A Comprehensive Analysis of the Fundamentals of Financial Accounting Principles

Lele Goldsmith

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

Part of the Accounting Commons, and the Marketing Commons

Recommended Citation
https://egrove.olemiss.edu/hon_thesis/2498
A COMPREHENSIVE ANALYSIS OF THE FUNDAMENTALS OF FINANCIAL ACCOUNTING PRINCIPLES

By
Lele Goldsmith

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

Oxford
May 2022

Approved by

Advisor: Dr. Victoria Dickinson

Reader: Dean Mark Wilder
# TABLE OF CONTENTS

ABSTRACT ..................................................................................................................2

CASE I: A Tale of Two Cities......................................................................................3

CASE II: Financial Statement Concepts.................................................................13

CASE III: The First Presidential Debate.................................................................23

CASE IV: Excel Course Certification......................................................................29

CASE V: Taxodus ......................................................................................................30

CASE VI: The Interview ...........................................................................................36

CASE VII: Case Competition – Overview.............................................................42

CASE VIII: Case Competition – Audit ...................................................................47

CASE IX: Case Competition – Tax ..........................................................................53

CASE X: Case Competition – Advisory .................................................................59

CASE XI: Case Competition – Earnings, Stock Price, and Analysis .....................68

CASE XII: Financial Crisis of 2008 .......................................................................72

REFERENCES ..........................................................................................................78
ABSTRACT

The purpose of this work depicts analysis into financial reporting and analyses of various topics related to the field of accounting, with an in depth analysis of a publicly traded company. All analyses were developed over the course of two semesters in a University of Mississippi Honors course of Accountancy Independent Study taught by Dr. Victoria Dickinson. This work is divided into 12 different case studies that each represent an evaluation of a different aspect related to the field of accounting. In order to do this, various resources were utilized to perform all necessary functions related to answering the questions pertaining to the case at hand. Through this study, I further advanced my understanding of accounting beyond textbooks and class lectures into a more advanced learning to better prepare myself for the workforce.
CASE I: A TALE OF TWO CITIES

INTRODUCTION

“The future depends on what you do today.” This quote, spoken by the wise Mahatma Gandhi, consumes one’s thoughts from the moment it is heard. The future can be frightening, but proper preparation can permit peace and confidence for what the future may hold. Research is one method of preparation for the future. Recently, I experienced firsthand the success of this method. With this case study, I was assigned to research two potential cities I would want to intern in for an accounting firm. Factors such as population, location, climate, and safety are critical to my success in a city, and these were the first factors of which I conducted research. However, I also performed extensive research into the details of what sets the two cities apart from other potential suitors. This research will guide me into integration with the community I may potentially be a part of one day. With my college graduation date looming, deciding where I want to live next is a necessity. Being an accounting major, the options for potential cities to work in are endless. By conducting detailed research into the vast sea of cities in the United States, I have been able to narrow down my list of potential cities to work in.

Through this case study, I have been enlightened to the different cultures of two potential cities I want to live in: Nashville, Tennessee and Houston, Texas. Nashville and Houston are two cities with similar attributes to my hometown, Tuscaloosa, Alabama. Although both are significantly larger than Tuscaloosa, both have the southern hospitality synonymous with my hometown. In my findings, I determined both cities have the location, population, climate, and safety I crave. Presented below are further findings concerning the cities of Nashville, Tennessee and Houston, Texas.
NASHVILLE

The first city I researched for my future potential home was Nashville, Tennessee, which has a current population of 1,249,000 (Macrotrends). Nashville has always appealed to me because of its southern culture. Being from Tuscaloosa, Alabama, southern culture is not unfamiliar to me; if anything, I need it to feel at home. Both Nashville and Tuscaloosa have similar yearly temperature fluctuations, rising to an average of 94 degrees Fahrenheit in the summer months and falling into an average of 32 degrees Fahrenheit in the winter months. Nashville itself is situated at about 580 feet above sea level, close to the foothills of the Appalachian Mountains. The Cumberland River runs through the heart of downtown Nashville, adding to its southern culture, with a majority of downtown being within miles of this river.

The atmosphere of the city of Nashville exudes southern culture. Nashville is known as the “Music City” because it is the home of country music, as well as several country music artists. The Country Music Hall of Fame is downtown with countless “Honky Tonk” and country music bars and restaurants within a mile of it. It would be near impossible to walk down the streets of Nashville without seeing a pair of cowboy boots. Nashville is also a hub to several collegiate and professional sports teams, the most famous being its National Football League team, the Tennessee Titans, and a close runner up being its National Hockey League team, the Nashville Predators. Although I am from the south, I am a die-hard National Hockey League fanatic. My favorite hockey team travels to Nashville for play three plus times a year. If I lived in Nashville, seeing my favorite team play would be a bonus.

If I interned or worked in Nashville as an auditor for an accounting firm, I would most likely perform work for businesses in the Education and Health Services industry. This industry alone makes up 24 percent of all industries, which is the highest percentage of any other industry
in the city. In fact, four of Nashville’s five largest employers are in the Education and Health Services Industry: Vanderbilt University and Medical Center, HCA Holdings, Inc., Saint Thomas Health Services, and Community Health Systems. The next highest industry is the Trade, Transportation, and Utilities industry at approximately 18 percent, which holds the last of the top five largest employers in Nashville: Nissan North America.

The state of Tennessee has no income tax, which adds to Nashville’s appeal. However, it does have a tax of six percent on all interests and dividends. The sales tax rate, however, in Nashville is a combined 9.25 percent, with seven percent of that tax coming from the state Tennessee, two and a quarter percent coming from Davidson county, and zero percent coming from the city of Nashville, which is how the state and city earn money from taxes. If I had a starting income of $55,000 per year with no interests or dividends, I would pay only $9,482 in income taxes due to Federal and FICA, as opposed to giving up $11,753 in taxes due to Federal, FICA, State, and Local if I lived in Alabama. Although this may not seem a significant difference in the eyes of some, every penny counts when I am living on my own and trying to start my career.

The average cost of rent in Nashville is around $1,428 per month (Rent Café). With a net income of around $45,000 after income tax taken out, approximately $17,200 would pay rent for the year, leaving me with $27,800 for other necessities. However, Nashville is still a rapidly growing community. Rent costs may increase from year to year. With the starting salary previously mentioned, along with minimal income taxes, I believe I would still be able to live comfortably in Nashville, Tennessee, relatively close to the office in downtown.

One downside to Nashville would be its safety. Unfortunately, Nashville is only three percent safer than other cities in the United States. As reported for the beginning of 2020, for
every thousand people in the city of Nashville there were approximately 7.47 assaults, 3.19 robberies, 0.73 sexual assaults, and 0.14 murders, which can be compared to the United States numbers of approximately 2.47 assaults, 0.86 robberies, 0.43 sexual assaults, and 0.05 murders (Neighborhood Scout). These statistics show that in Nashville alone, there is a 1 in 87 chance of falling victim to one of the four violent crimes previously mentioned. However scary these statistics may be, they will vary by each neighborhood in Nashville. The Rosebank Neighborhood of Nashville is deemed one of the safest neighborhoods in the city, and it is a mere ten minutes from the heart of downtown. Another safe neighborhood is Cherokee Park, and it is also ten minutes from downtown. If I were to move to Nashville, I would attempt to rent an apartment in one of these two neighborhoods. Although Nashville may have higher crime rates, it also has one of the highest ranked health care systems in the nation, with hospitals specializing in anything from pediatric care to women’s treatment to trauma. If I do fall victim to crime, I have no doubt the healthcare system of Nashville will care for me.

If I made the decision to live in Nashville, I believe I would have the ability to rent an apartment close to, if not in, downtown. Because of this luxury, I would be able to do laundry in my apartment. Not having to travel to a laundromat is a feat I take for granted in college, but I still believe I would never venture to one after college because of the amenities I would receive living in an apartment. Grocery shopping would be available to me via various Kroger or Publix grocery stores in the surrounding area. Personally, I would be more likely to choose Publix because of the familiarity of having a Publix back home in Tuscaloosa.

If I were to start a family in Nashville, I would first move out of downtown, hopefully no more than 15 to 20 minutes away from the office, with the hope of being in one of Nashville’s top public city school districts. Preferably, I would move to the school district of Central Magnet
School, Hume Fogg Magnet High School, Brentwood High School, or Ravenwood High School. Of the approximately 95 schools in the Nashville metro area, 78 of those schools are ranked by the U.S. News, which is a high honor in my opinion. Not only is an education for my children important to me but teaching them to give back to the community is equally important. One such way of giving back would be through a nonprofit called Book’em, which allows members to read to classrooms of children and bring books for those who cannot afford them. Reading is vital to the growth of young children in helping them excel in life. My family and I would be involved in this organization should I choose to move to Nashville.

Transportation around Nashville is not hard to find. Most commuters use their personal vehicles, but there are also various taxicab services, Uber drivers, and Lyft drivers. Travel is not just limited to an automobile. Nashville is home to several bus lines with multiple stops throughout the city, a commuter rail train with numerous stops, and an international airport (Visit Music City). Bike rentals have become increasingly popular throughout the city as well. If I were traveling from Nashville back home to Tuscaloosa, I would travel by car via Intersate-65, which runs from the heart of Nashville to Birmingham, Alabama, where I would then take Interstate-59 to Tuscaloosa. This trip would take approximately 245 miles or 3.5 hours. Overall, the city of Nashville is appealing to me for a potential internship because of its southern culture, low income tax rates, and proximity to my hometown.

HOUSTON

The second city I researched for a potential future home due to an internship was Houston, Texas. Houston’s population as of the beginning of 2020 was 6,371,000 people (Macrotrends). Growing up I would dream about cities I desired to live in; Houston was not one of those cities until recently. Within the previous three years, my father has traveled to Houston close to 15
times for work and, without fail, would return home to talk about its charm. The one thing he complains about, however, is the heat. Houston’s temperatures rise to an average of 98 degrees Fahrenheit in the summer months which feels significantly warmer with its high humidity levels. Luckily, Tuscaloosa has similar summer temperatures and high levels of humidity, so living in Houston would be comparable to living in Tuscaloosa. The city of Houston is in southeastern Texas, about an hour from the coast of the Gulf of Mexico, which causes the city to be approximately 150 feet above sea level.

Houston’s population is dominated by persons aged 25 to 34, making it a relatively popular place for those just starting out in their careers (Best Places). This is encouraging to me in the sense that I would be surrounded by people closer to my age; I would not be in an office with solely older shareholders or partners. Having people in the office that are similar in age with me is critical because the office is where I would pursue friendships. With these newfound friendships comes the need for activities, and Houston is buzzing with plenty. Houston is home to multiple collegiate and professional sports teams, the most well-known being their National Basketball Association team, the Houston Rockets, and a close runner up being their National Football League team, the Houston Texans. Alongside sports, Houston offers various waterparks, theme parks, museums, zoos, and concerts. I believe I would never get bored in Houston, as there would always be new activities to delve into.

Interning or working as an auditor at an accounting firm in the city of Houston would allow me to dive into the Oil and Gas Industry, which is the largest industry in Houston and its surrounding area. In fact, Houston’s largest employer, Schlumberger, is headquartered in the city and is a part of the Oil and Gas Industry. Phillips 66 is another company headquartered in Houston that plays a major role in the Oil and Gas Industry, with its company extending to all
corners of the United States, most notably in NASCAR. Other top ranking companies headquartered in Houston that are not a part of the Oil and Gas Industry are Sysco food distributor, Waste Management, Inc., and H-E-B grocery store.

The state of Texas has no income tax, which makes it an appealing place to live to begin a job. Texas funds itself based off sales tax, which, in Houston, is a combined percentage of eight and a quarter, with a state sales tax rate of six and a quarter percent, a county sales tax rate of zero percent, a city sales tax rate of one percent, and a city transit sales tax rate of one percent. If I were to start out with a salary of $55,000, I would only pay a combined total of $9,482 to FICA and Federal income taxes, which is the exact same as if I were to live in Nashville. This total would provide enough leeway for rent for my apartment in or near downtown Houston.

Renting an apartment in Houston costs approximately $1,390 per month (Rent Jungle). With a little over $45,000 net income after income taxes removed for Federal and FICA, $16,680 would pay rent for the year, leaving me with around $28,320 for other essentials. Recent trends show the average one bedroom apartment’s rent increased three percent from the previous year. If this trend continued, I believe I would still earn enough money to pay for rent and the other necessities I may need while living in the city.

