification would need to be performed by a manager and verified by a party without direct ties
to the manager. This would limit the potential for collusion between a manager and superior
attempting to keep an asset stored on the balance sheet at an improper balance.

A second internal control to mitigate misstatement risk is to have managers regularly
inspect physical assets to ensure there has not been an event necessitating an adjustment to an
asset’s valuation. The improper recording of assets that have been materially damaged could
result in an overstatement of Alphabet’s property and equipment. A substantive test that can be
performed is the regular inspection of completed maintenance forms. An asset with maintenance
recently completed would need to have verification of no material damage having been caused.
These maintenance forms would need to be verified by two managers that are directly not linked
in any professional or personal relationship.

Given the substantial amount of property and equipment Alphabet possesses, automated
processes are essential to effectively oversee net balances. The most viable process is the use of
an enterprise resource planning system to ensure that depreciation of individual assets is being recorded at their proper annual amounts. This digitized process would be able to operate independently with necessary changes in valuation needing to be made by an appropriate manager, or appropriate employee, to ensure property and equipment are stored at proper valuations.

**Accrued Expenses and Other Current Liabilities**

The risk associated with misstatement for accrued expenses and other current liabilities comes partially from the fact that it is the largest account in the Liabilities section of the balance sheet, valued at over $28 billion. On top of having a large materiality, the nature of accrued expenses and other current liabilities makes ensuring the existence, completeness, and valuation of the account a high priority. One risk a corporation can face is the possibility of employees creating false expenses or liabilities that have not actually been incurred by the company in order to pay out money to a false company, subsidiary, or unaffiliated individual in the process of embezzlement.

One preventative internal control that could be implemented would be to require additional approval for recording an expense or current liability over a chosen monetary value. This will also require multiple people to acknowledge its existence and deter single employees from creation of expenses. Another reason this account should be tested is that a corporation could understate expenses and liabilities in order to artificially inflate net income. A detective internal control that Google could implement for this issue would be to mandate that managerial adjustments of a certain size are reviewed to deter earning management resulting from pressure to reach net income goals.
A substantive test that could be used for accrued expenses would be to select a sample of entries that represent large expense accruals and confirm the transaction price with the vendor directly in order to verify the expense both exists and is reported at the correct value. The purchase and receiving ledgers can also be used to identify whether expenses have been recorded in the correct period. Additionally, matching past cash disbursements with their recorded expense will ensure all expenses are being properly disclosed in order to combat earnings management. Data analytics could be used to filter for transactions large enough to be material or highly unusual compared to past periods in order to spend the most resources on the riskiest transactions.

**Revenues**

The Revenues account serves as one of the largest accounts at $182 billion. Every company seeks to maximize their revenues to enhance their income statements, and Google is no different. Corporations are often found guilty of fraud and misrepresenting their revenues to look more enticing to investors, despite its illegality. As is with all companies, Google’s revenue account needs to be verified in order to determine the existence of all its revenue sources. If this account is not verified, then Google could simply make up revenues and match them with a fictitious source. A separate issue with the revenues account is the proper valuation of its transactions. Google is a massive company with revenues sourcing from all over the globe. Due to its wide reach, Google has to properly track and record these revenues in order to ensure the accuracy and validity of its financial statements.

In order to maintain an honest, maintained, and thorough revenues account, Google could impose a mandate requiring each of its offices to record its revenues in two different venues.
Google can implement the usage of two separate Enterprise Resource Planning (ERP) companies, such as SAP and Oracle. This would increase the difficulty of purposefully misrepresenting data, as well as dramatically decrease the number of accidental errors.

A second internal control that Google could implement could be increasing the reconciliation of revenue accounts. As Google is such a massive company with billions of dollars of revenue, there are lots of components to be considered when it concerns coming up with the final revenue number. One step in determining this number is the reconciliation of revenue accounts. In order to find errors, reduce dishonesty, and increase the efficiency of the entire process, Google can implement a policy that requires an office to reconcile accounts weekly. Although it would be often, a weekly reconciliation of revenue accounts would make the process easier, aid with errors, as well as serve as a preventive control.

One substantive test to ensure the validity of the revenues account information would be to check with customers in your accounts receivable at the end of each period. Doing this would ensure the verification of all future payments and eventually future revenue accounts. One other test could be for auditors to pick clients and their correlating accounts and track the transactions in reverse chronological order to ensure their validity.

**Cost of Revenues (COGS)**

Cost of revenues can be valued improperly, on purpose or by accident because it is a very large account at an amount of $84,732,000. This account can easily have valuation mistakes with all of the inputs. Alphabet is a global company with costs of revenues that are incurred around the entire world, and they must be accurately compiled into one report. The cost of revenues can also be “incomplete” in an effort to increase profit margin and hide costs. Cost of revenues could
be improperly presented in order to make them harder to find. If a company has an exceedingly high cost of revenues, then they would be more inclined to obscure the proper balance through legal means.

It is important to make sure that cost of revenues are accurate by implementing internal controls. The first internal control that should be implemented is the maintenance of records and documents. This will help check and see if there is proper and accurate documentation of receipts and merchandise along with the verification of proper documentation of inventories. The second internal control that should be applied is to test for the lower of cost or market. It is necessary to check that inventory items are recorded at lower of cost or net realizable value so that the cost of revenues is accurate.

