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Comprehensive Analysis of Financial Accounting Through Series of Case Studies

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Comprehensive Analysis of Financial Accounting Through Series of 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

TYLER ANDERSON BURKE: Comprehensive Analysis of Financial Accounting Through Series of Case Studies

(Under the direction of Victoria Dickinson, Ph.D., CPA)

This thesis is a collection of eleven case studies that were compiled during the 2020-2021 school year. The cases studies focus on a variety of topics concerning the field of accountancy. Over a period of two semesters, the cases were researched and written independently and in a group setting. The cases studies that were written with my fellow group members resulted in a group case competition at the end of the course. This thesis was developed under the guidance of Victoria Dickinson, Ph.D., CPA.

TABLE OF CONTENTS

Case 1: City Selection Case

Tyler Burke

September 23, 2020

Introduction

In order to begin this case, each student had to determine which two cities they want to live in for pursuing their new career. After the student picked the two cities, a wide range of questions were given for the student to answer about each city. These questions helped the student obtain a large amount of information for each of the cities. Each student began the case by researching information such as the climate and population. After doing this, the questions began to go into depth asking about information such as the crime rate. This helped the student determine a safe location to live. The student then researched information about grocery stores nearby, entertainment provided in area, tax rates, rent expenses, living expenses, and travel methods within the city. This allowed the student to determine an actual living budget off of a $60,000 annual salary. The student also had to determine the price and how long it will take to travel back home by car and airplane.

For this case study, I picked Dallas, Texas and Houston, Texas as my two cities. This case allowed me to learn a lot of new information about each of the cities. I had never done research about a city this detailed before completing this case study. I was originally hesitant picking two cities that were very similar to each other. After doing the research, I am glad that I picked two cities with several similarities that are appealing to me. I learned how to determine a reasonable budget, and I also learned information about income taxes. This case also allowed me to learn how to make better sophisticated decisions. This case is a beneficial outline each student can use in order to research information for making these sophisticated decisions. After completing the case, I learned I would like to live in both of these cities in the future if I am given the opportunity.

1) What is the population?

According to the United States Census Bureau, the population of Dallas, Texas was 1.345 million people in 2018.

Houston, Texas had a population of 2.326 million people in 2018. This was also reported by the United States Census Bureau.

2) Describe the climate and seasonal fluctuations.

Dallas, Texas has a humid subtropical climate. The temperature is very tolerable, and it has a wide range throughout the year. The summers in Dallas are very hot and humid, and they have a temperature scale of around 65.5 degrees Fahrenheit and 96.4 degrees Fahrenheit. Winters are mild and not too cold. Snow is hardly seen during the winter, and the temperature has a scale of 37.2 degrees Fahrenheit and 60.8 degrees Fahrenheit. The fall and spring have the best weather because it is not too hot or too cold. Flowers begin to bloom in the spring, and a golden illusion occurs during the fall. Tornadoes occur several times throughout the year in the Dallas area.

The weather in Houston, Texas is very similar to the weather in Dallas, Texas since they are close to each other. Houston is also categorized as a humid subtropical climate. The hottest month is normally August, and the coldest month is typically January. Rainfall throughout the whole year estimates to be 50 inches. There are some dry spells in Houston, but rainfall is sufficient. Flooding is very common in Houston during May to October because the city is on a flood plain. Tropical storms and hurricanes sometimes affect the area since it is close to the Gulf of Mexico.

3) Describe the city's topography, scenery, and other geographic or geological features of the area in which the city is located.

Dallas, Texas is found in north-central Texas, 174 miles west of the Louisiana border, 70 miles south of Oklahoma, and 250 miles north of the Gulf of Mexico. Dallas is located on the rolling plains, and the city has several man-made lakes. The skyline in Dallas is very beautiful, which can be seen at the end of this paragraph.

Dallas, Texas Skyline

Houston, Texas can be found near the upper Texas Gulf Coast. The city is the ninth largest in the United States according to area. The city was built on marshes, prairies, swamps, and land with trees. Flooding is very common because the topography is flat. Houston, Texas' skyline is very large, and it is included below this sentence.

Houston, Texas Skyline

4) What are the individual tax rates within the city?

In Dallas and Houston, the effective tax rate of federal and FICA taxes are 9.59 percent and 7.6 percent which adds up to be 17.24 percent. The taxes will be $9,482, and this will result in an income of $45,518 after taxes.

5) What transportation hubs are in the city?

The Dallas/Fort Worth Airport is one of the biggest and busiest airports in the United States. The railroad industry has also been prevalent in Dallas, Texas. Dallas is also in a great location within the American highways.

Houston, Texas is home to the George Bush Intercontinental Airport. Several different forms of public transportation are provided in Houston, Texas such as buses, lift vans, and trolleys. The port of Houston ranks second in volume of cargo in the United States, and it ranks first in the United States in volume of foreign cargo.

6) What are the city's most prevalent industries? What are the city's five largest companies?

The most prevalent industries in Dallas are financial services, technology, defense, oil, and gas. Exxon Mobil, McKesson, AT&T, Energy Transfer Equity, and American Airlines Group are the five largest companies headquartered in Dallas.

Houston's most prevalent industries include the energy industry, oil industry, chemical industry, space flight, and financial services. The five largest companies based in Houston, Texas are Phillips 66, Sysco, ConocoPhillips, Enterprise Products Partners, and Plains All American Pipeline.

7) Describe the quality of the city's healthcare. Describe the quality of the city's school districts (K-12). Would you children attend public or private school?

Dallas, Texas has a great quality of healthcare. The Dallas/Fort Worth Hospital is one of the top hospitals in the United States. The healthcare and hospital have received great reviews by the US News and World Report Rating. Dallas has one of the best school districts in the country. A lot of their public schools are better than the private schools, so my children would attend public schools.

The Texas Medical Center is the largest medical center in the world, and it is located in Houston, Texas. Houston is known across the world as one of the best medical living areas internationally. Houston has very good school districts just like Dallas. Texas has some of the best schools in the country. My children would most likely attend public schools in Houston.

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

The most common crimes in Dallas are theft, drugs, assault, and burglary. Most of the crimes happen in the metro area of Dallas.

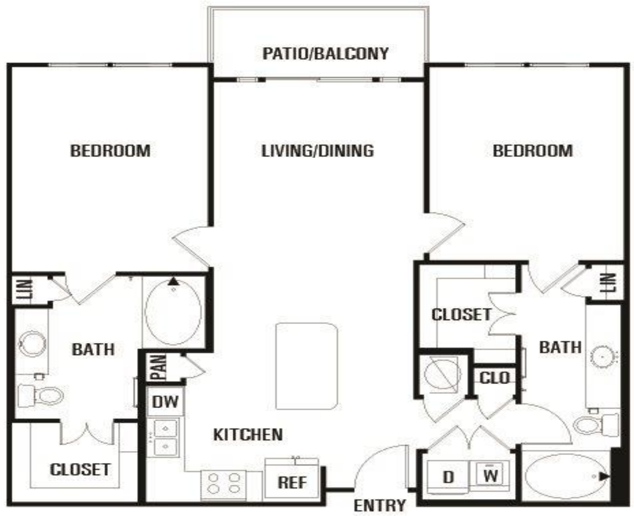
Theft, burglary, assault, and robbery are the most common crimes in Houston, Texas. The metro area of Houston is the most dangerous location.