A downfall to Houston would be its high crime rates. Houston is only safer than four percent of other U.S. cities. As reported for the beginning of 2020, for every thousand people in the city of Houston there were approximately 5.98 assaults, 3.79 robberies, 0.57 sexual assaults, and 0.12 murders. These numbers can be compared to the United States numbers of approximately 2.47 assaults, 0.86 robberies, 0.43 sexual assaults, and 0.05 murders for every thousand people. In the Houston city limits, there is a 1 in 96 chance of falling victim to one of the four violent crimes. These statistics seem frightening, but they will vary by each
neighborhood within the city of Houston. The neighborhood I would prefer to reside in would be Midtown, which is still in proximity to downtown where the office would be located. Midtown is safer than 44 percent of all Texas cities, a statistic that is promising for a city as massive as Houston. With the high crime rates, I would hope Houston had exceptional health care, but this is, unfortunately, far from the truth. Overall, the state of Texas ranks fourth to last in the nation across all measures of healthcare, only better than Alaska, Nevada, and New Mexico (Healthline). If I do fall victim to crime, I have slight worries concerning my caretaking in the Houston healthcare system.

Making the decision to rent an apartment close, if not in, downtown Houston, I believe I would have the ability to do laundry in my own apartment. This spares me from having to find a laundromat in the area. Although it may cost more to do laundry in my apartment, it lowers the risk of my falling victim to a violent crime in the city. Grocery shopping is a necessity I would complete in the area surrounding my apartment by visiting the local Kroger or H-E-B grocery stores. If these two were the closest to my apartment, I would more likely shop at Kroger, because of the familiarity with the Kroger in Oxford. With a city as large as Houston, grocery shopping would not be an issue, which is another appealing factor in considering the city to be a potential future home.

If I were to start a family in Houston, I would move out of the downtown area and into a neighborhood zoned for at least one of Houston’s best public city schools. Carnegie Vanguard High School and Eastwood Academy have 99 and 100 percent graduation rates, respectively. This is a promising statistic if I were to be a mother in the city. Not only is receiving an education important to me, teaching my children to give back to the community is equally important. Luckily, being in as expansive of a city as Houston, my family and I would have the
choice of nonprofits to assist. Child Advocates is a nonprofit that sticks out to me because of their work in being the leading voice in Houston for the rights of abused children. No child should suffer abuse at the hands of anyone, a truth I will advocate for daily. My family and I would be involved in this organization should we live in Houston.

Transportation in Houston is a hot commodity. Residents often travel in their personal automobiles, but nearly 5 million people use Houston’s local buses every month, alongside the two million that use the above ground train system. Both the bus and train systems have countless stops throughout the city, making it effortless to travel to an end destination within minutes. Travel in Houston is not limited to land travel; three airports surround downtown Houston. George Bush Intercontinental Airport is to the north, West Houston Airport is to the west, and William P. Hobby Airport is to the southeast of downtown Houston. If I were traveling back to Tuscaloosa from Houston, I would take advantage of the proximity of George Busch Intercontinental Airport, taking a flight from Houston to Birmingham that lasts two hours, then driving from Birmingham to Tuscaloosa, which takes about an hour. Overall, the city of Houston is attractive to me based on its larger size, its plentiful list of activities, and its slightly lower crime rates.

CRUNCHING NUMBERS

Assuming I receive a bonus for the exceptional work I performed in year one, year two I have an income of $60,000, up $5,000 from the previous year. If I were to live in either Nashville, I would not have to pay income taxes apart from Federal and FICA. This would deduct approximately $10,000 from my income, leaving me with $50,000. Rent in Nashville is around $18,000 a year, and when deducted would leave my yearly income at $32,000. I would then place around $10,000 into a savings account, spend $5,000 on groceries, $5,000 on clothes,
$3,000 on gas and travel, and $2,000 on activities. The remaining $7,000 in my yearly income would be used for emergencies and unexpected events. Living in Nashville is affordable with a yearly income of $60,000.

If I were to live in Houston with the same $60,000 yearly income, I would not have to pay any income taxes other than those paid to Federal and FICA. After those taxes of around $10,000 were deducted, $50,000 would remain in my yearly income. Rent in Houston is approximately $17,000, and when paid, would leave my yearly income total at $33,000. I would then place around $10,000 into a savings account, spend $5,000 on groceries, $5,000 on clothes, $3,000 on gas and travel and $2,000 on activities. The $8,000 that remains in my yearly income would be reserved for emergencies and other necessities that might arise throughout the year.

CONCLUSION

The choice of a future home is not straightforward. There are several factors that go into choosing a city to reside in, such as population, location, climate, and safety. Because of conducting this extensive research, however, the choice for my future home became clearer. The city I will aim to live in, work permitting, is Nashville, Tennessee. The southern culture of Nashville and its proximity to my hometown are the factors that allowed it to surpass Houston. Houston’s expansiveness and distance from Tuscaloosa caused it to drop in my ratings. Although Nashville is my top choice, it is not without its faults, but it would feel more like home than Houston. The future can be frightening but having a booming city and southern crowd behind me will help lead me to prosperity.
CASE II: FINANCIAL STATEMENT CONCEPTS

INTRODUCTION

For this case study, we were given three questions covering various financial statement concepts and asked to consider how the FASB would regulate these concepts for financial reporting. Included in this analysis of the case study is a transcribed dialogue of our discussion on the questions. The dialogue is included to show how we approached the prompts and came to our conclusions. Any ideas not expressed in the dialogue were addressed outside of the class discussion period in a group message environment. In the following paragraphs of the introductions, each group member describes what they have learned from this case. The order of paragraphs is Anna, Lele, Michael, and Coleman.

Because this case study was a group project, I found myself understanding the concepts in more depth. Answering the questions and hearing my group’s thoughts helped take the discussion and analysis further than if we were to do this individually. Looking at the concepts that the FASB deals with and questions forced us to look deeper into ideas that we had not before. I learned from this that the focus of a business—either on revenues and expenses or assets and liabilities—greatly affects the operations. Focusing on revenues and expenses was the more positive viewpoint of the two, although both have their pros and cons. Also, how a business values their assets has a large effect on many journal entries. Valuing an asset in exchange was what we found to be most effective and have the least consequences on journal entries.

This case of financial statement concepts was more thought provoking than the last case. Placing myself into the shoes of the FASB was no simple task; deciding the future of financial reporting was not any easier. From this case, I learned to think outside the box. I am accustomed to memorizing accounting definitions and concepts in the classroom, not having to decide the
fate of real world accounting scenarios. This case placed me in the shoes of someone who does
decide these scenarios, in turn widening my understanding of financial reporting itself. Moving
forward, I will consider the purpose of each financial statement item, and the manner in which it
is reported, in greater detail than in the past.

This case was very different from the last case, this case being more conceptually
challenging. In this case we were tasked to put ourselves in the mindset of a group working for
the federal accounting standards board considering potential new changes to GAAP. We were to
debate two viewpoints as to how a principle could be changed for federal financial reporting, and
how it would affect accounting as a whole. It was a great exercise giving us the chance to look
outside of the box of the clear cut already established accounting principles. Also it allowed for
us to look conceptually at how we as accounting professionals can contribute to the conversation
about accounting regulations.

DIALOGUE

Lele: From just reading these two, I would agree with Viewpoint One. This is my initial choice
because I read something about it in the accounting textbook today. There was an
example of a company that did not have any cash flow, but they had net income. The
company still went bankrupt. You can still have an income, but that does not necessarily
control how well your business is operating.

Coleman: The way I read this, Viewpoint One involves long term growing of your assets rather
than Viewpoint Two— which is selling assets or trading them in, continuously increasing
revenue and earnings. I think I would probably go with Viewpoint Two. It is a faster
paced approach.

Anna: I also think I would go with Viewpoint Two. I do not like the description in Viewpoint
One where it is compared to a greenhouse, storing and growing assets. You need to move around your assets. To actually do anything, there has to be some movement. Lele when you were talking about what you read today, were you saying that the company had net income but did not have cash flows?

Lele: Yeah, and they still went bankrupt.

Anna: As I’m interpreting it—I might be a little off, correct me if I am— it says that the assets are sacrificed or transformed for the larger goal. Viewpoint Two focuses on revenues and expenses, but there are still transformations of their assets.

Lele: That’s definitely what they are saying. The determination of the revenues and expenses is the primary goal, with asset and liability values being updated by changes and other accounts. It is still saying your asset and liability accounts are changing.

Lele: Let’s talk about the other parts. I have written down a lot about the pros of Viewpoint Two. Let’s talk about why not Viewpoint One.

Coleman: So, Viewpoint One is more sitting on your assets and waiting for them to grow throughout time. You do not have the inflow of cash or as many transactions.

Anna: I think there is a lot of risk in that—just sitting on them.

Coleman: Your money is not as fluid. It could potentially not be in cash equivalents, and it could lead to a company going bankrupt because they cannot access the funds when they need them.

Anna: The ability to operate in a way of Viewpoint One depends a lot on whether a company is holding short-term or long-term assets—what kind of asset it is.

Coleman: Especially where it says a company will store the assets and grow them, I assume it is
for a long period of time. Companies with more short-term assets might have difficulty with Viewpoint One.

Anna: Also waiting for the assets to grow, the company might miss out on a larger gain or net income through getting rid of one asset and gaining another.

Coleman: We should probably talk pros on Viewpoint One and cons on Viewpoint Two for a more holistic approach. Now, we should think of real-world businesses run this way. I think that Viewpoint One is like how Tesla is run. They put a lot of their money into specific business assets that did not have much return on for a long time, and they are just now seeing some significant returns.

Lele: Since we know a few things about companies on our own, I think we should include that, without researching outside of this paper.

Michael: A trading firm might also be an example of Viewpoint One. If a company invested in stocks for a long period of time, they do not really acquire revenues or expenses. Really, they just realize gains.

Coleman: What about a company for Viewpoint Two?

Anna: An example might possibly be a service company. A lot of the time they are composed of a lot of revenues and expenses, and they do not have so many assets or things they hold on to. I cannot think of a specific one. Should we go over the pros of Viewpoint One?

Coleman: A pro of Viewpoint One is that if a company has the initial capital to acquire the assets and the capital to maintain a period of losses or zero-sum gain, then I guess you could potentially see the benefits long term.

Anna: Some of the assets could potentially be good when considering Viewpoint One. If you
were in the land-owning business, that would most likely increase over time if you were capable of waiting for the increases.

Michael: We should talk about the cons of Viewpoint Two.

Anna: I feel like what Lele said earlier is a con.

Lele: Yes, so with the focus being mainly on revenues and expenses, it could harm a company if they did not have any cash flows. Also, where it says the assets are continuously acquired and transformed—that could be a con. The assets lose the possibility of gaining more if held longer.

Michael: Let’s move on to Question Two.

Coleman: What is everyone thinking about it? Should asset value be measured based on other companies or by its own individual company? That’s how I see the difference in the two options. In Viewpoint One, the value of an asset is based on how it is exchanged or how other firms would value it. For Viewpoint Two, the value used would be how it is valued based on how your individual firm views it. Should value be measured based on an industry standard or should it be based on each individual company’s value for each asset?

Lele: I could see Viewpoint Two getting a little messy.

Coleman: Especially in the context of federal standards. In this case because it is based on federal standards, Viewpoint One would be the right way to go. That way it is uniform throughout an industry and makes the firms much more comparable.

Michael: I agree. It is more material and easier to put a value on assets in Viewpoint One than in Viewpoint Two. Pros for Viewpoint Two would be that it would be closer to the value your firm puts on it. The cons would be that the valuation gets messy, and it is harder to
standardize it. A con for Viewpoint One would be the opposite of the pro for Viewpoint Two in that it would be a less accurate valuation for the individual company.

Anna: Can we think about some examples that would be affected by the viewpoints? I think we will have to eventually talk about this in Question Three.

Lele: It reminds me a lot of what we talked about in Chapter 2 in Intermediate—in regards to the topic on faithful representation and comparability. An outside user can compare your financial statements with another company, and they can feel as though the comparison is correct.

Anna: The assets are valued at the same level and degree.

Lele: Yes, one company might have a million dollars in assets and one might have one thousand dollars. With Viewpoint One, they are valued at the same level. If we were to use Viewpoint Two, one that has one thousand dollars in assets might say, “Oh, well mine is actually valued at one hundred thousand dollars!”

Anna: It would affect a lot of the fundamental concepts of accounting. You could almost say it would appear to be biased to any outsider looking to analyze the financial statements and use them to make decisions.

Michael: Wouldn’t Viewpoint One be the same thing as net present value?

Coleman: Yeah, I think so.

Lele: One pro of Viewpoint Two is that it could show your managers or stockholders that are already part of the firm how successful the company is. That’s one benefit of Viewpoint Two.
QUESTION ONE

Question one had two viewpoints concerning the approach the FASB should take when regulating reporting of financial statements. Both Viewpoint One and Viewpoint Two contain components that enhance and diminish the primary goal of financial reporting for a business. Viewpoint One focused primarily on long-term benefits, with assets and liabilities being the primary goal of financial reporting. If a company has the ability to survive periods of no income and thrive off its assets and liabilities, then this viewpoint would create higher financial success for a company in the long run. Viewpoint One has a limited number of characteristics that would be helpful to a company for financial reporting in the long-term, but Viewpoint Two, however, has characteristics that triumph over Viewpoint One, specifically in terms of short-term benefits. The financial flexibility of a company is higher in the short-term, which allows companies to quickly adapt to any changes or issues. Viewpoint Two also focuses primarily on the components of net income, which is how most businesses operate today. The FASB should follow Viewpoint Two to strengthen and clarify the primary goal of financial reporting for industries and companies throughout the United States.