Finally, substantive tests should be applied to verify that the cost of revenues does not contain any errors. It is necessary to examine all documents and records along with making sure that physical verification was accurate. This can be accomplished by looking into the records to make sure the figures are accurate. It is also important to check that a proper assessment for physical verification has been given to the team who checks physical inventory along with approval for the auditor to watch physical verification. We can also look into the valuation methods of inventory to make sure that net realizable value was used by looking for records supporting the proper evaluation of inventories.
Works Cited


The Honor Code:

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

Signed:  

Signed __________________________

Signed __________________________

Signed __________________________

Signed __________________________
Case Study 9

Week 3: Google

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

February 10, 2021
Executive Summary

For the third week of our case competition preparation, the topic we worked on was our tax phase. Each group was given three articles to read about the BEAT, GILTI, and CARES Act tax provisions. After reading these articles, we gathered information on corporate tax credits that apply for Alphabet Inc. Another article was provided for our group to examine, and it consisted of information about how the corporate taxes will most likely change under the Biden administration. After obtaining the information from the prior steps, our group came up with three tax strategy recommendations that Alphabet Inc. can use to lower their expected corporate taxes in the future.

Interestingly, President Biden has mentioned that he is specifically targeting the Big Tech industry, especially Amazon, Apple, and Google, in his new tax policies. He is currently, “claiming his proposals would hold these companies more accountable by tightening current loopholes” (Akins). In the midst of challenges like the Coronavirus Pandemic, anti-trust lawsuits, and now increasing attention on Big Tech tax responses, it will be interesting to see how Google reacts over the next few years.

In regards to working under these new tax policies in the present and short-term future, one of the tax proposals we recommend is the simplification of the current legal structure. As of 2018, Google used the infamous “Double Irish & Dutch Sandwich” legal structure. This structure was effective under the previous tax policy; however, its effectiveness was reduced with the introduction of the GILTI provision in the TCJA. The new GILTI tax will effectively tax Google on the income they earn overseas through their intangible assets. While the GILTI tax rate is 10.5 percent now, under President Biden, the new rate is expected to be increased to 21
percent. Organizations are allowed to deduct 80 percent of foreign taxes paid, however, this only trades one problem for another.

For the solution, we recommend that Google simplifies their structure to an American-based subsidiary. This will qualify them for the Sec 250(a) Foreign-derived intangible income deduction (FDII). While moving the intangible tax base back to the U.S. may seem detrimental at first glance, the FDII deduction reduces the tax rate to 13.125 percent. While this currently increases the tax liability compared to the foreign liability under GILTI, it would increase the amount saved when new GILTI rates are implemented. We would use the new legal structure, combined with a state blocker in a low taxed state, to create tax savings for Google (Foreign-Derived Intangible Income Deduction: Tax Reform's Overlooked New Benefit for U.S. Corporate Exporters).

One possible solution for Google to save on taxes would be to take advantage of Joe Biden’s “Made in America” tax credit. This will be a 10 percent advanceable tax credit for companies making investments that will create jobs for American workers. The Biden-Harris administration is looking to not only penalize companies that implement an offshoring strategy of American jobs, but also to reward those who invest and create in the United States. Alphabet, Google’s parent company, is currently in the process of entering the self-driving automobile industry through one of its subsidiaries, Waymo. Alphabet could take advantage of the “Made in America” tax credit by constructing manufacturing plants located in America and, therefore creating American jobs that would otherwise be foreign. By doing so, Alphabet would avoid Biden’s 10 percent Offshoring Penalty surtax as well as receive Biden’s “Made in America” tax credit.
Another tax solution for Alphabet to utilize is more effective use of the California Research and Development (R&D) Tax Credit. This tax credit allows for business entities to deduct a portion of their research and development expenses from their taxable income, thus reducing their total tax liability. Currently, in Alphabet’s financials, there are approximately $3.7 billion in tax credits to be carried forward indefinitely. However, Alphabet does not expect to utilize the full amount, so an allowance account has been created. Given the constraints of the COVID-19 pandemic, Alphabet may be able to shift employees from other locations to California to more effectively take advantage of the R&D credit. By being designated as working from California, despite working remotely, Google should be able to increase eligible R&D expenses without moving employees from their current non-Californian residences. As a result, Alphabet will be able to more effectively take advantage of this tax credit by increasing total eligible R&D expenses incurred in California.

The Honor Code:

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

Signed: Matthew

Signed: Noah Nix

Signed: Kaitlee Seberich

Signed: Sean Fitzhern

Signed: J. Burke
Case Study 10

Alphabet Advisory Case

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

February 24, 2021
Introduction

For this week’s assignment, we were first tasked with answering multiple questions about Google’s background as a corporation, focusing on their operations, mission and strategy, economic conditions, and competition. Then we were asked to dive deeper into specific financial trends of some of the company’s major account groupings. Based on this background research and data, we were able to analyze some of the current strengths, weaknesses, and overall position in their designated market to form a starting point to come up with some new recommendations for Google that could potentially boost their revenues in the near future.

Throughout this research and brainstorming process, we learned just how large Google’s market share is in many countries. However, we also learned how certain macroeconomic conditions can play a key role in the company’s continued success. Our first objective in this case was to answer a set of questions about Alphabet’s operations. For the second objective, we used Excel to produce charts that showed the values over the past five years for revenue, cost of goods sold, expenses, operating income, assets, liabilities, return on assets, and DuPont decomposition. The third step required us to determine the two biggest threats in regards to Alphabet’s success. We proposed action plans that Alphabet can put into effect that will counteract the two threats. Our group also fully implemented plans for the threats with respect to their effects on the assessed financial values and ratios. Lastly, we recalculated Alphabet’s asset turnover, profit margin, and return on assets for the future years that will be affected by our proposed action plans.
1. Answer the following questions about your company’s operations:

a. Describe the company’s operations – what is their core business? Where do they conduct business and generate revenue? Where are their manufacturing facilities and corporate headquarters located (see Item 2 of the 10-K)?

