Spring 5-7-2022

Accounting Case Studies

Virginia Sudduth

Accounting Case Studies

By

Virginia Sudduth

A thesis submitted to the faculty of The University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

Oxford, MS

May 2022

Approved By

Victoria Dickinson

____

Advisor: Dr. Victoria Dickinson

____

Reader: Dr. Mark Wilder

TABLE OF CONTENTS

ABSTRACT

This thesis is a collection of accounting case studies completed during the 2020-2021 academic school year. Each case was assigned and reviewed by Dr. Victoria Dickinson in her honors independent study class. There are twelve cases that comprise this thesis including: A Tale of Two Cities, Asset Concepts, Presidential Debate, Excel Course, *Taxodus – Playing The Global Tax Avoidance Game,* Business Interview, Case Competition – Earnings, Stock Price, and Analysis, and Financial Crisis of 2008. These cases cover a wide variety of topics that allowed me to apply concepts learned in my studies in order to solve complex accounting issues as well as to evaluate real world issues.

CASE I: A Tale of Two Cities

Executive Summary

The first case for Accountancy 420 with Dr. Dickinson is called "A Tale of Two Cities." Essentially, I chose two cities that I could see myself living in when I begin my career as an accountant. I am still very open to other locations, however, after talking to several accounting professionals across the country, I settled on Nashville, Tennessee and Raleigh, North Carolina.

First, I chose Nashville because I personally know people who live there and love it. I have also talked to accountants and recruiters working out of Nashville who have all explained how fun and unique the atmosphere and culture is. It is exciting with a variety of things to do and see. After I leave the University of Mississippi, I do not want to find myself in a mediocre town that I don't enjoy with nothing to do. I personally cannot see that happening in Nashville. Another reason Nashville is enticing to me is because of how close it is to my family. The drive from Oxford, Mississippi to Nashville is approximately four hours. It is important to me that I be able to visit my parents and younger siblings for family events without weeks of preparation.

Second, I chose Raleigh because it seems like a very active and beautiful city. All of the photos I viewed online are stunning and unique. I spoke to an accountant working in Raleigh who told me that it is extremely easy to meet people due to the large number of young professionals working there, as well as the boundless activities and places to go. It is much farther from Oxford, however, I felt that it was worth looking into more because of how interested I have been in it since talking to the accountant working there.

I will be talking about several important aspects of each city and how that information has impacted my perspective of them in my mind. I begin with Nashville, TN and continue with the information about Raleigh, NC, then I will conclude which is my preferred city.

Nashville, Tennessee

Population:

According to the government census, the population of Nashville is estimated to be 670,820 people. The largest ethnic groups are White (63.2 percent) and African American (27.9 percent). It has a population density of one thousand three hundred ninety people per square mile. I am very comfortable with the size of Nashville and the number of people.

Climate:

Nashville has a humid subtropical type of climate. It has hot and humid summers paired with mild to cold winters. The average high temperature reaches eighty-nine degrees in the summer with record highs of one hundred degrees. It is not uncommon for exceptionally cold periods during the normally mild winters. During these periods, temperatures may drop below ten degrees. The region receives rain for an average of 118 days during the year. These weather statistics are about what I expected and what I am used to. I am not surprised that because of Nashville's close proximity to Oxford, it has very similar weather patterns.

Topography:

Nashville lies on the Cumberland River in the Davidson County in the northern part of the southeastern state of America. The land consists of hills, plains, farmlands, rivers, and laves. The elevation ranges from one hundred seventeen meters to three hundred fifty four meters above sea level.

Taxes:

If I lived in Nashville, I would expect to pay no state income tax and an average effective rate of 0.74 percent in property taxes. For a yearly salary of $55,000, I would expect to take home $45,518 after tax. That number includes Federal and FICA. This is about what I expected, however, I was pleasantly surprised to find out there is no state income tax.

Transportation:

Nashville is difficult to navigate in a car. It can also be hard battling traffic during morning and afternoon rush hour. Luckily, there are a few different public transportation options. First if the local bus system, "WeGo Public Transit." It features more than 50 routes at a price of $1.70 per ride. There are also discounted passes for recurring riders. There are also park and ride options as well as a train that runs across the city and surrounding communities. Of course, taxis and uber are also valid options when in a crunch. I knew that Nashville could get very busy, so I was glad to read that it has so many viable transportation options.

Industry:

The biggest industries in Nashville are as follows: education and health services (twenty-four percent), transportation and utilities (eighteen percent), professional and business services (thirteen percent), leisure and hospitality (twelve percent), and government (four percent). This was not surprising to me because I knew that healthcare was very big in the Nashville area. I personally am very interested in working with healthcare professionals and companies. The largest companies that have their corporate headquarters in Nashville include: Amazon, Asurion, Bridgestone Americas Inc., Community Health Systems, and Cracker Barrel Old Country Store Inc. The largest companies with corporate operations in Nashville include: AT&T Inc., Dell, Deloitte, Lowe's Cos. Inc., and Randstad.

Healthcare:

As you would expect, Nashville has an excellent selection of hospitals and medical centers. These include the Vanderbilt University Hospital, St. Thomas Hospital, Centennial Medical Center, and The Children's Hospital at TriStar Centennial.

Public Education:

There are several school districts in the Nashville area. Metro Nashville Public Schools is ranked number one in the state for diversity, however not in academia. High school students have an average graduation rate of eighty percent and an average score of twenty-four on the ACT. If I lived in Nashville long term, I would certainly want to do more research at that time before making the decision between public and private school. There are several private school options including: Benton Hall Academy, St Paul Christian Academy, and Templeton Academy.

Crime:

The statistics for crime in Nashville are not good at all. However, this can be somewhat expected for such a large city. It has a crime rate of fifty-four per one thousand residents which is very high compared to all other cities and towns in the United States. There is a one in eighty-seven chance of being a victim of a violent crime and a one in twenty-four chance of being a victim of a property crime. The most dangerous parts of the city are in the center of Nashville. These areas include Bakertown, Glenview, and areas around Cumberland heights. Suburbs of Nashville appear to me much safer.

Rental Options:

I would definitely want to live with a roommate in Nashville to save money, have companionship, and someone to make sure I make it home each night. I found several feasible options, many of which had very interesting and fun aesthetics. The prices range from $1400 to $2200, which was within the range I was looking for. I have been talking to many Crowe recruiters, so for the sake of this project, I chose an apartment complex closer to Franklin. This area is also much safer than areas in Nashville. This particular apartment has on-site parking, in unit laundry, as well as a gym. I really love that it has its own fitness center, that way I do not have to pay for a gym subscription. The rent for this apartment is $1755, which split between a roommate and I would be $877.50. This is a great price in my opinion. Below is the floorplan:

Daily Commute:

If you are not living in the heart of Nashville, cars are the most viable mode of transportation. This is also considering your tolerance for sitting in traffic. For the particular apartment I listed above, the commute to the Crowe office is a mere five minutes or so. However, to the Delloite office it is seventeen minutes. These are both very reasonable in my opinion.

Groceries:

There are several grocery store options in both the Nashville and Franklin areas. Again, for the sake of this case, using the apartment I chose, I would get my groceries at either Whole Foods or Sam's Club. Both of these stores are just a quick five-minute drive from the apartment complex.

Laundry:

Fortunately, all of the apartments I looked at had a washer and dryer that are available for me to use. I would have to make sure to grab detergent while out getting groceries. However, I did factor into my monthly budget some extra money for dry cleaning.

Involvement:

If I was living in the Nashville/Franklin area, I would definitely want to find a local church to attend. There are several options including Fellowship Bible Church and Generations Church. I think both of these options closely align with me personally and are similar to the church I attend now. There are also several charitable groups that I would love to become involved in and support. The first is called "Mercy Multiplied." It is a Christian Organization that targets young women battling things like depression, eating disorders, sexual abuse, and unplanned pregnancy. Another organization that I would be passionate about is “Book’em.” This organization donates millions of books to children in middle Tennessee. It helps children grow and develop a love for reading and learning. I know that I would not be limited to these specific organizations, it was very easy to find several others that I would be interested in learning about.

Entertainment:

Given that Nashville is a tourist hotspot, there is an extensive number of things to do for fun. Naturally “The Music City” has several music venues available to see different artists and bands perform. Two examples include the Grand Ole Opry and Mercy Lounge. There are also numerous restaurants to choose from. At the City Winery, you can eat dinner while listening to live jazz music and at the Barcelona Wine Bar, you can experience authentic Spanish cuisine. Aside from nightlife, there are also multiple museums to visit including the Tennessee State Museum and The Johnny Cash Museum. Lastly, there is no end to the number of annual festivals going on in the Nashville area. I would be interested in going to the Nashville Film Festival and the Porter Flea Holiday Market, which both happen in the late October-November time frame.

Traveling Home:

While living in Nashville, I would absolutely drive back home to Oxford. It is only four hours and much easier than the hassle of buying plane tickets and finding somewhere to leave my car.

The drive is approximately 257 miles long and 514 miles round trip. My Toyota Camry gets around thirty-five mpg on the highway and holds seventeen gallons. This brings me to a total of 595 miles for each tank of gas. Therefore, I would only need one tank of gas for the entirety of the trip. This would only cost me somewhere between thirty-five to forty dollars.

Monthly Budget:

Gross Monthly Pay: $5,000

After Taxes: $4,086.00

Savings 20%: $817.2

Tithe: $408.6

Rent: $880

Utilities: $150

Cellular: $75

Auto Insurance: $100

Health/Dental/Vision Insurance: $300

Car Payment: $400

Dry Cleaning: $50

Groceries: $150

Gasoline: $150

Entertainment: $500

Raleigh, North Carolina

Population:

In 2018 the population of Raleigh is was approximately 471,000 people with a median age of 34.1. The largest 3 ethnic groups are White (53.5 percent), African American (27.1 percent) and Asian (4.87 percent). I think this is a great size for a city. I want to break away from the small-town feel, but personally do not want to live somewhere like New York with millions of people.

Climate:

Raleigh has very similar weather patterns as Oxford. Raleigh experiences hot and humid summers with an average high temperature of 90 degrees Fahrenheit. The winter season is short and cold with an average low temperature of thirty-one degrees Fahrenheit. One prominent downside of the city is that it faces frequent hurricanes and tornadoes. I believe I am very accustomed to this type of weather already. I think it would be a very easy adjustment in terms of weather and climate.

Topography:

Raleigh is known as the City of Oaks. You can find many oak trees in the heart of the city, which lies at an elevation of 96 meters above sea level. Soft rolling hills that slope eastward can be found in Raleigh, however the terrain is mostly flat. Many lakes, rivers, and creeks can also be found. I love that there are oak trees lining the streets in the center of Raleigh. I think that is such a unique characteristic that sets Raleigh apart.

Taxes:

The minimum combined 2020 sales tax rate for Raleigh is 7.25 percent which is composed of North Carolina sales tax rate of 4.75 percent and Wake County sales tax rate of 2 percent. North Carolina has a flat income tax rate of 5.25 percent and no cities within North Carolina have local income taxes. In terms of a starting income of $55,000, take home salary would be approximately $42,363 or 77.02 percent.

Transportation:

The main source of transportation in Raleigh is a personal vehicle, however, the City of Raleigh's public transportation options include several different bus services. "GoRaleigh" in particular has been publicly supported since 1975. I do not think that I would use the bus system often, but it is comforting to know that there is one in place.

Industry:

The Raleigh area and the Research Triangle Region are a hub for global cleantech companies and innovation. Advanced Manufacturing and IT/Technology industries also thrive. Lastly, there are more than 400 life science companies in the Raleigh and Research Triangle area. The five largest companies are Cisco Systems, IBM, NVIDIA, Mastech Digital, and RTI International.