QUESTION TWO

The two viewpoints discussed in question two refer to how assets are to be measured, value-in-exchange or value-in-use. Viewpoint One refers to looking at assets as value-in-exchange, this means that the value reported for assets is the value that an entity outside the firm would reasonably value it as. This is very useful for outside sources such as auditors and investors to use to be able to better understand the realistic value of a firm, and its assets. The negative of this would be that individual firms would not be able to use the data that they compile for their official company financial accounting statements as effectively for determining
value of specific assets in the context of their firm. Viewpoint Two refers to assets as value-in-use, meaning that firms should report assets as the value that they will expect to get out of the asset from either being used directly or in combination with other assets. This would be a fairly beneficial way of reporting from a firm perspective because it would allow them to report their assets essentially at whatever value they feel is most useful. However, there is the big issue that companies will be able to manipulate their financial statements to present their company in a potentially better situation that is reality in an attempt to increase investor confidence. Also it makes it harder to compare companies in similar industries that could be easily compared in a value-in-exchange to assist business decisions. Under the circumstances of the question, we came to the conclusion that for the purposes of the FASB financial reporting standardization Viewpoint One would be more beneficial. The main reason for our decision was because being that this is in the context of setting federal standards it is important to have comparability between companies in similar industries.

QUESTION THREE

In order to accommodate the measuring of assets as “value-in-exchange”, current accounting will have to change in relation to the recording of land, receivables, depreciable assets, and restricted cash. Under the current accounting standards, land is not depreciated because of its unlimited useful life, and, therefore, it is stated on the balance sheet at its historical cost. However, under this new value definition land will be recorded at its fair value with the increase or decrease in value being recorded into an unrealized holding gain/loss account. An increase in market value will be recorded as an unrealized holding gain under the other comprehensive income section of the income statement while a decrease will be recorded as an unrealized holding loss for the period. The reason for the change in market value will be
disclosed in the notes. Furthermore, companies are currently given the option to value their
receivables under the fair value option, but under Viewpoint One they will be forced to in order
to ensure comparability. Also, instead of debiting interest receivable and crediting interest
revenue, the original receivable account (bonds receivable, notes receivable, securities
receivable, etc.) will be debited along with the same credit to interest revenue in order to ensure a
more accurate measurement of the asset account. Moreover, depreciation to assets such as
supplies, equipment, or buildings will be journalized with a debit to depreciation expense and a
credit to the asset account. This will maintain a constant fair value measurement for these assets.
Lastly, the restricted cash balance will be put back into the cash account at year end before
replenishing the restricted cash account on January 1st, giving a more accurate representation of
our cash account in terms of “value-in-exchange”.

Decrease in value of land:

Unrealized holding loss 2,000

Land 2,000

Increase in value of land:

Land 3,500

Unrealized holding gain 3,500

Accumulated yearly interest on a note:

Notes receivable 1,000

Interest revenue 1,000

Accumulated yearly interest on a bond:

Bonds receivable 4,250
Interest revenue 4,250

Accumulated yearly interest on securities:

Securities receivable 800

Interest revenue 800

Adjusting entry for restricted cash:

Cash 5,000

Restricted cash 5,000

Reversing entry for restricted cash:

Restricted cash 5,000

Cash 5,000

Depreciation expense on supplies

Depreciation expense-supplies 2,125

Supplies 2,125

Depreciation expense on equipment

Depreciation expense-equipment 10,500

Equipment 10,500

Depreciation expense on buildings

Depreciation expense-building 50,000

Building 50,000
CASE III: THE FIRST PRESIDENTIAL DEBATE

INTRODUCTION

Since the founding of our nation, disagreements between persons have surrounded nearly every important decision that has been made. The very document that governs our nation, the Constitution, had several dissenters upon its installation. Now, approximately three hundred years later, disagreements are continuing; with the coming of each new day, there seems to be a new argument that has arisen among the American citizens and its leaders, with the current president being at the heart of it all. President Trump has been nothing but controversial from the moment he announced his bid for presidency. Since he won the election, the controversy has not stopped and more of our nation’s citizens and leaders have spoken out against him. As Trump’s presidency ends, the need for two more presidential candidates is imminent; the first presidential debate gave us those two potential candidates: President Trump representing the Republican party once again and former Vice President Joe Biden representing the Democratic party.

From the first presidential debate and the writing up of this case, I learned that we cannot depend upon our nation’s leaders to keep the peace in our nation; it is a task left to the American citizens. I also learned that I must not let the opinions and views of these two candidates affect my own political views concerning the wellbeing of our nation. The two candidates presented themselves as clowns during the debate, frightening me for the safety of our country when one of them wins the election. This case opened my eyes to see that the world around me is impacted by my vote in the presidential election, and I need to exercise my right to vote if I want to make a difference in this country.
Before watching this debate, I had high hopes, excited to enhance my knowledge on the stances of the two presidential candidates. In years past, I have not been intrigued by politics because I could not vote in an election. For years, I would listen to my parents discuss politics, as well as watch the news, but I never formed an opinion for myself. Now that I am of age to exercise my voting right, I had an open mind going into the debate. Preceding the debate, we were tasked to answer a question given to us by Dr. Dickinson. Below, I discuss my response to the question.

The question posed to us for response for the debate was what unites the people of the United States. Upon careful consideration, I determined that safety and security are what unite us. Every American’s goal is to feel safe in their own home and country. Infringement upon the sense of safety and security is not taken lightly in our country, as evidenced by the recent Black Lives Matter movements. These movements began earlier this year when police officers began to encroach on the Black community in America. The Black community felt their sense of safety and security being taken out of their grasp, so they retaliated in the form of movements, protests, and unfortunately violent riots. The people of America are united off the goal of reaching maximum safety and security.

With that sense of safety and security and the recent Black Lives Matter movements comes another goal of Americans that unites us: equality. The topic of equality dates to the time of the founding fathers of America, with it being mentioned in the Declaration of Independence written in 1776. Now, over two hundred and fifty years later, this principle of equality is still being fought for by millions of Americans. Although the Black Lives Matter Movements represent Americans’ needs for safety and security, it also represents the need for equality for all.
When equality is taken away, riots, like with the Black Lives Matter Movement, break out. Americans desire to feel equal is what unites its people and is the underlying principle of the name of the country.

THE FIRST PRESIDENTIAL DEBATE

Right before the debate began, Dr. Dickinson asked us to predict how each of the candidates’ presidencies would affect the general business economy and how it would affect the job market upon my graduation from the University of Mississippi. If Trump were to win this second presidency, I believe he would continue to lower unemployment levels, and in turn increase the number of jobs available in the country. He would also lower tax rates, which is a feat he has claimed to do during this first presidency. If Biden were to win this presidency, I believe the opposite would happen; higher unemployment rates and higher tax rates, but there would be more equality among Americans, the goal that unifies our country the most.

Since coronavirus struck the United States, Trump has administered the Paycheck Protection Program: a loan for small businesses to pay employees, rent, and utilities during this time of little to no customer circulation. If this is Trump’s mentality, I believe that he has the interest of businesses at heart, which is promising for my future concern of obtaining a job and keeping that job for years to come. I am not sure what Biden’s stance is concerning the Paycheck Protection Program loan, which makes me unsure concerning his mentality about the general business economy. Hopefully, the debate will give me insight into Biden’s beliefs.

Watching the debate, I was searching for confirmation for my two predictions. Unfortunately, that never truly happened. My first presidential debate did not guide me into forming my own political opinions; if anything, I learned that our two presidential candidates love to argue with each other, instead of arguing about the issues pressing our country. The
candidates started out on a promising note, discussing Ruth Bader Ginsburg’s replacement for Supreme Court, debating when this new appointment should take place. Within minutes, however, the two diverged from this topic and started personally attacking each other. The moderator tried to step in to control the conversation, but the two candidates would always revert to belligerent talk about the other.

Minutes into the debate, after divergence from the first few topics, the moderator returned the conversation to the original topic, the new appointment of a Supreme Court Justice, asking Biden if the new justice were to be confirmed would he support it ending in a filibuster. Ending in a filibuster is the direction this decision appears to be heading. Biden’s response was “whatever position I decide to take is the position I will take,” which is unsettling to me. A presidential candidate should take a stance on every position or political topic discussed in this country. If Biden were to lead with this passive attitude, I believe his presidency would consist of delays concerning important decisions, and with the unrest brewing in our country today, this sort of delay is unacceptable.

After discussion about the ongoing coronavirus pandemic, Biden states that Trump has not taken care of the American people by claiming Trump has, “done nothing to help small businesses”. This is in fact false, because of the implementation of the Paycheck Protection Program, which I have dealt with on a personal basis. I interned at an accounting firm in Tuscaloosa over the summer where I worked with the issuance of the Paycheck Protection Program loans from local banks to small businesses, which is a way Trump has in fact taken care of the American people. The loan itself might have flaws, but it is better than nothing.

The banter between the two candidates continued to the point where they were not even discussing the topics provided by the moderator. The debate was nearly unbearable to watch,
causing me much frustration due to the fact I did not learn anything new about the candidates’ perspectives. I am now more confused than before, still unsure who I desire to run our country. I set out to learn Biden’s beliefs concerning the general business economy but failing miserable in this journey from lack of the candidates’ political talk. In the future, I will be watching debates with the hopes of obtaining more information to develop my own political beliefs concerning the topics that face our nation today.

UNITING THE COUNTRY AFTER THE ELECTION

With all the unrest in the country currently, it seems nearly impossible to unite the country. No matter who the president is at the beginning of January of next year, the citizens of America should take it upon themselves to form the unification needed in our country. A person is responsible for their own actions, not the actions of anyone else. For example, after the election, I will do my part in unifying the country. I will respect the opinions of others, even if my own opinions differ. I will show others compassion through the unrest, and I can only hope others will stand alongside me and do the same. Other’s actions are something I can not control, but I can control how I respond.

The president of the country will also have a major impact on its unification. Currently, neither Trump nor Biden appeals to me as a leader. That being said, I believe I can be a source of leadership and unity for my family, friends, and colleagues in this time of uncertainty, reminding them of what unites us in the first place: the need for a sense of safety and security and a drive to find equality. We are all in this country for the reason it was founded: life, liberty, and the pursuit of happiness. There is no reason to try and undermine others of these freedoms when they are given to every single American citizen. Speaking against others and arguing with others is not how problems get solved; they get solved on listening, comprehending, and understanding.
Our country can not depend on its leaders for unity, and without support from each other, we will falter into an inferno.
CASE IV: EXCEL COURSE CERTIFICATION

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

Lele Goldsmith

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

Excel Crash Course

with all the rights and privileges pertaining to this certificate.

Certificate number 24306054

Chair of the Board  Scott Powell  Lisa Delion

Oct 15, 2020
CASE V: TAXODUS

INTRODUCTION

The corporate tax world is arguably the largest proponent of the general business economy in the United States. Most of the cash flow in the United States’ economy originates from the taxes of these larger corporations, or so I thought. Before this case, I was familiar with the term offshoring, but did not think much about it in terms of it affecting the economy of the country in which I reside. Multinational corporations participate in the practice of offshoring to lower their income tax rates; they route their flows of revenue through other smaller countries with minimal to no corporate income tax to receive as much income as possible. In my eyes, this is an inhumane practice.

From this case, I learned that there are much bigger and more complex topics to be discussed in the world around me. Before this case, I was oblivious to this aspect of the business world, but now I can join in on conversations about this controversial topic. This case has caused excitement in me surrounding leaving college and getting a job in the business world. There are an abundance of topics and discussions waiting to be had; topics and discussions that I can change if I so desire. Although I now know I do not agree with the practice of offshoring, I cannot change it alone. With the current state of the government with President Trump in charge, I believe that the economy is on its way to bringing multinational corporations back to the United States, a process that began with the implementation of the Tax Cuts and Jobs Act, a topic I will discuss in this case, along with other controversial topics surrounding the multinational corporation practice of offshoring.
THE TAX CUTS AND JOBS ACT

The beginning of this case challenged us to read two articles concerning the Tax Cuts and Jobs Act written into passage by President Trump, which became effective in 2018. This act decreased tax rates, including those placed upon corporations, as well as increased the amount of jobs available in the United States. Although at first the changes made by this act were not apparent, now, nearly three years later, the changes have been brought to the light: the number of jobs in the United States reached historic levels, reaching levels of 7.3 million jobs available, which is enough for every unemployed American to go to work (U.S. Department of the Treasury). The Tax Cuts and Jobs Act has also increased wages for workers, whether that be blue collar workers or businessmen.

