Comprehensive Investigation of the Accounting Principles through Case Studies

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COMPREHENSIVE INVESTIGATION OF THE ACCOUNTING PRINCIPLES THROUGH

CASE STUDIES

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

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ABSTRACT

MARY FRANCES WILLIAMS: A Comprehensive Investigation of Accounting Principles through Case Studies

(Under the direction of Victoria Dickinson)

The following thesis consist of thirteen accounting case studies that were presented as the curriculum followed in the Accounting 420 class. Each case covers a topic that relates to the basic accounting principles and the accounting industry. This thesis represents a deep analysis of accounting principles and demonstrates a well-rounded understanding of the topics covered. Each case study is completed under the direction of Victoria Dickinson in abides with all requirements for the Patterson School of Accountancy, Sally McDonnell Barksdale Honors College, and the University of Mississippi ACCY 420 course in the 2020-2021 academic year.

TABLE OF CONTENTS

Case Study 1: A Tale of Two Cities

Prepared by: Mary Frances Williams on September 23, 2020

Executive Summary

The purpose of this case was to analyze the two cities where we would want to intern and pursue an accounting career. A part of the analysis was researching important factors to consider, such as, climate, prevalent industries, and overall living expenses. I decided to take a deeper look in Atlanta, Georgia and Charlotte, North Carolina to go beyond what I had experienced as a visitor. Both of these cities offer a vibrant environment full of entertainment and other great experiences that are enjoyable for anyone at any age. Most importantly, these two cities are within close proximity to my hometown, Knoxville, Tennessee, that will allow for easy road trips for family and friends.

At the beginning, I had no idea how to limit down my choices. I felt as if the world was full of opportunities in unique places that I needed to explore before considering settling down anywhere in near proximity of my hometown. However, this project made me realize that being close to Knoxville was a crucial factor in deciding where I wanted to pursue my career. My research brought up the difficult topics, such as, crime rates and taxes, that I would have otherwise overlooked.

After my analysis of these two cities, I concluded that Atlanta, Georgia is ultimately were I want to pursue my career. I drew this conclusion after doing research and considered the following aspects, such as, climate, taxes, and entertainment. My goal is to be in a city that is in close proximity of family and friends, experiences the four seasons, is affordable, and offers plenty of activities to do on the weekends and after work. Twenty-one percent of the Atlanta population is between the ages of 20-29 with a median age of 33.2. Being surrounded by young professionals, like myself, will create for a better work and support environment.

Part One: Atlanta, Georgia

I. Population

According to the 2019 Census, the population of Atlanta City area is 506,811. However, Atlanta is considered the ninth most populous United States city with a metropolitan area of 5,268,860. Most of the Atlanta population lives in the surrounding suburban areas instead of the heart of the city. In the recent decade, Atlanta has matured from a city of regional commerce to having a large international influence. This city spent much of the 1900s and 2000s developing into the city that it is today. Being in a populous city will give me to opportunity to experience different people and cultures.

II. Climate

Atlanta's climate is similar to my hometown, Knoxville, which is temperate humid subtropical. Summers begin in June and end in September that average 89.6 degrees Fahrenheit during the day. Winter begins in November and end in March with an average of 53.6 degrees Fahrenheit during the day. For the months that are not included in summer and winter, Atlanta experiences spring and fall giving it all four seasons. Being able to experience a spring and fall are important to me when making a decision about living.

III. Topography and Scenery

Atlanta has a total area of 343.0 km^2, and sits 1,050 feet above sea level, which is the highest average elevation of any major city east of Denver. The Eastern Continental Divide line runs through Atlanta dividing the Atlantic Seaboard watershed from the Gulf of Mexico watershed. Atlanta has a beautiful city scope that consist of high-rise buildings, Bank of America being the tallest one. In addition to the beautiful cityscape, Atlanta has the reputation of being called the “city of trees.” The city of Atlanta maintains over 3,000 acres devoted to parkland. Atlanta is a city has both a city scene and an outdoor landscape; this is an aspect that is crucial for me because I enjoy being nature in addition to being in a city.

IV. Taxes

Georgia’s local and state tax burden is nine percent, which is slightly below the United States average of 9.9 percent. Georgia’s sales tax rate is four percent, which is one of the lowest state level taxes. However, once you add the local sales tax rate of three percent the overall sales tax rate seven percent. Below, in the appendix, I attached a breakdown of the federal, FICA, state, and local income taxes. Since I am from Tennessee, I am used to higher sales tax rate, but Tennessee has a very low-income tax.

V. Transportation

Atlanta is a transportation hub for interstate traffic, air traffic, and rapid transit systems. There are over 12,000 miles of interstate highway that flow in and around the city that connect Atlanta to all neighboring states and to the rest of the nation. The major interstates are I-285 that completely encircles Atlanta, I-75 that goes from northwest Georgia to the southern border of Florida, I-20 that crosses Georgia east to west, and I-85 that extends from northwest Georgia to the western border of Alabama. Atlanta is the home of the Hartsfield-Jackson International Airport that is considered one of the busiest airports in the world that has over 100 million travelers annually. This airport is Georgia’s main employer, and it is also a transportation center for Delta Airlines. MARTA is Atlanta's rapid transit system that provides bus and quick rail service to most urbanized areas of Metropolitan Atlanta. The airport is an attraction because it will make travel much simpler and easier than I am used to.

VI. Prevalent Industries

According to Forbes, the most prevalent industries in Atlanta are financial services, technology, and telecommunications. Atlanta is home to fourteen nationwide and international Fortune 500 companies. The five largest companies are Home Depot, UPS, Delta Airlines, The Coco-Cola Company, and The Southern Company.

VII. Healthcare

Georgia falls below the average in ranking in terms of state population health. The state is ranked 38 out of 50. Georgia also has one of the highest uninsured healthcare rates in the country. However, there are programs, such as, CHIP that is a Medicaid and children's health insurance program that helps fill the gaps in the availability of private coverage. Atlanta has four nationally ranked hospitals including Emory University Hospital, Emory St. Joseph Hospital, and Northside Hospital-Atlanta. Atlanta Public Schools consist of 88 schools that of which are 62 percent below average and 15 percent above average. In these schools, on average 69 percent of these students go to college, and most of these families in the school district are low income families. My children will attend private school because I grew up in private school, and it is important that you are surrounded by people who share the same goals and aspirations.

VIII. Crime

A concern with Atlanta is the safety, because it is only safer than 2 percent of United States cities. There are over 28,769 crimes per year, and 1 in 125 people will be a victim of a violent crime. As a general rule of thumb, the least safe areas in the city lie southwest of where I-20 and I-85 connect. The most prevalent crime charges are drugs, robbery, and assault. In the appendix, I have attached a crime map.

IX. Housing

As a young professional living in Atlanta, I would like to live in Buckhead Village, Peachtree Center, or Midtown. I want to be in an area close to both my job and entertainment. I will, likely, have to pay between $1,000-$1,600 in rent per month but with full amenities included. These estimates are a range of two-bedroom apartments with one roommate. If I decided to live alone the price range would increase depending on the complex and location.

X. Commute

Normally, you drive your personal car or walk, depending on your location. Based on the sample locations above, I would have the option to drive or walk. According to the 2019 census, the mean travel time to work is 27 minutes.

XI. Grocery

Going off my sample locations, I would be within 10 to 15 minutes of Publix, Target, Whole Foods, or Kroger. Atlanta has all basic chain grocery stores, but these are the stores that I prefer depending on what I need.

XII. Laundry

My sample locations include a washer and dryer within the unit. With that being said, I will be doing my laundry in my apartment.

XIII. Organizations

Three organizations I would like to be a part of are Peachtree Road United Methodist Church, Big Brother, Big Sister, and the Kappa Delta Alumni Association. I want to get involved with the Peachtree Road Methodist Church young professional small group and mission trips in order to build a religious community.

XIV. Entertainment

Atlanta is the home of the, NBA team, Atlanta Braves and the, NFL team, Atlanta Falcons that both have exciting games that I want to attend. As a visitor, I traveled to Atlanta to go shopping in Lenox Square Mall and Phillips Plaza, which I will be continuing to visit. Breweries and whiskey distilleries are popular venues for young adults. Six Flags is an amusement park destination for all ages. Atlanta host a couple festivals each year. Music Midtown is a music festival that takes place in Piedmont Park over a weekend in September that consist of popular and up-and-coming artist performing. I attend this festival every year that it is hosted. It is a vibrant environment that is exciting to experience for a weekend.

XV. Commute Home

The drive from Atlanta to Knoxville is 215 miles with a travel time of around three hours and fifteen minutes directly on I-75. The cost of travel would be for the tank of gas which averages around $40 dollars. There is also a direct flight from Atlanta to Knoxville through Delta Airlines that averages $300 a flight. However, I will normally drive.

Part Two: Charlotte

I. Population

According to the 2019 census, the population of Charlotte city is 885,708. 80 percent of the population lives in Mecklenburg County. Charlotte is the largest city in North Carolina and is the sixteenth largest city in the United States. This city has grown steadily since the start of the 20th century and is predicted to continue to grow.

II. Climate

Charlotte's climate is humid continental that includes hot, humid summers and cold winters. This climate is similar to Knoxville. Summers have an average high of 89 degrees Fahrenheit during the peak of July. However, winters are cold with about half of the nights being below freezing and average low temperature being 30 degrees Fahrenheit. The city has over 2821 hours of sunshine over the year with an average rainfall of 42 inches.

III. Topography and Scenery

Charlotte lies in the Piedmont region in the Mecklenburg County of North Carolina 232 meters above sea level. It is 85 miles south of the Appalachian Mountains, 180 miles northwest of the Atlantic Ocean, and sits near the North Carolina state line. Charlotte is off the Blue Ridge Parkway, which is a road that travels from North Carolina to Virginia through the Blue Ridge Mountains. Bike trails and parks are spread throughout the city.

IV. Taxes

The individual income tax rate in North Carolina is 5.25 percent. The sales tax rate in North Carolina is 4.75 percent plus the average local sales tax rate of 2.23 percent.

Therefore, the overall sales tax rate in Charlotte is 6.98 percent. Property taxes are paid as a percentage of owner-occupied housing value that is 0.85 percent. In the appendix I have attached the North Carolina income tax rate chart.

V. Transportation

Charlotte is a transportation center for interstate and air traffic. Three major interstates, I-77, I-85, and I-485, go through and around Charlotte. I-485 encircles the city. Charlotte Douglass International Airport (CLT) is an international travel center. This airport is used as a travel hub for American Airlines and transports more than 22 million passengers each year. The airport is vital to this city's economy.

VI. Industries

Charlotte is the nation's second largest banking center. Therefore, the city's most prevalent industries are financial services, motorsports, and energy. There are nine Fortune 500 companies that have headquarters in Charlotte. The top five largest companies are Bank of America, Lowe's Cos. Inc., Honeywell, Duke Energy Corp, and Nucor Corp. Bank of America is the largest company in North Carolina, and it has landed as number 25 on the Fortune 500 list based on its revenue of $113.6 billion.

VII. Healthcare

Charlotte has two nonprofit competitive healthcare systems – the public Atrium Health and the private Novant Health. These two companies own most of the hospitals and doctor offices in the Charlotte area. Carolinas Medical Center is ranked the number one hospital in Charlotte in addition to being nationally ranked. Charlotte has a high uninsured rate. According to the 2019 census, the percentage of people without health insurance, under of the age of 65, is 14.1 percent. Charlotte-Mecklenburg School district consist of 177 schools. These schools are considered below average compared to the rest of the state. 59 percent are students from low income families and 86 percent of students graduate from high school. Even though some of Charlotte's public schools are highly ranked, my children will attend private school.

XVI. Crime

Charlotte's violent crime index is ranked at 34.3 out of 100 and the United States average is 22.7 out of 100. According to the CMPD, the most common crimes are aggravated assault, vehicle theft, and robberies. Overall, West Charlotte is the most dangerous area of Charlotte. The specific bad neighborhoods are Pinecrest, Tryon Hills, and Arbor Glen. The safer neighborhoods are Dilworth, Fourth Ward, and Plaza Midwood. Below in the appendix is an attachment of the crime rate map of Charlotte.

XVII. Housing

As a young professional I want to live in Uptown or Fourth Ward. Both of these neighborhoods are near downtown and are a prime location for any of the Big 4 accounting firms in Charlotte. Rent in these neighborhoods range from, $800-$1400. These estimates are based off having a roommate in the two-bedroom apartment. This apartment complex has all amenities included.

XVIII. Commute

I would drive my personal car to and from work. Both of my sample apartments are between five to ten minutes away from the Big 4 accounting firm offices. Being this close to the office also gives me the opportunity to walk, if necessary. According to the census, the mean travel time to work is 25.7 minutes. Therefore, I want to be as close to my job site as possible to avoid traffic.