    Alphabet’s main revenue source is advertising revenue. In 2020, search engine advertising made up $104 billion of their revenue. In addition to this, their revenue from YouTube and Google Member properties advertising combined for another $43 billion. Of their total revenue, approximately 81 percent came from advertising. Breaking down revenues geographically, approximately 47 percent of their revenue comes from the U.S., and the rest of their revenue comes from various sources around the world, including Europe, the Middle East, and Africa region at 30 percent, Asia-Pacific at 18 percent, and the Americas at around five percent.

    Alphabet is headquartered in Mountain View, California. While they do have manufacturing operations in Vietnam, this is not a primary revenue source for Google and represents less than five percent of total revenue. Therefore, we will focus mainly on their largest revenue sources.

b. Determine the company’s stated business mission and strategy.

    Google’s mission statement is, “to organize the world’s information and make it universally accessible and useful”. Their vision statement is similar: “To provide access to the world’s information in one click”. Google’s strategy is a differentiation strategy because it is constantly pushing innovation and new products and services. Additionally, Google successfully
employs a market penetration strategy by aggressively seeking to expand its market share, especially in markets already dominated by Google, such as the United States.

c. Discuss the company’s demand for its products or services (outputs), and assess the supply of its inputs (both labor and supply sources). In other words, who are their customers and suppliers? Describe the demand for inputs and outputs using economic terms.

Google has already shown leadership as the most dominant search engine and online advertising hub in the United States; however, they are consistently striving for higher levels of market share in countries in which they have strong competition as a search engine provider, such as China. For example, “Baidu, Inc. has the upper hand in China, with 74.6 percent of the nation’s online search queries, as of February 2019” (Seth). Additionally, the technology industry as a whole shows continued opportunity for growing demand. The industry’s revenues have continued to climb year after year throughout the past decade.

With over 1,000 suppliers, it may be difficult for Alphabet to ensure each is operating efficiently and effectively. In 2018, Google performed 62 compliance audits on independent third-party suppliers to assess whether or not they were meeting the company’s standards on performance, operations, safety, and many other categories (Google Responsible Supply Chain Report). The categories with the highest rates of non-conformance included working hours and emergency preparedness standards, at 21 percent and 17 percent respectively.

d. Who is the company’s strongest competitor and why?

Alphabet has several different competitors in each aspect of their business. Alphabet encounters competition in their search engines and information services sector from companies such as Microsoft’s Bing, Verizon’s Yahoo, and Baidu. Amazon and eBay are competitors
because of their e-commerce websites. Snapchat, Twitter, Instagram, and Facebook are also competitors because people use social networks to find information instead of using traditional search engines. Companies with cloud services such as Amazon and Microsoft are major threats to Alphabet. The last major type of competition Alphabet faces is from companies who use online advertising platforms such as Amazon, Facebook, and AppNexus because they compete for advertisers who use Google Ads.

2. Using Excel, produce charts displaying the following values for the past five years.

Comment on the reasons behind any trends you observe.

The results of this question can be found in the appendix on pages 12 and 13. The applicable tables and charts for this question are as follows: Image 1-1, Image 1-2, Image 1-3, and Image 1-4.

iii. How do your results from this section coincide with their stated strategy in 1(b)?

The results computed in the charts and tables display the drive for innovation outlined in their stated strategy. Their growth in revenue shows clear desirability among users that can only be achieved through innovative practices. Additionally, their assets, liabilities, and expenses have all grown relatively proportionally to allow for revenue growth. The ratios found on the chart 1-3 appear to have remained fairly consistent, as well. This growth in revenue and accounts necessary to grow revenue show the unyielding drive for innovation consistent with Alphabet’s mission.
3.1 What are the company’s two biggest threats to the company’s success?

(1) Google relies heavily on advertising and advertising-related projects for profits, as it currently produces 83 percent of its revenue from the industry. As advertising space is currently extremely competitive, cyclical, and reliant upon the state of the macroeconomy, there is growing competition to Google (Mistry). Companies such as Facebook, Amazon, and Snapchat are capturing their own slice of the advertising market (Mistry). With the growing competition, Google faces a threat of losing its dominant share in the advertising arena that serves as the source for the vast majority of its revenue. Additionally, Google misses out on the market share of highly regulated countries like China and Russia due to noncompliance with censorship demands.

3.1-a. Identify an action plan for each threat that the company can implement to thwart the stated danger.

Since Alphabet’s current holdings in advertising have led to its current legal demise, we recommend a divestiture of a major advertising segment and the addition of a new profitable industry segment. The new industry segment we plan to add for Google is in the blockchain sector. Since blockchain emerged in late 2007, Fortune 500 companies have failed to capitalize on novel technology. As we have seen recently, the adoption of blockchain by major players has solidified the fledgling and volatile market, and has made more consumers open to adoption. Therefore, if Google were to adopt blockchain technologies, we would see a tremendous market increase.

We recommend a two-pronged approach to the blockchain industry. First, since Google has an existing payment processing system in place, we recommend the adoption of Bitcoin, the
prominent blockchain technology in place. This would enable users to buy and sell Bitcoin (BTC) on the platform, as well as enable many more vendors to accept payment in BTC. Google could generate profit from a conversion fee and increase its current Google Payment base revenues. Non-Google Pay customers would be attracted to the service, and increase the base (non-BTC) Google Pay revenues, due to the complementary nature of the product offering on Google pay.