9)Based on where you see yourself living for the first three years, how much rent do you expect to pay? Back up this assertion with sample properties from each location (including pictures). Describe the square footage, amenities, need for a roommate, availability of parking, etc.

I expect to pay close to $1,300 a month for rent in Dallas. An example of an apartment would be Lakewood flats. The apartment would be 1,059 square feet with attached garages. Several amenities are included such as two swimming pools, sundeck, dog parks, fitness center, clubhouse, package receiving, and gated access. I would like to have a roommate from Ole Miss in my apartment.

Apartment Dallas, Texas

In Houston, I expect to pay around $1300 a month for rent. Block 334 is an example of an apartment I could get in Houston. Example of amenities at this apartment would include 24-hour access to fitness center, a pool, 24-hour on-site maintenance, and parking. I would like to have a roommate in Houston. An example of a floor plan is shown below.



Houston Apartment Floor Plan

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

My typical mode of commuting will be driving my car in both Dallas and Houston. My commute times should be around 10 minutes because both of the locations I picked are near the downtown areas of the city.

11) Where will you do your grocery shopping?

I will do my grocery shopping at Whole Foods, Central Market, Walmart, Kroger, and Trader Joe’s in Dallas.

In Houston, I will shop for groceries at Central Market, H-E-B, Kroger, Walmart, and Trader Joe’s.

12) How will you do your laundry?

I will want my apartment or house to have its own washer and dryer. This is my personal preference because it is more convenient to do your laundry from your own home during your free time.

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

I would want to go to a Baptist church in Dallas while I am living there because I grew up as a Christian. Three charitable organizations that I would like to be active in are the Ronald McDonald House of Dallas, Salvation Army, and Children's Medical Center of Dallas.

It would be great if I can get involved with the charitable organization for the St. Jude Children's Research Hospital and Texas Children's Hospital in Houston. It will also be important to find a church to be active in while I am living there.

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

Professional and college sports are two of my favorite types of entertainment. Dallas has several professional sports teams. I have always grown up a Dallas Cowboys fan, so I would want to go to some of their games if I lived there. I would also like to go to a Dallas Mavericks and Texas Rangers game. I would want to get involved in a USTA adult league because I grew up playing tennis. Dallas is also building an urban park 12 times the size of Central Park. This park would be a great place to go walk or run when it is completed.

Houston, Texas also has several sports teams. I would find enjoyment joining the fan bases of the Houston Texans, Houston Astros, and Houston Rockets. Their games always seem to have a great atmosphere. USTA is big in the Houston area so joining an adult league there would be fun. Several concerts occur in Houston, and I never had an opportunity to go to many concerts growing up because there were no big stadiums near Madison, Mississippi.

15) What are the modes of traveling back to your hometown from this city? What is the average cost you'd incur for each trip back home? How long will it take to reach your home?

My hometown is in Madison, Mississippi so I will be able to either drive or fly back home. The cost for a round trip ticket from either Dallas or Houston to Jackson, MS will be around $400, and both flights will be about one hour and 30 minutes. It will take six hours and 30 minutes to drive from Dallas to Madison, and the drive from Houston to Madison will be eight hours. Both drives will cost $45 of gas for a single trip.

16) Based on your findings, develop a model monthly operating budget for each city for Year 2, assuming that with bonuses for being a high performer, your annual salary is $60,000.

My income after taxes in Dallas and Houston will be $49,036. This income will give me a monthly budget of $4,086. My rent and utilities expense will be $1,400. I expect to spend around $600 on food and drinks each month. This will leave me with a remaining balance of $2,086 to spend on personal items, entertainment, and clothing. I will put half of this in savings which will leave me with $1,043 each month to spend.

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

Dallas, Texas is going to be my preferred city. I was born in Dallas and grew up there before I moved to Mississippi, and I would like to be able to live there again. There are so many activities to participate in while living there. Dallas also a great school district that my children will be able to attend. It is a safe city, and everything is there that someone can need. My goal is to be able to move into one of the smaller cities in the suburb after living near downtown for a few years. Hopefully I will be able to pursue my career in Dallas.

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"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study."
Signed Tyler Burke

TBurke

Case 2: Financial Statement Concepts

Tyler Burke, Madison Todd, Matthew Conroy, Adam Lalejini

September 30, 2020

Executive Summary

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

Question 1

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

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

Question 2

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

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

Question 3

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

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

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

<u>Example 1 Journal Entries</u>

Entry for Purchase of Equipment:

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

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

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

Example 2 Journal Entries

Entry for Purchase of Equipment:

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

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

Depreciation Expense- Machinery	$222,727	
Amortization Expense- Versatility Premium	$22,727	
Accumulated Depreciation- Machinery		$222,727
Accumulated Depreciation- Versatility Premium		$22,727

The Honor Code:

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

Signed: Tyler Burke

Signed: Matthew Conroy

Signed: Adam Lalejini

Signed: Madison Todd

Case 3: CFI Certification

Tyler Burke

October 14, 2020

Corporate Finance Institute®

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

Tyler Burke

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

Excel Crash Course

with all the rights and privileges
pertaining to this certificate.

VERIFIED CFI™ CERTIFICATE

Certificate number
24305919

Chair of the Board

Director

Director

Oct 15, 2020

Case 4: *Taxodus*

Tyler Burke

October 28, 2020

Introduction

Case five required the student to research about offshore tax havens and how United States corporations avoid having to pay federal income taxes by using these offshore tax havens. The students were given a few paragraphs describing why offshore tax havens are used by the U.S. corporations. The corporations use offshore tax havens in order to not have to pay taxes on foreign profits that are earned. After learning about offshore tax havens, a paragraph and two articles were provided about the Tax Cuts and Jobs Act that was made by Donald Trump towards the end of 2017. The Tax Cuts and Jobs Act lowered statutory federal corporate income tax rate from 35 percent to 21 percent. This was made to decrease the amount of offshore tax havens that are used by corporations. If less corporations use offshore tax havens, cash flow will increase which will also result in an increase of investment within the borders of the United States. The student also had to watch a 53-minute documentary called '*Taxodus*.' This documentary was about the world-wide corporate tax scenario before the Tax Cuts and Jobs Act was signed by Donald Trump.

After reading all the articles and watching the documentary, the student was required to write a case study. The student also was required to answer two questions within the case study. The first question asked the student: What do you think the optimal corporate tax rate should be and why? After answering the first question, the student had to answer the following second question: Did this case increase or decrease your interest in pursuing a career in the tax service line of public accounting? Prior to completing this case study, I did not know how often these offshore tax havens were used and the purpose of them. This case study provided a lot of information about the offshore tax havens that cause large corporations to be so successful along with the impact of the Tax Cuts and Jobs Act.

The majority of large companies across the world use offshore tax havens in order to pay a smaller amount of federal income taxes. Several of these tax havens are in luxurious locations like Dubai and have several amenities. They are also locations that the wealthy would want to spend time in and buy a house, but not all tax havens are like this, such as Kenya. Many corporations within the United States use these tax havens so they will not have to pay expensive taxes on their foreign profits until they are brought back to the country. A lot of these profits are never brought back to the United States, so the corporations do not have to pay the United States taxes on them. These "deferrals" cause less cash flow to investments to be taken in machinery, equipment, and factories because they are not feasible within the borders of the United States. A higher corporate income tax rate increases the cost of capital which in result will reduce the long-run availability of capital stock and size of the economy.