XIX. Grocery

My preferred grocery stores are Publix and Whole Foods. Whole Foods is within five minutes of my sample apartments. The Publix is Charlotte is in the suburban areas that are 20 minutes outside of the city.

XX. Laundry

My sample apartments provide an in-unit washer and dryer. With that being said, I will be doing my laundry in my own apartment.

XXI. Organizations

I would join the Covenant Presbyterian Church in order to find a religious community. This church offers a young adult program that I want to join in order to meet young professionals with the same morals and value as myself. Big Brother, Big Sister is a nonprofit organization that provides mentorship to students who need it. The Kappa Delta Alumni Association of Charlotte is a group of women that will encourage me.

XXII. Entertainment

Charlotte is home for three professional sports teams; Charlotte Hornets, NBA, Carolina Panthers, NFL, and Charlotte Knights, MLB. I have not had the opportunity to be a visitor to at any of these sporting events yet, but I plan on trying to attend them in the future. Uptown, Charlotte is full of James-Beard nominated restaurants, and has an area named the Epicenter that is full of uniquely themed bars and breweries. There is also the United States National Whitewater Center that is the largest man-made whitewater river in the world.

XXIII. Travel Home

My mode of travel would be my car. Charlotte is approximately four-hour drive from my hometown. American Airlines does offer a direct flight from Charlotte to Knoxville, but it averages about $300. Depending on the gas fluctuation, it currently cost me about $45 to make the drive.

Case 1: Appendix

1. Atlanta Skyline

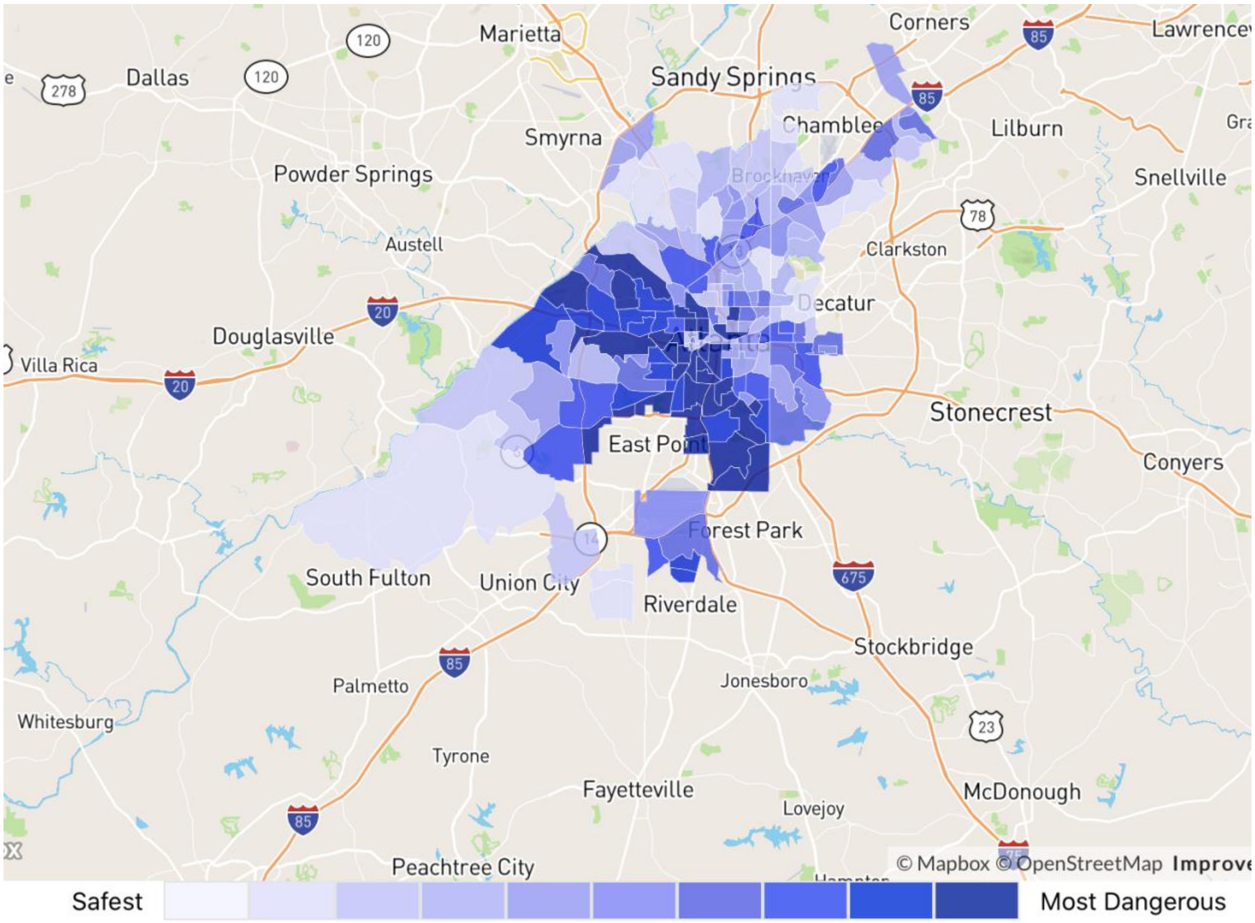
2. Midtown Skyline View from Piedmont Park

3. Income Taxes for Atlanta, Georgia

Your Income Taxes Breakdown

Tax Type	Marginal Tax Rate	Effective Tax Rate	2019 Taxes*
Federal	12.00%	8.68%	$4,342
FICA	7.65%	7.65%	$3,825
State	5.75%	4.57%	$2,283
Local	0.00%	0.00%	$0
Total Income Taxes		20.90%	$10,450
Income After Taxes			$39,550
Retirement Contributions			$0
Take-Home Pay			**$39,550**

4. Crime Map for Atlanta, Georgia



5. Apartment Peachtree Center Atlanta, Georgia

Dwell ATL Luxury Apartments

Rent: $2,003 per unit

Number of Roommates: 1

Square footage: 1,425 square feet

Amenities:

Unit: Hardwood floors, walk-in closet, granite countertops, stainless steel appliances, washer/dryer in unit

Complex: fitness center, pool, tennis court, roof terrace, courtyard, grill

6. Apartment Buckhead Village Atlanta, Georgia

Alexan Buckhead Village

Rent: $2,055 per month for a 2 bedroom

Number of Roommates: 1

Square footage: 1,224-1,290 square feet

Amenities:

Unit: full stacked washer and dryer, stainless steel appliances, pantry, soaking tube, hardwood floors, walk-in shower

Complex: game area, mailroom, lounge, indoor-outdoor bar with grilling stations, pool

7. Monthly Atlanta Budget

Monthly Budget for Atlanta, Georgia

Monthly Income

Accounting Firm Salary	$	5,000.00
Total Income	$	5,000.00

Monthly Expenses

Rent	$	1,200.00
Utilities	$	100.00
Taxes	$	235.00
Phone	$	50.00
Groceries	$	500.00
Gas	$	170.00
Credit Card	$	600.00
Other	$	1,000.00
Total Expenses	$	3,855.00

Monthly Savings

Salary	$	5,000.00
Expenses	$	3,855.00
Total Saving	$	1,145.00

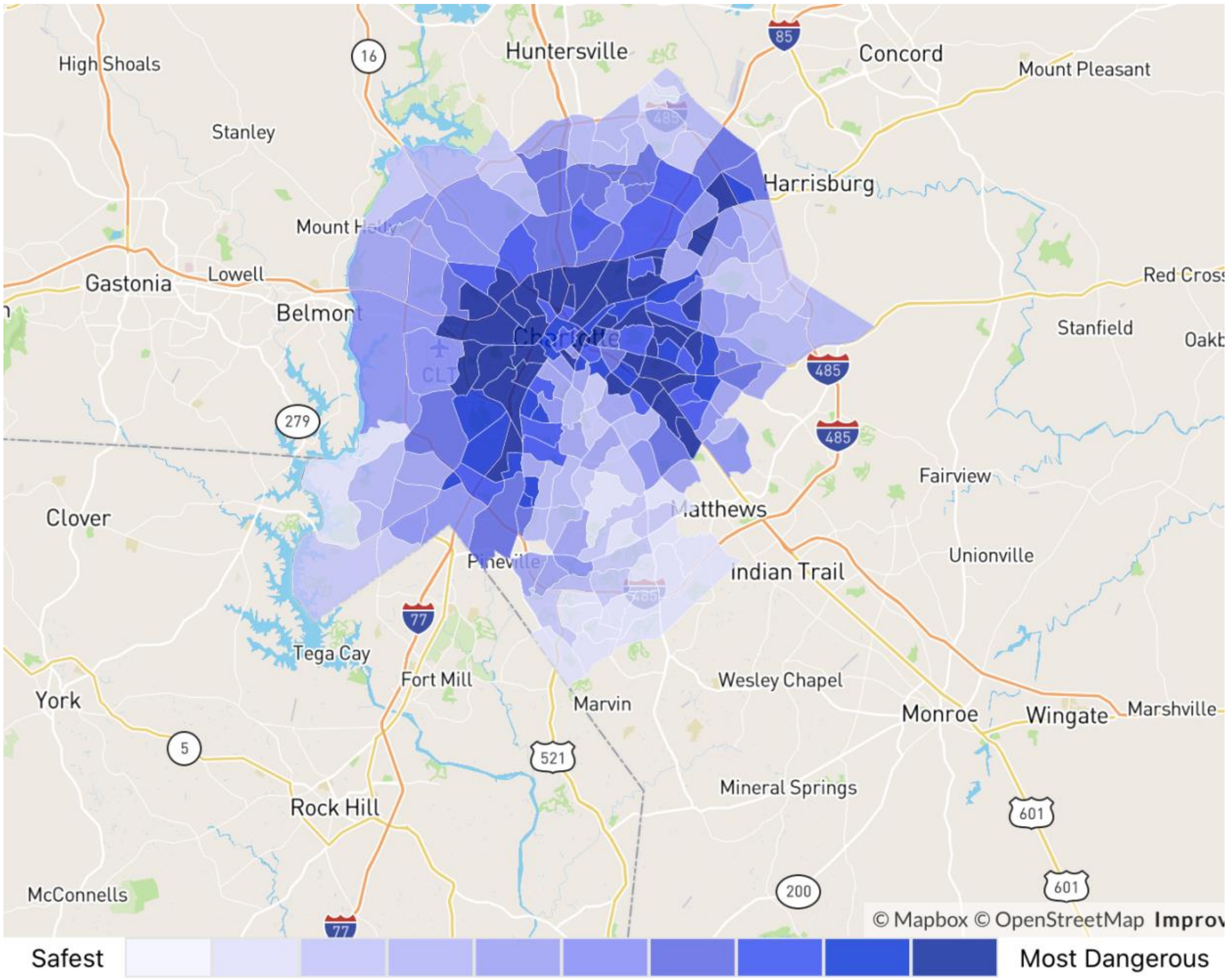
8. Charlotte, North Carolina Skyline

9. Income Taxes for Charlotte, North Carolina

Your Income Taxes Breakdown

Tax Type	Marginal Tax Rate	Effective Tax Rate	2019 Taxes*
Federal	12.00%	8.68%	$4,342
FICA	7.65%	7.65%	$3,825
State	5.25%	4.20%	$2,100
Local	0.00%	0.00%	$0
Total Income Taxes		20.53%	$10,267
Income After Taxes			$39,733
Retirement Contributions			$0
Take-Home Pay			**$39,733**

10. Crime Map for Charlotte, North Carolina



11. Fourth Ward Apartment Charlotte

Post Uptown Place

Rent: $1,470-$2,615 for a two-bedroom

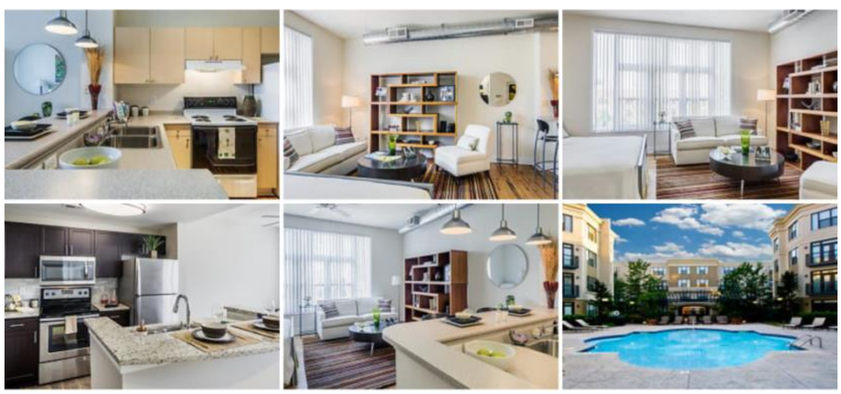
Number of Roommates: 1

Square footage: 1600 square feet

Amenities:

Unit: Balcony, hardwood flooring

Complex: Fitness center, gated access, extra storage, coffee bar, controlled access parking garage



12. Monthly Charlotte Budget

Monthly Income	
Accounting Firm Salary	$ 50,000.00
Total Income	$ 5,000.00

Monthly Expenses	
Rent	$ 1,000.00
Utilities	$ 100.00
Taxes	$ 220.00
Phone	$ 50.00
Groceries	$ 500.00
Gas	$ 170.00
Credit Card	$ 600.00
Other	$ 1,000.00
Total Expenses	$ 3,640.00

Monthly Savings	
Salary	$ 5,000.00
Expenses	$ 3,640.00
Total Savings	$ 1,360.00

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Case 2: Asset Concepts Case

Prepared by: Shelby D'Amico, Astha Kandel, Amanda Arnold, Mary Frances Williams

on September 30, 2020

I. Introduction

In the Asset Concepts case, we were split into breakout rooms by Dr. Dickinson and given the task of assuming that we are members of the FASB task force charged with reimagining GAAP on different dimensions of assets. The worksheet gave us vague information regarding the asset dimensions that we would be discussing in our consideration of them. As a group, we talked in depth about each option, taking detailed notes as we discussed, and then framed our opinions below. This process repeated three different times as we juggled the questions involving the focus of financial reports for a company, the method in which an asset should be measured, and the implications of such measurement. After taking our detailed notes, we came to a consensus on our opinions and were able to put them into concise thoughts in the following case study.