Second, we recommend the purchase of a non-fungible token (NFT) software for Google to implement in its Google Suite Products. Since digital content creators are concerned about theft, this would increase the usage of Google Suite products as a whole, and increase the revenues.

3.1-b. Fully develop the implementation plan for each threat in terms of its effect on revenues, COGS, SG&A, Operating Income, Assets, and Liabilities.

The investment in BTC would need to be around $1 billion. While this may not seem like much in comparison to Google’s balance sheet, after Tesla announced its acquisition of Bitcoin, the BTC market capitalization jumped around $150 billion. Therefore, if Google were to acquire $1 billion of BTC, we could expect to see a BTC market capitalization increase of around $100 billion. Adjusting for market size, we would see a $1 billion Bitcoin investment go from $1 billion in BTC to $1.098 billion in BTC. Therefore, just the announcement of the acquisition of Bitcoin by Google will expand institutional faith in BTC, and earn a 9.8 percent paper gain. In addition to this, Tesla’s market capitalization reacted favorably. At 905 million shares outstanding, with a $13 price increase, we saw a market capitalization increase of $11 billion. In terms of Alphabet, we could see the same. While this has no impact on the balance sheet, it will
make institutional investors happy, as their portfolio values will increase. This would increase total revenues by around $9 to $10 billion a year.

With regards to the NFT software, we would see an investment of around $2.5 million and a resulting increase of revenues around $2 billion. While this initial increase in revenue is very small, we would see this as a step into a new field for Google to conquer.

3.1-c. Make sure your solution is congruent with the company’s stated strategic mission or make a case for why your company should change its strategy.

This solution is congruent with Google’s existing products, and therefore, makes it congruent with its current strategy. While Google does intend to organize the world’s information and does a great job of that, it makes profit off of their complementary product offerings in the meantime.

3.2 What are the company’s two biggest threats to the company’s success?

Recently fined $5 billion by the E.U. for antitrust violations, Alphabet is facing an increasing number of related lawsuits against them. In this particular case, Alphabet was fined for paying Android to include Google Chrome and the Google search engine as the standard equipment in its phones (Edelman). In October 2020, the U.S. Department of Justice filed a lawsuit claiming that Google employed anti-competitive strategies to prevent other search engines from threatening Google’s dominance (Edelman). Alphabet will continue to face an assortment of allegations from domestic and international governments for using anti-competitive and antitrust strategies to cement its monopoly. As these allegations continue to
build, Alphabet will continue to fight government regulation and face the threat of potentially being broken up.

3.2a. **Identify an action plan for each threat that the company can implement to thwart the stated danger.**

One plan of action to combat future threats relating to antitrust issues would be to spin off YouTube. Alphabet’s alleged monopolistic tactics could be partially alleviated by spinning off a past investment into what would be a market capitalization far in excess of its purchase price. In 2006, Alphabet bought YouTube for $1.65 billion in an all-stock deal. Currently, analysts estimate YouTube would trade at a value of approximately $300 billion (Sheetz). This would be beneficial to Alphabet by providing capital through the spin off and execution of a traditional initial public offering (IPO) of YouTube. With current Price/Earnings (P/E) multiples for the tech sector far in excess of the market-wide average, Alphabet would be able to realize a significant return at the date of the IPO. From a regulatory standpoint, this divestment would likely signal the willingness to operate with less overreach on the lives of internet users. Additionally, one of Youtube’s competitors, Rumble, very recently filed a lawsuit against Alphabet. On January 11th, they claimed that, “the tech giant unlawfully tilts search engine results toward its sister company YouTube...by unfairly rigging its search algorithms” (Leonard).

3.2b. **Fully develop the implementation plan for each threat in terms of its effect on revenues, COGS, SG&A, Operating Income, Assets, and Liabilities.**

Given this divestment, we would see a decrease in Alphabet’s revenues of around $20 billion per year. Alphabet’s cost of goods sold (COGS) would decrease around $9.4 billion,
selling, general, and administrative expenses (SG&A) by $2 billion, and operating income by $4 billion. There would be a direct increase in assets of approximately $200 billion and a decrease in liabilities of approximately $5 billion. This plan is contingent upon the ability to spin off YouTube at a valuation of $300 billion and retain a 25 percent stake in the spin-off to continue the ability to exert significant influence. This divestment would allow for Alphabet to draw down long-term debt, which was rapidly incurred in the last year due to the pandemic. Ultimately, this plan would be greatly beneficial to Alphabet from a financial standpoint while still appealing to regulators.

3.2c. Make sure your solution is congruent with the company’s stated strategic mission or make a case for why your company should change its strategy.

This solution is congruent with Alphabet’s strategic mission as it liquidates a considerable amount of capital. This abundance of liquidity will provide ample funds to the company to catalyze innovation. Since its inception, Alphabet has been a giant in creating technology capable of impacting the lives of everybody on Earth, so the funds provided by spinning off YouTube could be deployed into a number of ventures to further expand on innovation.