These foreign tax havens increase the profit of several large corporations. The Cayman Islands, Cyprus, and Amsterdam are examples of offshore tax havens. Many corporations use a tax route of offshore tax havens in order to avoid paying high federal income taxes. Apple Incorporated pays 1.9 percent tax on foreign profits outside of the United States. If Apple did not use offshore tax havens, they would have to pay 35 percent in United States corporate income tax rate. They send their profits to the Netherlands for a lower corporate income tax rate, and the Netherlands intellectual properties has a 1.1 percent tax. After being in the Netherlands, their reduced profits are then sent to Ireland because their corporate income tax on profits is 12.5 percent. The profits are then sent from Ireland to the British Virgin Islands with a zero percent tax on profits. This tax route Apple uses is used by several corporations, and it is called the Double Irish Dutch sandwich tax route.

Netherland has the most tax treaties in the world, and this with combination of very low tax rates on intellectual properties causes 91 of the 100 largest companies in the world to run their revenue through the country. Walmart has six entities in the Netherlands even though they do not operate there. Walmart operates in other locations in Europe, and they route their capital flow through the Netherlands for tax advantages. Starbucks reports losses in the United Kingdom, but they also ship their profits to the Netherlands for a lower tax rate. Kenya is another popular offshore tax haven because they offer an initial 10-year tax break, but the corporate tax rate then increased to 25 percent which is common on the market after the 10 years have surpassed.

Towards the end of 2017, Donald Trump signed the Tax Cuts and Jobs Act as a result of these corporations using offshore tax havens. This law lowered the statutory federal corporate income tax to 21 percent from the previous 35 percent tax rate. By lowering the tax rate, several corporations will not use these offshore tax havens as often to avoid paying the corporate income tax rate. Lower tax rates can also increase workers' wages. The Tax Cuts and Jobs Act was made to improve incentives in the United States economy, encourage taxpayers to work more, and invest more for the future. Productivity, wages, and the size of the economy are also expected to increase as a result of taxes on capital and labor being lowered. A lower corporate tax rate will reduce the cost of capital, and investments that were not obtainable previously because of the cost of capital will now be pursued. Capital stock will increase as a result of corporations beginning new investments in categories such as machinery, equipment, and factories. Since capital stock is becoming larger, worker productivity will increase which leads to a greater output and higher wages. The Tax Cuts and Jobs Act also resulted in 100 percent bonus depreciation. This allows businesses to deduct the full cost of short-lived assets immediately.

The 100 percent bonus depreciation provision will be in effect for five years until it slowly decreases towards the end of 2022. The provision will decrease by 20 percent each year beginning in 2023. As a result, businesses will want to make their investments sooner since they can deduct the full cost, and this will cause investments to more forwards with faster growth in earlier years. The 100 percent bonus depreciation is going to produce long-run economic growth.

After Trump signed the Tax Cuts and Jobs Act, the number of job openings increased vastly with 7.3 million jobs in March 2018. This number of jobs was enough for every unemployed American to have a job. This also was the first time there has been a job opening for every unemployed American ever since job openings were begun to be tracked in 2000. The unemployment rate also reached a 50 year low of 3.7 percent in November 2018. Several small and business independent owners are becoming motivated to enlarge their business due to the tax reforms. The American economy is at an unemployment low, wages are rising, and the people of the United States have money to support their families as a result of Trump's tax reform.

Joe Biden wants to raise the corporate statutory rate to 28 percent after Donald Trump just lowered it to 20 percent. If Biden increases the corporate tax rate, the large corporations will go back to using offshore tax havens which will cause job openings and wages to decrease. I believe that the corporate tax rate in the United States should stay at 20 percent. It takes time to see significant changes in our economy as a result of the Tax Cuts and Jobs Act. If we increase the tax rate from 20 percent, it will halt and potentially prevent the projected growth of our economy. Some people argue that our economy is not in shape right now, but they do not know about the projected growth that will occur in our economy once the coronavirus pandemic gets resolved. For instance, our economy was projected to be 1.4 percent over baseline in 2020 before the coronavirus occurred. By 2025, our economy will be 3 percent over the baseline. After the

100 percent bonus depreciation begins to phase out, the size of our economy will stop growing rapidly and begin to decrease. For instance, the economy's will be 2.8 percent larger in 2027. Gross domestic profit is also projected to increase by 5.3 trillion in 2027.

If the corporate tax rate stays lower, these large corporations will continue to invest more within the borders of the United States which will result in our government and economy earning more money from taxes. The reason all these large corporations send their profits to offshore tax havens where tax rates practically do not exist is so they do not have to pay excessively high corporate tax rates. When the tax rate was at 35 percent, almost every large corporation sent their profits to offshore tax havens in order to avoid having to pay high corporate taxes. Since our corporate tax rate was decreased to 20 percent, these large corporations are now able to begin new investments in the United States as a result of the lower corporate tax decreasing our cost of capital. It was not fair to the people of the United States having to pay these tax rates, and the large corporations were avoiding the tax rates by sending their profits to offshore tax havens. Our economy and country were not making the money that they deserved by letting these corporations perform within the borders. I believe that profits should be taxed in the countries where the economic activity takes place that drives these profits. Most taxes pay for the infrastructure, schools, public safety, and legal systems, and the profit of these large corporations are dependent on those services.

I found this case very interesting because I did not know how often all these large corporations were using offshore tax havens. Before the case, I never believed offshore tax havens were extremely prevalent. I assumed most corporations pay their taxes for performing activities within the borders of countries. This case has increased my interest in pursuing a career in the tax service line of public accounting. It was interesting to research and learn about the effects that the corporate tax rate has on the economy of the United States. All of these large corporations stay dominant by taking advantage of other nations lower corporate tax rates. It would be interesting to research more about the corporate tax rate of offshore tax havens, and the effects that these tax rates have on corporations.

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study."
Signed Tyler Burke

TBurke

Case 5: Business Interview

Tyler Burke

January 27, 2020

Introduction

For the mentorship interview case study, each student had to interview someone in the business community. The person had to be established in their career or retired. I decided to interview Ted Burke who is my grandpa. After interviewing Ted, I wrote a biography about his life along with the advice he gave me throughout the interview. Ted Burke was born on September 14, 1944, and grew up in Mobile, Alabama. He began working at the age of 12 because he grew up within a working-class family. Ted also loved being a part of his high school band, and he was elected the drum major his senior year. After graduating high school, Ted attended the University of Mississippi and majored in business. He began working for Xerox Corporation after college for 12 years. Xerox began to lose their patents which resulted in Ted wanting to find another job. He became the president of Midtown Restaurants, which was a corporation that franchised 70 Burger Kings all throughout the southeast of the United States. Ted retired very early at the age of 55 when Midtown Restaurants sold their restaurants to Burger King Corporation. He has spent the rest of his life volunteering and picking up hobbies such as golf since retirement. Ted's favorite part about working that he misses was the interactions he made with employees and customers.