Throughout the completion of this case, we were given the unique opportunity to put ourselves in the place of a FASB task force. This opportunity is one that we would not likely have been able to put ourselves in, which allowed for the enrichment of knowledge and placing us outside of our comfort zone. We were able to not only learn just how a FASB task force might look, but we were also able to consider the questions that were posed to us. By looking at these questions, we were able to apply our knowledge of accounting and expand it further when deciding how different decisions may ultimately affect financial statements, a company, asset valuation, and journal entries. As we were not allowed any additional resources to aid in discussing these questions, we had to rely on our group’s knowledge, which also allowed us to practice our independent thought and judgement when coming to these conclusions. With this experience under our belts, we were able to have a better understanding of the processes the FASB considers, as well as a gaining of knowledge that many of our peers have not had the chance to participate in. Through completing this case, we were ultimately able to learn about more accounting processes by applying our knowledge of accounting to the hypothetical situation of being on a FASB task force.

II. Question I

The first question posed two viewpoints that differ on their focus of financial reports for a company. The first viewpoint, referred to as “asset greenhouses,” describes that the proper valuation of assets and liabilities is the primary goal of financial reporting. Under this viewpoint, the primary objective of the firm is to earn money by acquiring assets, storing and growing them, and earnings represent the realized or unrealized growth in these assets. The second viewpoint is referred to as “asset furnaces” and focuses on the determination of revenues, expenses, and especially earnings is the primary goal of financial reporting, with asset and liability values being updated by changes in the income statement accounts. In this viewpoint, created assets are sacrificed or transformed for the larger goal of producing revenue and earnings.

Viewpoint 1

The benefits of an organization being an “asset greenhouse” are that the assets and liabilities shown on the balance sheet directly show the point in time financial standing of the company that is necessary for investors, lenders, and stakeholders to make financial decisions. Knowing this information helps internal and external users to be aware of what the company owns, owes, and the net worth of the company. Current and long-term assets show the ability for the organization to generate cash and sustain operations, while current and long-term liabilities reflect the organization's obligations. Comparing current assets and current liabilities determines whether the company can meet its short-term obligations. This information is used to internally guide management decisions. By keeping track of these finances, the company can be aware of potential problems that could turn into larger problems. Ultimately, this information is necessary to sustain and grow a business over a long period of time.

However, the “asset greenhouse” approach does not accurately reflect the financial performance of the company. For example, manufacturing companies might have bigger assets and seem like they are performing well, and a number of service companies could have smaller assets and falsely portray that the company is not doing well, financially. This viewpoint also does not focus on the source of revenues and expenses, which is a major component in determining how a company manages its earnings. Without focusing on expenses, the organization does not know how their money is being spent and how they can eliminate those expenses in order to make a higher profit. The balance sheet does not show the operating and non-operating income, which helps companies to know how much money is being spent in operations. The “asset greenhouse” idea would not show an organization's financial performance.

Overall, the firms that are “asset greenhouses” because they show the big picture of the organization’s finances that are critical to internal and external users. The information that is presented on the balance sheet is imperative when determining the net worth of the company and determining if it can meet the short-term financial obligations.

Viewpoint 2

A primary benefit of firms being “asset furnaces” is that it reports business profitability and performance in the income statement over a period of time. This statement shows the revenues, expenses, product cost, and taxes. The overall purpose of the income statement is to show the company’s profitability. A benefit of this viewpoint is that information provided is directly related to revenues and expenses of the organization. This helps internal and external users to understand where the company is earning money and where it is spending money. This financial statement is vital for investors looking to buy stock because the net income and earnings per share should be documented on the statement.

Even though the “asset furnace” viewpoint is vital to the organization and investors to know the profitability of the company, this approach is reported at the end of the period. Therefore, internal and external users do not know the financial standing of the organization at times. Overall, this viewpoint does not tell us much about the financial standing of a company.

Our Choice

The “asset greenhouse” should be FASB’s focus because assets and liabilities are the purpose of financial reporting. The overall goal of an organization is not to generate revenues and expenses, but it is to know the financial position of the organization in order to evaluate the company’s performance and be able to make informed decisions. By focusing on viewpoint one, the FASB will be able to gather more relevant information about an organization using the balance sheet. For example, external users will be able to evaluate the net worth of the company and how quickly it can pay-off its short-term obligations. Viewpoint one recognizes the importance of earning money through acquiring assets and growing them in order to understand the financial position of an organization.

III. Question II

The second question posed two viewpoints that differed on the method in which assets should be valued by a company. The first viewpoint claims that assets should be measured as “values-in-exchange.” Under this valuation method, assets realize their contribution to firm value on a standalone basis in exchange for cash or other economically valuable assets, which is expected to generate little to no incremental firm-specific value. In contrast, the second viewpoint refers to the fact that assets should be measured as “value-in-use” as assets realize their contribution to firm value by being consumed or used in combination with other assets. This use is expected to generate firm-specific value incrementally based on the sum of the assets' individual values-in-exchange.

Viewpoint 1

Viewpoint 1's emphasis on "value-in-exchange" puts an emphasis on assets being recognized at fair value. Given that the company assets are exchanged at market value, this allows more comparability between businesses and the valuation of their assets. This is important to investors, as it allows for a clearer determination of the differences among companies. In addition, after the exchange of an asset, the asset will be easily distinguished at fair value. Viewpoint 1 also emphasizes that assets should be valued on a standalone basis. In viewing assets this way, the overall value is based on the exchange of single assets, so there is more clarity in the true value. The amount that an asset sells or exchanges is the amount of its value to a company.

Our Choice

On the other hand, there are some issues that arise in the valuation of assets shown in Viewpoint 1. The companies will have to update their assets every year according to the "value-in-exchange" of those assets and this method might not be practical for the company. This includes actively updating records to show the valuation of assets at market value. In addition, for companies with a large amount of fixed assets, these assets are not constantly sold and do not generate more assets. This also affects the method of depreciation for these types of assets, so it may not be beneficial in the valuation of property, plant, and equipment. Therefore, this valuation technique might not be reasonable depending on the type of company.

Viewpoint 2

In Viewpoint 2, there are specific ideas that allow for the valuation of an asset to be specific to a company. Given that the “value-in-use” provides value in the consumption of these assets, the methods of historical cost and present value are used. The basis of historical cost and measuring related to “value-in-use” allows for a more stable measurement. This valuation method is not affected by fluctuations in the market, therefore it is not prone to various updates.. The “value-in-use” method using historical cost also makes it easier to understand an asset’s contribution to earnings of a firm as the depreciation amounts can be calculated accurately every year based on an asset’s cost. Another factor of this viewpoint is related to the idea that the valuation of assets is influenced by the combination of assets and production of more value when these assets are “working” together. This allows for the valuation to be more specific in determining earnings, as the value is increased when assets are used in combination in terms of productivity and efficiency. For example, a company making a product, the true value of the end product is worth more than each of the parts, tools, and supplies used to make the product.

The major issues that could arise in viewing assets this way relate to the potential of bias and inability for this to be accurately seen by investors as it is not comparable in the market. In terms of adding incremental and firm-specific value, this could result in falsehood of the valuation. This could allow for companies to have more of an incentive for increasing the value of an asset if it could potentially add firm-specific value. This technique also makes it difficult for investors to make decisions as it could be inaccurately measured on a market scale, as it lacks comparability to other companies.

Our group decided that we believe Viewpoint 1 is the best valuation method. Viewing assets at their fair and market value allows for more comparability in financial statements. We determined that with investors and creditors in mind, it is more beneficial for them to see assets in a way that is more understandable. Viewpoint 1 was clearer and left less room for bias and faulty valuation in financial statements. Overall, the “value-in-exchange” method allows for a more standardized process that involves clarity and understandability.

IV. Question III

Based on our choice in question two, current accounting will have to change by requiring assets to be recorded at fair market value. This is shown throughout the example and new journal entries below:

Scenario 1: Company A acquired equipment in year 1 for $12,000. In year 2, Company A found that their equipment was valued at $10,000. To express the value change, the following entry was made.

Unrealized Loss on Equipment	2,000	
Equipment		2,000

At the end of year 2, Company A sells the equipment for $10,000. To record this, the following entry was made.

The reversing entry is as follows:

Equipment	2000	
Unrealized Loss on Equipment		2000

The journal entry for actual sale is as follows: (Assuming the depreciation expense has already been accounted for in the cost of Equipment)

Accounts Receivable	10,000	
Loss on Sale of Equipment	2,000	
Equipment		12,000

When considering depreciation expense through this viewpoint, companies would have a different basis every year as depreciation expense will be different, assuming that straight-line depreciation is used.

Journal Entry for Depreciation Expense: Let us assume that Company A uses straight line depreciation and the useful life in year 1 is supposed to be 10 years with no residual value.

Year 1:

Depreciation expense	$1200	
Accumulated Depreciation		$1200

Year 2:

Depreciation expense	$1000	
Accumulated depreciation		$1000

Scenario 2: Company A has recorded its Prepaid Insurance Premium for employees at $100,000 in Year 1. At the end of year 1, Company A realizes that the exchange value of the insurance premium is $120,000. The company records the following entry:

Premium for Employee Insurance	$20,000	
Gain on Premium for Employee Insurance		$20,000

Scenario 3: Company A buys material costing $10,000 in Year 1. During the year, company A sells half material ($5000) for $7000 after spending 10 labor hours on it for further development of the product. The journal is as follows:

Sales	$7000	
Costs of Goods Sold		$5000
Labor Costs		$1000

Gain on Sale $1000

At the end of Year 1, the value of exchange of the remaining material becomes $6000. The entry to record the increase in value is given below:

Materials	$1000	
Unrealized gain on materials		$1000

Similarly, at the beginning of Year 2, company A sells the remaining material to the same customer for the same price. The following entries will take place at Year 2:

Unrealized gain on materials	$1000	
Material		$1000
Sales	$7000	
Costs of Goods Sold		$5000
Labor Costs		$1000
Gain on Sale		$1000

Scenario 4: Company A had bought a land for the price of $500,000. It is a common knowledge that land does not depreciate and nor is its market value adjusted every year. However, under this approach that we have deemed appropriate, an adjustment will take place at the end of Year 1 when the value in exchange of the land increases to $700,000.

When buying the land,

Land	$500,000	
Cash		$500,000

At the year end of Year 1,

Land	$200,000	
Unrealized gain on Land		$200,000

Case Study 3: 2020 Presidential Election

Prepared by: Mary Frances Williams on October 7, 2020

Executive Summary

The year of 2020 happens to fall on a presidential election year. This year republican candidate and current president, Donald Trump, and democratic candidate and former vice president, Joe Biden, will go against each other in the 2020 Presidential Election. In the first presidential debate the two candidates discussed the current COVID-19 pandemic, the economy, and taxes, in addition to many more crucial topics. These two candidates are two drastic ends of the democratic and republican spectrums. President Trump's goal is the get the economy opening and running with little to no precautions to refrain from making a lasting impact on the economy, avoid an increase in the unemployment rate, and to get the American people's lives back to normal. However, former vice president, Joe Biden, has a different view on how to handle the situation and the economy. Biden is pushing to fix the COVID-19 crisis before addressing the economy. Even though he is looking out for the greater good for the nation, this could leave a lasting impact on the economy and result in a deeper economic recession. I predict that if Trump gets reelected that the country's economy will be running close to normal when my graduation dates comes around because of his current plan on how to address the pandemic. If Biden gets elected, I predict that the economy will be slightly further behind than it should be, which could affect my job market. This election is one of the most important in this nation's history. This election could shape the government for structure for the generation to come.