4. Recompute the company’s ROA, Profit Margin and Asset Turnover for all future years affected by your solution implementation (up to five years in the future). How does that implementation of each action plan impact these ratios? If you cannot show a favorable outcome for at least some future time period, your solution is not acceptable and begin again.
Our results from the proposed implementation of the aforementioned solutions are provided in Image 1-5 in the appendix. After computing the effect of our solutions, the most significant difference is the increased profitability of Alphabet. The other ratios are impacted in a perceivably negative way due to the one-time increase in assets from spinning off YouTube, but we project impacts to revert back to values seen in the previous five years. Ultimately, the two solutions will have a very favorable impact on Alphabet’s overall financial condition.
Appendix

<table>
<thead>
<tr>
<th>Alphabet Financial Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td>Revenues</td>
</tr>
<tr>
<td>COGS</td>
</tr>
<tr>
<td>SG&amp;A Expense</td>
</tr>
<tr>
<td>Operating Income</td>
</tr>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Liabilities</td>
</tr>
<tr>
<td>Return on Assets</td>
</tr>
<tr>
<td>Profit Margin</td>
</tr>
<tr>
<td>Asset Turnover</td>
</tr>
</tbody>
</table>

Image 1-1

Income Statement Account Balances by Year (in millions)

Image 1-2
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ 90,272</td>
<td>$ 110,855</td>
<td>$ 136,819</td>
<td>$ 161,857</td>
<td>$ 182,527</td>
<td>$ 192,127</td>
<td>$ 203,179</td>
<td>$ 215,001</td>
<td>$ 230,548</td>
<td>$ 247,409</td>
</tr>
<tr>
<td>COGS</td>
<td>$ 35,338</td>
<td>$ 45,583</td>
<td>$ 59,549</td>
<td>$ 71,896</td>
<td>$ 84,732</td>
<td>$ 75,332</td>
<td>$ 89,883</td>
<td>$ 107,124</td>
<td>$ 127,744</td>
<td>$ 152,334</td>
</tr>
<tr>
<td>SGA &amp; Expense</td>
<td>$ 17,470</td>
<td>$ 19,765</td>
<td>$ 23,256</td>
<td>$ 28,015</td>
<td>$ 28,998</td>
<td>$ 30,091</td>
<td>$ 33,301</td>
<td>$ 36,852</td>
<td>$ 40,783</td>
<td>$ 45,133</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$ 23,716</td>
<td>$ 26,146</td>
<td>$ 27,524</td>
<td>$ 34,231</td>
<td>$ 41,224</td>
<td>$ 46,044</td>
<td>$ 51,427</td>
<td>$ 57,440</td>
<td>$ 64,156</td>
<td>$ 71,657</td>
</tr>
<tr>
<td>Assets</td>
<td>$ 157,497</td>
<td>$ 197,295</td>
<td>$ 232,792</td>
<td>$ 275,909</td>
<td>$ 319,616</td>
<td>$ 319,616</td>
<td>$ 530,008</td>
<td>$ 540,608</td>
<td>$ 551,421</td>
<td>$ 562,449</td>
</tr>
<tr>
<td>Liabilities</td>
<td>$ 28,461</td>
<td>$ 44,793</td>
<td>$ 55,164</td>
<td>$ 74,467</td>
<td>$ 97,072</td>
<td>$ 95,072</td>
<td>$ 96,973</td>
<td>$ 98,913</td>
<td>$ 100,851</td>
<td>$ 102,909</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>14.16%</td>
<td>13.25%</td>
<td>11.82%</td>
<td>12.41%</td>
<td>12.90%</td>
<td>8.86%</td>
<td>9.70%</td>
<td>10.63%</td>
<td>11.63%</td>
<td>12.74%</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>26.27%</td>
<td>23.59%</td>
<td>20.12%</td>
<td>21.15%</td>
<td>22.55%</td>
<td>23.97%</td>
<td>25.31%</td>
<td>26.60%</td>
<td>27.83%</td>
<td>28.96%</td>
</tr>
<tr>
<td>Asset Turnover</td>
<td>53.89%</td>
<td>56.19%</td>
<td>58.77%</td>
<td>58.66%</td>
<td>57.11%</td>
<td>36.97%</td>
<td>38.34%</td>
<td>39.94%</td>
<td>41.81%</td>
<td>43.99%</td>
</tr>
</tbody>
</table>
Works Cited


Google Responsible Supply Chain Report. 2019


Leonard, Mike “YouTube Competitor Rumble Hits Google With Antitrust Allegations.” *Bloomberg Law*
**The Honor Code:** “On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case.”

Signed: 

Signed ____________________________

Signed ____________________________

Signed ____________________________

Signed ____________________________
Case Study 11

Week 5: Alphabet

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

March 3, 2021
Introduction

For the fifth week of our case competition, our group took a deeper dive into some of Google’s financial measurements and statistics. We investigated fiscal computations such as closing stock prices and price-to-earnings ratios, which compares share price to earnings per share. Earnings per share acts as a potential indicator of a company’s profitability. Some of these ratios were easily found on the internet, while others, such as the price-to-earnings ratio, had to be calculated using other statistics.

Next in this week’s case instructions was to find information concerning our company’s beta, how many analysts follow Google, and what these analysts recommend for further action based on forecasted growth. A company’s beta is a measurement of the volatility of a security compared to the broader market and how a company’s equity changes with the rest of the market (Mirzayev). Following those instructions, we investigated Google’s beta statistic and how it related to Google’s risk level. We found that the company’s beta was less than one, signifying that the stock price is less volatile than the overall market. This also means that the stock will have lower returns but less risk. We learned that Google is projected positive growth for the next five years, and the majority of analysts recommend buying Google’s stock.