Healthcare:

North Carolina ranked in the middle thirty-one of all United States in Healthcare by the Agency for Healthcare Research and Quality. However, as of march 2020, University of North Carolina Rex Healthcare ranked as the number two hospital in North Carolina and it is located in Raleigh. This ranking was awarded by BusinessNC. It is comforting to know that there are excellent healthcare facilities and professionals available to me when needed.

Public Education:

Raleigh has excellent public education options. According to Wake County Economic Development, more than eight percent of Wake County Public School Students go on to post-secondary education. Wake county ranked #1 nationwide in 'Gold Standard' teachers as well as has 13 nationally ranked high schools. I believe that I would save costs be sending my children to public school.

Crime:

The crime statistics available for Raleigh were actually quite unsettling. The crime rate is considerably higher than the national average and Raleigh, specifically, has a crime rate that is higher than seventy-nine percent of the state's other cities. However, it is important to note that compared to other communities of similar population size, the crime rate is actually well below average. The chance of being a victim of violent crime is four per one thousand inhabitants and the chance of being a victim of property crime is thirty-seven per one thousand inhabitants. The most dangerous areas of the city include New Hope, Carolina Pines, Western Blvd, and areas surrounding New Burn Ave.

Rental Options:

I had no problem finding many apartment options. I looked mainly in North Raleigh because that is the safest area according to the crime statistics. For a single bedroom apartment, anywhere between $900 and $1400 seemed common. One example is this one-bedroom apartment in Falls Creek. It is 788 square feet with monthly rent of $1005. It includes both a washer and dryer as well as a dishwasher. It also has its own designated parking areas for everyday use. On the following page is a picture of the floorplan:

Daily Commute:

The most common mode of transportation in Raleigh is cars. After several google maps searches, I have found that the average commute from different apartment complexes to downtown is about 18 to 25 minutes. For example, the Falls Creek Complex is 19 minutes away from the KPMG office.

Groceries:

There are several options for grocery shopping. If I were to live there I would either go to Sprouts or Whole Foods which are both located in north Raleigh. I really enjoy grocery shopping and cooking meals frequently, so am glad so many grocery options are in North Raleigh.

Laundry:

Fortunately, all of the apartments I looked at had a washer and dryer that are available for me to use. I would have to make sure to grab detergent while out getting groceries. However, I did factor into my monthly budget some extra money for dry cleaning.

Involvement:

If I lived in Raleigh, I would certainly want to get involved in order to meet people. After looking at some of the churches in the city, I think that Living Word Family Church would be a great match for me because it is very similar to the church I go to in Oxford. I would also love to start volunteering with Rise Against Hunger. They have a location in Raleigh and it is a cause that I am very passionate about. I have volunteered with More than a Meal and Feed the Hunger in Oxford, and it is very important to me that I find a way to remain involved after leaving Ole Miss. Wake County has a vey helpful website dedicated to volunteerism and other civic organizations. One other group that I would be interested in joining is called “Dream Teams”. Essentially, the group completes needed projects inside and outside of child care buildings and schools. This could be anything from building play areas or installing a small vegetable garden. Projects like these are so heartwarming and I would love to be a part of them.

Entertainment:

Like any young college student, night life is very important to me. Luckily, there are a plethora of bars and restaurants around the city. Some examples are "C. Grace", a bar that is reminiscent of an old jazz club located in the Glenwood South downtown district and "Whiskey Kitchen", a restaurant with a very modern and unique vibe located in the heart of downtown Raleigh. Of course, UNC and North Carolina State are both near Raleigh so going to live sporting events is always an option. There are also several museums that I would enjoy visiting. The North Carolina Museum of Art has a stunning sunflower filed as well as 164 acres of museum park areas. The Mordecai Historic park also looks very interesting. It is composed of several 19th century buildings dedicated to giving people a sense of what life was like during the period of Raleigh's founding. One last activity that I know I would enjoy is visiting the local farmers markets. Just one is the State Farmers' Market which has over 30,000 square feet of fresh produce and specialty goods. Eating local as well as supporting small businesses and artisans will always be important to me.

Traveling Home:

I could drive or fly home to Oxford. The drive is approximately 12 hours. My Toyota Camry gets around thirty-five mpg on the highway and holds seventeen gallons. This brings me to a total of 595 miles for each tank of gas. Round trip, this would require roughly three full tanks of gas. Average gas prices right now are $2.18. This brings a grand total of approximately $111.18 I would definitely prefer driving over flying home; however, this commute would put a lot of miles on my car. According to Expedia, flying from Memphis to Raleigh would cost anywhere between $245-$400 round trip.

Monthly Budget:

Gross Monthly Pay: $5,000

After Taxes: $3,801

Savings 20%: $760.20

Tithe: $380.10

Rent: $1005.00

Utilities: $150

Cellular: $75

Auto Insurance: $100

Health/Dental/Vision Insurance: $300

Car Payment: $400

Dry Cleaning: $50

Groceries: $150

Gasoline: $150

Entertainment: $330

Conclusion and Analysis:

Overall, I think I would really enjoy living in Nashville. It is closer to home, but still can provide a bigger city feel. There is an abundance of things to do and it is full of innovation. The city is constantly growing and changing. I have learned so much about each of these cities from doing this case. I have also gained so much knowledge about what things I should be looking out for when choosing a place to start my career. In conclusion, right now Nashville is my top location.

CASE II: Asset Concepts

Additional Group Members: Mary Grace Gaines, Laine Keel, Olivia Meyer

Executive Summary

For case two, we were assigned to work as a group to discuss a preselected set of dimensions regarding certain aspects of asset accounting. For the sake of the case, our group had to assume that we were members of the Financial Accounting Standards Board (FASB) and decide between the evaluation standards presented. In the beginning, we found it difficult to reimagine the fundamental accounting concepts that we have studied in order to accommodate these new viewpoints. However, this case allowed us to advance our understanding of asset accounting.

The first question asked us to decide whether the valuation of assets and liabilities or the determination of expenses and revenues was the primary goal of financial reporting.
It seemed like both were integral parts of the accounting process; however, when forced to choose just one to be the main focus of determining new accounting standards for the FASB, viewpoint two made the most sense. As you will read, our thought process centered around the idea that revenues and expenses best display a company's success. Making sure that a company's profitability is completely transparent seemed the most important because of the fact that financial reporting is for external users.

The second question asked us to consider whether assets should be measured as "value in exchange" or "value in use." As a group we struggled more with this question conceptually. Ultimately, we decided that assets realize their contribution to a firm by being consumed in combination with other assets. This creates firm-specific value proportionally to the assets' exchange value. Recognizing firm-specific value over the life of the asset rather than just the market value at the time of sale seemed more relevant in our opinion.

Finally, the third question asked us how accounting for assets would change based on the viewpoint we favored in the previous question. Our group designed journal entries around the concept of a "Firm-Specific Value" account that would show up on the balance sheet. This "asset" would be created at the time of purchase and depreciate the same way any asset would. This idea is very far-fetched and maybe not implementable, but we tried to think creatively about this assignment.

Ultimately our understanding of asset accounting was challenged throughout the duration of this case. Not everything we discussed always made sense, but we think we were successful at thoughtfully finding pros and cons for each viewpoint presented. We are excited to see how the future of accounting continues to advance as financial reporting for assets and liabilities changes.

<u>**Question 1:**</u> **Read and consider the following two viewpoints. Discuss which viewpoint should be the FASB's focus when promulgating new standards. Take excellent notes of your group's discussion and write a fully developed brief highlighting the pros and cons of each viewpoint culminating with a final decision based on the consensus of your group. Explain why that viewpoint won the debate.**

Olivia: "Okay, so let's start with viewpoint one. What did everyone take from it?"

Kate: “I don’t necessarily agree with viewpoint one more than viewpoint two, however, I think that viewpoint one is more useful to internal users instead of external users.”

Olivia: “I agree, since evaluating the assets and liabilities of the company is not going to be as beneficial for financial reporting as it would for managerial purposes.”

Kate: “I also think that unrealized gains and losses are subject to change and do not necessarily reflect the success of a firm or company.”

Laine: “I think it could reflect the success of some companies who focus on bringing in a large number of assets like a bank or an investment firm.”

Olivia: “Those are really the only type of institutions I can see this working for.”

Mary Grace: “Going off that, viewpoint one might offer some false promises because assets may be profitable, but if there are large amounts of liabilities the company is not actually doing as well as the assets imply.”

Laine: “I think that could work the same for revenues and expenses though. A company may show a lot of revenues but be weighed down by expenses.”

Kate: “However, a good part of option one is when it comes to a company acquiring another by buying assets directly rather than stock, companies are able to enter different markets and increase revenues.”

Laine: “That’s true, I think you could see a company's liquid value better using viewpoint one.”

Olivia: “I think this is better suited for companies that are already established since, yes, entering different markets is a positive, but new businesses first need to get started before they start taking on other ventures.”

Mary Grace: “An issue that could occur due to viewpoint one is stockpiling. Companies might take this viewpoint and run with it, growing their production to greatly exceed the demand for their product.”

Laine: “Let’s move on to viewpoint two. Any ideas?”

Mary Grace: “Viewpoint one had some good ideas, but some companies do not revolve around asset growth, especially when you take into account small businesses.”

Kate: “I completely agree with Mary Grace. Growth is important, but not as important as profitability especially considering that the purpose of financial reporting is for external users. Profitability is more telling, in my opinion, of how a company is performing.”

Laine: “Yeah, I think this is especially true with small service companies where you may not need a lot of assets to bring in revenue.”

Olivia: “Like Kate said, this choice shows profitability, and profits are needed to purchase those assets discussed in viewpoint one. You cannot just acquire assets without capital. I guess you could say they could borrow in order to purchase the assets, but lenders would not want to assume the risk of lending to companies for which they cannot see how much profit they are making.”

Olivia: “Viewpoint two is very cyclical. While both are looking at asset change, two is not just acquiring and, like Mary Grace said, “stockpiling” them. The assets are being used in order to create more assets, leading to earnings being brought in and retained. This process would make much more sense for manufacturing companies since they buy materials, which are used as assets, to create more product and profit off of the difference in cost and selling price. These earnings then go back into the bank to be used for future production, with an addition to the amount each time more product is made.”

Kate: “I was thinking the same thing, Olivia. Viewpoint two immediately made me think of manufacturing companies. Since most examples we look at in class are manufacturing companies I think that’s why it makes more sense to me that focusing on revenue and expenses is more important and useful to financial reporting. Like I said earlier, financial reporting is supposed to be for external users.”

Laine "Because of that, I think this viewpoint is easier to see how well the company is currently operating and bringing in revenues. You're not just looking at assets that could have been acquired years or even decades ago; you can see what they brought in within the last operating cycle."

Mary Grace: "This viewpoint is more beneficial for external users, as it focuses on revenues and expenses which are found in the income statement and because external users are very concerned about profitability. This is the biggest reason that leads me to agree with viewpoint two more than viewpoint one."

Laine: "Going off of what Mary Grace just said, this could also be a little dangerous. You could have one period that shows a high profit, but you can't tell as much if the liabilities aren't displayed."

Mary Grace: "So we all agree on viewpoint two? Should we move on?"

<u>Question 2:</u> Read and consider the following two viewpoints. Discuss which viewpoint should be the FASB's focus when promulgating new standards. Take excellent notes of your group's discussion and write a fully developed brief highlighting the pros and cons of each viewpoint culminating with a final decision based on the consensus of your group. Explain why that viewpoint won the debate.

Mary Grace: “In viewpoint one, companies realize value on assets once they are exchanged or sold. This is problematic because the assets would have no value on the financial statements until the assets are sold.”