To keep these changes growing in the right direction, the Tax Cuts and Jobs Act needs to remain effective for at least a few more years. Unfortunately, President Trump’s presidency is up in the air as the presidential election nears. His opposition, former Vice President Joe Biden threatens to derail the train that is the Tax Cuts and Jobs Act. Biden believes that raising the tax rate will increase economic growth, which has been disproved by President Trump’s act that has increased economic growth with lower tax rates. If Biden desires to create economic growth, he should stick with President Trump’s plan because when tax rates are increased, the working class in America will have to pay increased levels of taxes out of their already diminished income, which could lead to an increase in the homeless, carless, or jobless population in America.

The Tax Cuts and Jobs Act has also had a significant impact on the corporate tax rate in America. Evidence proves that the corporate income tax is the most detrimental to economic growth (Hodge). The higher the tax rate becomes, the amount of capital earned by large corporations will lower, and the cash flow in the general business economy will lower. With
decreasing tax rates, Trump’s effective act has in turn increased the capital earned by larger corporations headquartered in the United States, which has increased the cash flow in the economy. But how does this affect United States based companies with headquarters located outside the United States?

**TAXODUS: THE WORLD OF OFFSHORING**

The second task of this case was to watch *Taxodus* – Playing the Global Tax Avoidance Game. *Taxodus* introduced the topic of offshoring, which is when a company bases parts of its services or income overseas to take advantage of lower costs and lower tax rates. The most famous company that takes part in this practice is Apple. According to *Taxodus*, a majority of Apple’s overall revenue is offshored, with Apple only paying 1.9 percent in taxes in the United States. Apple’s profits are directed to a subsidiary in Ireland but are first looped through a company in the Netherlands, another company in Ireland, and a company in the British Virgin Islands where the corporate income tax is a whopping 0 percent. This practice is common among larger corporations to retain as much income as possible, no matter where their headquarters are located. But then the question arises: is the common practice of offshoring legal?

The commonplace answer to this question would be yes because these companies have not seen any formal lawsuits or bankruptcy, but unfortunately this could not be further from the truth. It was estimated in *Taxodus* that in 2010, 21 to 32 trillion dollars was offshored from companies in the United States to other countries all around the globe. That is 21 to 32 trillion of revenue that was not taxed in the United States for its own profit and economic growth. Yet companies can perform this practice without repercussion because every single one of these companies have the exact same banks, lawyers, and service firms behind them.
Taxodus alleges that the Big Four accounting firms, PricewaterhouseCoopers, Deloitte, Ernst & Young, and KPMG, are the main service providers to companies that commonly practice offshoring. In fact, 91 out of 100 of the world’s largest companies route their revenues through the Netherlands to reduce their tax burden and have lower tax rates on intellectual property. But companies rarely use the same popular names to perform this task. Taxodus brought to light Walmart and its various company names in the Netherlands it uses to perform offshoring without directly having its company name on the financial statements. Denis Healey once said, “the difference between tax avoidance and tax evasion is the thickness of a prison wall,” which rings true in the concept of offshoring.

Although companies are getting away with offshoring, it is not without notice from the public eye. Taxodus expressed that offshoring not only affects other countries’ income but affects the countries the companies are routing through. For example, in Kenya, there is a no tax rate on corporations for ten years, but once the ten years is up, a 25 percent tax rate becomes effective immediately. Notably, after ten years, those companies will pack up and move out of Kenya into a country with lower tax rates. This affects Kenya’s economy by removing revenue and cash flow from it, leaving Kenya in essentially a worse state than before the company arrived to offshore. When the companies do not pay their fair share of income taxes, the country looks for some place else, which is how the poorer class in the country gets taxed more.

Referring back to the Tax Cuts and Jobs Act, I believe companies now have a duty to return their revenues and income back to the United States if this is where the company is based or has a majority of its business conducted or where a majority of its employees are located. The Tax Cuts and Jobs Act has lowered this feared corporate income tax rate, even if by only a small amount, it has still been lowered, and companies owe it to the United States economy, as well as
its working class, to bring that income back home. Larger companies that have the ability to offshore are selfish in nature, only wanting as much revenue as possible for themselves and not for the betterment of the country where they work, live, and drive their fancy cars on paved roads. The lower class in America would be promised even more jobs and income if the government did not have to raise its tax rates yearly to support the economy. If larger companies would place themselves in the shoes of those less fortunate for even a second, the United States would see unprecedented growth in all aspects of the business and economic world.

AN INTERESTING CAREER CHOICE

After reading the two articles and watching the Taxodus documentary, I do not believe I want to pursue a career in anything involving the corporate tax world in terms of offshoring. I do not believe in its principles and will not directly support its practice. However, I do find it interesting to read these companies financial statements and trace their income and revenues to other countries. Reading is as far as I wish to pursue in the field of offshoring. I believe it is healthiest for companies to give back to the countries that helped found them. It is the least these companies can do. I do not wish to pursue a career in the tax field, and this case further proved my point. That area is too unkempt for my liking, and I believe I would get frustrated with those in the field that did support offshoring, so it is in my and others best interest to keep me as far from offshoring as possible.

The Tax Cuts and Jobs Act has significantly improved the financial position of our country and its citizens and I believe it should remain effective for the rest of time. Practices like offshoring should be outlawed because of the reverse effect they have on the economy from the Tax Cuts and Jobs Act. Although this may never be possible, companies and their shareholders
owe it to the countries their headquarters are located in to give back and aid the general business economy, as well as its citizens, no matter how high or low the corporate income tax may be.
CASE VI: THE INTERVIEW

INTRODUCTION

For around four years now, I have had the pleasure of getting to know Mr. David Hudson, Jr. on a personal level. Until this interview, however, I did not know much about Mr. Hudson’s business life, as I have mainly interacted with him through my relationship with his oldest son, Trey. Mr. Hudson currently serves as the President of a family business, Dixie Pulp & Paper founded in Tuscaloosa, Alabama. Although they started out locally, Mr. Hudson has grown Dixie Pulp & Paper into a national and international company. With over thirty years of experience in the business world, Mr. Hudson was the perfect candidate for my interview.

From this interview, I learned truly how hard Mr. Hudson works to provide for his family, whom he loves more than anything on this earth. From constantly building new relationships, to continually nourishing old ones, Mr. Hudson has shown me the importance of friendship, both in personal and business life. From Mr. Hudson and this interview, I have also learned the importance of persistence. Mr. Hudson started out in the business world from a young age, working jobs he did not love, but gaining enough knowledge along the way to eventually manage two businesses he is very passionate about. Mr. Hudson has shown me that by working hard, and more importantly maintaining good relationships with my friends and family, I will eventually find a path that drives me to work hard and stay dedicated and motivated in the career of my choosing.
THE INTERVIEW

The first question I asked Mr. Hudson concerned his personal life before jumping into the business world, and before beginning his life at college. Mr. Hudson grew up in Demopolis, Alabama, a small town about an hour from where he lives now in Tuscaloosa, Alabama, with a father, mother, sister, and brother. Mr. Hudson says growing up, his parents were hard-workers, with his father working at a paper mill, later becoming an entrepreneur, and his mother working as a high school history teacher. His mother was the Headmistress of Demopolis Academy, a private school she helped start, where she became the first female Headmistress of a private school in the state of Alabama. Mr. Hudson’s family was a typical American middle-class family, making enough money to support the family and their hobbies. Mr. Hudson grew up being a part of the Boy Scouts and playing little league baseball, of which he claims he was “not the best athlete, but he got by.” It was from this point on that Mr. Hudson realized the importance of hard work.

From the beginning of high school, Mr. Hudson claimed he was not a great student, but was above average making A’s and B’s and the occasional C, his slow reading skills attributing to those lower grades, which would eventually carry over into his years of study at college. Mr. Hudson was shy in high school, spending his first two years of high school in Demopolis and third and fourth years of high school in Tuscaloosa, to where he and his family relocated. The relocation of his family was the first time Mr. Hudson states he realized there was more to the world than small town Demopolis, a realization that would guide him later in life in helping develop his current international business. Moving from the discussion of high school and before, the second question delved into Mr. Hudson’s life as a college student and then the third question asking how he decided what career path to pursue.
Mr. Hudson attended Huntingdon College, a small private college in Montgomery, Alabama, which was the right college decision for him, granting him the ability to grow out of the shyness he developed in high school. At Huntingdon, Mr. Hudson was able to get to know his professors on a more personal level. He was also able to serve in several leadership roles, such as becoming a founding father for the Huntingdon chapter of Sigma Phi Epsilon Fraternity, where he also served as Social Chair and in his senior year, President. Being President of his fraternity was what Mr. Hudson felt finally pushed him out of his comfort zone of shyness and into a man who desires building meaningful relationships with those around him.

With the help of his father and professors, Mr. Hudson decided to pursue a degree in business. Upon arrival at Huntingdon, Mr. Hudson had no idea what he wanted to study, but after taking general freshman year classes, he gravitated towards his math and history classes, being the perfect combination of his father and mother, one business minded and one history expert, respectively. Business came naturally to Mr. Hudson, evidenced by his previous jobs both before and during his college years. Mr. Hudson worked as a summertime lifeguard, which was the first experience he had working for someone else and working on a schedule. He learned responsibility and accountability from this first job, two skills he would carry with him to each of his future jobs.

After graduating from Huntingdon with a degree in General Business, Mr. Hudson went to work for a wastepaper plant in Mobile, Alabama. As the manager of the midnight shift, Mr. Hudson once again worked for someone else, but this was the first time he was able to experience having others working under his leadership in a professional setting. He did not love this job, but this was the first experience Mr. Hudson had living on his own and making an income. Unfortunately, very soon after accepting this job, the wastepaper plant was sold, and Mr.
Hudson moved back to Tuscaloosa and lived with his parents, where he spent time working as a broker. Similar to his night shift position, he did not love the job, so Mr. Hudson, alongside his uncle, decided to start his own business: Hudson-Poole Fine Jewelers.

Hudson-Poole Fine Jewelers was started from nothing. Mr. Hudson and his uncle, Mr. Poole, built the business from the ground up, into what is now a Tuscaloosa staple, and has been for the past 35 years. Mr. Hudson performed every single job possible for the jewelry store, from purchaser to bookkeeper to salesman, finally finding a job that he loved. From the experience of running his own business, Mr. Hudson learned what true work ethic was all about. It was no longer about doing the same routine daily of working eight hours and returning home, it was now about performing a service for others, solely out of passion for the business, no matter how hard the task or the long workday. Mr. Hudson worked for Hudson-Poole for several years before eventually leaving the jewelry business to work for his father’s company, Dixie Pulp & Paper.

Dixie Pulp & Paper was founded in Tuscaloosa, Alabama in 1981 by Mr. Hudson’s father, David Hudson, Sr. Dixie Pulp & Paper’s mission is to buy off-grade and obsolete paper, board, tissue, and secondary recycled fiber and then sell it to paper mills to use for repulping into products such as paper plates, ice cream containers, paper trays, and air filter frames. With offices located throughout the United States, Dixie Pulp & Paper performs about 85-90 percent of its business in the United States, with the remaining 10-15 percent of business performed internationally. Logistics is a major part of the company; Dixie Pulp & Paper transfers the paper scraps and paper bales on a per ton basis, using about 80 to 90 transfer trucks each day as their main source of transportation. At its conception, Dixie Pulp & Paper had as few as four employees; now, it is home to nearly 130 employees, all thanks to the leadership, work ethic, and relational skills of Mr. Hudson, who currently serves as President of the company.
Although Mr. Hudson is dedicated to his role as President of Dixie Pulp & Paper, he still finds quality time to spend with his family and in the outdoors. In his spare time, Mr. Hudson loves to hunt and fish, two skills taught to him by his father at a young age. Mr. Hudson is also always finding new hobbies to pursue, whether that be on his own or with his wife, Kim, and sons, Trey and Mark Gregory. Mr. Hudson and his family love traveling to new places, as well as returning to some of their favorite vacation spots. When asked what his favorite vacation was, Mr. Hudson says there is nothing that he enjoys more than going skiing in Crested Butte, Colorado with his family, a vacation that they take usually every January, but did not make this year due to COVID-19. Mr. Hudson’s favorite aspect of their ski trips is that after a full day of skiing, the family can return to enjoy a meal together and watch movies in front of the fireplace.