I enjoyed the idea of writing this case study and interviewing Ted because not only did I get to learn more about grandpa's life, but I also learned several valuable lessons from him. The lesson he told me that stuck out the most was to find a job that you are passionate about where you can work with people daily. If you do not enjoy your job along with not being able to make friends, it will be hard to enjoy life regardless of how much money you make. People will find happiness from doing what they love and being around people that they can interact with daily.

I interviewed my grandpa, Ted Burke, over the holiday break of 2020 for this case study. He began the interview by telling me about his life growing up before he started college and his career. Ted was born in Panama City, Florida on September 14, 1944, and grew up near Mobile, Alabama. Ted came from a working-class family, and both of his parents worked. He began working at a young age and that allowed him to realize the value of being conservative throughout life. Ted always enjoyed working, and he began working when he was around 12 years old. He had jobs such as putting the mail up, and he spent time working in an office supply, men's shoe store, and sales and bearish positions. One of the most important things he took value in was investing wisely. The best advice he ever got was from one of his college professors. His college professor told him whatever you make money-wise, whether it's high income or low income, always pay yourself first. Ted told me he recommends everyone should put about 10% of their money aside first in savings or in some type of investment for yourself. If someone realizes they cannot make that type of investment any longer, the person should re-evaluate their spending habits and determine if too much of their money is being spent. One of the main things Ted enjoys is being around people. The interaction with his 400 classmates in high school was one of the things he loved. He was in the band throughout high school and got to be the drum major his senior year. Along with being on the band, he also served on committees such as the student council, where he was elected officer of the city. He enjoyed all of his pre-school through high school years and established many long-lasting friendships. Ted learned the importance of getting along with people and having friends throughout these years. He told me people are what will bring happiness, and that it does not matter how much money someone makes or how high they make it up the corporate ladder if they do not have friends to bring them happiness in life.

High school allowed Ted to realize the importance of education in regard to his future. He graduated from the University of Southern Mississippi, and the main reason he went there was because it was the closest school to his hometown. Southern Miss was about 90 miles away from Mobile. He was also fortunate enough to go to a music camp at Southern Miss at the end of his junior year of high school, which made him want to be a member of the Southern Miss band. Ted was the only person in his family to attend college. Initially, he went to Southern Miss because of their music school and had plans of majoring in music. Ted joined a fraternity which allowed him to enjoy the social life at Southern. Even though music was easy for him, he realized that he wanted to pursue business. He learned the value of business and making money during his teenage years which led him to determine that was his primary interest. After graduating, Ted was undecided as to what he was going to do or where he was going to work. He said he was very fortunate to have a couple of job offers from big corporations which led him to being involved in the corporate world and making the best decision of his life.

Ted was hired by Xerox Corporation after graduating from the University of Southern Mississippi in 1966. At the time, Xerox and IBM were two of the most prestigious corporations in the United States because they were involved with the early stages of technology, and they were years ahead of other corporations. Xerox had several patents during this time period. Ted started off in sales with Xerox Corporation and covered the Florida panhandle region. After that, they moved him over to the Mississippi Gulf Coast and he was responsible for NASA and Litton in Pascagoula at the Air Force base. All of their business was being done through Xerox, and Ted was the marketing representative for that area. He was relocated to Jackson, Mississippi where he was made the sales training manager. Ted loved this position because he went to various college campuses such as Ole Miss, Mississippi State, and Southern Miss and recruited people who were interested in sales for Xerox. After spending several years in Jackson, Xerox sent Ted back to the Gulf Coast, and he spent three years as manager of sales for the Gulf Coast area. All the salespeople in places such as Pensacola, Mobile, Biloxi, Gulfport, and Bay Saint Louis reported directly to him. While he was in that position, Ted realized during a meeting in Rochester, New York that Xerox was losing their patents, and the company was changing from when he first started working for them 12 years prior. Ted ended up going into a company that was called Midtown Restaurants. He had a close friend that owned McDonald's restaurants and talked to him about what the job entailed. He then started talking to another friend, Murry Evans, who owned about 15 Burger King restaurants. Murry talked Ted into working with him instead of taking the chance of wasting his money by franchising and not liking the business. Ted was made the president of Midtown Restaurants within a year and became an operating partner. Midtown Restaurants expanded from 15 restaurants to about 70 restaurants in a short period of time. They had restaurants from Texas all the way to south Florida. Ted and Murry ended up deciding that they wanted to sell out. They looked into doing a merger with another company out of Nashville which would have given them around 150 restaurants total. They would have run all the restaurants out of Mobile. This did not happen, and Burger King Corporation bought all their restaurants when Ted was 55 years old. He was very fortunate and blessed which enabled him to take retirement at an earlier age. The biggest thing he missed about the corporate world was the interaction with people and being able to watch the company grow. If someone asked Ted if he was going to be in the hamburger business when he graduated college, he would have said no way because he thought he was going to be with Xerox the rest of his life.

Ted's first year out of retirement was a tremendous adjustment. He looked into several different things and started volunteering a lot. He took up hobbies such as golf, which he never played until he was 55 years old. Ted said he has been very blessed with being able to travel a lot while he was working and during retirement. He was fortunate enough to go to places such as Spain, Austria, Germany, Greece, Switzerland, Hawaii, and Canada throughout his years of working and retirement. One of his favorite places he has traveled to is Italy. While in Italy, he visited Al Capri, Sorento, Portofino, Rome, and Florence. He has been to Italy a few times and has also taken a cruise there before. He also enjoyed going to California after retirement and playing golf at Pebble Beach.

Ted told me he had two different things he wishes he could change about his life. He said he would not have retired as young as he did because he misses the interaction of people through the corporate world. Ted also wishes he was a better student when he was in school and studied harder. He said he would not have amounted to anything if he was not good at interacting with people. I also asked Ted for advice that he could give to my generation. He said that it is very important to pick something that you will enjoy and not spend your lifetime working strictly for money and hating your career. It is very important to pick something you are excited and enthusiastic about because money will come if you work hard and stay committed. He also said it will shock everyone how fast the next 35-40 years will go by when you are 21 years old. The one thing Ted is most proud of is his wife, Linda Burke. He said she has been a wonderful wife, mother, and grandmother. Ted said that the biggest challenge for our generation will be the competitive market because technology has advanced so many things around the world. We are not competing with just our local area due to technology. He believes the main idea everyone needs to follow to be successful is to stay focused in a positive manner and not think about past mistakes. We also need to stay concentrated on what we have accomplished so far in our lives and how fortunate we are to live in the United States. Ted concluded the interview by stating that the job opportunities are greater than before for those who are willing to work for them and endure the ups and downs throughout life.

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

JBurke

Case 6: Case Competition – Alphabet

Overview

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

February 3, 2021

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

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

Based on the consolidated notes Alphabet has included in their 2020 financial statements, Google's

> "revenues are primarily derived from online advertising, the market for which is highly competitive and rapidly changing. In addition, [Google's] revenues are generated from a multitude of markets around the world. Significant changes in this industry or changes in customer buying or advertiser spending behavior could adversely affect [their] operating results" (Securities and Exchange Commission).