Kate: “Well, they would have value as assets on the balance sheet, just not on the income statement until after being sold (revenues). I think the key is ‘firm-specific’ value but I’m a little confused about what that means exactly.”

Laine: “The way I understand it is value added to a company from using their specific assets. It’s something that another company probably wouldn’t value as highly.”

Olivia: “Right, this viewpoint leaves out work in progress, so we could not see how each input is affecting the good as a whole. This may simplify the accounting process when looking at how much a product is costing the company compared to the benefits it brings since rather than having each individual input into the product, it is condensed into just the product itself.”

Mary Grace: “Going off of Olivia’s thought, this viewpoint is dependent on the market price of the good or service a firm is providing rather than the value of the materials it required to make the product.”

Laine: “Yeah, that’s true, it would make the value of all of the assets a lot less subjective.”

Olivia: “If we do not standardize value, who is to say what something is worth? There is no firm-specific value with this option since the company is only receiving that monetary gain from the exchange or sale of the asset.”

Kate: “I feel like viewpoint two would better show expenses allocated/traced evenly across each period as well as better matched with revenues. It takes into account future cash flows and assigns its value based on that, rather than just the market price at the time of sale.”

Mary Grace: “That generated firm-specific value is more valuable to an internal user because firm-specific value is subjective. However, it does create more value in the firm other than cash.”

Olivia: “Exactly, it is not very useful in external reporting because companies are going to be uninterested in what other companies have for firm-specific value since that value cannot be monetized.”

Kate: “I think that viewpoint two is more relevant to a company that uses an asset over time. Especially something nonrenewable like a paper company that chops down trees. The trees are consumed over time and in turn add value to the company when the paper made from it is sold.”

Mary Grace: “Kate, I like that example because it shows how the in-use asset is adding value to the firm. In the example, the value of the trees is depleting while the value of the paper increases, creating firm-specific value.”

Olivia: “From what I understand, you would be decreasing one account as an asset is being used while at the same time increasing another account for that same example. For example, like how equipment is depreciated, and an amount is credited from the equipment’s asset account but debited into depreciation expense for that equipment. Is this how you guys see this?”

Kate: “Yes, as the equipment is being used the company would depreciate it by debiting depreciation expense and crediting accumulated depreciation. So not the equipment directly but through the accumulated depreciation account. Accumulated depreciation would show up on the balance sheet and the value of the asset as a net amount.”

Laine: “I agree, but what would the account the account credited be in this case? Some sort of contra-asset, right?

Olivia: “I have not found a contra-asset that would work for this, so I think there would have to be a new one made. We seem to have found more advantages for viewpoint two, does everyone agree?”

Mary Grace: “I agree, viewpoint two definitely makes more sense to me.”

Kate: “Definitely.”

<u>Question 3:</u> Based on your answer in Question 2, how will current accounting have to change to accommodate this value definition? Provide examples of specific transactions

and how their journal entries (either accounts or amounts) would change under this new definition.

When buying machinery with cash, not only will we receive that machinery as an asset, but we will also be acquiring the asset of firm-specific value.

<u>BUY:</u>

Fixed Asset	20,000	
Firm-Specific Value	5,000	
Cash		25,000

<u>DEPRECIATION:</u>

Depreciation Expense	6,000	
Firm-Specific Value (asset)		1,000
Accumulated Depreciation (contra asset)		5,000

<u>SELL:</u>

Cash	25,000	
Accumulated Depreciation	5,000	
Fixed Asset		20,000
Firm-Specific Value		4,000
Gain On Sale		6,000

As a health food store owner, you buy a plot of land next to a gym on which to build another store. Because you will have many customers who are members of the gym next door, this plot of land has more firm-specific value than a plot of land across town.

BUY:

Land	100,000	
Firm-Specific Value	10,000	
Cash		110,000

SELL:

Cash	110,000	
Land		100,000
Firm-Specific Value		10,000

Your company has a factory designed to unique specifications that allow you to carry out your operations more efficiently. Because of this specificity, other companies would not be able to operate as well, so they value the factory less since they do not operate exactly as you do.

BUY:

Factory	100,000	

Firm-Specific Value	20,000	
Notes Payable		120,000

SELL:

Cash	120,000	
Firm-Specific Value		20,000
Factory		100,000

CASE STUDY III: Presidential Debate

Executive Summary

For our third case, we have been asked to write about a series of topics which compel us to examine the current and future state of our country. It is October of 2020 and the upcoming election is quickly approaching. In light of the first presidential debate, I have been asked to answer three separate questions. However, only two have been included due to my discretion. Firstly, I had to explain what I believe is the intangible thing that unifies our country which warrants the name "United States of America." Next, I forged a prediction about how each candidate's presidency would affect the job market and general business economy upon my graduation. Lastly, I explained how both political parties will be able to come together in harmony once a new president is elected and how I as an individual will be an agent of positivity in such a frenzied political climate.

I unexpectedly experienced a very wide range of emotions while searching for an answer to the first question. Initially, I thought about our country's origin. The first colonists were united by their common goal of independence from Great Britain. The once "United Colonies" transformed into "The United States of America." This monumental step demonstrated the colonist's complete separation from their previous mother country. However, it was very difficult for me to distinguish one thing that unifies us now in a similar same way. I cannot help but feel a deep divide within our country that is aggravated by both social media and media bias. In my experience people tend to accuse the media of being biased towards left wing politics, but it certainly goes both ways. Regardless, the blatant intolerance for opposing political parties shown on the news has exacerbated issues within our society. Also, with dozens of mainstream social media platforms, disinformation is able to spread quickly and misunderstood as facts. In my experience, people are quick to anger and ready to argue with anyone who disagrees with their own beliefs. With this being said, I do think that there is a positive side to people being so impassioned by politics. I believe there is a shared motivation among citizens to make America a better country for everyone. Naturally, each person has their own ideas and strategies in mind. However, the same passion to improve our country runs through us all. The freedom to make our own choices, elect our officials, and use our voice to make changes all allow us to move toward our common goal. In my opinion, that is what unifies America.

I had to do some research in order to predict how the economy and job market will look upon my graduation in 2022. Things have the potential to look very different depending on which candidate wins the upcoming election. I would say the biggest immediate difference between Joe Biden and Donald Trump's policies relative to this issue is how each plan on handling the Covid-19 crisis. Donald Trump has made it apparent that he believes American businesses need to begin opening as soon as possible in order to salvage the economy. Joe Biden stated during the debate that it is most important to provide funds, PPE, and sanitation before businesses and schools open. Contrary to how it appeared during the debate, the Trump administration has released guidelines regarding Covid and what precautions still need to be taken. This includes using proper protection, including masks, as well as routine sanitization and temperature checks. Additionally, Trump pointed out that drug and alcohol abuse, as well as depression, are increasing the longer the country is closed. Biden fired back accusing the "millionaires and billionaires" have profited off of the pandemic. He also states that Trump will be the first president to leave fewer jobs in his administration than when he was first elected. Ultimately, I think that under President Trump, the economy may immediately begin recovering, however, if cases spike it is hard to say if it will be worth it or not. Under Joe Biden, the country may reopen at a slower pace, but if a vaccine is truly underway, thousands of lives may be saved. Joe Biden certainly has more of a long-term plan regarding the handling of Covid-19, however, I am hopeful that under either administration, things will have returned to a version of normalcy by springtime of 2022.

The next topic covered during the debate dealt with future tax laws. Moderator Chris Wallace brought up the fact that Joe Biden's focus is on "big government, big taxes, and big spending." Biden proposes more than $4 trillion over a decade in new taxes on individuals making more than $400,000 a year as well as corporations. President Trump has said that such a large increase will be detrimental to the economy as it emerges from a recession. Over the last four years President Trump has been keener on lowering taxes and regulation. Contrastingly, Biden supported his tax plans by explaining that the increase in taxes will create more jobs and an additional $1 trillion in economic growth. After some research, I have learned that by historical standards, Biden's proposed tax increases would have a negative long-run effect on the American economy. According to The Tax Foundation, an independent tax policy nonprofit, such a significant increase in taxes would lower output after-tax incomes across the income spectrum. If Biden is elected, I can expect slightly higher tax rates for myself, as most of the heavy taxes will be borne by large corporations. However, Biden plans to tax both capital gains and dividends as ordinary income for high-income individuals, impose a 12.6 percent social security payroll tax on income over $400,000, and limit tax benefit of itemized deductions. Contrastingly, President Trump would prevent tax rate increases and increase child tax credit. My future employer and potential clients can expect a jump in corporate income tax from 21 percent to 28 percent as well as a 15 percent minimum book tax. However, both candidates seem to agree on incentivizing companies to onshore from other countries, while penalizing those who offshore.

Another topic that was brought up during the debate surrounded climate change. This does not seem to immediately impact the economy or job market, but Biden made clear that he has big plans to make environmentally friendly changes across America. In my opinion these plans sound exciting in theory, but also very costly. These plans include upgrading four million buildings, weatherizing two million homes, and building over one million energy efficient houses. Biden states that these upgrades would create jobs and lessen floods, hurricanes, and rising seas. He also expresses that he would rejoin the Paris Accord. Trump is very much opposed to these plans because of the implications to the economy. In the past President Trump has referred to the Paris accord as "one-sided" and stated that "…the United States pays billions of dollars while China, Russia and India have contributed and will contribute nothing." The debate provided little else as far as insight into the impact of Joe Biden's climate plan. I have discovered that Trump has not proposed a formal climate plan, but his campaign website explains that under his administration there will be a focus on expanding drilling on both federal and offshore locations. It's hard to say exactly what will happen economically with either of these plans. I predict that Joe Biden's plan may have a negative affect initially, however, new jobs centered around renewable energy seem very exciting and forward looking. I would expect many new companies to emerge creating an even bigger market centered around sustainability. President Trump's plans to expand the use of fossil fuels is simply not sustainable, while perhaps better for the immediate economy. I appreciate Joe Biden's environmental interests for the betterment of our country in the long-term.

Lastly, I think that in order for our country to join together in harmony, everyone needs to be more tolerant of differing opinions and actually be open minded when having conversations about politics. I think it would also be very constructive if people listened to news sources and had conversations with people with a different point of view from them. As Dr. Dickinson stated, people tend to live in an "echo chamber" where they are only exposed to information they already agree with. Being exposed to a variety of ideas and approaching them with an open mind would be highly beneficial. I as an individual can improve in specific ways at being an agent of positivity during these politically heated times. I have grown up in a moderately conservative household and many of my friends have also. I really didn't meet people with differing political beliefs until I reached college. In my freshman year honors writing classes my professors and classmates had very different ideologies than what I was accustomed to. It was refreshing to have the opportunity to delve into ideas that I had never really thought about. We not only discussed politics, but also religion and racial issues. In a classroom with Protestants, Catholics, an atheist professor and a Jewish student, things were very interesting. Through those classes I certainly improved at discussing very material topics without coming across as indifferent or judgmental. During our many discussions about the political system, it became very apparent that everyone's view of America was different. However, the common goal to help the country reach its full potential was still shared by all of us. I have never been one to get very heated while discussing controversial issues. However, I have learned that cutting people off, raising one's voice, or not acknowledging the point someone just made, are all futile to progressing the conversation. The biggest strategy that I want to remind myself, my friends, and my family, is to always listen first and respond respectfully. If you are too angry to compose a thoughtful response, the conversation can wait. Some things cannot be unsaid, and it would be unfortunate to see a relationship fall apart because of a political argument.