Our group then identified how Google’s net income and common shares outstanding will change over the recommendation horizon. In order to successfully complete this task, we needed to calculate a new expected stock price using price-to-earnings ratio and a projected earnings per share. Lastly, we employed a return on assets (ROA) analysis to indicate the validity of our tax and advisory strategies for Google. In our proposal, the liquidation of YouTube will cause the ROA to decline within the year, but then it is expected to steadily increase over the next five years.
While we calculated an expected stock price of $1106.33, we strongly disagree with the outcome the model projects. The model does not factor in the distortions divesting YouTube will have on the balance sheet. The model calculates the expected stock price only based on the EPS. While we anticipate strong EPS growth following 2021, we understand that revenue slippage from our disposal will impact our net income moving forward. In return for this slippage, we will be capitalizing our gains, and possibly considering distributions to shareholders. Shareholders will account for these potential dividends by maintaining the P/B ratio, which would be a better indicator of our stock price. The current P/B ratio is 6.85, so if we effectively capitalize on YouTube, we will see a share price of $4,215. However, this P/B is influenced by their earnings potential, so we would need to backtrack this P/B to a minimum of 3.5, given the decrease of earning potential by roughly ten percent, which gives us a share price of $2,175. This share price is most likely a good estimate of what we would see.

1. Answer the following questions about your company’s stock price:

   a. What was your stock’s closing price on the last day of the fiscal year?

      Alphabet’s stock’s closing price on the last day of the fiscal year was $1,751.88.

   b. What was the Price-to-Earnings ratio (P/E) as of the last day of the fiscal year? Compute this as follows: Closing stock price from 1(a) / Earnings per share. Note: Earnings per share (EPS) = Net Income / Common Shares Outstanding.

      The Price-to-Earnings ratio as of the last day of the fiscal year was 29.87. This was computed by dividing $1,751.88 by 58.61.
c. What was your stock’s closing price from today?

    Alphabet’s stock’s closing price from today was $2,095.17 +24.31 (+1.17 percent).

2. Use Yahoo!Finance or another source to answer the following:

a. What is your company’s beta (look under the statistics tab)? What does this statistic mean in respect to the company’s risk level?

    Alphabet’s beta is 0.99 (5Y Monthly). Since the beta is below one, this means that the stock’s price is less volatile than the overall market. The stock will have lower returns, but it will also have less risk.

b. How many analysts follow your company (answer the next several questions from the analysis tab)?

    In the current year, there are 36 analysts following Alphabet.

c. What is the forecasted growth rate for your company?

    The forecasted growth rate for Alphabet in the current year is 19.1 percent. However, in the next five years, it is slightly lower at 16.40 percent.

d. What is the buy or sell recommendation for the company’s stock?

    The recommendation lies at a 1.5 on a scale of one to five, with one meaning it is a strong buy and five meaning it is a sell. Based on the 1.5 rating, we can conclude the recommendation is to buy Alphabet stock.
3. Identify how your net income and common shares outstanding will change over your recommendation horizon. For example, if you plan to suggest that the client issue equity to implement your tax and advisory recommendations, then this value should increase over time accordingly.

a. For each future year that your net income and/or shares outstanding change, compute a new expected stock price as follows: Projected stock price = Your P/E ratio from 1(b) * Projected EPS

Note: this method is the earnings multiplier valuation approach. In graduate school, I will teach you more sophisticated models such as the residual income model.

The P/E ratio computed from 1(b) is 29.87. The share prices would be as indicated below in image 2-1:

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>$25,279.57</td>
<td>$29,425.42</td>
<td>$34,251.19</td>
<td>$39,868.39</td>
<td>$46,406.80</td>
</tr>
<tr>
<td>EPS</td>
<td>$37.04</td>
<td>$43.11</td>
<td>$50.18</td>
<td>$58.41</td>
<td>$67.99</td>
</tr>
<tr>
<td>Stock Price</td>
<td>$1,106.33</td>
<td>$1,287.77</td>
<td>$1,498.97</td>
<td>$1,744.80</td>
<td>$2,030.94</td>
</tr>
</tbody>
</table>

Image 2-1

4. Use your new ROA (from last week) along with your proposed increase in stock price to demonstrate the validity of your tax and/or advisory strategies. Be sure to also discuss any changes to the client’s risk profile that they will be taking on by executing their strategies (i.e.,
will their cost of capital or beta increase because of your proposals? If so, then shareholders will demand a higher return and stock price to compensate for the added risk.

The new ROA from our Case Study 10 was 8.86 percent for 2021, 9.7 percent for 2022, 10.63 percent for 2023, 11.63 percent for 2024, and 12.64 percent in 2025. As shown in the chart for the previous case, the return on assets will drop compared to previous years in 2021 as a result of the advisory recommendation we made. Alphabet will receive cash that will inflate the presence of assets when selling partial ownership of Youtube. However, the ROA is predicted to steadily increase back to prior levels over the next five years.

The result of our proposals from the advisory case will likely result in changes to Alphabet’s current risk profile. To recap, the proposals from the last case were to spin off YouTube with a traditional initial public offering (IPO) and to invest around $1 billion in enabling the use of blockchain technologies on Google platforms. The spinoff of YouTube would entail Alphabet taking on additional risk while likely capitalizing on significant returns. Given that Alphabet would still own 25 percent of YouTube, Alphabet would be exposed to the additional risk associated with the lower market-cap, higher beta stock. However, the probable returns associated with listing YouTube justify the change to Alphabet’s overall risk profile. The implementation of blockchain technology into Google’s core businesses represent the opportunity to capitalize on an emerging industry with significant upside potential. Cryptocurrencies and non-fungible tokens (NFTs) are notoriously volatile, but the market for cryptocurrency and NFTs are currently undergoing extraordinarily high growth. The initial outlays of cash necessary to enter into this market would likely cost several billions of dollars, but the returns could be significant with Alphabet’s existing prominence with Google Pay. With Alphabet being one of the largest companies in the world and their abundance of cash on the
balance sheet, both of these projects could catalyze share price performance in excess of historical average returns.
Works Cited


The Honor Code: “On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case.”