Although the advertising market sees rapid changes, the substantial market share occupied by Google allows the company to hold a secure position going forward. If the company's revenue were to fluctuate in the near future it would more likely be from the result of lawsuits or other imposed regulations from the US, where 46 percent of the company's revenue is generated, rather than fluctuations in the global advertising market as a whole. However, Alphabet has faced increased scrutiny from regulatory agencies as a result of their extensive influence on consumers (Securities and Exchange Commission).

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

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

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

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

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Signed _____ Kaitlin Seiberlich ___________________

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Case 7: Case Competition – Alphabet

Audit

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

February 10, 2021

Introduction

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

Marketable Securities

This account is large in size, making it susceptible to misstatement, fraud, and incorrect valuation. With regards to misstatement, we need to verify the securities being counted. They should have expiration dates of no greater than 12 months and no less than three months. They should be mostly low-risk-bearing investments. This can be done by reviewing the accounts, security information, and more physical testing. With regards to fraud, we need to verify that every security accounted for does indeed exist. Finally, we need to verify the valuation techniques used for these securities and make sure they are using the proper techniques. The risks associated with misstatement would be grave. The marketable securities account is a current asset, making it very valuable to some key financial ratios, including the quick test, current ratio, and many more. Therefore, investors could potentially be misled about the company’s financial performance if the account is not accurately represented.

For the first internal control, we recommend the strict investment monitoring of all investments undertaken. Just like independence for auditors, we believe the treasurers in control of disbursements should have no conflicting interests. In order to mitigate risk in valuing securities, we recommend that the securities purchased be of large corporations or governmental. Other securities are viable options for purchasing, but they can present an elevated level of risk in terms of valuation. For the second internal control, we recommend that there is a separation between the person responsible for disbursement, the person that makes the investment decision, and the person that makes the accounting entries surrounding the investment. This will help to eliminate fraud.

For the investments account, we can test by confirming that the balances are correct by vetting the general ledger. Additionally, we can inspect period-end activity for proper cutoff; this will help to verify that the securities belong in the three-to-12-month window. Finally, if there are any unusual investment types, we can use a securities specialist to confirm the company's asserted valuations are not material (Hall p. 2, 2020).

We can sift through transaction-level data with Alteryx and use auditing software such as IDEA to look for patterns in investment data. Therefore, if something sticks out, we can investigate it further and worry less about the typical transactions.

<u>Accounts Receivable</u>

Accounts receivable is another vulnerable account, as companies can misstate it to boost their financial performance. The risks could be severe; with no money flowing in from fraudulent AR, the company could face solvency crunches. Additionally, we want to verify the company has taken Covid-19 into account for valuing its bad debt expense.

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

Finally, when auditing, we need to verify multiple accounts, including the general ledger matching the account balance, current account receivable values, cash receipts, and the allowance for doubtful accounts. For the first three, we need to verify that the account balances line up across several areas, including receipts, customer verifications, bank reconciliations, and more. For the latter account, we need to verify the allowance is large enough to properly value the doubtful accounts that will occur (Bragg p.2, 2020).

For this account, transactional data will be highly pertinent. Using Alteryx would help us greatly in analyzing the accounts used and sifting through every transaction. This will help us to ensure accuracy, prevent fraud, and make sure accounts are accurate.

Property and Equipment, Net

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

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

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

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

Accrued Expenses and Other Current Liabilities

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

One preventative internal control that could be implemented would be to require additional approval for recording an expense or current liability over a chosen monetary value. This will also require multiple people to acknowledge its existence and deter single employees from creation of expenses. Another reason this account should be tested is that a corporation could understate expenses and liabilities in order to artificially inflate net income. A detective internal control that Google could implement for this issue would be to mandate that managerial adjustments of a certain size are reviewed to deter earning management resulting from pressure to reach net income goals.

A substantive test that could be used for accrued expenses would be to select a sample of entries that represent large expense accruals and confirm the transaction price with the vendor directly in order to verify the expense both exists and is reported at the correct value. The purchase and receiving ledgers can also be used to identify whether expenses have been recorded in the correct period. Additionally, matching purchase orders, receiving reports, and invoices with their recorded expense will ensure all expenses are being properly disclosed in order to combat earnings management. Data analytics could be used to filter for transactions large enough to be material or highly unusual compared to past periods in order to spend the most resources on the riskiest transactions.

<u>Revenues</u>

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

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

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

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

Cost of Revenues

Cost of revenues can be valued improperly, on purpose or by accident because it is a very large account at an amount of nearly $85 billion. This account can easily have valuation mistakes with all of the inputs. Alphabet is a global company with cost of revenues that are dispersed around the entire world, and they must be accurately compiled into one report. The cost of revenues can also be “incomplete” in an effort to increase profit margin and hide costs. Cost of revenues could be improperly presented in order to make them harder to find. If a company has exceedingly high cost of revenues, perhaps they will be hesitant to have that number presented front and center of a financial report.

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

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

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Signed Noah Nix ______________________________________

Signed _____ Kaitlin Seiberlich ___________________

Signed Sean Fitzhenry

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J Burke

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Case 8: Case Competition – Alphabet

Tax

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

February 17, 2021

Introduction

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

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

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

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

One possible solution for Google to save on taxes would be to take advantage of Joe Biden's "Made in America" tax credit. This will be a 10 percent advanceable tax credit for companies making investments that will create jobs for American workers. The Biden-Harris administration is looking to not only penalize companies that implement an offshoring strategy of American jobs, but also to reward those who invest and create in the United States. Alphabet, Google's parent company, is currently in the process of entering the self-driving automobile industry through one of its subsidiaries, Waymo. Alphabet could take advantage of the "Made in America" tax credit by constructing manufacturing plants located in America and, therefore creating American jobs that would otherwise be foreign. By doing so, Alphabet would avoid Biden's 10 percent Offshoring Penalty surtax as well as receive Biden's "Made in America" tax credit.

Another tax solution for Alphabet to utilize is more effective use of the California Research and Development (R&D) Tax Credit. This tax credit allows for business entities to deduct a portion of their research and development expenses from their taxable income, thus reducing their total tax liability. Currently, in Alphabet's financials, there are approximately $3.7 billion in tax credits to be carried forward indefinitely. However, Alphabet does not expect to utilize the full amount, so an allowance account has been created. Given the constraints of the COVID-19 pandemic, Alphabet may be able to shift employees from other locations to California to more effectively take advantage of the R&D credit. By being designated as working from California, despite working remotely, Google should be able to increase eligible R&D expenses without moving employees from their current non-Californian residences. As a result, Alphabet will be able to more effectively take advantage of this tax credit by increasing total eligible R&D expenses incurred in California.

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Signed:

Signed Noah Nix

Signed Kaitlin Seiberlich

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Case 9: Case Competition – Alphabet

Advisory

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

February 24, 2021

Introduction

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

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

1. Answer the following questions about your company's operations:

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

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

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

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

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

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

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

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

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

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

2. Using Excel, produce charts displaying the following values for the past five years. Comment on the reasons behind any trends you observe.