I have heard and participated in many conversations about both presidential candidates. I can honestly see both sides in regard to the election. I may not agree with all of the policies proposed by either candidate; however, I truly think President Trump's behavior has not been an appropriate reflection of our country. Especially after watching the first debate I fully believe that our president should have acted with more respect and maturity and I hope to see more poise from him in the next debate. I believe that future presidents should be a role model and set the tone for other politicians and all citizens. As the election date approaches, I will continually remind myself to show grace and tolerance to all ideas. Nobody has all of the correct answers, but hopefully we are all working towards a better America for everyone. I look forward to the opportunity to share and listen to new ideas in the future.

CASE IV: Excel Course

Corporate Finance Institute®

801-750 West Pender Street, Vancouver BC V6C 2T8

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

Virginia Sudduth

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

Excel Crash Course - Spreadsheet Formulas for Finance

National Registry of CPE Sponsors Number: 139079
Instructional Delivery Method: QAS Self Study
Finance: 3.0 credits.

VERIFIED CFI™ CERTIFICATE

In accordance with the standards of the National Registry of CPE Sponsors,
CPE credits have been granted based on a 50-minute hour.

Certificate number
95927146

Chair of the Board

Director

Director

Oct 15, 2020

CASE V: *Taxodus – Playing the Global Tax Avoidance Game*

Executive Summary

For the final case of the fall semester, we have been asked to evaluate the current United States tax laws as well as the potential changes that may occur after the 2020 presidential election. It is common knowledge that large U.S. corporations can easily move operations or start new investments offshores or in other low-tax jurisdictions. They take advantage of this ability in order to reduce the amount of corporate income tax that they pay. For this reason, evidence shows that corporate income tax is the most detrimental to economic growth. However, it is not common knowledge that the burden of corporate income tax is not borne by the corporation alone, rather it is shared by both the corporation and its workers. This can be seen by a responsive decrease in wages and therefore, productivity.

A lower corporate tax rate is directly correlated with lowering the cost of capital and increasing the long-run size of the economy. It was not a surprise that when President Donald Trump signed into law the Tax Cuts and Jobs Act (TCJA) in December of 2017, the number of job openings drastically increased and the American economy experienced great economic success (US Treasury). Essentially, the Tax Cuts and Jobs Act was the largest reconstruction of the tax code in three decades. It lowered the statutory federal corporate income tax rate to 21 percent (Hodge). This lessened the need for rich multinational corporations to use tax deferral strategies and they began paying their equal contribution of U.S. taxes. However, continuing to lower corporate income tax is not necessarily the solution. No matter how low the U.S. government is able to lower it, it is still impossible to compete with a tax haven.

In these next few pages, I will explain how the information I have collected surrounding this moral and economic dilemma has influenced my interest in pursuing a career in the tax service line of public accounting. Then, I will further outline the consequences of changing the corporate tax rate as well as explain what, in my opinion, is the optimal rate and why.

The former UK Chancellor of the Exchequer once said, “The difference between tax avoidance and tax evasion is the thickness of a prison wall”. While tax avoidance is defined as legal measures to use the tax regime to find ways to pay the lowest rate of tax, tax evasion is defined as taking illegal steps to avoid paying tax (Pettinger). Legally, there is a big difference between avoidance and evasion. However, in my opinion, both require at least some level of moral corruptness as well as social irresponsibility. Careful language concerning tax avoidance practices includes terms such as “tax minimization”, “neutral taxation”, and “tax optimization”. This type of language provides an aura of good intention and economic championship. James S Henry, who was previously chief economist of the McKinsy Consultancy, is the first person to provide a conservative estimate of the amount of capital that is parked in offshore accounts. For year-end of 2010, he estimated that between 21 and 32 trillion dollars was being held in offshore tax havens. Henry states that the worlds most developed and “responsible” countries are in fact the ones who keep this regime going.

From the documentary ‘*Taxodus*’, we can see that some common tax havens are the Cayman Islands, Cyprus, and Amsterdam. In fact, the capital flow route used by Apple is commonly referred to as “Double Irish with a Dutch Sandwich”. Many African countries, including Kenya, actually provide a tax holiday. Companies in these countries are provided with a ten-year tax break in order to establish themselves. After this grace period, the corporate tax rate is 25 percent with no withholding. Multinational companies exploit this opportunity by simply moving away after ten years or by transferring company ownership, which extends the period by another ten years. Developing countries still believe that they must beg companies to establish themselves there. In reality these corporations are just taking advantage of the system, avoiding taxation, and consuming the country's resources. The repercussion of this is higher taxes on the end product which is paid by the residents of the offshore country. The irony is, most companies are dependent upon the benefits that tax dollars provide such as roads, but they themselves avoid paying their share of tax by any means possible. French Judge, Ava Joly, states that "Diverting what are in effect the public resources of the entire world, but especially of developing countries, to private shareholders. It's colonialism by other means". Many of the said rich multinational companies are also guilty of presenting themselves to the public as morally and socially responsible companies, while still abusing tax laws. For example, Starbucks boasts the use of fair-trade coffee and environmentally friendly buildings. However, their tactic of trademarking each beverage they serve allows them to flow trademark fees back to the Netherlands in order to avoid taxation. Other examples of underhanded business transactions can be seen with entities belonging to Walmart. These entities operate under completely unrelated names in order to make tracing capital flows more complex. James S Henry states again that only .14 percent of the population controls about 95 percent of offshore private wealth. He says that "Their interests are fundamentally at odds with the interests of the rest of us".

For companies it is crucial to report as little profit as possible in order to pay as little tax as possible. This may be done by transferring intellectual property to a mailbox company. Then an overseas subsidiary pays royalties on it. Depending on contractual agreements, those royalties may or may not be subject to taxation. Wealth parked in tax havens can also create market distortion. Companies do not want this parked money to reach the shareholder because it would go through the states and taxed. Therefore, the shares are overvalued because if the value was ever to eventually get to the shareholder significant tax bills would be payable.

Unavoidably, this would bring the price down. Governments are running deficits because they are not collecting enough tax dollars. Corporations lend their hidden money to cover these deficits in order to keep the world system running as we know it.

There are three groups of people that work together and allow this underground corruption to take place. They include bankers, lawyers, and accountants. These professions require a certain level of secrecy in order to protect clients and maintain legality. There is a climate of fear, especially within accounting, regarding client business and the consequences of not protecting client confidentiality. This trio of professions is commonly referred to as the "pin stripe mafia". In fact, upon googling this colloquial term, I found that there is an entire publication dedicated to exposing the corrupt practices of major accountancy firms. It is simply called "The Pin-Stripe Mafia: How Accountancy Firms Destroy Societies." As an accounting student who has been leaning towards a career in tax, this was very heavy information. When looking at commonalities between rich corporations using tax havens, there is most certainly a consistent trend of big four accounting firms and banks present. Of course, I knew that companies used tax deferral strategies and offshore accounts. However, it was always presented to me as the natural and even encouraged way to conduct business. I had not truly considered the implications these actions had on both U.S. citizens, citizens of those offshore countries, as well as the overall world economy. The documentary '*Taxodus*' exposed me to a new side of accounting I had been unaware of, or rather, indifferent to. I have certainly not been dissuaded from still working in the tax service line of public accounting, but I am definitely more aware of the environment I would be working in. I think that it is crucial to ask the question of who a company is obliged to. Is it company shareholders or is it to the societies in which they operate? I truly believe that both must be considered, however, the blatant abuse of tax laws is shameless.

It is even more unacceptable considering the strong emphasis on ethics that each accounting student experiences while earning their degree.

Something else that the documentary '*Taxodus*' brought to my attention regards accounting regulations. Many countries have not subjected accountants to the same level of scrutiny for helping to create this economic crisis. According to Richard Murphy, CPA, "The accounts of all the banks that failed… were signed off by a big four firm of accountants as being true and fair. Now why weren't those accountants criticized for signing off accounts which were clearly not true and fair?" He goes on to explain that there is no one who is able to judge and regulate accountants aside from themselves. In fact, they are taking over regulator positions. For example, in the UK, the new chairman of the tax authority was previously the senior partner at KPMG. Accountants have become so involved in the creating of accounting regulations that they are seemingly not accountable to anyone. As a future accountant I am very grateful for this case and being exposed to the harsh reality of this field. However, I am not blind to the fact that most companies are guilty of deferring their taxes. Fiscal manipulation provides an edge to corporations in comparison to their competitors. To pay the U.S. corporate tax rate in full undoubtedly would hurt the success of a multinational corporation.

It is impossible to say with certainty what the perfect corporate tax rate is. However, I do believe that raising it would be ill-advised. I believe that the economic impact of the Tax Cuts and Jobs Act illustrates the benefit of lowering the corporate tax rate. The TCJA improved incentives to work and to invest in order to improve the long run economy. According to a growth model created by The Tax Foundation, it is estimated that the total effect of the Tax Cuts and Jobs Act will be a 1.7 percent larger economy. It also estimates that over three-hundred thousand additional full-time equivalent jobs will be generated. Unfortunately, the Covid-19 pandemic has devasted the economic progress resulting from the enaction of the TJCA. The nationwide economic shutdown in March 2020 led to millions of Americans being laid off. The unemployment rate reached 14.7 percent, but has fallen to 8.4 percent as of August 2020 (Hartman). Therefore, it is impossible to say for sure if the original estimations provided by the Tax Foundations are still accurate. However, another important factor to consider when determining how high the corporate tax rate should be is the fact that the income of most corporations is taxed twice. It is taxed at the corporate level, and again at the individual level through personal income taxes on dividends paid to owners. This is a big reason why many U.S. corporations have moved their headquarters offshores to lower tax jurisdictions. Ultimately, I believe that the current corporate rate should remain in the very low 20 percent range in order to be competitive internationally.

I have learned a tremendous amount through the writeup of this case. I have found myself much more educated on the true motives and environment of tax accounting. This information has not deterred me from still pursuing a career in the tax service line, instead it has empowered me to want to be part of the change. I do fully understand why multinational corporations opt to defer their taxes through the use of tax havens, however, now I am more knowledgeable of the implications that tax avoidance has on both the U.S. economy as well as the economy of the offshore country. Corporations have a duty to both stockholders as well as the public. I also feel more prepared to have conversations and voice my opinion regarding this country and its corporate tax rate. In light of the upcoming election, the information published by both the Tax Foundation and the U.S. Department of the Treasury have drastically informed me of how beneficial President Trump's Tax Cuts and Jobs Act was. In conclusion, I expect that if the corporate rate is increased during the next presidency, multinational corporations are once again going to be heavily motivated to return to tax avoidance strategies.

CASE VI: Mentor

Stephen Simpson

I met Mr. Stephen Simpson through his youngest daughter, my friend and roommate, Britton. Our meeting was brief, however not forgettable. Mr. Simpson's presence was impossible to miss as he stands at a staggering six feet seven inches, yet exudes an aura of approachability. His daughter Kameron told me that he commands any room that he enters through "his unmatched intellect and wit, his big Irish emotions, his infamous stories of growing up on the Gulf Coast" — her list goes on and on. I chose Mr. Simpson as the subject of this mentor case because I admire the impact he leaves on people. Living with Britton has shown me how much and how hard he loves his family and friends. His moral compass is shown unmistakably through his character. He overflows with generosity and is deserving of the utmost respect.

Stephen Simpson was born in Gulfport Mississippi in 1958. He attended a Catholic elementary school in Pass Christian until 1969. On August 17, 1969, Hurricane Camille destroyed his family home, which forced them to relocate to Long Beach, Mississippi. He remained there until he graduated high school. Mr. Simpson is too humble to admit it, but he was a star athlete and enjoyed spending as much time as he could on the beach. He especially loved to go fishing, boating, and sailing. After high school, he was awarded a scholarship to play basketball at Mississippi Gulf Coast Jr. College. He explained to me that he lived in a residential dorm setting with many other students that also came from Mississippi Gulf Coast cities. Mr. Simpson was highly competitive and had a "blast" playing basketball at the collegiate level.