Part I

Right now, it feels as if the United States is in a complete state of turmoil. Even though there are many factors that play a role in the current state of our nation, the overarching theme is that our country has become extremely divided. It is turned into the democrats versus the republicans to all extremes and it seems as if there is no middle ground. As a country, there are many ideas and concepts that unite the American people when we set aside the current issues, such as, freedom, security, and community. However, in the midst of these current issues what will bring the country together is the fear of the future in this upcoming election and the faith that the American people have in their country. This upcoming election is horrifying on both ends of the spectrum. Each side is worried about what will happen if the other side gets elected, and how the nation is going to change if that were to happen. The American people are scared of the unknown going into this election. They are worried about their jobs, their families, the healthcare situation, and many more factors that will be affected depending on who is elected president. Along with the personal fear that many Americans are experiencing, there is also the idea that the American Dream is eroding. This is an alarming feeling because this dream is what many Americans have worked hard to obtain. In the midst of this fear and controversy, the American people have faith in this country's checks and balances, and faith that this situation will resolve. Whether you are a democrat or republican you can agree that you are scared of the future but have faith that the nation will be restored. After the first presidential debate of 2020, news outlets and social media platforms were discussing the chaos that was happening on millions of Americans TV screens. Between Trump, Biden, and the mediator it became clear that this election was going to be much more intense than any other previous election in our country's history. Therefore, whether you are a democrat, republican, or any other party you were scared about our country's future after watching the presidential debate. That fear that was installed in the American people after that debate is what is going to bring the American people together in this upcoming election. We are fearful of what will happen to our country, but we are hopeful that the system of checks and balances and our founding principles will keep our country being the powerhouse that it is today.

Part II

After watching the presidential election, it made me terrified of what is to come in our near future. This was a difficult debate to follow and watch. However, since I am not involved in politics, it was interesting to hear what both sides had to say about current and ongoing issues.

President Trump is focused on getting the economy opening and running. Considering Trump is a businessman, economy and stock market are the base of many of his decisions. His logic is that if businesses are closed people are losing jobs and the economy is continuing to head further into an economic recession. Therefore, Trump wants businesses and schools open, so that people can go back to work. Even though this seems like a simple solution, he is disregarding the fact that thousands of Americans have died or lost loved ones due to this virus. However, he thinks this is the right decision because the American people are ready to get back to living their normal lives. This strategy will bring Americans back into the workforce which will decrease unemployment rates, and as a result will help the economy return to its state before COVID-19. President Trump predicts that the economy will recover in a V-shape recovery meaning that he is expecting a sharp rise back in the economy after a steep fall. The steep decline happened when President Trump had to shut down the "greatest economy in history" to save the lives of many Americans. Now, that the country is opening back up and people are starting to go back to the work, the economy is on an inclining slope. He believes that it can only get better once the vaccine gets released to the general public and third quarter is going to look better in terms of employment. Trump takes the free market approach when dealing with the economy and taxes. This approach is based on supply and demand with little government control. He has lowered the corporate tax, income tax, and eliminated personal exemptions.

Former Vice President, Joe Biden, will be handling the matter differently than President Trump if elected as president in this election. He is going to take slightly longer to open the country back up in addition to having many more COVID-19 precautions, such as, social distancing and required mask. Biden is worried about the overall well-being of the American citizens while Trump is focused on the status of the stock market and economy. With that being said, Biden believes that you cannot fix the economy until you fix the COVID-19 crisis. However, that could mean that our economy could suffer even longer which could create more damage in the long run to our economy. Biden predicts that our economy will have a K-shaped recovery meaning that different parts of the economy will recover at different rates, times, and magnitudes. If that is to happen that could change the entire structure of our economy. He wants to provide businesses with the funds to open back up when he decides that it's time to open the economy again, which would help small businesses. Biden wants to raise the national minimum wage amount, which could result help the economy increasing faster because people will have more money to put into the economy. He is mainly focused on helping the working-class Americans instead of the corporations. Biden wants to eliminate the Trump tax code, which cut corporate taxes, income taxes, and eliminated personal examinations. He believes that large Fortune 500 companies are not paying enough taxes.

With that being said, I predict that when I graduate from graduate school in May of 2023 the world will be looking much differently than it is today based on who wins the 2020 presidential election. Even with businesses closing Trump is doing as much as he can to get the economy up and running. Therefore, in the next couple of years, I would expect that the economy would have come out of the recession and would now be working itself up. I would argue that Trump will focus on the corporations and not on small businesses, which could mean that even though the large corporations are doing well, many of the small businesses that were forced to close during COVID-19 would not have recovered and will remain closed permanently. If income taxes remain low, this is another opportunity of the economy to continue on an incline in terms of people having more money to put into the economy instead of the government. On the other hand, I predict that our country would not be in the same economic condition if Biden were elected. Even though he is looking out for the greater good of the American people, this approach is going to give a longer lasting effect on our economy. If he becomes elected and closes down the economy again, when I graduate our economy will still be recovering from this pandemic. In addition, if he continues to have mask and social distancing regulations Americans are not going to have the desire to go out and get back to their normal lives, which could then further effect the economy. Overall, Biden is going to consider the average American when making decisions, while Trump is focused on the status of the stock market and economy.

Part III

It is a fundamental belief of mine that since women before me fought for the 19th amendment that it is my duty as a female American citizen to vote. However, I have never paid particular attention to the political sphere. Both have my parents have choose opposite sides when it comes to politics. Therefore, I have never grown up believing in one side or the other, which I would consider an asset. I enjoy hearing about what either side has to say then forming my own opinion. Obviously, this election has been a trending topic on social media and new outlets in addition to between my family and friends. The idea that democrats of all levels and moderates are coming to together in this election to vote against President Trump has been circulating within my peers and other outlets. If this were to happen, that becomes a larger portion of the United States that is uniting to simply remove President Trump from office. Therefore, if you were a republican in this case, you would be forced to deal with that aftermath and come to peace with the new way of life. Someone's political viewpoints do not define that them. People with two different political beliefs should be able to communicate and work together aside from what they believe. With that being said, if this idea becomes reality, I believe that republicans will have no choice but to harmonize with the rest of the nation. Most Americans would agree that it is time for the controversy and turmoil to be over, and this election is going to be the end of it.

Case 4: Excel Certification

Prepared by: Mary Frances Williams on October 15, 2020

Corporate Finance Institute®

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

Mary Frances Williams

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

Excel Fundamentals – Formulas for Finance

with all the rights and privileges
pertaining to this certificate.

VERIFIED CFI™ CERTIFICATE

Certificate number
24307634

Chair of the Board

Director

Director

Oct 15, 2020

Case 5: Tax Avoidance

Prepared by: Mary Frances Williams on October 28, 2020

Executive Summary

Throughout *Taxodus*, the articles, and my additional research I was intrigued most by these tax havens and how they operate. These tax havens can be called the “Cypress Sandwich” and the “Double Irish with a Dutch Sandwich” that Apple Inc. uses. These multinational corporations, like Apple Inc., are deferring paying United States corporate income tax on foreign profits by holding their earnings in foreign subsidiaries. The Netherlands is a hub for reducing the tax burden on these multinational companies because it has one of the lowest corporate income tax rates, therefore, companies are wanting their revenues to flow through this country and others with a similar rate. I was unaware that the Big 4 accounting firms played such a crucial role in this process. Accountants, bankers, and lawyers are the three people that are responsible for making a tax haven operate effectively. Even though these tax havens result in high profits for the corporations since they’re having to pay lower taxes, they are not giving back to their domestic country. Instead the corporations are letting the tax burdens fall onto the average citizen, which is resulting in them having to pay more taxes. When these corporate income taxes are lower, companies invest in new capital. This leads to corporations needing labor to work the new capital, leading to higher productivity, and overall a growth in the economy. The corporate income tax rate affects more than just large corporations. It affects the everyday working class and many aspects of the economy. When corporate taxes are lower more money is flowing into the economy creating economic growth by more people being employed and wages increasing. Since the United States has a “worldwide” tax system for corporate profits, corporations should pay taxes on both domestic and foreign profits. Lowering corporate income tax will make corporations more willing to pay it. In addition, tax authorities need to

eliminate the loopholes in the tax codes in order to require these multinational corporations to pay the corporate income.

As we're in the midst of an election year, it is intriguing to think how our tax codes could change in a matter of weeks. Under President Trump's administration, he dropped the corporate tax rate from 35 percent to 21 percent. As a result, the unemployment rate reached an all-time low of 3.7 percent, which has resulted in a blue collar and economic boom. COVID-19 shifted the aggregated demand curve downward, therefore, raising these corporate taxes could increase the cost of capital which would result in the less capital being created in employed. Throughout my research I discovered that the corporate tax rate affects and results in much more than I would have originally thought. The common misunderstanding among Americans is that corporations bear the cost of corporate income taxes. However, while corporations find their way through tax loopholes through offshoring and other avenues, the burden of corporate income tax gets put on the worker's wages and owners of the corporation.

Lowering the corporate income taxes only results in positive changes in the United States economy. When this tax rate is lowered, it drives the growth of capital stock, the labor to work the new capital increases, leading to a higher productivity, and increasing the overall size of the economy. This is a domino effect. If a company has the funds to invest in capital, there is a demand for labor to work with the capital, and wages rise too. With a lowered corporate income tax rate, companies could use the money they were previously putting into taxes to invest in new capital. Rising the corporate income taxes affects the laborers and their wages much more than it the corporations. Multinational corporations will find a loophole in the tax codes in order to avoid paying these high taxes, which will most likely result to offshoring. This term is used when multinational companies use their foreign subsidiaries to defer paying U.S. corporate taxes on overseas profits. By doing this, many U.S. corporations can get out of paying taxes all together. In addition, if the corporate income taxes rise to the point where corporations are not willing to pay, they can move its operations or choose to relocate to a country with a lower-tax jurisdiction Then, the United States government will not obtain tax corporate income taxes from this large multinational corporations.

The Tax Cuts and Jobs Act passed in 2017 changed the game for taxes on both businesses and individuals. In addition, it limited major deductions and created new rules for companies that earned income overseas. Most importantly this act lowered corporate income taxes from 35 to 21 percent, which brought the United States closer to that of other nations. This was an important change for our economy because reducing corporate taxes is an important determinant in how much they're willing to invest in new capital and where they were going to put it. Capital is sensitive to taxation because it is highly mobile. If capital is relocated because of corporate tax rate, productivity and wages decrease for the immobile workers. When deciding if you should invest in new capital you have to make sure that the revenue exceeds the cost. This act will increase the long-run size of the economy by 1.7 percent. A larger economy means higher wages, higher capital stock, and more full-time jobs in the long fun. Since the United States dropped from a relatively high corporate income tax rate to an average rate this will cause more countries to move away from higher taxes toward a more competitive corporate tax rate.

The world of offshoring does not look illegal on the surface but the further you look into it you understand that what these corporations are doing is not legal. These corporations are using countries infrastructure's and other aspects of taxpayers' money, but not giving back. Multinational corporations receive money in one country then report the revenues in a country with a lower corporate income tax rate that resulting in the corporations having to pay little to no taxes in their domestic country. Bankers, accountants, and lawyers pay a role in allowing these tax havens to incur. The Big 4 accounting firms serve a role as the accountant in the tax haven. Even though tax havens affect the United States, corporations are affecting more than just their domestic country. For example, in Kenya the government is begging corporations to come to their country. Kenya has a tax holiday that allows corporations to not pay corporate income tax for the first 10 years in order to have enough time to get started and crystalize. However, corporations are taking advantage of this tax holiday by either leaving or changing ownership after that 10 years is up, which is resulting in the people of Kenya to pay higher taxes on necessary goods.

President Trump is wanting to remove corporate tax on overseas profits. Even though it seems as if that would be a good move because companies would be more willing to pay domestic income taxes, this would be rewarding corporate tax avoidance. Multinational companies would be profiting from territorial taxation, but domestic businesses would not. This would also be a reason would companies to move their profits overseas in order to avoid paying the domestic income tax. Therefore, the territorial tax system would result in more companies participating in offshoring that would mean that these large corporations are putting the tax burden of the everyday working Americans.