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

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

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

3.1 What are the company's two biggest threats to the company's success?

(1) Google relies heavily on advertising and advertising-related projects for profits, as it currently produces 83 percent of its revenue from the industry. As advertising space is currently extremely competitive, cyclical, and reliant upon the state of the macroeconomy, there is growing competition to Google (Mistry). Companies such as Facebook, Amazon, and Snapchat are capturing their own slice of the advertising market (Mistry). With the growing competition, Google faces a threat of losing its dominant share in the advertising arena that serves as the

source for the vast majority of its revenue. Additionally, Google misses out on the market share of highly regulated countries like China and Russia due to noncompliance with censorship demands.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Recompute the company's ROA, Profit Margin and Asset Turnover for all future years affected by your solution implementation (up to five years in the future). How does that implementation of each action plan impact these ratios? If you cannot show a favorable outcome for at least some future time period, your solution is not acceptable and begin again.

Our results from the proposed implementation of the aforementioned solutions are provided in Image 1-5 in the appendix. After computing the effect of our solutions, the most significant difference is the increased profitability of Alphabet. The other ratios are impacted in a perceivably negative way due to the one-time increase in assets from spinning off YouTube, but we project impacts to revert back to values seen in the previous five years. Ultimately, the two solutions will have a very favorable impact on Alphabet's overall financial condition.

Appendix

Alphabet Financial Information					
Year	2016	2017	2018	2019	2020
Revenues	$ 90,272	$ 110,855	$ 136,819	$ 161,857	$ 182,527
COGS	$ 35,138	$ 45,583	$ 59,549	$ 71,896	$ 84,732
SG&A Expense	$ 17,470	$ 19,765	$ 23,256	$ 28,015	$ 28,998
Operating Income	$ 23,716	$ 26,146	$ 27,524	$ 34,231	$ 41,224
Assets	$ 167,497	$ 197,295	$ 232,792	$ 275,909	$ 319,616
Liabilities	$ 28,461	$ 44,793	$ 55,164	$ 74,467	$ 97,072
Return on Assets	14.16%	13.25%	11.82%	12.41%	12.90%
Profit Margin	26.27%	23.59%	20.12%	21.15%	22.59%
Asset Turnover	53.89%	56.19%	58.77%	58.66%	57.11%