During his two years at Mississippi Gulf Coast Jr. College, he took all his basic required classes, however he knew he had a strong interest in working in some type of federal law enforcement. His mother worked in the Federal courthouse in Biloxi for a Federal Judge and his uncle, Bill Simpson, worked on Capitol Hill in Washington DC and later in the Whitehouse. This sparked his search for universities with strong Criminal Justice degree programs. Luckily, his strong athletic ability landed him a full-time scholarship playing basketball at Delta State University. Mr. Simpson began working as a probation and parole officer assigned to the District Attorney's office on the Mississippi coast. After a few years he made the decision to go to law school. He moved to Jackson, Mississippi with the intention of working at the Mississippi Public Service Commission during the day and taking classes at night, but those plans took a turn when Mississippi College decided to close their night school program. Fortuitously during his time working at the Public Service Commission, he met a beautiful court reporter named Elizabeth.

Mr. Simpson spent two more years at the Public Service Commission, but ultimately decided it was time for him to start school. He left for Oxford, Mississippi and began classes at The University of Mississippi law school. He commuted to Jackson to continue visiting Elizabeth, otherwise known as Liz. He finished his first year of school during the month of May, and married her on May, 31. After his graduation in 1988, Mr. and the newly Mrs. Simpson moved back to the coast. They will be celebrating their 35th wedding anniversary in May 2021. When asked how his wife has impacted his life, he explained that the life they created together is "his" life. He is grateful for her constant support personally and professionally. She is the love of his life and will always be thankful to her for raising their three beautiful daughters with him.

Even as a law student Mr. Simpson knew that he wanted to be involved in courtroom litigation and prosecution. He began in a law firm and agreed to take criminal defense cases of indigent defendants to gain courtroom experience. His skills caught the attention of the District Attorney who then hired Mr. Simpson as a felony prosecutor Assistant District Attorney. In this position he was in the courtroom, in front of juries, prosecuting drug cases, sexual assaults, robberies, and murders. This experience was incomparable and "exhilarating" for him. After nearly eight years, he accepted an appointment from the Governor to work as a Circuit Court Judge. Mr. Simpson described the work of presiding over trials, rather than prosecuting them, as "very different, however quite demanding and very satisfying." He spent eight more years presiding over hundreds of civil and felony cases before the Governor asked him to leave the bench and accept his appointment as Commissioner of the Mississippi Department of Public Safety. This was of course a huge honor and responsibility. The Mississippi Department of Public Safety is a massive state agency with about 1400 employees and a $200-million annual budget. He oversaw the work of the Mississippi Highway Patrol, Mississippi Bureau of Narcotics, Mississippi Crime Lab, Mississippi Medical Examiner, Mississippi Homeland Security, and several other agencies. The employees working underneath him performed a variety of tasks including: issuing driver's licenses and firearm permits, patrolling roads and highways, keeping drugs off the streets, providing training and certification to law enforcement agencies, and conducting forensic analysis and investigations. During this time, he found himself commuting from his home in Gulfport Mississippi to Jackson. He expressed again his gratefulness to his wife Elizabeth for supporting him and taking care of their daughters in his absence.

In 2011 Mr. Simpson sought statewide election to the office of Attorney General. He explained to me that he was soundly defeated by three term incumbent Jim Hood. Mr. Simpson does not regret running, but admits that the campaign was hard on his wife and daughters. He explained that "that is politics and the girls were a little young to understand that." Since 2012 he has been working in private practice. He currently works within a PLLC or "professional limited liability company." I have learned that this is essentially like a limited liability company, except run by licensed professionals. In Mr. Simpson's case, lawyers.

Mr. Simpson is a member of the Mississippi State Bar, the ABA, the Association of Attorney-Mediators, the Academy of Court Appointed Masters, was a past chairman of the Mississippi Conference of Circuit Court Judges, and served as the past president of the Mississippi Prosecutors Association. He is currently recognized as a senior status judge and presides over civil and felony criminal matters. Obviously, Mr. Simpson has accomplished a tremendous amount and has many things to be proud of. However, when I asked him, he told me that he is most proud of his "smart, kind, and wonderful daughters."

Mr. Simpson gave me some very helpful advice to take with me and apply in my own budding professional career. He told me that "opportunities will present themselves and opportunities will fall in your lap - IF you have prepared yourself to accept the challenge." He stressed the importance of taking some risk outside of my comfort zone. He guaranteed that a "wrong career decision can always be righted!" As I move forward in the recruitment process, I intend to hold Mr. Simpson's words in my mind.

Outside of work, Mr. Simpson is deeply family-oriented. He was very close to his late parents and is still close to his brother and sister whom he speaks to everyday. He told me he is "blessed with several close friends that I see often, but most of my time is spent with the family usually on the water somewhere." His favorite vacation, or rather vacations, was a series of annual trips to Destin Florida that the Simpson family took with several other families. All the children were similar in age and he has great memories of watching them all grow up together.

As I mentioned earlier, Mr. Simpson's daughters are what he is most proud of. However, I would say his daughters are just as proud to call him their dad. His youngest, Britton, speaks about him lovingly and often. I also reached out to his middle daughter, Kameron, and she was able to give an even deeper perspective of just how impactful her father has been in her growing up. She stated "I look up to my father in every single thing I do. From a very early age, he made sure that my sisters and I knew right from wrong as we knew day from night. Our moral compass and very best friend, he set an unwavering standard and lived by example. Our leader, protector, provider - he wears many hats in this house full of (strong willed) girls, but I think our very favorite will always be having him as our dad. He's a giant of a man with a heart just as big as he is."

Mr. Simpson left me with a few more words of wisdom. I asked him what he believed the biggest challenge for his generation was. Simply put, he said that as retirement age approaches, social security stability and retirement income are pressing issues. In such unprecedented times, the future cost of living is an uncertainty. As a follow up question, I asked what he believed will be the biggest challenge for my generation going forward. His response was "It seems to me that during my adult life, the gap between the 'haves' and 'have nots' has widened and the social discourse has taken on more of a racial divide. Your generation should absolutely not assume it's a problem for the government to solve. It has to be solved in the home by mothers and fathers raising their children with a set of values, respect and goals; in schools and universities that teach trades and prepare a workforce that produces things; and in places of worship, whatever that maybe you, to have a sense of moral obligation and higher purpose. A faith and belief that you can leave a place better than you found it!"

Mr. Simpson is an honest and hardworking man with an unwavering set of ethics. I have a deep respect for him and his many successes throughout his career. I hope that I am able to always follow my own moral compass the way he has as I enter the public accounting world. I want to present myself as a dedicated professional with both integrity and approachability. Mr. Simpson has made a huge impact on the people around him. His mentality of "leaving a place better than you found it" and his generosity towards others is truly commendable. His life so far is inspiring and I truly enjoyed getting to learn more about him and his influence on his family, friends, peers, and his own mentors.

CASE VII: Case Competition – Overview

Walt Disney Co.

Additional Group Members: Megan Jansen, Matthew Stersic, Eli Dykes, Coleman Miller

For class this week, we were tasked with picking a publicly-traded company to research over the course of the semester. After much debate, our group chose to research The Walt Disney Company. We discussed the recent challenges the company has faced due to the pandemic shutting down many major sources of revenue. However, we also realized how Disney Plus and their other media sources might have improved during this time. In addition, Disney seems to have a significant share of the entertainment market, and with the acquisition of 21st Century Fox in 2019, seems to be growing even larger. We thought this would make an interesting case and was something we wanted to research further. After deciding on our company, we were asked to research the financial state of the company and learn about its business. Below are our findings.

The Walt Disney Company's mission is to entertain, inform, and inspire people around the world. To do this, it operates under five segments: media networks, parks and resorts, experiences and products, studio entertainment, and direct to consumer and international. While the company started with a man drawing a mouse in 1923, it has grown into a multibillion-dollar company, bringing in 65.39 billion dollars in 2020 and over 69 billion in 2019. The company operates under an October- September fiscal year, due to the peak season being in the summer months.

Since the COVID-19 pandemic Disney overall has taken a significant decrease in revenues, in August of 2020 revenues were down 42% compared to the prior year, beyond that they are seeing deficits and losses across nearly all financial reports and operations. In the past year alone, Disney has announced they will have to lay off over 32,000 people due to financial difficulties caused by the pandemic mostly Disney theme park and cruise workers. Some of Disney's main five operating segments have seen significant regression in revenue and success. By far the most noticeable are the parks and resorts. These segments took such a large hit because Disney had to close down all parks and resorts for some of the second fiscal quarter and most of the third as well as having to shut down all cruise line charters altogether decreasing revenue by 85%. In 2020 the company took an overall net loss of $2,864,000,000.

According to Disney's Annual Income Statements from the last five years, their gross income decreased by 30.44% in 2019. This can be seen in the 6.19% decrease in the company's overall revenue, combined with the raising in the expenses that it had to pay at the same time. According to the income, statements provided Disney experienced growth in every major expense category, and most significant was a category titled "Unusual Expense", which posted a debit of $4,808 million. These could be related to the pandemic, such as an increase in the costs of sanitizing workspaces, hotels, and parks. As well as costs of restructuring the workplace to work virtually.

Quarter four 2020 adjusted earnings per share were -$0.20 vs the $-0.70 analysts expected. However, according to an article published by Newstex, investment analysts at Trust Security issued their 2021 earnings estimates for shares of Walt Disney Co. M. Thornton forecasts that the entertainment giant will post EPS of $0.06 for Q1, $0.30 EPS for Q2, $0.62 EPS for Q3, followed by $0.78 EPS for Q4. The company has an average rating of "buy" and a consensus target price of $152.80.

In Disney's Letter to the shareholders, filed on January 25, 2021, many updates regarding the new CEO, company performance, and their commitment to diversity and inclusion were provided. They explained that the company's media and entertainment businesses were restructured to further accelerate direct-to-consumer (DTC) strategies. The new CEO Mr. Chapek was set to have a significantly lower target compensation than the prior CEO. Lastly, the company shared its ongoing efforts to improve its new six pillar initiative for diversity and inclusion that was put in place in June 2020.

After researching the company, we found that while Walt Disney Company is currently reporting record low numbers, they are projected to bounce back after the pandemic runs its course. Before 2020, Disney was consecutively improving its financial performance and was a very stable company. We look forward to continuing to learn about the company and diving deeper into its financial statements over the course of the semester.

CASE IX: Case Competition – Audit

Walt Disney Co.

Additional Group Members: Megan Jansen, Matthew Stersic, Eli Dykes, Coleman Miller

This week we were working on the audit portion of our case. To do this, we analyzed how risky each account on Disney's 2020 balance sheet and income statement was. We used four different criteria in this analysis including, existence, presentation, valuation, and completeness. After analyzing each account, we chose six that seemed the riskiest and most intriguing to us, to dive deeper into. We chose the balance sheet accounts of goodwill, projects in progress, investments, commitments, and contingencies, and the income statement accounts of depreciation expense, and general, selling, and administrative expenses. We then came up with two internal controls for each account that could lessen the level of risk. Next, we came up with tests that auditors could perform to double-check the authenticity of each of these six accounts. Finally, we formulated potential ways that data analytics could be used to audit the accounts we chose more effectively and efficiently. This case will summarize our findings on each of the six risky accounts.