I then asked Mr. Hudson if there was anything he would change about his life, to which he quickly responded that his father taught him to never have regrets. A few instances popped into his mind, such as having kids earlier, but he was quick to pause those thoughts, coming up with various scenarios that would not have happened had he had kids earlier. Another thought that popped into his head concerned his health. He wished in his younger years that he would have consistently kept his health in check but is still proud of where his health is today. Mr. Hudson then went on to discuss what he was most proud of. Although he is proud of his successes in the business world, Mr. Hudson is most proud of his family, and the way they love and support each other in all things. Mr. Hudson feels blessed beyond measure to have his family by his side throughout every step of his journey of life.

Transitioning towards the end of the interview, I asked Mr. Hudson what he wished he would have known at the age of 21, about life and his career, and what advice he had to share with me and my classmates. He responded that he could not stress the importance of
relationships enough. Because of his shyness in high school, Mr. Hudson did not get to know his classmates or professors on a personal level. When he transitioned to college, Mr. Hudson’s roommate realized the importance of relationships a lot sooner, inspiring Mr. Hudson to begin doing the same. Mr. Hudson took this task very seriously, as he now serves on the Board of Huntingdon College, previously holding the title of President of the Board a few years back, keeping in touch with old professors, colleagues, and friends from his time at Huntingdon.

Mr. Hudson believes that the biggest challenge facing his generation is political division. Although he himself is not very political, he has noticed the change in our country recently due to those around him who are very political. Politics makes people think and act differently. It seems that there is no longer a middle ground in this country; people either side with one party or the other. Growing up, he was taught the importance of our government, and to respect those in authority positions. Those ideals have seemingly gone out the window with the previous two presidential elections, and it is difficult for his generation to wrap their heads around all the political turmoil facing our country.

The biggest challenge facing my generation was a question that Mr. Hudson had to ponder, but the word prosperity popped into his head. Prosperity, not just relating to money, will be difficult for my generation to achieve, once again, due to the political divisiveness facing our nation today. With the two political parties at war with one another, always tearing each other down, it will be challenging to accomplish prosperity without someone else interfering to ruin it. Mr. Hudson believes the politics of today will get worse, and my generation will have to pay for it in the future. Although prosperity is one of the commodities my generation may struggle to obtain, it will not be the last we lose in the future if we do not learn to treat others with respect.
CASE VII: CASE COMPETITION - OVERVIEW

GAP, Inc.

Group Members: Amanda Arnold, Blake Hydeman, Erin Krumwiede, Lele Goldsmith, and Madison Todd

Our group will discuss Gap, Inc. for this Case Competition. Over the past weeks, we collaborated and researched topics related to audit, tax, and advisory. During the audit week, we studied some of the most risky accounts, including Cash and Cash Equivalents, Merchandise Inventory, Other Current Assets, Accounts Payable, Operating Expenses, and Sales Revenue from the most recent 10-K.

In the following week, we were tasked with examining the tax strategies Gap, Inc. currently holds and potential ways to mitigate the tax liability prospectively. Our group analyzed the impact of the CARES Act and NOL carrybacks, however we discussed additional strategies relating to Research and Development credits, as well as strategies relating to the expected future effects of the “Made in America” tax policy under the Biden administration. We recommend Research and Development activities such as product and quality development and the improvement of business operations in order to obtain an annual credit of $250,000. In addition, our group developed ideas that revolve around reshoring American jobs through changes in Gap, Inc.’s supply chain in order to mitigate the risk of penalty and increase the chances of a tax credit under the Biden tax policy.

Our advisory strategies further expanded on these ideas, including the “Made in America” tax policy developing into the creation of a Made in America collection within the Athleta brand. Due to the effects of the global pandemic and the push for the growth in the
Athleta brands, our group saw potential for improvement under this advisory strategy. Lastly, our group found value in our final advisory strategy which involves Gap, Inc. refranchising 300 Gap stores and 200 Banana Republic stores in the next few years in order to generate cash flows to contribute to the alleviation of debt, as well as the focus for growth in other areas of the company.

For the first week of the case project, our group was tasked with deciding upon which company to study, and our group decided upon Gap, Inc. We decided Gap would be a particularly interesting choice due to the COVID-19 pandemic and its hapless effect on the retail industry. We were then tasked with researching Gap’s annual reports, per the Securities and Exchange Commission, as well as various news articles from the Business Press and IBIS, to summarize the state of the business itself. Gap owns several specific other brands such as Old Navy, Athleta, Banana Republic, and Janie and Jack. Gap, Inc. produces a wide variety of retail, including casual men and women’s apparel, children’s apparel, and even more upscale professional apparel.

During our research, we discovered many of the challenges facing Gap and their subsidiaries, not only due to the impact of COVID-19, but also due to business challenges facing brands such as Banana Republic and Gap. Their most successful subsidiary is currently Old Navy, as it accounted for 56 percent of Gap’s sales in the last quarter, and accounted for 36.5 percent of their company-owned stores worldwide. The only brands under the larger Gap umbrella that have had positive net store growth of the past year have been Old Navy and Athleta, adding 46 and 13 new stores respectively. However, as a whole, these stores saw -3.9 percent net store growth and closed 153 stores out of 3,938. Over the last year, Gap has sought rent abatement and renegotiation with landlords of its in-person stores. Gap was forced to draw
down its entire $500 million revolving line of credit in order to make various payments in early 2020. In May of 2020, it was then forced to issue $2.25 billion in new notes after having its credit ratings reduced from all major ratings agencies, including S&P’s reduction from BB to BB- one month prior. This resulted in abnormally high interest rates of up to 8.9 percent on Gap’s debt, but provided the company with enough liquidity to maintain operations throughout the pandemic. For shareholders, the company had also suspended all dividend payments until at least April 28, 2021 and even suspended share repurchases throughout 2020.. After its share price plummeted from $17.45 at the end of February to $5.65 on March 30, 2020, Gap has slowly risen, and now sits at $19.54, a 346 percent increase from its previous low.

The Gap flagship brand hit its peak in 2001 with over 1,800 store locations. However, only 1,170 of the 1800 stores reopened after the initial COVID-19 lockdowns in March of 2020. Despite the closing of several hundred storefronts, Gap is planning to open more franchise stores with its Banana Republic, Athleta, and Old Navy brands. With such a wide variety of stores, it has been difficult for the brand to narrow down to a singular target audience. Gap itself sways from year to year; one year it is focused on young budget-minded professionals and the next it is selling $600 leather jackets to high-income shoppers. The brand executives of Gap have said that they are going to cut back on items that it sells by nearly twenty percent and be more intentional about curating trending items for its target customer population.

During June of 2020 Gap closed one of their brands, Hill City. Hill City launched in the fall of 2018 and added premium male athleticwear to Gap’s offerings. When the COVID-19 pandemic arrived in the United States, Gap closed many of its Hill City in-person stores, as well as many of its other storefronts. With the added risk of the pandemic, the company had to prioritize its spending and could not justify keeping the newer Hill City brand open. The closure
of the Hill City brand shows how the COVID-19 pandemic can affect businesses, such as Gap, who weren’t particularly struggling before the pandemic.

At the end of its third fiscal quarter in 2020, Gap had only earned approximately $0.25 per share, or $95 million, compared to their $0.32 per share, or nearly $140 million in the prior year. Unfortunately, this was down from their projections for the third quarter of 32 cents per share. Despite this, revenue hit $3.99 billion, which exceeded the $3.82 billion that was projected for the third fiscal quarter. This unexpectedly high revenue could be attributed to two potential sources: one being Gap’s brand for women’s athletic wear, Athleta, seeing an increase in net sales of 35 percent, and the other being an increase in online sales due to the COVID-19 pandemic. The increase in net sales at Athleta is the highest surge recorded in its history, which is most likely attributable to Athleta’s mask line launch to cater to the needs of its customer base during the pandemic. The increase in the e-commerce business allowed for the attraction of new customers to start buying from Gap, in turn sparking the unexpected increase in the revenue for the third fiscal quarter.

The Gap Inc. is classified under the Family Clothing Stores industry. IBIS World expects that industry revenue will “grow at an annualized rate of 2.1 percent to $115.9 billion over the five years to 2025”. This is primarily due to the expected steady growth in the amount of United States disposable income over the next five year period. Due to the decrease in consumer spending because of the pandemic, it is expected that the customers of this industry will make more higher-priced spending decisions following the return to normalcy in the world. The problems facing the family clothing industry include expected increased costs in supplies and manufacturing. The price of cotton is expected to increase by one percent over the next five years, which will ultimately cause an increase in prices. In addition, the wages expense is
expected to increase, as a large number of company employees are based on minimum wage, which will see an increase when stores reopen from the aftermath of the pandemic. While the family clothing industry experienced a widespread overall decline due to the pandemic, it is expected to experience changes that could have great effects on the future of the industry.

Our research showed that while Gap has struggled throughout 2020, there are opportunities for future growth in years to come. While Gap closed countless stores this year, it has continued to open new franchises, specifically in its most successful brands. In addition, Gap expanded its e-commerce business this year. Gap’s industry is projected to grow over the next five years. Although the pandemic has hurt Gap, these effects do not seem permanent. Our research on Gap has indicated that it will be able to come back from its losses in 2020 and grow as the economy begins to recover.
CASE VIII: CASE COMPETITION: AUDIT

GAP, INC.

Group Members: Amanda Arnold, Blake Hydeman, Erin Krumwiede, Lele Goldsmith, and Madison Todd

This was the second week of the case competition, and we were tasked with analyzing the most recent 10-K and the individual accounts of our company, Gap Inc., in order to develop a strategy to properly audit the accounts. Going through the individual accounts and identifying the relevant audit risks to that particular account allowed our group to value the intricacies of the 10-K as well as develop a plan to best engage with and improve upon our company. After evaluating both Balance Sheet and Income Statement accounts, we narrowed down six accounts that we deemed riskiest: Cash and Cash Equivalents, Merchandise Inventory, Other Current Assets, Accounts Payable, Operating Expenses, and Sales Revenue. For each of these accounts, we developed possible internal controls, tests, and data analytics that could be implemented or improved upon to enhance the value of Gap Inc. We worked to detail the contents of each account chosen in order to strategize the best course of action for Gap Inc.

CASH AND CASH EQUIVALENTS

The cash and cash equivalents account had risk in the valuation category. We found risk in the valuation category because cash is easy for employees to manipulate and can be overstated. The following internal controls will help Gap Inc. mitigate risks in the cash and cash equivalents account. Gap Inc. should have multiple positions assigned to verify deposits and require multiple signatures in store when checking balances. These controls will help ensure that no one person can control and sign off on cash balances. Another internal control to help
decrease risks is to ensure timely and standard deposits across brands. This will lower chances that cash, and cash equivalents, will be exposed to theft or loss. To test the cash and cash equivalents account we recommend using bank reconciliations and proof of cash reports. Data analytics would improve the treatment of this account by testing and analyzing trends across Gap Inc.’s brands. It is important to analyze how each individual brand is performing to have a full understanding of Gap Inc. as a whole.

MERCHANDISE INVENTORY

In the merchandise inventory account, our group found risk in the completeness, valuation, and presentation categories. Any material misstatement of inventory would be detrimental to investors and creditors. Including a breakdown of how old inventory is could help to ensure net realizable value is correct. The internal controls that should be used for the merchandise inventory account are cycle counts and standardized inventory tracking. Periodic cycle counts will help to validate inventory levels. Standardized inventory tracking across Gap Inc.’s brands will ensure that inventory is being treated the same by each brand. This is important because Gap Inc. does not include inventory breakdowns by brand in their 10-K. To test the merchandise inventory account, we recommend physical counts and valuation verifications. Physical counts would confirm the reported inventory amounts, and valuation verifications would confirm that inventory is being recorded at the proper amount. Data analytics could be used to have more accurate inventory aging reports. We also recommend using data analytics with RFID to help track inventory location and trends.

OTHER CURRENT ASSETS

Our group found risk in the other current assets account under the categories of existence, valuation, and presentation. Particular to this account, the accounts receivable was not posted on
the face of the balance sheet, and rather disclosed in the notes. Considering this is a large retail brand, our group found it interesting that the accounts receivable wasn’t presented granting the amount of credit purchases the company receives. The internal controls of the accounts receivable account involve reviewing large receivable amounts and developing an aged receivable report. The tests related to this include reviewing collectibility and adequacy of the allowance for doubtful accounts, as well as verifying the disclosure of restrictions involved with the accounts receivable balance. There was no disclosure of the allowance for doubtful accounts, which is critical to the valuation of the accounts receivable and other current assets account as a whole. When determining the impact data analytics could have on this process, we found data analytics related to aging of accounts and three-way matching to be important to extract from big data.