Image 1-1

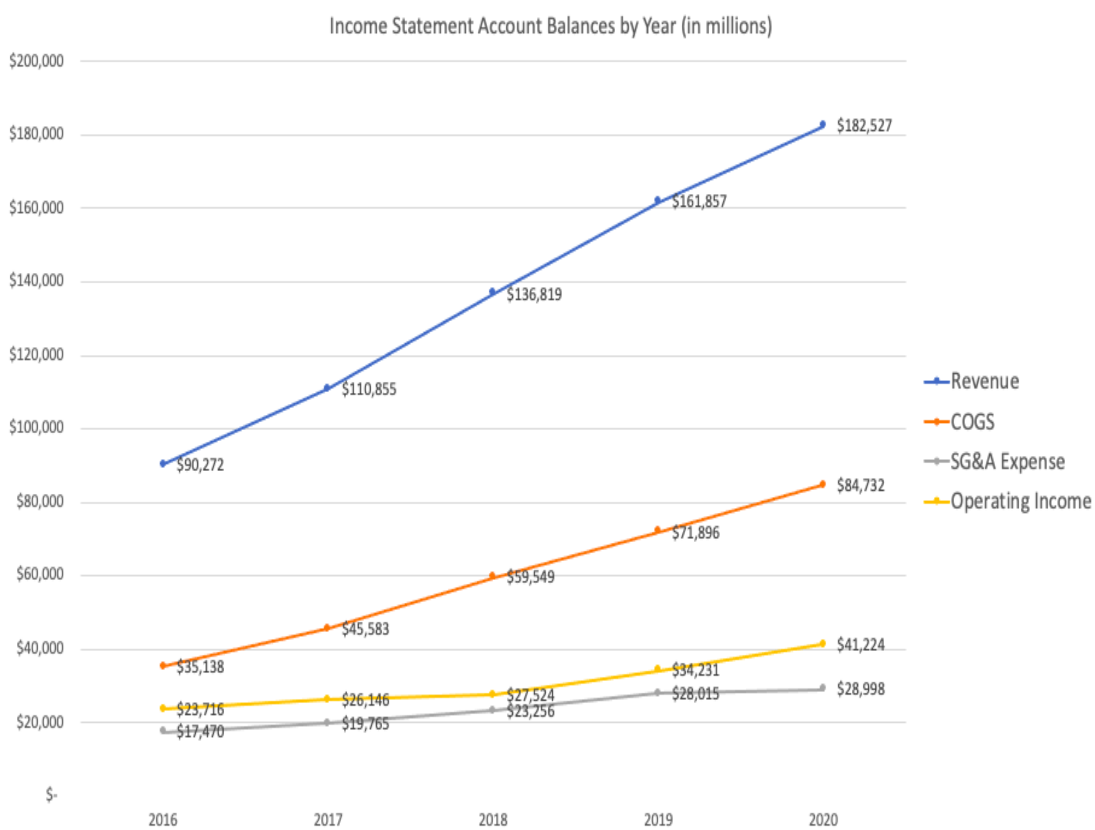

Image 1-2

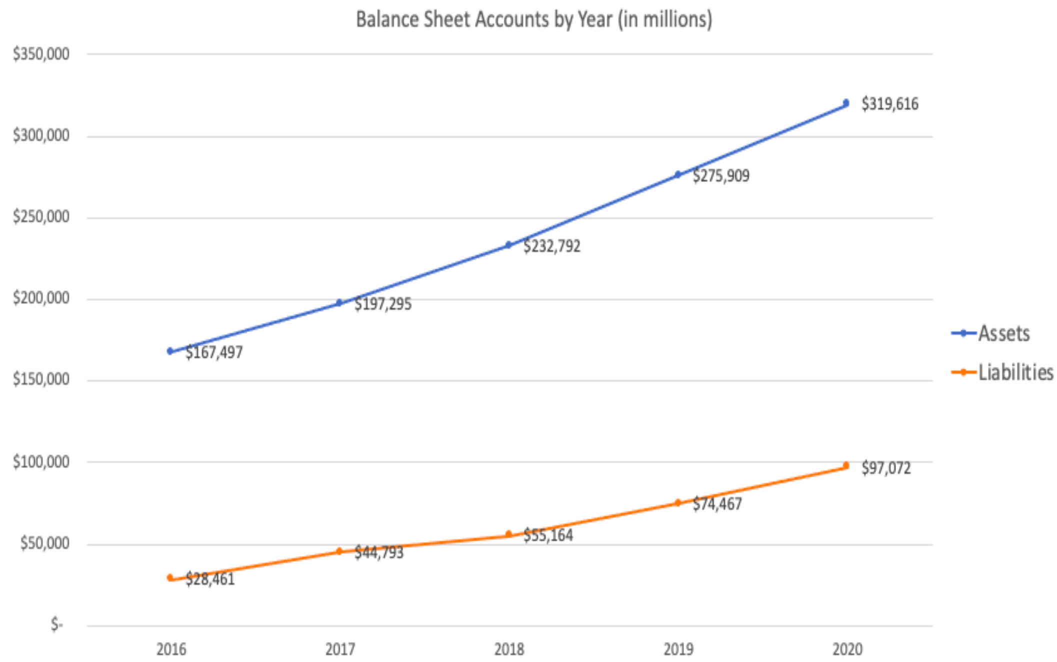

Image 1-3

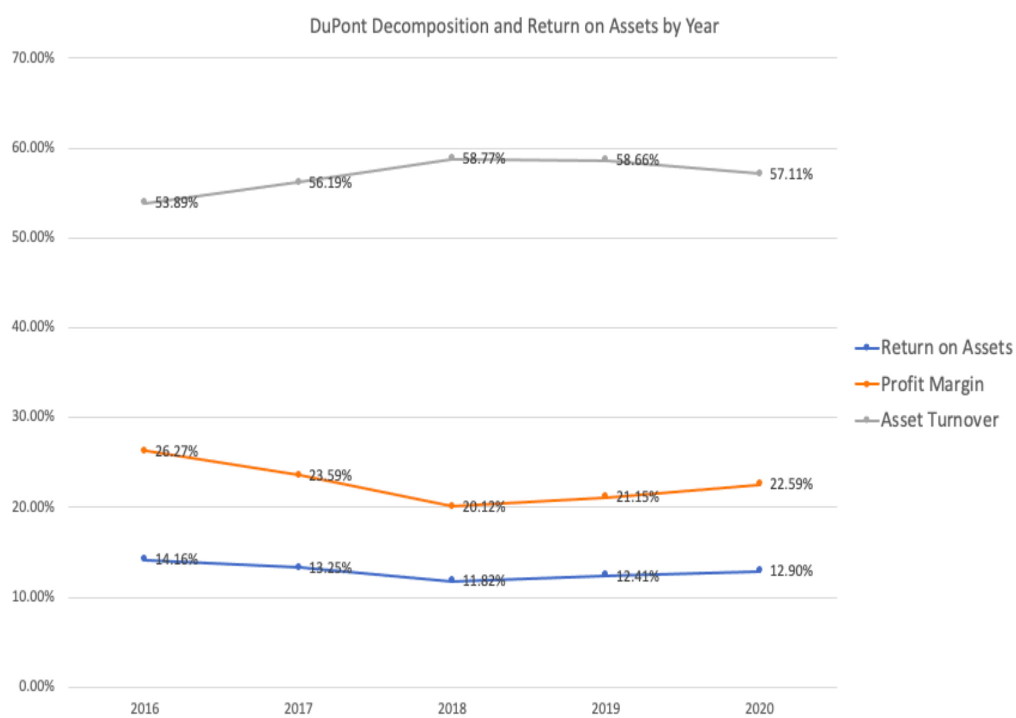

Image 1-4

Alphabet Financial Information with Projections										
Year	2016	2017	2018	2019	2020	2021P	2022P	2023P	2024P	2025P
Revenues	$ 90,272	$ 110,855	$ 136,819	$ 161,857	$ 182,527	$ 192,127	$ 203,179	$ 215,901	$ 230,548	$ 247,409
COGS	$ 35,138	$ 45,583	$ 59,549	$ 71,896	$ 84,732	$ 75,332	$ 89,833	$ 107,124	$ 127,744	$ 152,334
SG&A Expense	$ 17,470	$ 19,765	$ 23,256	$ 28,015	$ 28,998	$ 30,091	$ 33,301	$ 36,852	$ 40,783	$ 45,133
Operating Income	$ 23,716	$ 26,146	$ 27,524	$ 34,231	$ 41,224	$ 46,044	$ 51,427	$ 57,440	$ 64,156	$ 71,657
Assets	$ 167,497	$ 197,295	$ 232,792	$ 275,909	$ 319,616	$ 519,616	$ 530,008	$ 540,608	$ 551,421	$ 562,449
Liabilities	$ 28,461	$ 44,793	$ 55,164	$ 74,467	$ 97,072	$ 95,072	$ 96,973	$ 98,913	$ 100,891	$ 102,909
Return on Assets	14.16%	13.25%	11.82%	12.41%	12.90%	8.86%	9.70%	10.63%	11.63%	12.74%
Profit Margin	26.27%	23.59%	20.12%	21.15%	22.59%	23.97%	25.31%	26.60%	27.83%	28.96%
Asset Turnover	53.89%	56.19%	58.77%	58.66%	57.11%	36.97%	38.34%	39.94%	41.81%	43.99%

Image 1-5

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

Matthew [illegible]

Signed:

Signed Noah Nix ______________________________________

Signed _____ Kaitlin Seiberlich ___________________

Signed Sean Fitzhenry

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J Burke

Signed ______________________________________

Case 10: Case Competition – Alphabet

Earnings, Stock Price, and Analysis

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

March 3, 2021

Introduction

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

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

Our group then identified how Google's net income and common shares outstanding will change over the recommendation horizon. In order to successfully complete this task, we needed to calculate a new expected stock price using the price-to-earnings ratio and projected earnings per share. Lastly, we employed a return on assets (ROA) analysis to indicate the validity of our tax and advisory strategies for Google. In our proposal, the liquidation of YouTube will cause the ROA to decline within the year, but then it is expected to steadily increase over the next five years.

While we calculated an expected stock price of $1,106.33, we strongly disagree with the outcome the model projects. The model does not factor in the distortions that divesting YouTube will have on the balance sheet. The model calculates the expected stock price only based on the earnings per share (EPS). While we anticipate strong EPS growth following 2021, we understand that revenue slippage from the recommended disposal will impact our net income moving forward. In return for this slippage, we will be capitalizing our gains, and possibly considering distributions to shareholders. Shareholders will account for these potential dividends by maintaining the price-to-book ratio (P/B), which would be a better indicator of our stock price. The current P/B ratio is 6.85, so, if we capitalize on YouTube, we will see a share price of $4,215. However, this P/B is influenced by their earnings potential, so we would need to backtrack this P/B to a minimum of 3.5, given the decrease of earning potential by roughly 10 percent, which gives us a share price of $2,175. This share price is most likely a good estimate of what we would see.

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

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

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

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

The price-to-earnings ratio as of the last day of the fiscal year was 29.87. This was computed by dividing $1,751.88 by 58.61.

c. What was your stock's closing price from today?

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

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

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

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

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

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

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

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

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

The recommendation lies at a 1.5 on a scale of one to five, with one meaning it is rated as a "strong buy" and five meaning it is rated as a "sell". Based on the 1.5 rating, we can conclude the recommendation is to buy Alphabet stock.

3. Identify how your net income and common shares outstanding will change over your recommendation horizon. For example, if you plan to suggest that the client issue equity to implement your tax and advisory recommendations, then this value should increase over time accordingly.

a. ***For each future year that your net income and/or shares outstanding change, compute a new expected stock price as follows: Projected stock price = Your P/E ratio from 1(b) * Projected EPS Note: this method is the earnings multiplier valuation approach. In***

graduate school, I will teach you more sophisticated models such as the residual income model.

The price-to-earnings ratio computed from 1(b) is 29.87. The share prices would be as indicated below in image 1-1:

	2021	2022	2023	2024	2025
Net Income	$ 25,279.57	$ 29,425.42	$ 34,251.19	$ 39,868.39	$ 46,406.80
EPS	$ 37.04	$ 43.11	$ 50.18	$ 58.41	$ 67.99
Stock Price	$ 1,106.33	$ 1,287.77	$ 1,498.97	$ 1,744.80	$ 2,030.94

Image 1-1

Share Price Trends

4. Use your new ROA (from last week) along with your proposed increase in stock price to demonstrate the validity of your tax and/or advisory strategies. Be sure to also discuss any changes to the client's risk profile that they will be taking on by executing their strategies.