Goodwill is an intangible asset that arises from excess purchase price over the fair value of net assets being purchased during an acquisition. There is a gray area between accounting fraud and earnings management which leaves room for manipulation when dealing with mergers and acquisitions. Acquisitions with an unnecessarily large purchase price can artificially inflate book value and accounting earnings. Overstatement of Goodwill may seem beneficial in the short term, but inevitably the company will have to show losses on the income statement. There are three opportunities for manipulation of Goodwill: when deciding the purchase price, measurement of goodwill, and goodwill impairment. Disney needs to have strong internal controls regarding the impairment of goodwill since it is dependent on management judgment and fair value measurements. Some internal controls that should be implemented are considering who is preparing and reviewing qualitative data used in determining if an impairment is necessary. This kind of data may include losing a key employee or customer, unanticipated competition, negative cash flows, etc. Using a third party or rotating the personnel in charge of this may be necessary. Disney would also have to determine how it would identify events and circumstances that suggest recording an impairment is required. The transactions that need to be audited include the original acquisition, any impairments up until the current date, and potential impairments that should be recorded. Data analytics may help streamline the process of calculating the fair market value to compare to the goodwill's carrying value.

Projects in progress are an asset, and as with any asset, there is a risk of misrepresenting the company's value if the asset is not properly valued. The problems arise with the inability of many Disney projects to determine at what point the project gains value. Additionally, the amount of work that has been completed on a project or is still to be done may not be easy to know for Disney. This could lead to them valuing assets higher than they should be valued which would misrepresent their worth. One critical internal control that needs to be in place is strict monitoring of all capitalized expenses. It is important that no small operating expenses are improperly capitalized and thus mistakenly represented on the balance sheet as an asset. Data analytics could be useful on this account by creating a spreadsheet that tracks the completeness of all projects in progress. It would compare the projects to previous endeavors that were similar in nature and use the timelines that those projects had to get an accurate estimate of how much of the project should be complete and look into areas where there have been roadblocks in the past.

It would then be easy to see the completed total cost of each project and transfer it to a new account when complete.

It is important to implement strong internal controls, especially when considering the investment account otherwise there is a high-risk scenario for the company. Some internal controls we found critical to successful accounting were to ensure the use of appropriate methods for recording investments and calculating value such as testing for significant influence. Another key internal control to pay close attention to is ensuring that the interest is accrued or expensed in the proper periods which could be done by managerial review and approval on interest accounts changes. Another thing that can be done to reduce the risk associated with the investment account is to run periodic tests to ensure all value adjustments, etc. are properly stated. There are many risks associated with the improper statement of investments primarily that the vastness of simply investments account makes it hard to determine what kinds of investments this particular company may be associated with. Potentially causing investors and employees to be misinformed about the status of the company. Data analytics tools can be used to help reduce the risk associated with this account. A recommendation we had was to use a tool that could help keep track of the long-term investments and ensure that the value is adjusted properly over extended periods.

Misstatement of commitments and contingencies can misrepresent the number of liabilities a company has to pay, and misstatement of significant amounts may lead companies to pursue unwise investments and higher dividends and put them in a position of being unable to pay if the commitments and contingencies are understated. Overstatement may lead management to be unwilling to take on new investments, to make sure they can cover contingent liabilities. The internal controls that are necessary to make sure that these are properly monitored are for commitments to make sure all contracts with payments due are put on a schedule. Also, to make sure at all points that the company is aware of the amount that is likely to be due. Another internal control would be to make sure that multiple people from the legal team are looking at any cases that have created contingencies and use previous cases to determine the likelihood and amount that would be owed to make sure that the estimate is appropriate. The legal team could read over outstanding cases and contracts and determine what the essential facts are. They could then use data analytics to pull amounts and create probability assessments from rulings to create a fair assessment.

One account that our group quickly identified as being risky was the depreciation expense account. This expense helps allocate the cost of the company's assets over its service period. The greatest risk associated with the depreciation expense account is that the depreciation expense itself is understated. There are many ways to account for depreciation, so it can be manipulated easily. To make sure the depreciation accounts are correctly stated, there are a few rules we can follow. These rules would consist of making sure that whoever is entering in depreciation expense does not understate it in the financial statements. If the depreciation expense is understated, then the gross profit of the company would be overstated. This would display that there is a higher profit than the company has caused a chain reaction to occur. Retained earnings, inventory, and stockholder's equity as a whole would also be incorrect. To resolve these issues, internal controls would need to set a policy in place to determine the set depreciation expense amount of each asset and frequently record the entries needed. It is important that both the method of depreciation used is consistent and the period over which the asset is depreciated is correct. Another internal control for depreciation expense would be to use data analytics to develop what the depreciation schedule and expenses should be, and make sure the numbers match. If done correctly, depreciation expense should be recorded at its accurate price and will hopefully match the company's figures.

Another income statement account that we considered to be risky is the general, selling, and administrative expenses account. This account is risky because so many people and things fall under and have access to this category. To better control this account internally, companies could operate under a defined system of segregation of powers when it comes to writing, issuing, and cashing checks. Companies could also have a designated person match receipts and invoices with the bank statements each month. From the perspective of an auditor, there are many ways to test this. One way would be to make sure the financial department is following the internal controls set in place. Auditors could also perform a test that involved pulling a few random receipts/invoices and matching them with the bank statements. An even better way to do this would involve the use of data analytics and computer software. One could easily make an excel spreadsheet that tracked and reconciled all check numbers to their expenses and the bank statements.

In conclusion, while all accounts have some risks associated with them, we found that these six proved to be the riskiest and vulnerable to both manipulation and human error. After evaluating how to improve the accounting and auditing of these accounts using audit tests and data analysis, we found several possible ways that management could take control to ensure that each account is complete, valued correctly, and presented thoroughly.

CASE IX: Case Competition – Tax

Walt Disney Co.

Additional Group Members: Megan Jansen, Matthew Stersic, Eli Dykes, Coleman Miller

This week we were tasked with finding strategic tax strategies that the Disney Company could potentially utilize to reduce its tax burden. After researching the latest changes in tax laws, including the Tax Cuts and Jobs Act and the CARES act, as well as also considering possible tax legislation changes in future years, we came up with a few strategies that Disney may be able to take advantage of. These strategies would decrease taxes by using tax credits and by lowering their taxable income. This case highlighted the importance of tax accountants being educated and up to date on both current tax policies and potential changes in tax policies. It was eye-opening to see the impact that simple research can have on the amount of taxes a company pays. In just a few days of researching, our team was able to come up with potential ways to save Disney millions of dollars in taxes a year.

Our first suggestion is for Disney to move their animation and film production from California to Georgia. The California state corporate tax rate is 8.84 percent, while the Georgia state corporate tax rate is 5.75 percent. Also, Georgia has a 20 percent to 30 percent tax credit for film projects that spend over $500,000 in production and editing expenses in Georgia depending on the budget ("Film Tax Incentives Map"). The State of Georgia also offers another 10 percent credit from the Georgia Entertainment Promotion Tax Credit for embedding the Georgia logo in the credits of the feature film or episodic film ("Film Tax Incentives Map"). California also offers tax credits for films produced there. The credit is 10 percent less than Georgia's. Additionally, the tax credits they offer are much more complex and have very specific criteria ruling out several of Disney's productions that would be available to Disney in Georgia ("Film Tax Incentives Map"). In 2019, Disney reported $2,686,000,000 in pretax net income from their animation studios (Dybek). With this number, they would pay $237,442,400 in California state corporate taxes. However, in Georgia, they would only pay $123,556,000. When applying the tax credits for studio production in both states, California would pay $189,953,920 in taxes and Georgia would pay $92,667,000. We found these numbers by reducing the taxable income by the percent the credits were worth and then multiplying that number by the state tax rate. With the favorable Georgia tax incentives, Disney would pay $97,286,920 less in state corporate taxes each year in their animation sector alone if they moved to Georgia.

Our second suggestion is moving the manufacturing of products from overseas to rural areas around Orlando. Not only would this save money on shipping products to Walt Disney World, the Disney Cruise terminal, and other domestic locations, but it would allow Disney to gain significant tax credits. Under the Biden Administration, a 10 percent tax credit is available for companies that create jobs for Americans, as well as a 10 percent tax penalty for companies that ship jobs overseas ("Biden's Tax Plan"). Therefore, if Disney can move some jobs back to America they are reducing their taxable income by 20 percent. The best way that Disney could go about repatriating these manufacturing jobs would be by revitalizing manufacturing in rural Florida. The state of Florida has a Rural Job Tax Credit that would allow them to receive $500,000 a year in tax credits per manufacturing plant added in designated areas of the state ("Florida Dept. of Revenue - Corporate Tax Incentives."). If Disney moved product manufacturing to the United States, they would save thousands of dollars. We were not able to find specific figures for Disney's overseas product production to use in our calculations, however, using the information we have we think it would be a significant amount of money.

Another tax strategy that is worth mentioning for The Walt Disney Company is for them to take advantage of laws regarding bonus depreciation and net operating loss carryforwards. Bonus depreciation essentially allows companies to deduct a large portion of the cost of certain purchases during the year they acquire them, rather than depreciating them over a period of years. This reduces net income, thus reducing taxable income. Under the Tax Cuts and Jobs Act, qualified improvement property is now eligible for 100 percent bonus depreciation (Abramowitz). It is also important to note that the TCJA added qualified film, television, and live theatrical productions to the list of qualified improvement property that may be eligible for first-year depreciation deduction ("New Rules and Limitations...Jobs Act."). As an entertainment company, this is especially applicable to Disney. The Disney Company suffered a net operating loss in 2020 and already carries forward previous losses. According to their released 10-K from 2020, they already have a 34 million tax benefit from legislation that passed in 2020. Ensuring they are taking advantage of 100 percent bonus depreciation; Disney would increase their net operating loss and offset taxes in future years which will likely have higher tax rates due to the Biden Administration. The TCJA limited NOLs to 80 percent of taxable income in any one tax period, but the CARES Act has lifted this limit and still allows for an indefinite net operating loss carryforward. Without a very detailed list of qualifying assets that Disney has placed into service since 2018, it is impossible to say approximately how much this would save the company. We also do not know exactly what policies created by the TCJA the company is already taking advantage of. However, along with our first two tax strategies, we believe that advising the company to utilize these new laws regarding 100 percent bonus depreciation and indefinite NOL carryforwards would be advantageous.

In conclusion, this week's case consisted of many challenges and opportunities for learning. We assumed the role of tax accountants and researched ways that the Walt Disney Company could save money on taxes. We came up with three main suggestions that could save the company millions of dollars in taxes each year. This project allowed us to scrape the surface of the complex world of corporate taxation. It shows how in-depth the tax codes are in states, our country, and even internationally. By finding these solutions to save Disney money, we learned the importance of a good tax accounting department. The money that is saved in taxes could allow Disney to pay higher dividends to shareholders, explore potential new projects, and gain a competitive advantage.

CASE IX: Case Competition – Advisory

Walt Disney Co.

Additional Group Members: Megan Jansen, Matthew Stersic, Eli Dykes, Coleman Miller

This week we looked at the Walt Disney Company from an advisory perspective. To do this, we analyzed the company's operations, where they are located, their business strategy, their mission, how supply and demand affect them, and their biggest competitors. We also surveyed the company's financial statements and produced charts comparing the financial position over the last five years in several categories. We then used this information to determine what the company's biggest threats are, and how the Walt Disney Company can plan to work around them. Serving as advisors for the company allowed us to see a new and different perspective than in previous cases. We learned that no matter how successful a business is, there are always ways to work towards improving its financial position. Throughout this write-up, we will list two threats that Disney faces and what steps they can take to dilute them.