ACCOUNTS PAYABLE

When examining the accounts payable on the 10-K, we found that there appeared to be risk to this account in regards to completeness and presentation. There was no breakdown of the accounts payable, which raised some concern in our group. We initially expected there to be detail under this account, especially regarding wages as this is a large retail company with many employees. The internal controls that we found to be important in this account related to the invoice/purchase approval process and the record matching between Gap, Inc. and the payable party. As far as substantive tests in the audit, it seemed that the most likely tests would involve three-way matching of payables and the tracking of trends. In a merchandising company for apparel such as Gap, Inc, it is likely that there will be trends revolving around the influx of demand for certain seasons. Matching these trends through data analytics would allow for clarity in the details of accounts payable across brands and regions. This would provide a focus on
brand and verify that each sector is accurate and uniform in process. With uniformity in payments through a system, it provides an accurate representation of the company as a whole at the given point of time.

**OPERATING EXPENSES**

As we focused on the operating expenses on the income statement, we determined that there was some risk of misstatement involved with the account as well as some presentation issues that could help users of the financial statements. The first risk for this account is completeness. It would be beneficial for the company to lower the amount of operating expenses in order to inflate earnings. They could also use this account to smooth earnings in different periods in order to reflect a better outcome. This also leads to our feeling that the expenses need to be broken down either on the face or in the notes to the financial statements. The users of financial statements have the right to understand what the company is spending this money on, particularly because it makes up about a third of sales. We feel like this would better equip the users to compare the company with others in the industry. The critical internal controls for this account include matching expenses to the items received and separating the duties of people purchasing, receiving, and recording these expenses. Without these controls in place, it would be easy for a single person to falsify a transaction and misrepresent the expenses incurred in the period. The tests that we can have in the audit is the verification of invoice receipts and using numbering of transactions in order to match the invoices to the expenses paid. The data analytics that we could use to help the process is analyzing a supplier and company interaction database to see all of the transactions between the two parties. Also, we could use data to analyze the trends over time and with each of the individual brands to make the recommendation on whether or not the expenses are accurately represented.
SALES REVENUE

One of the accounts that we also found to be risky due to the obvious benefits of misstatement was sales revenue. We also felt like the company should present the sales figures for each of the major brands on the face of their financial statements or at least the outlet by which consumers purchased the items (physical stores, e-commerce, etc.) to help users determine the medium of purchases. It would be in the interest of the company to overstate the sales for the company, particularly for the brands that do not have as positive of an outlook. The internal controls that need to be in place to ensure the proper management of sales include numbered transactions to be able to better match when and where the product was sold, separation of duties between those who input sales and handle cash, and having RFID on clothing that records when inventory has been purchased. The tests associated with sales revenue include analyzing the sales and returns transactions in the general ledger. Data analytics will allow us to take a much deeper look into this than before, as technology can handle much more data than could before. The other thing that we can do is analyze the historical returns probabilities of specific items from the different brands. From there, we can try to estimate what the allowance for sales returns and allowances should be. This process can be aided by data analytics and should be critical in determining if the sales figures are accurate for the period.

Our research showed us the value of examining a company’s 10-K in order to highlight places for growth and overall improvement. Cash and Cash Equivalents, Merchandise Inventory, Other Current Assets, Accounts Payable, Operating Expenses, and Sales Revenue are the accounts that we used to develop possible internal controls, tests, and data analytics that could be implemented or improved upon to enhance the value of Gap Inc. Each account requires a unique approach to strategizing improvements that will benefit the company as a whole. While this audit
required much research and further investigation into each account, it has proven to enhance our understanding of Gap, Inc. and we believe will provide growth for the company in the future.
In the third week of preparing for the case competition, we were tasked with advising Gap, Inc. on ways to minimize its legal cash tax payments. With the recent change of presidency, as well as a global pandemic, there are several new tax credits companies may take advantage of to lower tax payments. The recent additions of the GILTI tax, CARES Act, and inauguration of President Biden are just a few of the credits, acts, and events that have changed taxes for businesses in the United States. The tax credits we recommend Gap, Inc. adopt include moving manufacturing to the United States to take advantage of a new tax credit enacted by President Biden, carrying back net operating losses through a provision in the CARES Act, and commencing research activities to take advantage of the R&D Tax credit available for all businesses in the United States.

With a new administration in the White House, tax laws are expected to change. The Biden Administration has proposed a 10 percent tax penalty to businesses who use labor overseas when jobs could be supplied in the United States. The Biden Administration is also offering a 10 percent tax credit to businesses who create jobs in America. Companies can go about creating these jobs in a number of ways and doing so will cause significant savings on taxes (Amadeo, 2021, Paragraph 20). Currently, Gap, Inc. is outsourcing all its manufacturing to companies overseas (“Supplier Partnerships”, 2021). If Gap, Inc. shifts some of its manufacturing to the United States, they will be able to avoid the 10 percent tax penalty while
receiving the new 10 percent tax credit. One way that Gap, Inc. could do this is by opening a manufacturing plant of their own in America. Another way would be to use a supplier who is based in the United States. This manufacturing shift would not only give Gap Inc. a tax credit but would also give Gap Inc. a competitive advantage. Gap, Inc. could manufacture a special line of clothes for their flagship brand, Gap. This brand has always had a classic, American style. Adding a line of clothes manufactured in America would build on this facet of their brand. Products from Gap’s classic Logo Shop or their jeans would both be good product lines for this marketing strategy. Both product lines are well known within the brand, and manufacturing them in America could make them more attractive to customers. Adding a “made in America” product line to Gap would also help to add a distinction in quality between Gap and Old Navy.

In potentially transferring the manufacturing of a Gap, Inc. brand to the United States, Gap could take advantage of the creation of American jobs. With jobs in the U.S., the company could create jobs and benefit from the Work Opportunity Tax Credits. In addition to the effects under the Biden plan, the creation of more manufacturing jobs could create more positions to qualify for the Work Opportunity plan outside of retail and distribution locations. Gap, Inc. currently runs a program called “This Way ONward”, which benefits the youth by creating jobs for those aged 16 to 24. This program could be merged with the Work Opportunity Tax credit program under the youth summer program detail (IRS, Section 2). This provides a tax benefit for a youth summer employee/intern. Under this, when a worker qualifies for the Work Opportunity program, the company can receive a tax credit equal to 25 percent of the employee’s wages if the employee works at least 120 hours (Murray, 2020, Paragraph 9). Based on the current minimum wage in the U.S., this could provide for a credit of at least $870 per worker. This could allow for
substantial savings given the likely rise in minimum wage, as well as the number of workers that could potentially be hired under this program.

The CARES Act created a substantial economic benefit for businesses with the allowance of the carryback of net operating losses and the allowance of one-hundred percent deductibility of those losses (Arnold & Porter, 2020, Paragraph 2). In the case of Gap, Inc., this benefit will allow the company to be eligible for approximately a $94 million tax refund using their 2019 taxable income, their net operating loss of $288 million from the 39 weeks ended October 31, 2020, and their effective tax rate from 2019. We would only be able to use the 2019 tax rate instead of the pre-TJCA years because carrybacks are typically only allowed to offset income from the earliest taxable year to which the loss may be offset (BDO, 2020, Paragraph 12). In this case, Gap can fully offset its losses in 2019. The calculations can be found below:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before Income Taxes (2019)</td>
<td>$528,000,000</td>
</tr>
<tr>
<td>NOL Carryback</td>
<td>($280,000,000)</td>
</tr>
<tr>
<td>Net Income before Income Taxes</td>
<td>$248,000,000</td>
</tr>
<tr>
<td>2019 Effective Tax Rate</td>
<td>33.52%</td>
</tr>
<tr>
<td>Total Tax Liability</td>
<td>$83,136,364</td>
</tr>
<tr>
<td>Taxes Paid in 2019</td>
<td>$177,000,000</td>
</tr>
<tr>
<td>Calculated Tax Liability</td>
<td>$83,136,364</td>
</tr>
<tr>
<td>Total Tax Refund</td>
<td>$93,863,636</td>
</tr>
</tbody>
</table>
Another major impact of the CARES Act for Gap, Inc. is that it cleared up what is commonly referred to as the “retail glitch”, which did not allow for qualified improvement property to be eligible for bonus depreciation (Brown, Smith, and Wallace, 2020, Paragraph 1). Now, retailers’ qualified improvement property will be eligible for that bonus depreciation. On top of that, the amount of allowable bonus depreciation has been increased from 50 percent to 100 percent of the property’s value in the year in which it was acquired if it was acquired and placed into service after September 27, 2017 and before January 1, 2023. These improvements to the property include anything done to the inside of the store, except for expansion, internal structural framework, or adding elevators or escalators. This new provision in the CARES act should have a significant impact on Gap, Inc. as they have exclusively company-owned stores and have significant leasehold improvements. This number is very difficult to estimate using only the information available in the financial statements and notes because one must assume what portion of the expense can be attributed to interior improvements. However, if we conservatively assume that only furniture and equipment were eligible for this bonus depreciation, Gap, Inc. used the MACRS depreciation method for a 10-year period. The calculations for the tax benefit and the refund available because of this bonus depreciation can be found below:
(all numbers in millions $)  

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and Equipment</td>
<td>2,802</td>
<td>2,732</td>
<td>2,623</td>
</tr>
<tr>
<td>Change in Furniture and Equipment</td>
<td>70</td>
<td>109</td>
<td>115</td>
</tr>
<tr>
<td>Eligible Bonus Depreciation (100%)</td>
<td>70</td>
<td>109</td>
<td>115</td>
</tr>
<tr>
<td>MACRS YR 1 Depreciation (10%)</td>
<td>7</td>
<td>11</td>
<td>12</td>
</tr>
<tr>
<td>MACRS YR 2 Depreciation (18%)</td>
<td>20</td>
<td>21</td>
<td>0</td>
</tr>
<tr>
<td>MACRS YR 3 Depreciation (14.4%)</td>
<td>17</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Increased amount of allowable depreciation</strong></td>
<td><strong>27</strong></td>
<td><strong>77</strong></td>
<td><strong>104</strong></td>
</tr>
<tr>
<td>Actual Income before Income Taxes</td>
<td>(1,179)</td>
<td>528</td>
<td>1,332</td>
</tr>
<tr>
<td>New Income Before Income Taxes</td>
<td>(1,206)</td>
<td>501</td>
<td>1,255</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>23.75%</td>
<td>33.52%</td>
<td>24.13%</td>
</tr>
<tr>
<td>Old Tax Liability</td>
<td>($280.01)</td>
<td>$177.00</td>
<td>$321.41</td>
</tr>
<tr>
<td>New Tax Liability</td>
<td>($286.38)</td>
<td>$168.01</td>
<td>$302.74</td>
</tr>
<tr>
<td><strong>Tax Refund</strong></td>
<td><strong>$6.37</strong></td>
<td><strong>$8.99</strong></td>
<td><strong>$18.68</strong></td>
</tr>
</tbody>
</table>
Another tax credit that Gap, Inc can take advantage of is the Research and Development, or R&D, tax credit. This tax credit is for companies that are increasing their research activities to improve product development or quality, enhance business operations, or perform scientific research. This research must be for developing a new or improved aspect of the business. To qualify for this tax credit, companies must be able to show a connection between the research activity and the expenses claimed. The R&D tax credit is for up to 20 percent of the expenses, or $250,000 annually, and a company can apply for the tax credit by simply spending money on qualifying research and development activities and filing the corresponding tax form (Murray, 2020, Paragraph 4). With Gap being such a large firm, their operating expenses alone totaled $5,559 million for the year 2019. Thus, 20 percent of operating expenses is much larger than the maximum Research and Development tax credit of $250,000.

To be considered for the Research and Development credit, a company does not have to be performing traditional scientific research. Research and Development can be many different activities: product development, surveys, studies, improving product quality, increasing reliability or products, or even increasing business performance. One of the research and development activities we recommend Gap, Inc. perform to receive the R&D tax credit concerns production of its retail products; this includes doing product research on up-and-coming trends across all of their brands. More specifically, research into sustainability for their athleisure brand Athleta would create an increase in consumer-relations as well as qualify for the R&D tax credit. On a larger scale, engineering products and new fabric would benefit the overall Gap brand and increase the quality of their products. Thus, we recommend Gap investigate Research and Development ventures, especially in product development and improvement, for the use of a Research and Development tax credit.
We were tasked with going through our company’s core business operations to create a plan to combat the company’s weaknesses. Through researching Gap Inc.’s financial statements and business plans, we were able to identify two factors that could harm the company if left unchecked. These factors are the decline in the Gap and Banana Republic brands along with the shift from shopping in physical stores to shopping online and the Biden administration’s proposed tax penalties. We believe that both of these areas could cause Gap Inc. to struggle, and in this paper we will outline strategies that we believe will help Gap Inc. to improve in these areas and adapt to the changes in their market.

Part One:

Gap, Inc. is a leading global apparel retail company headquartered in San Francisco, California. They have four core businesses: Gap, Old Navy, Athleta, and Banana Republic. While these core businesses generate the majority of Gap, Inc.’s revenue, they also have smaller brands, such as Janie and Jack and Intermix. Most of their storefronts are located in the United States; however, they do have a few additional stores in 42 other countries. Although much of their sales and revenues are generated in the United States, their suppliers and manufacturers are all located in foreign countries.