Signed: 

Signed Norah Nix

Signed ________________________________

Signed ________________________________

Signed ________________________________

Signed ________________________________

Signed ________________________________
Case Study 12

Financial Crisis Case

Matthew Conroy

April 21, 2021
Executive Summary

The goal of this case is to demonstrate the events leading up to the Great Financial Crisis of 2007-2009. The case required students to watch short videos, a documentary, and to read several articles that provided direct accounts and information leading up to the catastrophic recession that sent shockwaves throughout the world. The focus was then to analyze how these articles, documentaries, and videos have impacted our view towards our trust in the government and financial institutions, our role in society from a personal and professional standpoint, the parallels between the current political climate and the events leading up the crisis, and what can be learned to avert future crises. This case provided interesting insight into what was the largest financial event since the Great Depression.

The result of this case was a developed understanding of the Global Financial Crisis of 2007-2009. The source materials, though seemingly possessing varying levels of bias, provided insight into the buildup leading into an event that impacted virtually everybody on the planet. The articles and videos did an excellent job of mapping out the role of the banks and government in helping to visualize what exactly went wrong that birthed a financial event of such a significant magnitude. The events of 2007-2009 are an event that should be widely studied by students to potentially mitigate the likelihood of future recessions that may result from actions similar to those leading up to the crisis. My ultimate takeaway from this case was the reinforcement of preconceived ideas formed from other materials that I had read before this case. Further, this case is demonstrative of the necessity for the need to conduct business in an ethical manner. Virtually every American has no control over their exposure to market-wide risks, so banks are obligated to maintain a position that does not expose innocent bystanders to excessive risk that may cause a widespread crisis.
How did these materials affect your trust in institutions and the government?

My trust in institutions and the government is largely unchanged as a result of the source materials. Given the vast comprehensiveness of the banking and financial services sector, an argument could be made that this industry is the most complex in the global economy. This immense intra-industry complexity lends itself to an inability to fully comprehend the grandiosity of the Global Financial Crisis without an adept understanding. As students of accounting with a flourishing knowledge of the inner-workings of industry, we are obligated to develop an understanding of this catastrophic situation, so that we may be able to collectively prevent the uprisal of an event that may be categorized, at least partially, by industry greed at the expense of the average American’s well-being. The key theme of the source materials is the broad simplification of an extraordinarily complex situation that cannot justifiably be blamed on a single group. Instead, one must realize that the Global Financial Crisis is the coalescence of factors that resulted in an economic maelstrom boomeranging throughout the entire world.

Famed economist Milton Friedman is credited with the creation of the aptly named Friedman Doctrine, or the shareholder theory. This doctrine stipulates that the sole responsibility of a firm is to maximize returns to its shareholders. From the bank’s perspective, share price performance took a dominant role in the firm’s overall direction and initiatives. The goal to maximize returns was catalyzed by inadequate risk management that enabled banks to accrue untenable levels of risk. Given widespread bullishness, these risks appeared to be sustainable as share prices rose amidst greatly satisfactory profitability. Yet, fire and brimstone ensued. The lack of awareness accreditable to banks’ management teams contributed to financial catastrophe rippling throughout the global economy. But, regardless of the factors leading up to the crisis,
banking will always continue to be the single most important sector of the economy. Without the all-encompassing services of banks, many businesses would be stuck in the stone age. So, it is important to realize that while banks can be perceived as evil, like the source documents may like its viewers and readers to think, they are at the very least a necessary evil. As individuals without a direct role in governing the actions of banks, we can only idly sit back and hope that the combination of risk management and government oversight will prevent the catastrophic recurrence of a crisis like the events of 2007-2009.

There is a certain level of naivety to flatly state that banking institutions and the federal government are inherently untrustworthy. Yet, in my lifetime alone, there have been numerous instances of government malpractice and banking cynicality, sometimes in conjunction with one another. This creates an interesting dilemma of whether history is doomed to repeat itself or whether the past has no bearing on the future. Given the cyclicality of the markets, one could surmise that the government and/or banks could potentially contribute to a future recession. But the markets can often behave irrationally which means that no one can consistently determine who, what, or why the next recession will occur. This unpredictability lends itself to the ever-growing need to exercise skepticism. In hindsight, over encumbering oneself with a mortgage, especially a NINJA (no income, no job, no assets) loan, seems to clearly be a poor financial choice, and this is reflective of the need to live within one’s means. While banks and government-sponsored enterprises (GSE) readily issued mortgages to individuals and packaged those mortgages into mortgage-backed securities (MBS) and other derivatives, there is a level of responsibility for individuals overextending their personal finances and institutions readily providing mortgages to uncreditworthy individuals without a clear ability to service these
accrued debts. That is why individuals must be skeptical with their personal finances to ensure they do not incur more debt than can be serviced.