The first threat that is having a devastating effect on the success of The Walt Disney Company is unauthorized streaming and distribution of intellectual property. The Unlicensed distribution of content occurs in many ways from the sale of merchandise to the unauthorized use of film or musical content and many cases in between. Disney, unfortunately, faces almost every form of unlicensed distribution of content. Predominately they face the unauthorized production and streaming of Disney-owned film and television content. Disney explained that they are experiencing increasingly sophisticated attempts to obtain unauthorized access to data systems that have "made the unauthorized digital copying and distribution of our films, television productions and other creative works easier and faster and protection and enforcement of intellectual property rights more challenging" (The Walt Disney Company). Unauthorized distribution of Disney content does not have a direct effect on the reported Cost of Goods Sold, however, it can have a responsive effect on Disney's Sales, General & Administrative expenses. Specifically, any costs associated with protecting intellectual property and electronically stored information will increase as higher levels of security are needed. Operating income is the most affected account on the income statement because as illegal streaming and distribution become more prevalent, the number of paying customers decreases.

Our suggestion for Disney to combat these issues is to provide discounted or free Disney content so that they are not losing traffic because of free illegal sites. We believe that more people will be visiting Disney sites and paying for their content than before. They can make up for the loss of revenue from subscribers by adding advertisements. Companies will feel more inclined to market through Disney because their advertisements will potentially reach a greater number of customers. Many customers are more willing to sit through ads than to divert to illegal sites with less image quality and service security. Other streaming services such as Hulu, already utilize this model. They have an extremely economic base plan that provides for viewing with ads and a plan that is double the price for viewing without ads. In 2019, Hulu reported that 70 percent of subscribers were on their base plan. Hulu also reported that its revenues from advertisements were consistently similar to its revenues from subscriptions (Holland).

With Disney's current model they are missing out on potential revenue from ads and losing money from illegal viewing sites. Both of these issues could be easily avoided without lowering their profits if they decreased their streaming prices and added advertisements.

Another plan that Disney can take to combat revenue lost to illegal streaming would be to take the legal route. In August 2020, Disney as well as other content giants such as Netflix, Amazon, and Paramount sued Crystal-Clear Media for unauthorized distribution of their content. The case is ongoing, however pursuing legal action against illegal streamers that can make it not a profitable industry could limit people from creating illegal streaming sites (Holland). At the Federal government level, The Protecting Lawful Streaming Act, which was signed into law in December 2020, allows the Department of Justice to charge providers of illegal streams with a felony ("Protecting Lawful Streaming Act of 2020"). Disney should lobby to back more legislation that increases the penalty of unlawful distribution to further discourage streamers from cutting into their market.

A second threat that Disney faces is the high pace of change in the entertainment industry. For example, Coronavirus shut down the tourism industry overnight, while also closing movie theaters. Both of these experiences will likely be impacted by COVID for several years even after normal operations resume. In the last several years Disney has experienced a decline in ratings for broadcast television as well as a reduction in demand for home entertainment sales of theatrical content. However, before the pandemic, Disney was having a record-breaking year in movie theatre ticket sales. When they were forced to move new releases to streaming services, their return on assets declined.

The best course of action for Disney to take to deal with the everchanging entertainment industry is to make use of the highly profitable movie theatres, while also using the successes of the PVoD (premium video on demand) releases to create a movie release model that meshes well with the movie theatre and streaming industries. An article from *the Atlantic* talks about the premiere of the highly anticipated Mulan, and how the debut at the box office would have been estimated to yield $261 million, but the release through streaming sites drove down the profits to an estimated $60 million to $90 million (Sims). This suggests that while streaming is a growing industry, the profitability of the movie theater is much greater than that of streaming services. We suggest that Disney should make sure they return to put their movies in theaters and do what they can to make sure the industry survives through COVID.

In an initial response to the outbreak of Covid-19, Disney reduced the amount of money they were spending on advertising and marketing (The Walt Disney Company). As government regulations get less rigid, we recommend that Disney immediately begin advertising the reopening of parks to get customers back in theatre seats and theme parks. We think that after the pandemic, both theme parks and movie theaters will see a large hike in attendance because people will be ready to get out of their houses and back to the pre-COVID way of life.

In conclusion, both of these suggestions for the various threats Disney faces coincide with its mission statement of entertaining people around the world via storytelling. Not only do they align with the company's ideals, but they increase their overall revenues. Serving as advisors allowed us to observe how an already profitable company can significantly improve its financial position. The problems Disney faces are often dealing with the constant changes involved with an industry that is so reliant on technology. The best way for Disney to reduce its threats is to make sure that it is staying ahead of the curve on emerging technological changes. By creating ways to mitigate its risks Disney can ensure that it will remain profitable no matter how the industry changes.

CASE IX: Case Competition – Earnings, Stock Price, and Analysis

Walt Disney Co.

Additional Group Members: Megan Jansen, Matthew Stersic, Eli Dykes, Coleman Miller

This week we were tasked with looking at the Walt Disney Company's equity position. We analyzed Disney's current stock price and how it has changed over the recent years. We also reviewed the company's current price-to-earnings ratio and earnings per share. Next, we recalled information from the previous weeks' advisory and tax cases to see how Disney's earnings per share would change if our ideas were to be implemented, and we compared them to the prior period's numbers. This case taught us that it is important to consider how business events will affect a company's market price before implementing them. An important part of publicly traded companies is how well they are valued and traded on the open market and all business decisions affect those statistics. By calculating the potential effects of our suggestions in Disney's current financial information, we can also see the effect that new projects and endeavors have on these numbers and subsequently how they can affect the stock price.

Our recommendation for Disney to put extensive effort into the cessation of unlicensed usage of the content will cost Disney a significant amount of capital; however, they will quickly see an increase in revenues of 2.2 billion annually. We calculated this by finding estimations of how much is lost in revenue annually. A 2019 report from NERA Economic Consulting and the Global Innovation Policy Initiative suggested that 29.2 billion dollars in revenue are lost annually due to illegal streaming. An article from Neilsen says that Disney+ makes up for 4 percent of all streaming while Hulu makes up 11 percent. They did not give information on how much of the market ESPN+ (another Disney streaming site) has, so to keep our estimates conservative we assumed that Disney had 15 percent of the streaming market between Hulu and Disney+. 15 percent times the $29.2 billion means Disney loses 4.38 billion dollars a year to illegal streaming. If we were able to cut illegal streaming in half, this would mean we would have access to $2.2 billion of new revenues. We predict that Disney will see the effects of this investment for an indefinite period exceeding five fiscal years. While this recommendation will not have a direct effect on the number of shares outstanding it will have a positive impact on net income, which would increase our earnings per share. When we used last year's earnings per share, this made a significant impact in reducing losses. We assumed a very large investment of one billion into political lobbying and legal fees to get back the 2.2 billion dollars in lost revenues, and Disney would gain 1.2 billion dollars in earnings. Last year with earnings per share of ($1.57) with 1.82 billion shares outstanding ("Walt Disney Company"). This would add in about $0.66 per share, meaning that our newly calculated earnings per share would be ($.91). While Disney's earnings per share for the previous year would still have been negative, in a normal year the EPS is under $6 per share, which means that an $.66 increase would drive EPS up by over 10 percent.

Our tax recommendation to move Disney's animation and film production sector from California to Georgia will have a varying effect annually on net income because of the vast variety of costs and revenues per movie. To avoid speculation, we utilized Disney's 2019 values as the 2020s were unrepresentative of expected performance. Per our calculations in the tax case, Disney will be saving $97,286,920 annually (Dybek, Film Tax…). Instead of being associated with state taxes payable, this money would be additional revenue and in turn, will increase net income. Like the former, this recommendation will have little to no effect on the number of shares outstanding. As previously stated Disney last year had earnings per share of ($1.57) and outstanding shares of 1.82 billion (Walt Disney Company). Implementing this recommendation will increase earnings per share by $0.053 producing new earnings per share of ($1.517). This impact on earnings per share or net income may not seem like an overwhelming amount for a company of this magnitude, but over the next ten years, it could produce the company an extra billion dollars in revenue.

In conclusion, our ideas could have tangible benefits on Disney's stock price as well as the company's financial statements. These calculations also show us that any source of revenue could impact the stock price and how outside investors view the company. These calculations validate some of our proposed tax and advisory strategies. We do not believe that investing in higher levels of cybersecurity as well as spending more on legal fees to combat unauthorized usage of the content will increase the riskiness of Disney stock. However, our suggestion for Disney to move their animation and film production sector from California to Georgia may require a period of acclimation before being as profitable as it is currently. However, the eventual tax savings and increase in EPS will lead to an increase in stock price.

CASE XII: Financial Crisis of 2008

As a child, and even though my teenage years, I was naive in believing that people in power are inclined to do the right thing. I especially believed this about those holding government positions as well as individuals handling finances in any capacity. In my experience, a huge part of growing up has been being exposed to the harsh reality that people can be selfish and morally corrupt. Entering adulthood does not instantaneously make anyone a better person or more apt to do the right thing. Selfishness and greed run rampant when people are not held accountable for their actions. Exceedingly so when they are rewarded for their corrupt behavior. Within the financial and economic industry, professionals hide behind the idea that what they do is far too complicated for the average person to understand. This allows them to operate with the blind trust of those around them. The series of events leading to the 2008 financial crisis illustrates this perfectly and did shake my trust in institutions and the government. However, I am grateful to have the exposure before I am plunged into the finance industry in the coming years. For this case, I was given several resources including articles, interviews, and a documentary to reflect on how the 2008 financial crisis occurred and how it changed my view on institutions and the government. I will be looking at cronyism within the financial sector, the role deregulation played in the financial crisis of 2008, as well as the parallels between the political landscape that brought on the financial crisis and our current political environment.

The first piece of material we were asked to read was an informative video analyzing crony capitalism and its effects on society. My business classes operate on the idea that capitalism is the best way to encourage a flourishing economy. I would tend to agree. In a perfect world, capitalism creates value for every party involved as goods or services are voluntarily exchanged between people. However, we live in a very imperfect world. Government officials are often bought off or show bias towards groups that support them and their campaign efforts. In this video which was produced by Prager University, staff writer Jay Cost states that crony capitalism costs society tens of billions of dollars a year. Cost argues that a more limited government is the solution, and again I would tend to agree. The government should not be in charge of spending across entire industries, especially when individual groups within those industries have a great deal of lobbying power with the government. Increased financialization, the flow of professionals between Washington and Wall Street, as well as growing lobbying expenditures have all contributed to cronyism within the financial sector. In a working paper provided by the University Library of Munich, Germany, the author exposes the observable correlation between lobbying expenditures by different institutions and the number of bailout funds they received in 2008 (Vuk). The data on campaign donations used in this study was taken from the Center for Responsive politics. Further, the documentary *Inside Job* demonstrates just how common it is for professionals to flow between Washington, Wall Street, and even prominent Universities across the country. For example, before being appointed as the chairman of the Federal Reserve, Alan Greenspan was a de-facto lobbyist for Charles Keating. In fact, Greenspan was paid to defend Keating before he was ultimately arrested for his responsibility for the biggest fraud in the history of the savings-and-loan industry. The documentary also provided countless examples of former board members for financial institutions that went on to work at various universities. This can be seen with former Treasury Secretary Larry Summers. Summers played a large role in the deregulation of derivatives as well as served as president of Harvard for five years. Glenn Hubbard, Laura Tyson, Ruth Simmons, and countless others have similar conflicts of interest (Ferguson). This allows the financial industry to exert influence on upcoming professionals and press into their ideas that may not best serve society.