Through my research I have drawn the conclusion that the corporate income tax rate should be 20 percent that would end up being approximately 24.7 percent with state corporate income taxes. I have come to this conclusion for a variety of reasons. First, similar to the effect that happened in the Tax Cuts and Job Act, the lower the corporate income tax the more that is being invested into capital. This outcome leads to the need for labor for the new capital, which creates new jobs, leads to higher productivity, and higher wages come from that. Corporations will also be more willing to move their operations back to the United States because of the change in the corporate income tax rate will be a lower tax judication than in previous years, which will result in more jobs coming back to the United States from overseas. Corporate income taxes affect more than just these large multinational corporations. When these corporations find loopholes in the United States tax codes, they are paying barely any taxes at all. As a result, the tax burden is getting placed on these average citizens. This can begin to affect the poverty rates in many countries because some citizens do not make enough to support themselves and support the tax burden that these multinational countries are placing their necessary goods. Since the corporate income tax rate is a domino effect in our economy, lowering the rate will create an upward slope in the economy similar to what our nation was in before the global pandemic hit. This upward slope will put our economy in the economic boom that it was in before the global pandemic in a few years. Secondly, lowering corporate income taxes will make large corporations more willing to pay their taxes on domestic and foreign profits. Previously, the United States corporate income tax rate was 35 percent, which led multinational corporations to offshoring their profits to avoid paying this amount. These corporations would circulation their revenue through countries with lower or almost no corporate income taxes to avoid paying these taxes. However, if the rate is lowered to a more reasonable amount, these companies will be more willing to pay their corporate income taxes. As a result, the tax burden would be removed from the average citizen, which would allow these citizens to put more money into the economy. Overall, domestic and foreign corporate income tax rate should be the same and the tax codes should not allow the opportunity to defer taxes on foreign earnings. The corporate income tax rate should also be lowered for a variety of different reasons including more money to invest in capital, remove the tax burden off the average citizen, and end the offshore industry.

Going into this assignment, I was very unsure about the information that I was about to uncover. I had never been interested in pursuing a career in tax up to this point for a variety of reasons. First, I have yet to meet a predecessor in tax. With that being said, I do not feel like I am as knowledgeable about the profession. However, this case has given me an interesting take on the tax career path. Before this assignment, I had barely heard of the world of offshoring through popular documentaries, but I never understood the logistics behind it, who was involved, and how these multinational companies can get away with it. Even though I knew that accountants had to be responsible for knowing there the money was going and what is flowing through, I was not aware that the Big 4 accounting firms played a role in these tax havens. *Taxodus* brought to my attention that these multinational corporations have to be getting serviced by one of these four firms to effectively have a tax haven. These firms promote financial secrecy and complexity that allow the revenue losses from profit shifting. Therefore, these firms are doing more harm than good when it comes to national economy. This information also makes me slightly reluctant to join a Big 4 accounting firm after uncovering this information about their questionable behavior. Even though profit shifting is common amongst these multinational corporations, when you look through the paperwork you realize that what these corporations are doing is not legal. With that being said, I do not want to be the accountant responsible for communicating and explaining how to get around these loopholes in the tax codes. In addition, I also do not want to be the accountant that allows for these corporations that are making billions and trillions of dollars to avoid paying taxes and force the working class to take on this tax burden. Even though I found this case interesting, I am still looking to pressure a career in audit.

This case opened my eyes to the harm that multinational corporations were doing to not only to the United States, but many other surrounding countries. In addition to, making me aware of the effect that the corporate income tax rate has on our economy. Depending on which candidate gets elected in the upcoming weeks, we will see how our tax codes are about to change.

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Case 6: Al Williams Bibliography

Prepared by: Mary Frances Williams on January 27, 2021

As young adults quickly approaching the "real" world, we admire many of the people who we dream be. We are constantly asking questions as to how our role models got to where they are today, and what we need to do in order to be in their shoes one day. My uncle, Al Williams, is my role model, not only in a personal setting, but a business setting as well. Even though he is my uncle, we completed this interview as we were complete strangers. Many of the questions that had answers that I never knew about him. Today, he serves as the CEO of Bush Brothers & Company in Knoxville, Tennessee and is the father and husband of a family of four. His simple answer to how he got to wear is he today is purely out of luck.

Uncle Al is originally from Cleveland, Tennessee, which is a small town outside of Chattanooga, Tennessee. He grew up living a simple, low-income lifestyle in a family of four. His dad was a truck driver and his mother worked in accounts payable at the local Maytag stove plant. He attended Cleveland High School where he was a slightly above average student and played baseball. Even though his father did not attend college and money was tight, his parents pushed him to go to college. Once he graduated from high school, he continued his academic career at the University of Tennessee in Knoxville where he double majored in Asian Studies and Economics. During the summers, he would work on a construction crew and drive a forklift at a local Dr. Scholl plant. Uncle Al focused his summers on making money for the upcoming semester instead of trying to gain work experience. Even though he was an average student in high school, college changed his outlook on the importance of learning and working hard. He did not participate in the "typical" college festivities. Al instead spent his time trying to graduate as quickly as possible to save his family money. He graduated from the University of Tennessee a semester early with honors and planned to attend graduate school. Fortunately, he received a teaching assistantship at the University of Mississippi. While he was in Mississippi, he completed his master's degree in economics, and met the love of his life, LeaAnne Williams.

Going into college, Uncle Al had no idea what he wanted to do with his career. His father pushed him to be a lawyer. However, he got accepted into the biomedical engineering program as an upcoming freshman. He, ultimately, ended up choosing Asian Studies because he liked his Chinese history professor. In addition, he chose to double major in Economics because he thought a business curriculum may be wise if he could not get into law school. I found this answer rather interesting because the advice that he has given me in the past is to stick to a major that has a definite job path, for example, accounting or law. However, he did not take this path because he felt that these majors represented the bigger picture of what he was trying to do. He described that majoring in Economics and Asian Studies taught him the basis on which a business is run, supply and demand. He also chose his Asian Studies major around that time that China and Japan were becoming global economic superpowers. He hoped that at one point in his career that would have had the opportunity to work in Asia, but his path did not take him overseas.

After completing his masters from the University of Mississippi, he started his first professional job at Bryan Foods, a division of Sara Lee Corporation, in Columbus, Mississippi. One of the most interesting facts about himself that he told me throughout this interview, was that he was hired to be a cost accounting analyst and he had never taken a single accounting class. However, it seemed intuitive to him and he quickly picked it up. Cost accounting as an important aspect of the manufacturing environment, so his skills transferred very well as he moved through other areas of business. Learning accounting through on-the-job training was not easy, but it gave him an appreciation of the important of analytics and good accounting practices.

He then got moved up to being a controller in the Sara Lee chicken canning plant. While he worked in this position, he learned a great deal about canning from the assignment, which parlayed nicely into joining Bush Brothers and Company in 1998. In his over twenty years working a Bush Brothers, he has had the pleasure to be the director of procurement and supply chain, the VP of Human Resources, and the CFO. All of these positions played a crucial role in preparing him for the CEO position.

He spends his time outside of work with his family, friends, and doing all the activities that he loves. He has been married to LeaAnne for twenty-nine years, and they have had two children together. He has been a member of the Big Brother, Big Sister program since moving to Knoxville. Adam was Uncle Al's little brother for almost ten years, and they have created a bond that will last a lifetime. While being a member, he served as the nonprofit's president. In addition to, writing and publishing a children's book, which he really enjoyed. Currently, he serves on the board for Milo's Tea Company. He is an active member of several industry associations and an active of Church Street United Methodist church. In his spare time, he enjoys playing tennis, golf, and spending time with his family.

One of Uncle Al's most memorable travel experiences was being in New York City for New Year's Eve on December 31, 2019. When you think of this experience you think of being outside in the cold all day waiting for the ball to drop, but he got to go into the NBC suite on Times Square and did not wait outside for a second. Him and his family were front row watching the ball drop at midnight. He claimed that it was one of the coolest experiences of his life. He went into this experience thinking that 2020 was going to be the compete opposite of how it turned out. Even though COVID-19 not only taken many lives and caused the global economy to collapse, Bush Brothers and Company did exponentially well. Worldwide customers were stocking up on canned goods and cooking more food at home, which resulted in record breaking sales.

When I asked my uncle if you could change two things in your life what would they be, I was uncertain of what the answer could be. One of his answers was simply, “I wish my parents had lived longer.” His father died when he was twenty-five years old from a heart attack, and his mother continued to live until he was forty-five after suffering from Alzheimer’s disease. When he got prompted to CEO, he claimed he wanted nothing more than to be able to call one of his parents to share this outstanding accomplishment. Since he grew up in a simple, low-income lifestyle, he would do anything to be able to show his parents what he has been able to make of himself. His one other wish was to have been a few inches taller and slimmer built.

The piece of advice that he wished to share was that people and relationships are always the most important asset to a company and to people. In regard to a business, the employees are a company’s biggest asset. People are what get the job done and they are what keeps other employees moving and motivated. He said that at the beginning of the day, in normal operations, he would get to the office an hour earlier than everyone else and stop by everyone’s offices while they were getting ready for the day. He began doing this as soon as he became an employee at Bush Brothers in order to form strong relationships with his coworkers. Today, he still continues to do this every morning. Al said that if an employee is coming off stressed about anything work related, he will make them sit down, take a deep breath, and say “listen, we’re just selling beans here.” Hearing that statement made me laugh, because even though a task my seem difficult, at the end of the day the goal is to, simply, sell a can of beans and no one can take that too seriously. When it comes to personal relationships, those are just as, if not more, important than the relationships you are forming at work. Before I left for college, he advised me to maintain my relationships with not only my best friends from home but my acquaintances as well. Since then, I have made it a priority to maintain close relationships with people that I have grown up with, in addition to, making new friends at college. The relationships you build with people will last a lifetime, while most other things will be temporary.

Mr. Williams is quite the family man. Therefore, when asking him what he was most proud of, his response was his children. His daughter is a senior in high school and will be attending Auburn University of study Interior Design or Architecture. His son is a freshman at Samford University studying Finance and is playing division one tennis. He is not only proud of their accomplishments, but as who they have both grown into. He described is daughter has a hard worker who enjoys living life to the fullest and his son as someone who enjoys making other people happy.

He predicts the biggest challenge that his generation will face is hatred. The points that we made during the interview were regarding that statement focused on the social and political climate going on in the country over the past several years. It's easy to look at those factors and believe that hatred for other's beliefs, opinions, and feelings will rule this generation. However, he hopes that in the upcoming years this generation will choose to look past those thoughts of hatred and resentment to the bigger picture in life. He challenged me to celebrate and embrace the different opinions and beliefs that other's hold and to listen and understand why they think differently than I do. Regarding my generation, he predicts that overcoming your parents will be a struggle that many Gen Zs will face. He believes that since the world is looking much different than it ever has in the past, that parents are going to have a hard time pushing their children to do what they did and get the jobs that they expected them get.

Throughout this case I not only learned valuable life lessons from my uncle, but we also got to form a closer relationship. During the interview process, I was asking him additional questions about his childhood and career path that I had never heard before. This experience opened my eyes to how I should be looking at people, businesses, and the world going into the interview process this spring. At the beginning of the interview, he made a comment stating that "everyone in a CEO position has gotten lucky," and ended in the interview giving me the advice to work hard, take all opportunities presented, and form relationships and that is how he got lucky.

Case 7: The Financial Crisis of 2008

Prepared by: Mary Frances Williams on April 21, 2021

Executive Summary

The financial crisis of 2008 was not the one that blindsided government officials, top executives, and many of the American people. This financial crisis had been building up since the 1980s due to the deregulation of the financial sector in the economy. After the Great Depression, small investment banks were privately owned and tightly regulated, and they were prohibited from speculating with the depositor's savings. In the 1980s, banks were allowed to have multiple branches in several states. Then, in 1982, President Reagan further deregulated the savings and loan industry. This decision allowed them to take on greater levels of risk, presuming they would set higher returns. This action resulted in the first small crisis that cost many people their life's savings and began the chain of crises leading up to the crash in 2008. Deregulation of banks continued under the Clinton Administration that resulted in the financial sector of the economy being dominated by a few immense firms. By the end of the 1990s, the investment banks had made a gigantic bubble in internet stocks, which resulted in the next intermediate crisis leading up to 2008.

Since the deregulation of the financial sector had begun, large firms had been caught participating in criminal activity, such as money laundering and accounting fraud. However, these large companies were not punished appropriately due to their power and influence in the United States economy. Deregulation and emerging technology in the early 2000s led to financial products called derivatives that economist and bankers claimed made the market more liquid. This liquidity came with risk. Derivatives were an unregulated market that allowed bankers to virtually gamble on anything. This industry was dominated by five investment banks, two financial conglomerates, three securities and insurance companies, and three rating agencies linked together by the securitization food chain through loan payments. With this new system, lenders were selling mortgages to investment banks that combined a variety of loans into collateralized debt obligations (CDOs), which are complex derivatives, and sold them to investors. Hence, when homeowners paid their mortgages, their money was not going to their lender, but instead to investors all over the world. These investment banks were paying rating agencies to evaluate the CDOs and to give them the highest possible investment grade, AAA, in order to be as attractive as other highly rated securities. Lenders were no longer concerned with borrowers repaying their loan, which resulted in lenders being riskier with loans, and the investment banks encouraged this because the more CDOs they sold, the higher their profits were. The rating agencies were then paid by the investment banks and had no liability if their rating of CDOs proved wrong. Since this system was not regulated, it resulted in lenders creating more risky loans in order to make a higher profit for all parties involved in the securitization food chain.