As such a large competitor in the retail industry, Gap, Inc. is challenged to continue to adapt and grow with this ever changing world. Their goals of working to adapt to this
increasingly online and sustainable market while still staying true to their original mission statement, "to create emotional connections with customers around the world through inspiring product design, unique store experiences, and competitive marketing,” are contained in their power plan (Farfan). Some of their biggest plans involve growing Athleta, their athletic apparel brand, and Old Navy, their more affordable brand, as they have seen demands in the retail market for athleisure and affordable options. In addition, they plan to move out of indoor shopping malls to adapt to the movement of online shopping as well as franchise many of their European storefront locations. This will generate a large amount of initial revenue to help to minimize the current debt load that they are bearing. Overall, these current plans and strategies will work in the best interest of Gap, Inc. as a whole to stabilize the company and provide room for growth.

Gap, Inc. has a large group of suppliers to provide for their vast customer base. The demand for the company’s products are large-scale and worldwide; however, some of their brands have been more successful than others. Old Navy and Athleta are definitely the most successful of Gap, Inc. brands as they have proven to be able to sustain their demand even through periods of decreased disposable income. With the vast majority of their stores being located in the United States, that is also where there is the largest demand for their products. In order to provide for these demands, Gap, Inc. has over 800 merchandise vendors in 30 countries. Their top two vendors account for seven and six percent of purchases, respectively. In addition, 16 percent of purchases are made from China. Being such a large retail company with such a large demand market requires Gap, Inc. to maintain a large group of suppliers.

Gap, Inc. is a very large company with many diversified brands; thus, their competitors include almost all middle market retailers in the United States. Banana Republic’s competitors
include the business wear brands such as Ann Taylor and Loft. Gap and Old Navy compete with more everyday brands such as H&M, Abercrombie, and TJMaxx. Athleta’s biggest competitor is Lululemon with their high-end activewear. Janie and Jack’s biggest competitor is Gymboree. With such a large range of brands, Gap, Inc. ends up competing with most major retailers.

**Part Two:**

Upon reviewing Gap, Inc.’s financial statements from the previous five fiscal years, we learned some surprising things from the company’s operations. As evidenced by the graphs below, Gap, Inc. has experienced several increases or decreases in numerous components of their financial statements due to both the COVID-19 pandemic and the acquisition of select assets from Janie and Jack, a Gymboree Group, Inc. premium children’s clothing brand (Gap, Inc. Filing Data). The slight decrease in revenues for the year ending 2020, is due to the COVID-19 pandemic and the unexpected temporary and permanent closures of storefront locations. The slight increase in cost of goods sold, increase in SG&A expenses, and decrease in operating income are all due to the related tax effects of these store closures, with a little over 60 percent allocated to SG&A expenses and the rest allocated to cost of goods sold. An increase in assets and liabilities for the year ended February 2020 was caused by the acquisition of select assets and liabilities from Janie and Jack, which also explains the lower levels of return on assets, profit margin, and asset turnover. Because of this, Gap, Inc. has failed in their mission to provide top tier returns to their shareholders, a goal they strived for since 2019 (Gap, Inc. Investor Meeting).
Part Three:

One of the biggest threats to Gap, Inc’s success is the declining performance of Gap and Banana Republic. Over the last few years, Gap, Inc. has had significant net negative unit growth for the Gap and Banana Republic brands. Our group decided to develop a plan to allow Gap, Inc. to refranchise some of these units to fight off total store closures and still generate recurring revenue for the firm. The plan also creates significant cash flows from the franchising of Gap and Banana Republic stores that can be used to pay down long-term debt or pay for capital expenditures. While franchising in retail is not very prevalent in the United States, we believe that refranchising to larger multi-unit operators on a location-by-location basis could help boost sales in those regions, and help the image of the company. The input from franchisees about what consumers desire can provide critical feedback to help the brands succeed in the future. While this shift to a partially franchised structure may cause revenues to drop, operating income should actually be higher for most years. COGS and occupancy expenses will decline as the corporate level will not have to buy the inventory or pay for the rent of the stores they are obtaining royalties from. Assets will decrease after the refranchising revenue is obtained as the company would carry less inventory and operating lease assets on the balance sheet. However, their assets will be far more liquid, and they should receive an influx of cash. Their quick ratio should improve to be above one after the refranchising effort as well, helping to secure their liquidity position. The increases in cash should allow the company to pay down their debt obligations, reducing their liabilities. We think this strategy is also congruent with the company’s current mission as they are able to make the transition to a more ecommerce-centric platform, while still maintaining a similar store base to what they are known for. They may actually be
able to expand the store base in future years as the concept is so asset-light and only requires franchisees to be willing to pay the fees and costs associated with opening a new unit.

With the diminishing success of Gap and Banana Republic, it is important for the company to turn its focus on its more successful brands, especially the niche brand Athleta. We felt like the second threat facing Gap, Inc. was not modernizing their brands to be more in line with consumers demands. Therefore, our group decided that it would be in the company’s best interest to expand the Athleta brand as both an American made and sustainable brand. While Gap, Inc. currently has a goal of building the Athleta brand and improving its sustainability, we see it to be very beneficial for the company to move an amount of Athleta manufacturing operations to the U.S. This would involve the creation of an inventory collection from U.S. suppliers. Furthermore, the improvement of the Athleta brand would correspond with the current events of the global marketplace. As the COVID-19 pandemic continues and the idea of working from home may become a more common activity, our group saw the growth of an athleisure company to be beneficial, as compared to the Banana Republic brand, which includes work attire as its main staple product. While the COVID-19 pandemic caused negative effects in the retail marketplace, Athleta saw sales increase by 35 percent in the third quarter of 2020, as well as a large success on the e-commerce front (Garcia, Paragraph 4). Sustainable athleisure is a growing concept during the current times, and we see advantages in the Gap, Inc. company over competitors such as Lululemon. While transferring manufacturing of Athleta to the U.S. would affect costs and change the supply chain, we believe the company will benefit from the ambition of consumers to support the American supply chain as a result of the pandemic (Ayers, Paragraph 7).
In addition, this transformation would potentially create tax benefits with the creation of American jobs and the avoidance of the effects of penalties that could potentially arise with the new presidency. The new Biden administration is expected to create a push in their “Made in America” tax policy, which would result in an offshoring tax policy, as well as related tax credits. Under the offshoring tax penalty, the opportunity for penalty is described as “profits of any production by a United States company overseas for sales back to the United States” (Buy America, Paragraph 7). This penalty would raise Gap, Inc.’s tax rate from Biden’s proposed rate of 28 percent to 30.8 percent. While our group recommendation is to change operations involving suppliers and bring a collection of American-made goods to Athleta stores, this does not involve Gap, Inc. developing manufacturing. However, the offshoring tax penalty specifies that the criteria for this penalty is based on sales brought back to the United States. Therefore, we see this to be a proper step for Gap, Inc. to take given the likely changes and implementation of this penalty. Along with this tax penalty, the Biden administration has put forward the ideas of a 10 percent tax credit revolving around the “Made in America” policy (Buy America, Paragraph 10). This would specifically affect Gap, Inc. and its relocation of suppliers as the details of this credit involve reshoring job-creating production and expanding U.S. facilities to grow employment. The new Athleta strategy would potentially avoid a tax penalty and also further the chance of a tax credit.

Part Four:

The implementation of our action plans involving the franchising of the Gap and Banana Republic brands are expected to provide beneficial impacts to Gap, Inc. in the future. As a result of these action plans, the company’s Return on Assets, or ROA, is expected to jump to 9.26 percent in 2022 as a result of the refranchising revenue in that year. It is expected to be 7.11
percent in 2023, 7.29 in 2024, and 7.94 percent in 2025. This is a drastic improvement from the 2020 ROA of -5.99 percent. It's also similar to non-COVID impacted years such as 2018 and 2019 when the ROA was 8.32 percent (adjusted for the change in accounting for operating lease assets) and 2.57 percent (roughly 6.07 percent without impairment charges) respectively. In a period of time when retail sales are decreasing, the mixture of the higher conversion of royalty revenues into operating income and the decrease in interest expense associated with paying down debt obligations results in good returns on assets. In addition, the profit margin is expected to increase from 2.21 percent in 2021 to 5.89 percent in 2025, with an expected jump to 7 percent in 2022 as a result of refranchising in that year. The consistent increase in profit margins demonstrates the slow recovery from COVID-19, increased efficiency of ecommerce sales, and the higher conversion rate of royalty revenue to net income. The asset turnover is expected to stay in the same relative range of 1.28-1.35x from 2021 to 2025. This is an increase from the 1.2-1.25x levels seen in 2018 and 2019. This can primarily be associated with reduced asset levels as the company carries lower inventory and operating lease assets on the balance sheet. Overall, the refranchising of Gap and Banana Republic is expected to generate cash flows that positively impact these ratios. The liquidity and solvency of the company should be much improved, and that should result in lower systematic risk for the firm. Our group expects the rebranding of Athleta and the implementation of an American made collection would further contribute to the current growths seen in the Athleta brand. For this reason, we believe that the brand will prove to be one of the key drivers of growth for Gap, Inc. over the next five years. Utilizing the concepts we listed above, we believe that the Athleta brand could achieve their goal of $2 billion in annual sales by 2023 and continue to exceed that number in the following years. It would also prevent
the possibility of negative tax effects that could hinder the stability in the building of the brand. Overall, we see these action plans to be impactful to the future of the Gap, Inc. brand.

The research our group did this week showed us that Gap Inc. should start franchising stores within the Gap and Banana Republic brands. We also concluded that Gap Inc. should focus efforts on Athleta to help grow the brand and reshore manufacturing for Athleta to help avoid tax penalties and receive tax credits proposed by the Biden administration. We think that these action plans would help Gap Inc. to stabilize the decline in Gap and Banana Republic and set Gap Inc. up to be successful in growing Athleta.
CASE XI: CASE COMPETITION: EARNINGS, STOCK PRICE, AND ANALYSIS

GAP, INC.

Group Members: Amanda Arnold, Blake Hydeman, Erin Krumwiede, Lele Goldsmith, and Madison Todd

Part One

The fiscal year for Gap, Inc. ends on January 31st. At this point, Gap, Inc. has not released their financial statements for the 2020 fiscal year. We will be using numbers from 2019 because of this. On the last day of the 2019 fiscal year, January 31, 2020, Gap Inc.’s closing stock price was $17.41 (Stock Information). At that time their price-to-earnings ratio (P/E ratio) was 18.72. We calculated this ratio by using the above stock price and the earnings per share of $0.93 (Gap, Inc. 10-K) listed on Gap, Inc.’s 10-K. We researched this week’s case on February 24, 2021. The closing stock price for Gap, Inc. was $25.95 (Stock Information) on this date, which shows the stock price has increased by over eight dollars since the end of the 2019 fiscal year.

Part Two

Upon review of Gap, Inc.’s stock financial information, we discovered that the beta for Gap, Inc. is 1.59. A beta determines the risk and volatility of a company’s stock, and any number over 1 shows that a stock’s price has greater systematic risk than the market. Therefore, Gap, Inc.’s stock price is highly volatile and will fluctuate throughout the year, making it a riskier stock to invest in compared to other stocks in the market. Gap, Inc. has 25 analysts that provide estimates or forecasts of stock investment data for the company. The forecasted growth rate for Gap, Inc. is close to a 7.51 percent decrease from the previous stock price of $25.95, as estimated
by the 25 analysts aforementioned. Gap, Inc.’s stock was also deemed a cautious hold by the 25 analysts, who recommended stockholders neither sell nor buy the company’s stock, but rather patiently observe the stock as the year progresses.

**Part Three**

Given the effects of our changes, our group expects the net income to steadily increase over the course of the next five years. Under the assumptions in our model, we expect the net income to increase from $358,683,521 in 2021 to $1,059,588,432 in 2025. In this model, we assume the growth of the Athleta and Old Navy brands, a reduction of Banana Republic and Gap stores, the benefits of refranchising, as well as a tax effect in 2023 that allows for a 3 percent credit. This credit shows a baseline potential effect of our tax strategies, specifically the potential credit as a result of the remodeling of manufacturing. As Gap, Inc. has shown a steady trend in the re-acquisition of shares, our model assumes that the common shares outstanding will continually decrease by 2 million each year. Using our model and earnings multiplier valuation, our group expects a change in the expected stock price from year to year. The expected stock price is $14.46, $46.17, $38.53, $40.02, and $43.66 in 2021 through 2025, respectively. The decrease from years 2022 and 2023 is expected as a result of the refranchising and its effects on operating expenses. According to our model and predictions of the future of the Gap, Inc. brand, our strategies forecast positive impacts to the net income and stock price of the company.