A common theme throughout the documentary *Inside Job* is that financial deregulation was the primary cause of the 2008 financial crisis. However, many people argue that operating under limited government results in the most prosperous societies. I believe that a balance needs to be found in regards to the government's role in regulating the economy. The economy can be compared to an engine. The “engine” is designed to run as hot as possible and produce as much power as possible. In and of itself, it does not limit the amount of fuel or air it is consuming or how much heat it is producing. It will continue to burn hotter and hotter until it overheats beyond its designed capability and explodes. A fast-growing economy is desirable, however, when it grows too quickly it is referred to as “heating up” and often leads to a harmful downturn. Within the engine metaphor, this is the explosion. Luckily the engine has a cooling system that keeps it under control. The economy needs to be monitored in the same way. The unregulated events leading up to the 2008 financial crisis can demonstrate this metaphor in the real world.

Following the great depression, the United States had forty years of economic growth, and the financial industry operated under tight regulations. Small local banks were prohibited from speculating with depositors’ savings and investment banks were small, private partnerships. In the traditional investment banking model, partners put the money up themselves. Naturally, they kept a watchful eye on it. During the 1980s the finance industry exploded and Investment banks went public. This gave them huge amounts of stockholder money. By the late 1990s, the financial sector had consolidated into a few gigantic firms and fueled a massive bubble in internet stocks. This was quickly followed by a crash in 2001 that caused $5 trillion in investment losses. Yet, the Securities and Exchange Commission did not act. Financial deregulation, along with advances in technology, also created the start of a $50 trillion unregulated derivatives market. This financial device allowed bankers to gamble on virtually anything. Proposals were made to regulate derivatives by the chair of the Commodity Futures Trading Commission, Brookesly Born. However, she was ultimately overruled by the Clinton administration and then by congress in 2000. Regulation of derivatives was banned by the Commodity Futures Modernization Act. Broad financial deregulation also reduced lender accountability as they were able to sell mortgages to investment banks. This created an enormous incentive for banks to give out riskier loans. Investment banks were combining mortgages and loans to create Collateralized Debt Obligations, or CDOs, which were sold under the premise that they were investment-grade securities. Subprime loans and predatory lending increased, consequentially driving up housing prices. This contributed to the biggest financial bubble in history as the country experienced a huge boom in housing that made no sense. Countrywide Financial was the largest subprime lender, issuing $97 billion in loans resulting in over $11 billion in profits. Chief Economics Commentator for the Financial Times, Martin Wolf, stated that "It wasn't real profits; it wasn't real income. It was money created by the system and booked as income." This was just the beginning of layer after layer of problems that deregulation had allowed. Soon American International Group (AIG) began selling credit default swaps. Credit default swaps worked like insurance policies for the CDOs. The investors that purchased credit default swaps would pay AIG a quarterly premium in case the CDO went bad. Speculators were also able to buy credit default swaps to bet against CDOs they did not own. Several individuals, including hedge fund manager John Paulson, made billions betting against the mortgage market. However, disaster struck when foreclosures on home loans rose to extreme levels and AIG had to pay what it had promised to cover.

In general, key players in the financial industry were taking part in very unethical behavior. Lack of oversight allowed criminal activity to run rampant. To name a few examples:

JP Morgan bribed government officials, Riggs Bank laundered money for a Chilean Dictator, Credit Suisse laundered money for Iran, and Citibank helped funnel $100 million in drug money out of Mexico. The excessive use of alcohol, drugs, and prostitution was also common. Psychotherapist, Jonathan Alpert, serves many high-level Wall Street executives. When asked if this kind of behavior extends to the senior management of firms, he responded: “Yeah I know for a fact that it does. It extends to the very top”. Kristin Davis ran an elite prostitution ring from her apartment located just a few blocks from the New York stock exchange. She adds that her services were often paid for using company funds and expensed to various accounts such as computer repair or trading research. A healthy economy cannot be suffocated by the government; however, regulation is certainly needed to hold individuals and institutions accountable for their actions.

There are some significant parallels between the political environment of 2008 versus the environment we are experiencing today. One key similarity is that 2008 and 2020 were both presidential election years. In both instances, there was a transition from a republican presidential administration to a Democratic presidential administration. Before Barack Obama's term, George W Bush authorized the first tax cut to jump-start consumer spending. This act was called the Economic Growth and Tax Relief Reconciliation Act of 2001. In 2003, Bush signed the Jobs and Growth Tax Relief Reconciliation Act to encourage hiring (Amadeo). Similarly, President Trump passed the Tax Cuts and Jobs Act in 2017 to spur economic growth. However, in both cases taxes were raised by the new president succeeding them. In Biden’s case, plans for raising taxes are in place. Another similarity is the dissonance within the country about how the government handled or is handling, the economic crisis during both of these years. The 2008 crisis arose from the financial system’s lending carelessness. The Troubled Asset Relief Program

(TARP) was enacted to stabilize the financial system by having the government buy mortgage-backed securities and bank stocks. Over the course of two years, TARP invested $426.4 billion in firms and recouped $441.7 billion in return (Segal). TARP was controversial at the time largely because it promoted irresponsible bank behavior and toxic politics. President Obama signed The American Recovery and Reinvestment Act of 2009 to further stimulate the economy. This bill also induced controversy between opposing political parties. The 2020 crisis is driven by the global Coronavirus pandemic. The Coronavirus Aid, Relief, and Economic Relief Act (CARES) was passed to provide relief for individuals and businesses that have been negatively impacted by the outbreak. The CARES act has sparked controversy similar to the other relief acts mentioned. However, it has been hugely controversial because of the flawed administration of benefits as well as the significant increase in the United States deficit. National discord and fear were present in 2008 and are certainly present now as we all fight to endure this pandemic. It is important to be gracious towards the government policymakers trying to provide relief, but it is crucial to learn from our country's past mistakes.

The circumstances leading up to the 2008 financial crisis were certainly a series of unfortunate events allowed to occur because of the lack of oversight and deception within the financial industry. Cronyism and deregulation within the financial sector paved the way to one of the most devastating economic downturns in history. As we walk through another economic crisis, it is crucial to recognize the parallels between now and the years surrounding 2008 to avoid repeating past mistakes.

REFERENCES

Abramowitz, Laurie, et al. "The CARES Act: Income Tax Provisions for Businesses: Publications and Presentations." *Arnold & Porter*, 2020

Aladin. "Nashville, TN - Detailed Climate Information and Monthly Weather Forecast." *Weather Atlas*.

Aladin. "Raleigh, NC - Detailed Climate Information and Monthly Weather Forecast." *Weather Atlas*.

Amadeo, Kimberly. "How George Bush Affected the Economy." *The Balance*, Dotdash, 13 Jan. 2020

"Annual Events." *Visit Nashville TN*, 17 Mar. 2022.

Barkin, Dan, et al. "North Carolina's 2020 Best Hospitals." *Business North Carolina*, 16 Apr. 2020.

Becker, Kraig. "Getting around Nashville: Guide to Public Transportation." *TripSavvy*, TripSavvy, 23 Oct. 2020.

"Biden's Tax Plan." *The Balance*, https://www.thebalance.com/biden-s-tax-plan-5095241. Accessed 18 Feb. 2021.

"Donald J. Trump for President." *Official Campaign Website*, Donald J. Trump for President, Inc.

"Donald Trump & Joe Biden 1st Presidential Debate Transcript 2020." *Rev Pro*, 1 Oct. 2020, www.rev.com/blog/transcripts/donald-trump-joe-biden-1st-presidential-debate-transcript-2020.

Dybek, Martin. "Walt Disney Co. (NYSE:DIS) | Income Taxes." *Stock Analysis on Net*, Stock Analysis on Net

Ferguson, C. (2010). *Inside Job*. Sony Pictures Classics.

"Film Tax Incentives Map - An Interactive Guide From Media Services." (2021, January 05). Retrieved February 18, 2021

"Florida Dept. of Revenue - Corporate Tax Incentives." *Florida Dept. of Revenue - Florida Dept. of Revenue*

Hartman, Mitchell, et al. "Are Americans Doing Better or Worse Economically than They Were 4 Years Ago?" *Marketplace*, 1 Oct. 2020.

Hodge, Scott A. "Testimony: Positive Economic Growth Effects of the Tax Cuts and Jobs Act." *Tax Foundation*, 30 July 2020.

Holland, Jake. "Disney, Netflix Sue Streaming Service for Copyright Infringement." Bloomberg Law, Bloomberg News, 13 Aug. 2020

Henderickson, Alex. “11 Unique Dining Experiences in Nashville: When You're Hungry for More than a Meal.” *StyleBlueprint*, 19 Oct. 2018.

Holland, Jake. “Disney, Netflix Sue Streaming Service for Copyright Infringement.” Bloomberg Law, Bloomberg News, 13 Aug. 2020

“How Good Is the Health Care in Nashville?” *Blog RSS*.

“Joe Biden for President: Official Campaign Website.” *Official Campaign Website*, Biden for President , 29 Sept. 2020.

“More Jobs and Bigger Paychecks.” *Treasury.gov*, U.S. Department of the Treasury, 14 Oct. 2020.

“Nashville, TN Nonprofits and Charities: Donate, Volunteer, Review.” *GreatNonprofits*.

“New Rules and Limitations for Depreciation and Expensing under the Tax Cuts and Jobs Act.” *IRS.gov*, Internal Revenue Service, 18 Apr. 2018

“North Carolina Paycheck Calculator.” *SmartAsset*.

Pettinger, Tejvan. “Difference between Tax Avoidance and Tax Evasion.” *Economics Help*.

PragerUniversity, Jay Cost. *What Is Crony Capitalism? YouTube*, YouTube, 22 Feb. 2016.

“Protecting Lawful Streaming Act of 2020 .” *United States Patent and Trademark Office - An Agency of the Department of Commerce*, 17 Feb. 2021

"The Quality of Health Care Varies Widely across the Nation. State Snapshots, an Interactive Tool from the Agency for Healthcare Research and Quality (AHRQ), Uses More than 200 Statistical Measures to Offer State-by-State Summaries of Health Care Quality." *AHRQ*.

"Raleigh, NC." *Data USA*.

"Rise against Hunger." *Rise Against Hunger*, 12 Apr. 2022.

Segal, Troy. "Did the Troubled Asset Relief Program (TARP) Save the Economy?" *Investopedia*, Investopedia, 29 Sept. 2020.

Sims, David. "The Failure of 'Mulan' Is More Bad News for Hollywood." *The Atlantic*, Atlantic Media Company, 22 Sept. 2020

"Statistics & Facts." *Visit Nashville TN*, 23 June 2021.

"Taxodus - Playing the Global Tax Avoidance Game." *YouTibe*, Arctree, 4 May 2013.

Top Companies in Raleigh, NC - Glassdoor.

U.S. Census Bureau Quickfacts: United States. U.S. Census Bureau.

"Visit Raleigh, N.C.: Raleigh Hotels, Attractions, Things to Do & Events." *Visit Raleigh, N.C. | Raleigh Hotels, Attractions, Things to Do & Events*.

Vuk Vukovic, 2011. "Political economy of the US financial crisis 2007-2009," Financial Theory and Practice, Institute of Public Finance, vol. 35(1), pages 91-128.

Walt Disney Company. *2020 Annual Report*. SEC Edgar Database. Web. 9 February 2021.

“The Walt Disney Company Reports Third Quarter and Nine Months Earnings for Fiscal 2020.” *The Walt Disney Company*, 4 Aug. 2020.

Watchlist news - american consumer news: Truist securiti weighs in on the walt disney Company’s Q1 2021 earnings (NYSE:DIS) (2020). . Chatham: Newstex.

Watson, Garrett, et al. “Details and Analysis of Biden's Tax Plan.” *Details and Analysis of Democratic Presidential Nominee Joe Biden’s Tax Proposals*, Tax Foundation , 29 Sept. 2020, taxfoundation.org/joe-biden-tax-plan-2020/.