**How did the materials watched/read change your beliefs about your role in society, both professionally and personally?**

As students preparing to enter into the world of accounting, it is of paramount importance for us to conduct ourselves with unwavering ethical standards. Regardless of the specific role of an accountant, an individual in this field is obligated to act ethically in order to maintain public trust in an industry depending on public trust to operate. The high degree of critical information that an accountant may be exposed to on a daily basis reflects the reasoning behind upholding strong ethics. While there are plenty of cases illustrating lapses of judgment in the accounting profession, like scandals with Enron, Waste Management, and WorldCom, the Global Financial Crisis cannot nearly as easily be pinned on accounting’s role in the buildup of this situation. The source documents are much quicker, and more accurate, to pin the circumstances of the crisis on the negligent actions of the bulge bracket investment banks greedily sacrificing the savings of innocent citizens to irreverently deposit astronomical quantities of wealth into their personal bank accounts. The situation begs the question: what would I have been able to do to prevent the unfolding of the events of 2007-2009? The answer is nothing. The avoidance of this situation is contingent upon the collective efforts of all individuals to act with the best interests of all as the core consideration for decision making.

Even though I may not be able to have a direct impact on the probability of a financial recession, I must still conduct myself with proper ethics and hope that all of my peers are doing the same. Morality’s role in society is dependent upon individual actions and decisions rather
than enforcement. For example, my decision to act with proper ethics in a business situation does not necessarily mean that someone in a different company, with no relation to myself, will conduct themselves in a similar manner. So, I must trust that those in a position to mitigate systemic risk do so for the sake of avoiding potentially catastrophic impacts on individuals incapable of weathering financial ruin. However, this situation is purely contingent upon humans not being driven by self-interest. If the source materials are any indication of future events, then a widespread financial catastrophe is inevitable. We may only hope that the inevitability can be managed in a way that lessens the burden that millions of Americans will feel with its unfolding.

I cannot definitively say that the source documents necessarily changed my beliefs about my role in society, but they did provide a clear example of why ethics matter. So, my views were enforced rather than necessarily changed. An argument can easily be made that many of the parties contributing to the Financial Crisis of 2007-2009 were driven by self-interest. From this bad situation, a good situation may be in the process of forming. Over the past decade, the corporate world has witnessed the rise of importance in environmental, social, and corporate governance (ESG) to the public. This may be indicative of the public paying close attention to poor optics on behalf of the largest financial institutions generally pinned for causing the events of 2007-2009. While I can confidently say that the banks were not solely responsible for the crisis, the public often perceives a view of any situation receiving coverage based on occasional bias perpetrated by the media. The rise in ESG can be construed as the growing desire of the public to witness industry operating in a manner that fosters sustainability and a positive societal impact. Even though my views towards the unfolding of the Financial Crisis of 2007-2009 may
have been primarily unchanged, the public’s views reflect the desire for business to be conducted in a way that can be widely viewed positively.

**Are there any parallels between the political landscape that brought on the financial crisis and our current political environment? What can be learned from the crisis to help us avert future crises, financial or otherwise?**

The most notable parallel between the current political landscape and the environment that brought on the Great Financial Crisis is the polarization continually present in politics. American politics have grown further apart since the events of 2007-2009, but polarization has continued to be an unbreakable trend characterizing government at a federal, state, and local level. Polarization detracts from the ability of lawmakers to legitimately make changes routinely harped on during election cycles. While ideological differences naturally spawn disagreement, politicians have continually been driven to best their opponents often at the expense of their constituents. This toxicity is present from congressional negotiations to create the Troubled Asset Relief Program (TARP) and leading up to existing COVID-19 stimulus legislation. However, the decision to appropriate trillions of dollars in government funds should not be made hastily, but the duty of a politician is to represent their constituents rather than score wins over their ideologically opposite peers.

The inadequacy of risk management played a significant role in allowing the banks to accrue illogically risky positions. Additionally, the extreme use of leverage magnified returns in the period of bullishness building up to the Great Financial Crisis, but it exposed the banks to magnified losses with only slight pullbacks from highs leading directly to insolvency. The institution of leverage ratio limits should prevent sudden losses to occur with pullbacks that
would previously have created extreme losses with the use of leverage to enter into complex
derivative positions. Empowering risk management to prohibit the firm from entering positions
with immense risk could ultimately result in the prevention of insolvency. When a firm has
become large enough where its failure would send shockwaves throughout the rest of the
economy, an obligation exists to operate with due care for the sake of avoiding economic
catastrophe.

A more recent example of the extreme danger of using derivatives coupled with high
leverage is the blowup of Archegos Capital, a hedge fund turned family office managed by Bill
Hwang. Archegos utilized total return swaps (TRS), a derivative involving one party making
payments based on a fixed or variable rate while the other party makes payments based on the
returns of an underlying asset. The goal of a TRS is to simulate ownership of equity without
having to own the actual equity. The use of leverage by Archegos Capital to purchase total
return swaps allowed for massive exposure to risk in the event of the underlying asset’s share
price falling. In March of 2021, the underlying asset’s share price fell by a significant margin,
and Archegos’ losses were greater than the $10 billion the firm managed. While the case of
Archegos and Bill Hwang may seem tangential, it is demonstrative of recent losses that a firm
with billions of dollars in assets could have avoided with more mitigation of risk. Though banks
face increasing regulation, hedge funds have existed with far less regulation. Losses incurred
from lending to hedge funds serve as an example of the wide variety of risks that banks can be
exposed to as lenders.

Ultimately, the role that banks play in the global economic sphere is paramount to the
continual realization of growth and innovation. The instances of recessions in the past should
serve as opportunities for regulators and bank management teams to find a balance between taking on enough risk to facilitate economic growth while mitigating potential dangers in their role as lenders. However, this balance of risk cannot easily be computed, so global citizens must behave with skepticism in order to prepare for economic downturn that may be precipitated by unforeseeable events.
The Honor Code:

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

Signed  

__________________________