During this time, mortgages were available to virtually anyone, resulting in the largest financial bubble in history. The profits that these large companies were making were unreal profits or income; it was money being created through the system. The SEC made no investigations during the financial bubble in addition to lifting the leverage limits on the investment banks. By the end of 2006, these top financial institutions had started betting against these CDOs while simultaneously telling their customers that they were high quality investments and were making higher profits over the money that their customers were losing. By 2008, home foreclosures had increased rapidly, and the securitization food chain had collapsed. Lenders were unable to sell their loans to investment banks resulting in the loans going bad and lenders failing. The investments banks had billions of dollars in loans, CDOs, and real estate that was unable to sell when the crisis started. These once domineering companies began to file bankruptcy resulting in a financial institution collapse. By the end of 2008, the recession had accelerated and began to extend globally.

Prior to this case, I had not researched nor studied in detail about the market crash of 2008. Through reading and analyzing the articles and videos presented, I have become knowledgeable on the topic and can now be aware and cautious of the decisions made by myself, the government, and the Wall Street businessman. As we are quickly approaching adulthood, it is important to beware of the corruption going on and how to combat it as best I can. The corruption stems from selfish desires by all parties involved that results in unethical behavior that affects economies both nationally and globally. Now, our financial system is better equipped to handle due to the regulations that have been put in place as a result of the financial crisis of 2008.

Part I

The American people want to believe that we can trust these large corporations that are handling our life's savings, while also trusting that if these companies are participating in illegal activity that the government will step in and control these corporations for the greater good of the American people. However, the material presented represents the corruption that lies in the relationship between the corporations and the government. At its essence, capitalism is a free exchange of a goods or services between independent parties. This material outlines the crony capitalism that happening within the politicians and Wall Street businessmen. This mutually beneficial arrangement could result in numerous factors that distort the broader economy and affect the American people. These two parties are taking advantage of not only their employees, but taxpayers as well in order to benefit themselves. These actions will result in a distrustful relationship between the customers of these corporations, the American people and the government, and could have lasting global consequences similar to the financial crisis of 2008.

My trust in large corporations was affected when I learned that Goldman Sachs was betting against CDOs while simultaneously telling their customers that the CDOs were quality investments. This resulted in Goldman Sachs making a profit off the money that their customers were losing. Even though the company was making a larger profit, it was hard to believe that the government did not enforce harsher consequences to prevent this from happening in the future. It was also alarming to learn that many of the top executives that were involved in the 2008 financial crisis still have political influence of the financial sector of our economy. These individuals will use their power and influence against the reform that is necessary in the financial industry to prevent another crisis from overtaking the global economy. These materials presented have negatively affected my trust in the federal government as well as large corporations that could affect our lives. Even though there will always be corruption, I have now acknowledged the areas in my life where it is important to have a trusting relationship between myself and a corporation. After analyzing these materials, I have concluded that when handling my life's savings, I will be investing with smaller firms so that I can have more control over where my money is going and how they are handling it as well as doing extensive research in potential political candidates.

Part II

The materials presented have changed my views on the importance of educating myself on political candidates in addition to researching companies that I am looking to invest with. The older I get the more I have noticed the importance of researching the presidential candidates for an upcoming election. Even though there is a separation of powers within the government, the president holds a position that could affect the economy for current and upcoming years. Multiple smaller scale crises that happened in the years leading up to and during the financial crisis of 2008 had to do with the decisions that the president made and people that he appointed to run various positions. I would, now, do my part as an American citizen to research the candidates running for office to understand what they want to change and how it is going to affect myself, the United States, and the global economy.

The Inside Job has also brought to my attention that the decision of a few top executives can affect the entire global economy. The global economy often sounds intangible because that it is hard to imagine that a few decisions could change the course of the entire world. However, the filmed highlighted the people and the lives that are impacted when the market begins to suffer. Soon, I am about to enter into the financial industry. I think it is important to remember that my decisions do not just affect myself and my company, but my clients as well, and many people beyond that. Even though I will most likely be sticking with smaller firms to avoid similar issues with larger firms, I will try as hard as I can to form a relationship and trust the people at the firm.

Part III

The consequences of the COVID-19 pandemic that led to the 2020 recession and the Great Recession in 2008 were similar, but the differed in their origins. Even though Americans can argue that the pandemic could have had a smaller impact on our economy, the crisis abruptly erupted in 2020 and there was no way for government officials or corporate leaders to prepare and know the impact that it would have on the economy. In contrast, the financial crisis of 2008 was systemic and included a few smaller scale crises that happened leading up to the recession. What's more, many economists warned the American people and the government about the consequences that would arise from this suspicious behavior. The 2008 crisis was caused by the corruption and incompetence in the banking systems, and the banks were not the culprit of the 2020 recession. Now that the financial system is better regulated the banks were more equipped to withstand a crisis and be a bigger part of the solution. The federal government has also had more emphatic support during the pandemic, such as the federal stimulus checks and tax cuts, as compared to the Great Recession. As of right now, we do not know the lasting impacts that the pandemic will have on the economy. However, we do know that as the vaccines begins to get released the economy is heading in a positive direction. The Great Recession was harder for the economy to recover form due to the fact that there were fundamental financial imbalances that needed to be resolved before the country could get back to its original state.

Even though the causes of these two recessions were completely different, the impact globally and nationally are similar. For example, during the height of the Great Recession 8.6 million jobs were lost, while during the pandemic more than 33 million jobs had been lost since the pandemic began in 2020 (Hansen). Correspondingly to 2020 and 2021, the government passed two stimulus packages in efforts to pave the way for controversial bank bailouts. Overall, the positions of the two economies were vastly different. 2020's economy is considerable better due to the fact that the imbalances are less pronounced, businesses and families have less debt, and the financial system has more capital and is healthier than ever before. The changes in the 2020 economy have helped the American and global economy to recover more rapidly as compared the Great Recession in 2008.

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Tesla, Inc., Week 1

Prepared By: Seth Gerus, Grace-Anne Jones, Emma Parish, Patrick Phillips, and Mary Frances Williams on February 2, 2021

After being split into groups, we had to decide on a company to study for the case. The company had to be domiciled in the United States, listed on a major stock exchange, and have been publicly traded on that exchange for at least five years. Our group chose to research and study Tesla, an electric vehicle and clean energy company based in Palo Alto, California. We chose Tesla due to the broad media coverage regarding technology and environmental regulations, Chief Executive Officer Elon Musk's extreme financial success, and the general hype surrounding Musk, especially in relation to the technology and automotive manufacturing industry.

We discovered that Tesla has had an outstanding year in terms of financials, stock performance, revenue, and profits. Tesla has been able to turn a profit for all four quarters of 2020. In addition, 2020 was Tesla's most revenue in a year and also was its first full-year profit. An important turning point for the company has been its shift toward profitability, and their success has been made possible largely due to rising sales in China and Europe as well as the addition of the Model Y sports utility vehicle, which has become the top seller in the United States.

Tesla is poised to continue its profitability into 2021 and increase its revenues due to the current climate of the auto manufacturing industry. As consumers become more environmentally conscious, they are expected to prefer electric and hybrid cars, and Tesla is a leading brand in this category. The company will also benefit from massive subsidies and favorable regulation from the United States and European governments that are eager to increase in-country production of new generation batteries. President Biden's Green New Deal proposal stands to benefit Tesla by offering governmental support for the company's renewable energy products. Additionally, Tesla subsidiary SolarCity produces and sells solar panels, and the company is expected to see growth in that sector as the US government prioritizes green energy in an effort to minimize the country's carbon emissions in the years to come.

With the rapid increase of production and the development of the new Tesla Gigafactory outside of Austin, Texas, Tesla is expecting to continue to increase its revenues in the future. In fact, Tesla managed to significantly increase annual production from 2018 to 2020 by 68 percent, mainly because of the automation of manufacturing processes, which establishes greater efficiency, but also because of the company's continued expansion. Following this trend and Tesla's objective of selling affordable vehicles while growing its amount of vehicle deliveries, we expect to continue to see Tesla dominate the automation market. There is plenty of opportunity for Tesla as electric cars look to take a greater revenue share in the future in response to growing environmental concerns.

While working on this assignment, we learned about the importance of financial analysis and how essential it is for investors to analyze 10-Q filings before investing in a stock. The documents available to us helped us to successfully determine that a company like Tesla is in a healthy financial state. We did this by simply analyzing the financial statements that are legally required to be provided to the public by the SEC and Tesla. We were really amazed at how much information we were able to gather based off of just the company's filings. In addition, we believe that the sudden rise in Tesla's stock price is justified based on our findings. Many critics of Tesla state its shares are far too overpriced because Tesla currently holds a market share of less than 2 percent. With that being said, Tesla investors believe in Tesla's future as a renewable energy company and a lifestyle company rather than just as an automobile manufacturer. We now feel like we have a better understanding of what investors are looking for in a company like Tesla.

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Tesla, Inc., Week 2

Prepared By: Seth Gerus, Grace-Anne Jones, Emma Parish, Patrick Phillips, and Mary Frances Williams on February 10, 2021

Our task was to audit Tesla's financial statements. Our group was responsible for analyzing Tesla's most recent 10-k filing and investigating it for possible risk. We used a chart that allowed us to organize the accounts that listed possible assertions that Tesla's financial statements could be missing. It was important that our group examined the footnotes of the 10-k filing in order to guarantee that Tesla was reporting accurate and reliable information to their shareholders and the public.

If we came across an account that showed large growth or shrinkage compared to the prior years, we considered that a possible risk and suggested an internal control or test that helped to verify those numbers more appropriately. We paired these internal controls with tests that would reveal data from the account and give us a better understanding of the account's activity. After these tests, we used data analytics in the form of visualization, data filtering, and automated processes to sift through the data and find trends that would point out anomalous activity and show exactly what was happening with the account.

This process was repeated for six of Tesla's seemingly risky accounts and if implemented, would allow for a visualization of data trends that would point out any anomalous activity. These data comparisons would point to trends within Tesla such as rises in debt coinciding with the construction of new Tesla plants and would probe for any possible risks. By using this audit method, our group hopes to gain insights into Tesla's account activity that we would not have otherwise.

Through analyzing the financial statements in Tesla's 10-k, we were exposed to the numerous different accounts of Tesla. While many think of Tesla as solely an automotive brand, we were able to see that Tesla has other sources of revenue as well. By looking at their income statement, we discovered that Tesla has three main sources of revenue: automotive sales, automotive leasing, and energy generation and storage revenues. Additionally, Tesla has some services and other revenue. With Tesla's advanced, cutting-edge technology, we assumed research and development would be the largest operating expense for the company; however, we were surprised to find that selling, general, and administrative expenses surpassed Tesla's expenses for research and development.

We also discovered that Tesla bases much of its valuation on estimates or subjective valuations of their assets. Tesla saw a large amount of growth in the Intangible Assets account in 2019, but this amount would be difficult to verify due to the subjective nature of the valuation of intangibles such as brand recognition. The valuation of Tesla's assets has a major impact on its balance sheet, and by reading the footnotes of the 10-k, we were able to discover the accounting methods employed by the company.

This audit activity showed us that auditing is a time-consuming process and requires a deep understanding of accounts on the balance sheet and income statement. Throughout the process, we paused our activity to recall the normal balances of certain accounts and how activity in an account would affect other accounts and the overall financial statements. Auditors must be keen on the intricacies of accounts in the balance sheet and other financial statements if they are to be successful in their careers.

We also learned that data analytics plays a major role in the audit process. Rather than sifting through thousands or millions of transactions and entries, auditors can use data visualization tools to quickly parse through data and discover trends and anomalous activity. Data tools are increasingly important instruments that auditors can use to quickly and efficiently analyze large amounts of data and perform more precise, streamlined audits.

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Tesla, Inc., Week 3

Prepared By: Seth Gerus, Grace-Anne Jones, Emma Parish, Patrick Phillips, and Mary Frances

Williams on February 17, 2021

This week we were asked to review prevalent tax laws, including the BEAT, GILTI, and CARES Act provisions, and formulate tax strategies that would legally minimize Tesla's overall tax burden. We analyzed different articles from websites such as the irs.gov and searched for ways in which Tesla could adjust its long-term strategy in order to maximize its strengths and decrease its tax burden. Our group weighed the benefits of moving Tesla's operations to low-tax states such as Texas and Florida to minimize its tax burden and compared this possibility to that of staying in California long term.