**Part Four**

Using a Return on Assets, or ROA, analysis, we can conclude that we will see positive trends as a result of our strategies. With the impact of COVID-19, Gap, Inc. is projected to have
an ROA of -5.99 percent for fiscal year 2020. This is coming off of a down year in 2019, culminated by several expenses related to their spin-off of Old Navy that they stopped pursuing. Gap, Inc. posted an ROA of 2.57 percent in 2019. With the most recent closures of stores and increased debt loads to survive the COVID pandemic, it will be difficult for them to return to an ROA close to the 8.32 percent (adjusted for operating lease adjustments) that they posted in 2018. However, with our strategy, they can eliminate some of their excess debt and liabilities on the balance sheet and reduce their assets. Therefore, their ROA is projected to rise during the next five years, including peaking at 9.26 percent and settling in at 7.92 percent in 2025, a level that should continue to rise. As their franchising begins to take off, they should have an extremely steady stream of cash flows arising from that area of their business. Currently, we have a conservative royalty of 6.5 percent in our model in order to set a scenario that would be advantageous for potential franchisees when evaluating the cash flows of the business. We also recommend that Gap, Inc. structure their agreement so that franchisees purchase inventory through the corporate entity at a 5 percent up-charge. At that level, we are projecting operating income from just their franchisees’ royalties and inventory up-charges to be approximately $42 million for 2025. That number could very easily be increased to closer to $50 million, particularly if sales jump as a result of local operators taking over the stores. In past years, Gap, Inc. has had interest expenses in the mid $70 million dollar range. As a result of their most recent bond issuances to get through COVID, they will see interest expenses between $170 million and $200 million until they pay down their debt. With about $500 million of refranchising revenue in 2022, our suggestion to franchise existing units allows them an opportunity to repay their newest debt issuances and have a recurring cash flow to pay interest expenses in future years. We believe that this should help de-risk the firm and reduce both their beta and cost of capital. The
reduction in cost of capital is particularly relevant given that their debt rating was just
downgraded to Ba1 from Baa2 with a negative outlook in March 2020. As a result, their interest
rate increased from 5.95 percent on their last bonds to a weighted-average of 8.68 percent on
those most recently issued. The most recent bonds are collateralized and face significant debt
covenants, including not being able to issue any more debt. This is a major issue for a company
that is going to need capital to invest in new capital expenditures, such as distribution centers, as
the shift to ecommerce becomes more prevalent. Our solution provides them with an obvious
path out of indebtedness, and should allow them flexibility to pay off debt, invest in new
projects, or repurchase shares.
CASE XII: THE FINANCIAL CRISIS OF 2008

INTRODUCTION

For this case, we were tasked to watch two short videos, a documentary, and read two articles all concerning the Financial Crisis of 2008. The first short video discussed the concept of crony capitalism, a term I was unfamiliar with until watching the first video. Unlike capitalism, which is a voluntary exchange of goods, services, or information between two parties, crony capitalism is an immoral exchange of goods, services, or information because “the government has been bought off” (PragerU). The second short video was with an economist by the name of Thomas Sowell, and he discussed what he believed to be the beginning of the Financial Crisis of 2008, crediting the “housing boom followed by the housing bust which occurred in 2006” to be the main cause (PastPatriot). The documentary we were then assigned to watch, called Inside Job, went even deeper into detail concerning the Financial Crisis of 2008, mainly concluding that the businessmen and government were to blame. After reading the last two articles assigned for this case, I believe there is no one person or organization to blame for the events that occurred in fall 2008.

I gained significant knowledge about the Financial Crisis of 2008 from this case. Before this, I knew little to nothing about the events that occurred in 2008. I believe I am now better equipped for life in the business world, and I now know how much power my actions hold when it comes to the future of business. Although I am just one woman and I do not have the power to change the business world on my own, I believe that if every businessman or businesswoman watched the two short videos, watched the documentary, and read the articles, the world of business would change as we know it, and it would change for the greater good.
THE FINANCIAL CRISIS OF 2008

After absorbing considerable, yet at times overwhelming, knowledge about the Financial Crisis of 2008, my trust in institutions and the government has declined even further from what it was previously. Beforehand, I had a decent level of faith in our nation’s leaders, but now that level of faith has dramatically dropped. I knew politicians were corrupt, but I had not considered that those in charge of government institutions like the Securities and Exchange Commission, or the Treasury Secretary, or even the Head of the Commodity Futures Trading Commission were corrupt and self-absorbed as well. This goes to show that seemingly a majority of those that oversee money are not of the right mindset to oversee money.

The Financial Crisis of 2008 occurred due to several reasons, but I believe the main reason is due to crony capitalism. As evidenced by the events that occurred both before and after the crisis, politicians can be bought out by the businessmen and businesswomen who want to further their own agendas to become multi-millionaires and billionaires. In the documentary, Inside Job, Part One entitled “How We Got Here” began to explain the history of events that led to the crisis in 2008 (Ferguson, Charles). Prior to the 1980s, the American financial sector was regulated, preventing financial companies from being able to acquire other financial companies to form one singular megacompany. During the 1980s, however, the American financial sector experienced a period of deregulation, eventually leading to the dominance of the industry by five investment banks, three rating agencies, and three insurance companies. This deregulation was shockingly backed by politicians and leaders of America who previously supported regulation in the financial industry.
The previously mentioned eleven companies would work together in the early 2000s to form what became known as “The Bubble.” Although the Rolling Stone article written by Matt Taibbi lists six bubbles, three before the crisis and three after, the documentary solely focused on one bubble related to the housing craze. From the information I gathered from watching the second short video, watching the documentary, and reading the Rolling Stone article, I believe the housing craze bubble directly led to the Financial Crisis of 2008. Before 2006, mortgages, and in turn homes, were not given to just anyone – only to those that banks and credit companies could rely on to pay them off. In 2006, those principles seemingly went out the window.

Mortgage dealers were now writing out mortgages to evidently anyone who wanted one, causing the number of homeowners to jump. But, in order for these dealers to be able to effectively sell the mortgages of those that were unlikely to pay it off to investment companies, they had to “hide the mess they were selling” (Taibbi).

To hide this mess, collaboration between the mortgage dealers and the credit raters had to occur, which is unfortunately exactly what happened. This is where my respect and trust was lost by those in power in business. Somehow, the mortgage dealers convinced the credit raters to rate these unlikely mortgages as the best – an AAA rating. Although the mortgage dealers were getting away with this behavior at the beginning, it should have been crushed by the government once it was made aware of the behavior, but that is not what happened at all. Leaders of Clinton’s “reigning economic foursome” somehow slipped a clause into a bill on the floor of Congress, that would eventually pass and become signed into action, that allowed the banks to freely trade these mortgages with as little disclosure as they desired (Taibbi).

Fast forward to fall 2008, the poor mortgages unfairly dealt to insurance companies were not being paid as promised. The insurance companies were not collecting any money, resulting
in more expenses than income, leading to several of them forced to declare bankruptcy. AIG, Lehman Brothers, and Bear Stearns are just a few of the insurance companies who lost millions of dollars due to the corrupt banks and mortgage lenders only being concerned about themselves and advancing their own case. The bankers and lenders were able to capitalize on the falling insurance companies and turn these downfalls into profit. Unexpecting citizens were laid off, with the unemployment rate in the United States rising to 10 percent. Business foreclosures reached uncharted levels. Yet all of this could have been prevented with ethically sound business and political leaders. The Financial Crisis of 2008 can be blamed on businessmen and businesswomen, but it should undoubtedly be blamed on our political leaders as well, which has led to my increased distrust in American institutions and the government.

Due to my newfound knowledge surrounding the Financial Crisis of 2008, I feel more responsibility to be aware of the actions of my bank concerning my mortgage and stocks and investments. I also feel more compelled to make better decisions concerning my own spending habits. I have realized my duty to society, to perform ethically if I am ever put in the position that the bankers, mortgage lenders, credit raters, and financial advisors were put in; a duty to act selflessly. Although I believe in working for what you earn, I do not believe in holding onto it all greedily just to become a multimillionaire or billionaire. When I get into the business world, I believe it is my duty to guide those around me when it comes to money and worldly possessions, a feat taught to me by my religion. When we pass away, all our possessions are no longer ours, so why immorally strive for them when we are alive? To create a healthy relationship with money, I believe one needs to actively practice either donating to charity or participating in food, clothing, or school supply drives. Giving to a charity, or even doing something nice for someone
else, can truly do wonders for your happiness. This is a practice I hope to teach to those around me when I get into the business world.

Although this devastating crisis occurred over a decade ago, there are still parallels between its causes and events that are happening in society today, even though many of these parallels are not in the financial industry. I believe the main parallels are evidenced by the current Black Lives Matter movement, among other movements sparked by racial tensions. These movements arose because of the greed of some Americans to be unwilling to share their rights and freedoms with those Americans of a different skin color. Some of these protests and movements turned violent and even led to several deaths. This divide and devastation can be prevented if people were to become selfless and put themselves in others’ shoes.

On May 25, 2020, a man by the name of George Floyd was innocently killed by asphyxiation by a police officer crushing his airway in his neck by kneeling on him for longer than nine minutes. Even when other officers told the policeman to remove his knee from Floyd’s neck, he refused. It was only when paramedics advised the officer to lift his knee he obliged. That officer’s name is Derek Chauvin. Chauvin’s actions undoubtedly led to the rise in Black Lives Matter movements that occurred around the United States for months after. On April 20, 2021, nearly a year later, Chauvin was charged with three counts of murder regarding the killing of Floyd: one charge for second-degree manslaughter, another for third-degree murder, and another for second-degree unintentional murder. The greed and selfishness inside Chauvin led to the innocent death of George Floyd.

On March 22, 2021, a mass shooting broke out in Boulder, Colorado at a local grocery store. The shooter, a 21-year-old man named Ahmad Al Aliwi Al-Issa, opened fire killing 10 people. Al-
Issa was surrounded by policemen and taken into custody only a few minutes after he opened fire before the damage he caused could get any worse. Al-Issa was a legal United States citizen at the time of the shooting but was born in Syria. In high school, Al-Issa became paranoid and antisocial due to the constant harassing and bullying of his classmates for his race. Indirectly, because of the selfishness inside Al-Issa’s classmates and their unwillingness to accept everyone no matter their race, ten people were innocently murdered.

Although these two events do not causally relate to the Financial Crisis of 2008, the driving forces behind all three of these events are the same: selfishness. As Generation Z, and even the next generations to come, I believe it is our duty to learn from the mistakes being made by those in power, as well as those around us and older than us. I believe we owe to the world to treat everyone equally, kindly, and with respect. One person is not greater than the other because of their wealth or skin color. With this mindset, the world would be full of peace. Its citizens would be unstoppable. Due to learning the history of events preceding the Financial Crisis of 2008, and comparing them with events still occurring today, I believe I am equipped with the proper knowledge to transform how I perform in the business world, but also transform enough of the lives around me to hopefully garner a lasting impact of equality and selflessness.
REFERENCES:

CASE I:


CASE V:


Taxodus – Playing the Tax Avoidance Game. VPRO Documentaries, 2013, YouTube.


CASE VII:


CASE VIII:

“Internal Controls for Cash Receipts and Revenue.” BFAS, bfas.syr.edu/audit/general-internal-controls/internal-controls-for-cash-receipts-and-revenue/#:~:text=Make%20timely%20deposits.,deposits%20can%20be%20made%20weekly.


CASE IX:


“CARES Act Provides Substantial Tax Deductions by Expanding Bonus Depreciation to ‘Qualified Improvement Property.’” CARES Act Provides Substantial Tax Deductions by
Expanding Bonus Depreciation to "Qualified Improvement Property":  


CASE X:


CASE XI:

“Gap Buy Hold or Sell Recommendation.” Macroaxis,
www.macroaxis.com/invest/advice/GPS#:~:text=USD%2024.69%200.54%202.24%25,Inc%20is
%20'Strong%20Sell.'

“Analyst Coverage.” Gap Inc. - Analyst Coverage, investors.gapinc.com/analyst-
coverage/default.aspx.

“Gap, Inc. (The) (GPS) Valuation Measures & Financial Statistics.” Yahoo! Finance,

GAP, Inc. 10-K. SEC, 1 Feb. 2020, d18rn0p25nwr6d.cloudfront.net/CIK-
0000039911/8b1ef8dc-022c-43c1-99d9-ade9d4e8ed2a.pdf.

“Stock Information.” Gap Inc. - Stock Information, investors.gapinc.com/stock-
information/default.aspx?_ga=2.204785424.1006147212.1614213601-
1077315642.1611799173#stock-historical.

CASE XII:

https://www.youtube.com/watch?v=4DxXHh-p-O4

https://www.amazon.com/gp/video/detail/B004VJT0B6/ref=atv_yv_hom_c_unkc_1_1