To conclude, we discussed various ways in which Tesla could decrease its tax expenses, chiefly through moving headquarters out of California and utilizing President Biden's support of electric vehicle industry manufacturing in the United States. Both of these choices by Tesla would reduce the company's tax burden in the long term, and our group believes that they are sound choices to ensure Tesla's profitability into the future.

We discovered that Tesla currently benefits from a number of tax incentives on a federal and local level. Tesla's 2020 10-K showed that the company was able to carry forward roughly $16 billion in operating losses to offset its tax expenses. These taxes were also offset by tax credits of roughly $1 billion on the state and local level. The action by Tesla to reduce its income tax demonstrates that the company has a number of strategies available to reduce its tax expenses.

Through researching the Biden administration's tax policies, we discovered that the administration wants to boost job growth efforts by creating a 10 percent tax credit for companies that are willing to invest in American workers. According to the Bureau of Labor Statistics, Tesla is below average in annual wages for workers in the refuse and recyclable material collection. Raising the annual salaries of Tesla’s employees would not only attract more skilled employees but also give the corporation a 10 percent tax credit.

We discovered that Tesla could save billions of dollars in future profits by moving to a state with little or no corporate taxes. While Tesla is still headquartered in California, Elon Musk has announced his desire to transition his company and headquarters to Texas, where there is no state income tax. This is attractive to companies like Tesla who are stuck paying high taxes that come from living in the state of California, especially because the corporate tax rate would decrease tremendously upon the move. Tesla would likely be able to generate a higher net income at a lower tax rate due to the fact that Texas omits many California-applicable taxes.

In addition, Tesla would be able to lower its overall wage expense because the cost of living in Texas is dramatically lower than the cost of living near their current corporate headquarters. An increase in the salary of an employee in Texas would still cost less than the current salary of an employee in California when adjusted for differences in cost of living. Overall, a move to a state with a lower corporate tax rate would save any corporation headquartered in California billions over the course of just a few years.

We learned how intricate and nuanced tax truly is. While it may seem like tax expense should be a simple calculation, there actually are a lot of different factors and details that go into determining how much a corporation is liable to pay in taxes. Additionally, the tax law is constantly changing, which adds to the complex nature of taxes. To pursue a career in tax accounting, one must be able to adapt and learn quickly to adjust to the ever-changing tax law. A great attention to detail also must be utilized when researching and working with tax law.

We also learned more about how tax rates may differ depending on the location of the headquarters of the company. While some taxes are incurred federally, others are required depending on the state. This can be beneficial to companies who are looking to strategically decrease taxes without making many changes to income. Tax strategy requires a company and those working with it to assess the frequent changes in the environment in which the company operates, and the company must adapt to those changes in order to maintain or exceed its level of success.

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Tesla, Inc., Week 4

Prepared By: Seth Gerus, Grace-Anne Jones, Emma Parish, Patrick Phillips, and Mary Frances Williams on February 25, 2021

Our task was to provide financial advice regarding Tesla's strategic mission to help improve the ability to reach that goal through advisory practice techniques. We first had to research the company's operations, including the location of its corporate headquarters and manufacturing facilities and the business mission and strategy. In addition to this, we researched the customers, suppliers, and strongest competitors of Tesla and discussed how we interacted with them in our operations.

Next, we were instructed to produce charts displaying values for the past five years of revenue, cost of goods sold, SG&A expense, operating income, assets, liabilities, return on assets, profit margin, and asset turnover. After analyzing trends from the charts, we discussed reasons for such trends. We were also required to analyze the two largest threats to Tesla's success and develop a plan for the company to counter the threats. Finally, we had to recompute the ROA, profit margin, and asset turnover as affected by our plan and determine how these ratios would be affected by our solutions.

We discovered that Tesla's CEO Elon Musk stated in 2006 that his strategic mission for the company is to make "affordable cars and provide zero emission electric power generation options" (Musk). So far, Tesla has been successful in this mission, and with the increasing popularity of electric vehicles, the company is well positioned to continue in its pursuit of Musk's goal of proliferating zero emission transportation.

We also discovered that Tesla's profit margin grew consecutively through the years 2016-2020, which was mainly attributed to a parallel increase in revenues. By continuing to increase the profit margin and working capital by increasing assets and revenues, the company will be able to make higher quality vehicles at a more affordable price, which will increase consumer demand.

We learned how to evaluate Tesla's 10-K filing by using various financial ratios we have learned from prior accounting courses. For example, we created an Excel spreadsheet and recorded various temporary and nominal accounts from the years 2016-2020 in order to compare each fiscal year to each other. By analyzing the revenue and assets accounts, we were able to produce the asset turnover ratio for each of the five years. The trend in asset turnover percentages shows that Tesla has been able to increase its assets the first three years, with a decrease in the two most recent years. This decline in the asset turnover rate is due to the fact that Tesla's cash and cash equivalents account increased tremendously from 2019-2020, decreasing the percentage of the ratios even though the revenues increased at a more consistent rate. However, when it comes to return on assets and profit margin ratios, Tesla was not able to produce a positive number on either of these ratios until the year 2020.

We learned that advisory work involves many different factors that must be considered when planning for the future of a company. Advisory workers must analyze the goals of the clients they work on and align their strategy for the client with the client's stated objective. The strategy that advisory workers propose to the client should take into account the situation that the client is currently in and find opportunities that the client can pursue in order to grow their business and pursue their mission. It is important to understand the client's mission and strategy because the client may not be very receptive to a plan that is not congruent with its strategic mission. In the case of Tesla, our group observed that Tesla was well on its way to achieving the goal of proliferating affordable electric vehicles and power generation, and we advised the company to pursue strategies that would defend against the threats to the company and allow Tesla to follow its mission statement.

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Tesla, Inc., Week 5

Prepared By: Seth Gerus, Grace-Anne Jones, Emma Parish, Patrick Phillips, and Mary Frances Williams on March 3, 2021

Our task for the week was to research Tesla's financial position and capital. We had to determine Tesla's stock price on the closing day of the previous fiscal year as well as the current stock price. Through obtaining data from Tesla's 10-K, we had to calculate the price-to-earnings (P/E) ratio as of the last day of the fiscal year. Additionally, we had to find Tesla's beta, growth rate, and number of analysts following the company. After completing research on Tesla's stock, we then had to identify how net income and common shares outstanding would change over several years. For each of these years, we had to calculate a projected stock price using the earnings multiplier valuation approach. Our final task was to use our new return on assets (ROA) and projected increase in stock price to demonstrate the validity of our recommended strategies while also determining any potential changes to Tesla's risk profile through implementing our strategies.

By utilizing ratios such as earnings per share (EPS), ROA, and P/E, we confirmed our hypothesis from last week that Tesla will continue to grow in capital for at least five years into the future. We also realized how much effort goes into performing a financial analysis for a company. For example, after analyzing Tesla's 10-K filing, we used the ratios mentioned above to compute forecasted variances in the company's capital accounts. This was a task that required a lot of effort because of the amount of work required to find the numbers and accounts on the 10-K and then perform the analysis on them.

We discovered that Tesla's profitability has had a notable effect on its EPS, giving the company its first positive EPS and indicating that Tesla is coming closer to realizing its corporate valuation. This means that Tesla is on a positive financial trajectory and can continue to be profitable if it can follow corporate strategy that allows it to grow in sales of electric vehicles and renewable energy. We also discovered that Tesla is a fairly risky company in the market due to the fact that their beta is 2.09, which means that Tesla will experience more ups and downs in the stock market than the average company.

Through researching the buy or sell recommendation for Tesla's stock, we discovered that most analysts recommend investors to hold or sell due to the fact that most analysts believe Tesla has good long-term prospects but believe the current price is much higher than what the stock is actually worth. Some analysts also believe there is a lot of uncertainty and potential risk in investing in Tesla because the market has high expectations for the stock and any slowdown in growth, execution problems, or lack of capital could possibly lead to a major decrease in Tesla's stock price.

While most analysts believe Tesla is overvalued in its current state, there is a strong case from analysts who are bull on the stock. One such case focuses on the fact that Tesla is not an automotive company but is instead a renewable energy company. When taking this into consideration, one can begin to see the big picture of Tesla's stock price rising. Renewable energy is certainly one of the best ways to fight climate change, and the industry is bound to see triple digit growth within the next decade. If Tesla is able to capitalize on the emerging market, Tesla's stock could skyrocket in value over the course of just a few years.

We learned that there is a large amount of research and analysis that goes into predicting the financial performance of a company. Financial analysts must have a good understanding of the environment a company exists in and the strategy for the company in that environment in order to make accurate predictions about the future of the company, and even then, their predictions are often proven wrong. Tesla is a company that has massive growth potential in the near future, and we learned that the company can increase its stock price and EPS with a strategy that fits with the current economic environment.

Works Cited

"Tesla, Inc. Form 10-K for Fiscal Year Ended December 31, 2020." *EDGAR.* Securities and Exchange Commission, 2020.

"Tesla, Inc. (TSLA) Stock Price, News, Quote & History." *Yahoo! Finance*, Yahoo!, 24 Feb. 2021.


TESLA
Tesla Inc. Case Study
Seth Gerus, Grace-Anne Jones, Emma Parish,
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Overview

About Tesla

- American electric vehicle and clean energy company based in Palo Alto, California
- Current products include electric cars, battery energy storage from home to grid scale, solar panels and solar roof tiles, as well as other related products and services

*Image Source TESLA INC.

Overview

Why We Chose Tesla

- Amount of attention the company has received over the past year
- Increasing relevance due to the uptick in sales of electric vehicles (EVs)
    - This trend is set to continue as the Biden Administration looks to promote clean energy and EV sales

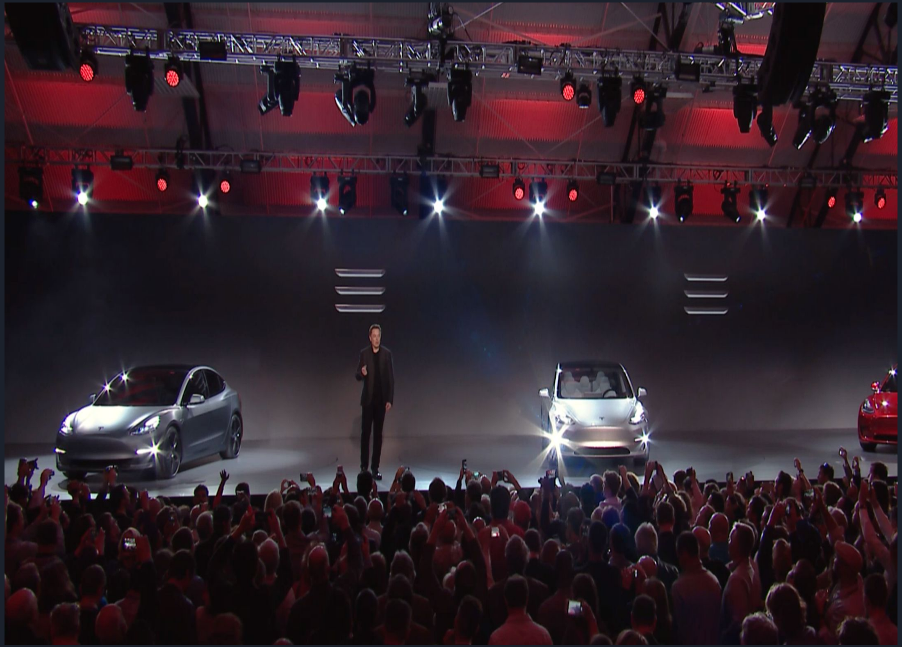
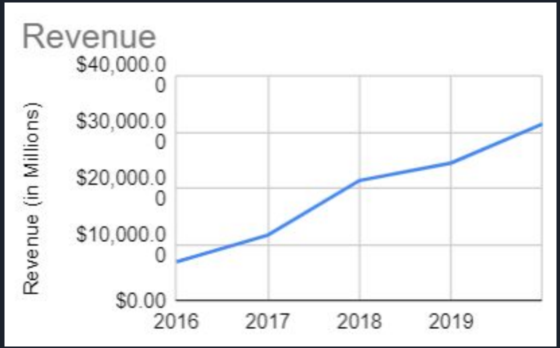


*Image Source: The Wall Street Journal

Overview

Historical Performance

- Revenues
  - 2017 $11 Billion
  - 2018 $21 Billion
- ROA
  - 2017 -5.7%
  - 2018 -1.3%



What about now?

- Revenues
  - 2019 $24 Billion
  - 2020 $31 Billion
- ROA
  - 2019 -0.2%
  - 2020 3.8%

Financials - How Tesla Performs

Stock and Ratios

- FYE 12/31/20:
  - Stock's closing price: $705.67
  - EPS: $0.77
  - P/E ratio: 913.16
- Beta: 2.09
- Forecasted growth rate:
  - Next year: 30%
  - Next 5 years: 32.10%
- Buy or sell?

Audit - Assessing Risky Accounts

Cash and Cash Equivalents

- Risk: Existence
- Very material: 18.3% of assets
- The total balance for the year 2019 doubled in amount from the previous 3 years and went from $6,268 in 2019 to $19,384 in 2020

Tesla, Inc.

Consolidated Balance Sheets
(in millions, except per share data)

	December 31, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	$ 19,384	$ 6,268

Image: sec.gov/Archives/Edgar/Data, Tesla 10-K 2020

Solution

Internal Controls

- Reconciliation in accounting systems
  - Transaction and activity reviews
  - Maximum amount of wire-transfer authorization

Data Tools

- Alteryx
  - Test the bank reconciliations completed by the company

Accrued Liabilities - Automotive Warranty Reserve

- Risk: Valuation/Presentation
- Material: The Automotive Warranty Reserve is 4.2% of liabilities
  - Critical Matter in the Audit opinion
- Tesla uses a subjective assessment to estimate future warranty claims
- Understating expenses could result in materially overstating net income

Solution

Internal Controls:

- Detailed procedures & estimates

Data Tools:

- Trend analysis
- Artificial intelligence

Image: www.smstudy.com

Resale Value Guarantees

- Risk: Valuation
- Material account 2.4% of liabilities
- Uses an estimate of “economic incentive” to value this account

Solution

Internal Controls:

- Detailed procedures
- Goal: eliminate large reversals of revenues

Data Tools:

- Trend analysis
- Artificial intelligence

Taxation - Limiting Tesla’s Tax Burden

Relocation

- Headquartered: Palo Alto, California
- California corporate tax rate: 8.84%
- Relocate operations to a state with little to no corporate taxes
  - Florida or Texas
- Moving reduces cost of living for employees, which results in paying employees less
- Overall, decreasing expenses and increasing income

Biden Administration "Made in America" Tax Credit

- 10 percent tax credit
    - Investing in American workers
- Taking advantage of these tax plans will reduce income tax owed and increase the quality and quantity of vehicles produced
- Overall, resulting in a long term increase in sales and revenue

Advisory - Finding Solutions to Impending Challenges

Challenges That Could Affect Market Share

- Quality control in manufacturing

- Future competition from large automakers

Quality Control

- Tesla consistently has the same problems on their vehicles
  - Seam gaps
  - Paint imperfections

- These problems have cost the company millions of dollars a year in warranty claims.

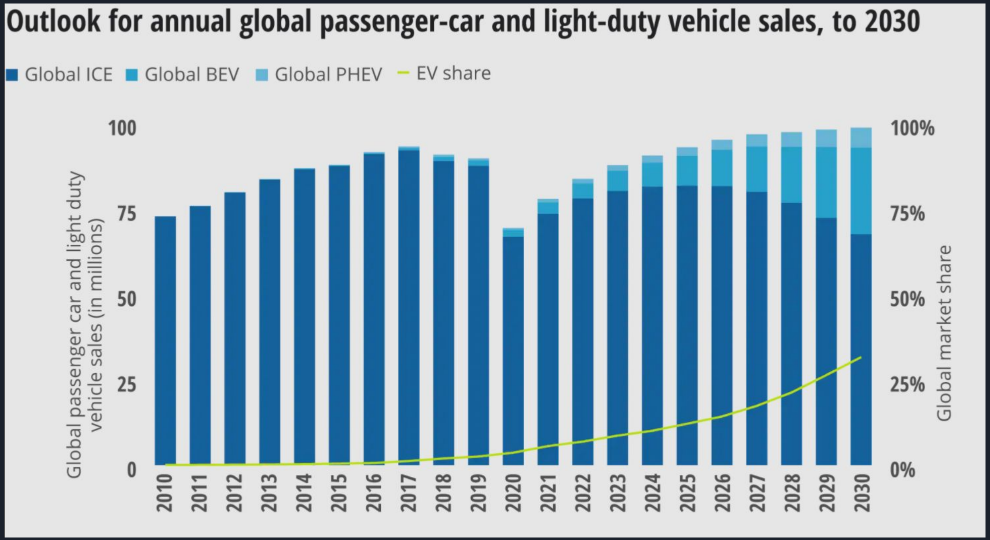
Source: teslaownersonline.com , user: ansaridrives

How to Fix Manufacturing Defects

- Double down on the enforcement of LEAN and Six Sigma Manufacturing Principles.
- If Tesla can adhere to these guidelines, they will see a significant improvement in the quality of their vehicles.
- Tesla could easily track these problems back to the source if they incentivize employees to become more familiar with MySQL, which is the ERP software Tesla currently uses.

Competition

- Historically, Tesla has had very few EV automakers to compete against.
- Many of the largest automakers in the world will be entering the market in the near future.
  - The EV market has previously consisted of less than a dozen vehicles. This will change in the next few years.



Source: Deloitte analysis, IHS Markit, EV-Volumes.com

How to Stay Competitive

- Continue to invest as heavily as possible into the R&D budget.
    - Tesla is known for innovative products - this reputation must be preserved.
- Quality Products = More Sales
    - Tesla needs to continue making quality products if they want brand loyalty.
- Battery replacement services.

Concluding Statements

- The two service lines we recommend providing to Tesla are Tax and Advisory
  - These service lines will allow us to help Tesla lower its tax burden and grow its market share

Appendix

Revenues

Profit Margin

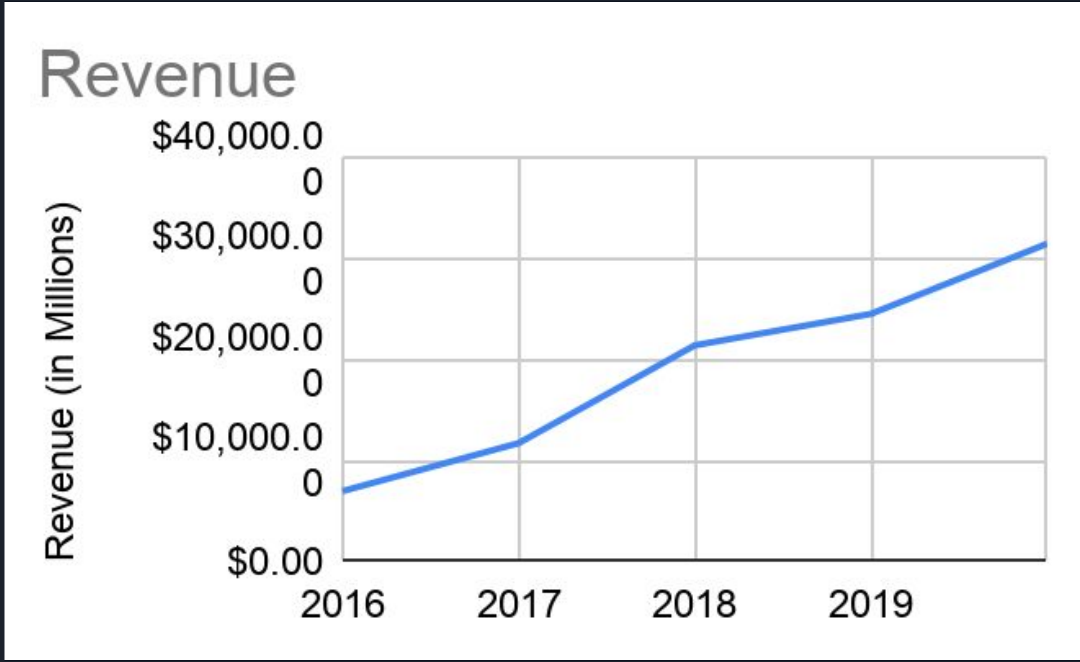
Return on Assets

Mission Statement

Tesla’s “Master Plan”

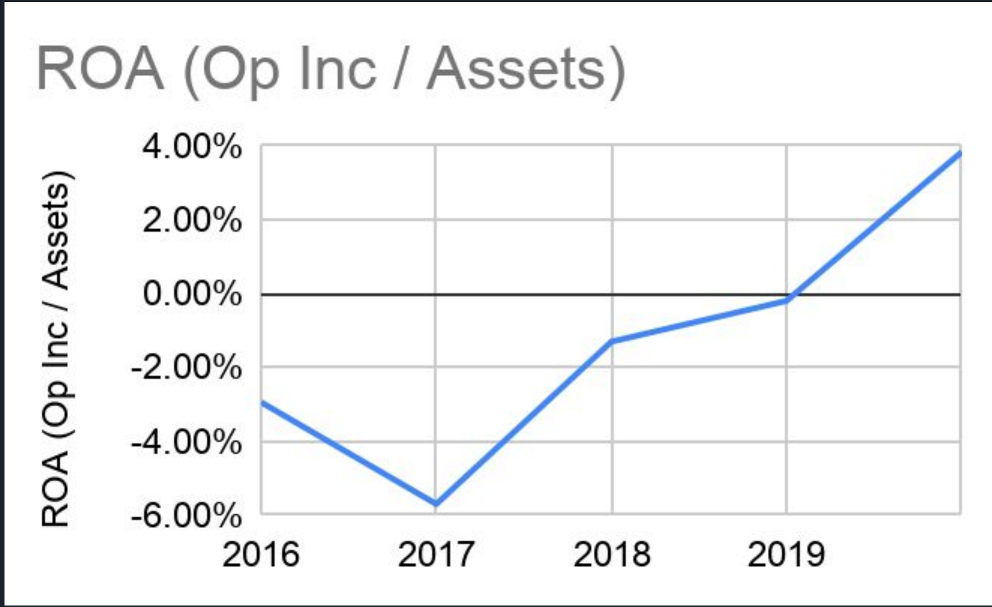
Predicted Stock Price/RoA

Revenues



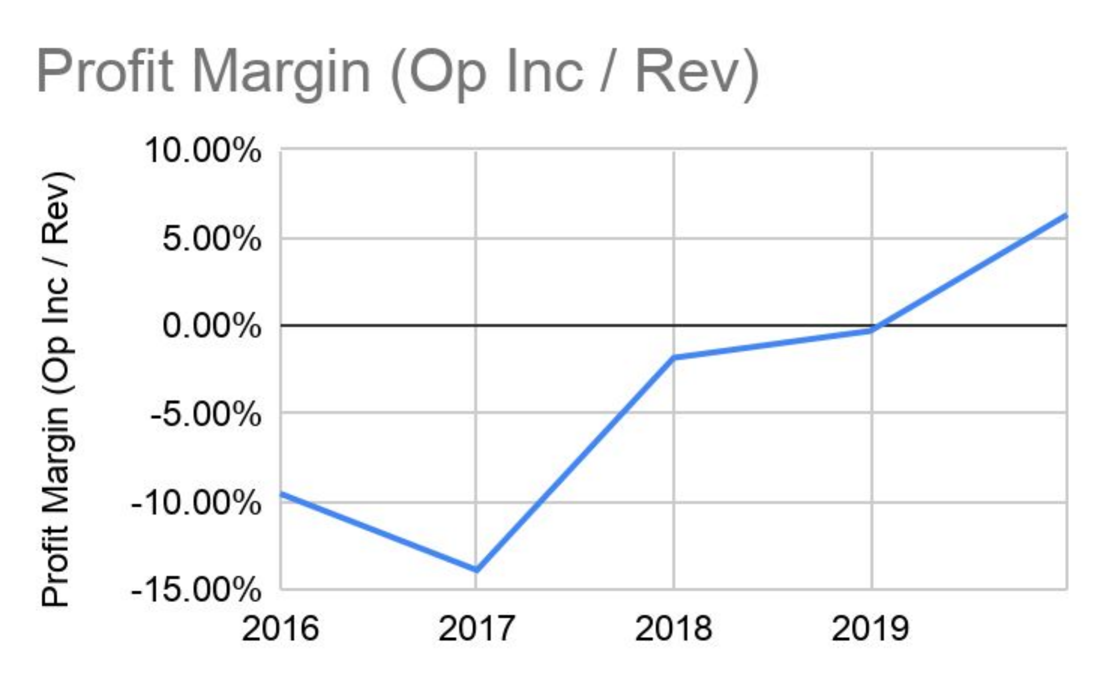
Back

Return on Assets



Back

Profit Margin



Back

Mission Statement

Tesla aims “to make products accessible and affordable to more and more people, ultimately accelerating the advent of clean transport and clean energy production”

Back

“The Secret Tesla Motors Master Plan”

“Build sports car

Use that money to build an affordable car
Use *that* money to build an even more affordable car
While doing above, also provide zero emission electric power generation options

Don't tell anyone.” - Elon Musk

Back

Predicted Stock Price and RoA

	Predicted Stock Price	Predicted RoA
2021	$820	4.21%
2022	$1066	5.11%
2023	$1402	5.94%
2024	$1801	6.37%
2025	$2341	6.85%
2026	$2658	7.01%

*values calculated by constant 30% growth with 5% variance per year

**not accounting for stock splits or other changes in equity situation

Back