The new ROA over the next five years that we calculated in Case 10 was 8.86 percent for 2021, 9.7 percent for 2022, 10.63 percent for 2023, 11.63 percent for 2024, and 12.64 percent in 2025. As shown in this data combined with the data from years prior to 2021, the return on assets will initially drop as a result of the advisory recommendation we made in Case 10, which essentially involved spinning off YouTube with a traditional initial public offering and investing around $1 billion in enabling the use of blockchain technologies on Google platforms. Alphabet will receive large amounts of cash that will inflate the presence of assets when disposing of partial ownership of YouTube. However, the ROA is predicted to steadily increase back to prior levels over the next five years.

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

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Signed: Matthew [illegible]

Signed Noah Nix

Signed Kaitlin Seiberlich

Sean Fitzhenry

Signed

J Burke

Signed

Case 11: Financial Crisis of 2008

Tyler Burke

April 21, 2021

Introduction

The final case study in this class allowed me to learn about the 2008 financial crisis. I became educated about the situations that led to the ultimate result of this crisis. To begin the case study, I was given two videos, a movie, and two articles that would inform me about the 2008 financial crisis. The first video focused on what crony capitalism is and how it occurs. The second video had Thomas Sewell, an American economist, talk about the causes of the 2008 financial crisis. The movie was called *Inside Job (2010)*, and it changed my opinion on the government and leaders of financial institutions completely. This movie consisted of the reasons that the crisis occurred, and it interviewed several individuals. Several individuals tried warning the government and several institutions that it was bound to happen, but nobody would listen to their advice. Leaders in investment banks were making money by giving out extremely risky loans and securities that were bound to fail just so they could make a large profit. All of the investments were given triple A ratings by credit agencies because they were bribed by the leaders of these investment banks. Since the leaders were being greedy about making money, their large corporations ultimately resulted in going bankrupt in 2008. When Lehman Brothers filed for bankruptcy, the whole world began to enter an economic recession. The stock market also crashed due to this. Several people were laid off from their jobs, and unemployment around the world reached extremely high numbers. Politicians were also hiring these corrupt leaders to serve positions within their political party. If there was an institution to regulate everything going on, then the crisis could have been avoided. This case study was very informative, and I learned a lot of new things about the financial institutions that I never knew before.

For my final case study, I learned about the 2008 Financial Crisis. I was given two videos to watch and two articles that educated me about the 2008 financial crisis. I also watched the film *Inside Job (2010)*. On September 15, 2008, Lehman Brothers filed for bankruptcy. The bankruptcy of this large insurance company set the world into panic which led to a global recession. This filing was the largest bankruptcy filing in the history of the United States. However, this crisis was not an accident by any means. It was built up over time and bound to happen for several reasons.

The first video I watched educated about crony capitalism. Crony capitalism occurs whenever the government buys products that are more expensive than their competitors. The reason the government buys products from corporations with higher prices is because those corporations might lobby the committee, their HQ is in the chairman's district, and they might give campaign distributions. Crony capitalism is extremely immoral compared to regular capitalism. Politicians are spending the money coming from the citizens of the United States by rewarding their supporters, friends, and themselves. The government is also wastefully spending taxpayers' money by buying higher priced products from corporations who support their political party. All of this money that is wastefully spent could be used for better purposes. Crony capitalism also tempts politicians to break the law for their own self-interest. The government needs an institution to limit the use of the government’s money by politicians in order to prevent crony capitalism.

After the Great Depression, the United States went through 40 years of economic growth without a financial crisis. When Ronald Reagan was elected president of the United States, the Reagan administration started 30 years of financial deregulation. Wall Street also began to capture the Republican and Democratic political parties which lead to them having a big influence on decisions made within the United States government. On April 6, 1998, Citicorp and Travelers Group announced their merger which created a $140 billion firm that had assets of around $700 billion. Sandy Well and John Reed became co-CEOs of the new firm named Citigroup. This merger should have been forbidden due to the Glass-Steagall Act. The Glass-Steagall Act did not allow banks to merge with insurance firms. In November of 1999, the Gramm-Leach-Bliley Act was passed which allowed financial service corporations to offer several types of industries.

The next crisis came in the 1990s and the Securities and Exchange Commission did nothing about it. The investment banks began to promote internet companies that they knew would fail. Many people in the world began applying their knowledge to the financial service industry which led to the use of derivatives. Deregulation and the advancement of technology caused these problems. Brooksley Born, the chair of the Commodity Futures Trading Commission, wanted the derivatives to be regulated, but she was overruled on her proposition. The use of derivatives in financial services expanded significantly over the next several years leading up to the 2008 Financial Crisis.

Several investment banks began lending out risky loans that received triple A ratings because the banks only cared about the profits. The majority of the subprime mortgage-backed securities and collateralized debt obligations were given these triple A ratings because the investment banks would bribe the credit rating agencies to give them good reviews. People in the United States were able to buy houses, and 99 percent of the worth of these houses were going to be paid with a loan. There were people who trillions of dollars invested in securities that were based upon mortgages. When these people were not able to pay their mortgage value of these securities, the value of the securities basically disappeared. The people working within the investment banks were not worried about whether or not these people would be able to pay off their loans. They just wanted to get the money for selling these risky loans. Members within these financial firms also began to bet against the success of their investments that they would sell. These investments were given triple A ratings due to bribery which led to them making large profits when their predictions were right. These failed investments caused the large financial corporations to file for bankruptcy which led to the stock market crash in 2008. Several citizens in the United States lost their jobs and the majority of their savings due to these greedy leaders of the financial world.

After learning about the financial crisis of 2008, I was given three questions to answer for this case study.

1) How did these materials affect your trust in institutions and the government?

My trust in institutions and the government changed significantly after watching the videos from the materials I was given. Personally, I did not realize how corrupt leaders in some of our institutions can be. It was also shocking to realize that the presidents of the United States would elect corrupt people to serve important positions for our government. My trust has changed significantly because of how dishonest the leaders in these large investment corporations were being. While watching *Inside Job*, there were videos of people who were in highly ranked positions for the investment corporations being interrogated by the media and Congress. They did not seem to care that they would bet against the success of their risky investments that they would loan or sell to people. It was mind blowing to me that there are people in this world who care so much about money versus the impact that their awful decisions will have on families across the world. Our country needs leaders in the financial institutions and government with integrity in order for it to be successful. Our government could have prevented the financial crisis from happening if they would listen to the people warning them about enforcing regulations. However, our government would not listen, and it would hire the corrupt leaders of financial institutions to serve important positions.

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

After watching and reading the materials, my beliefs about my role in society has changed drastically. Personally, one moral that has always been important to be has been integrity. Integrity focuses on being honest and following your own personal principles every single day. In order to be successful, someone must have a strong sense of integrity in their everyday actions. The leaders of our financial institutions did not have integrity because they were scamming people out of their money in order to make their own personal profit. Politicians in our own government implement crony capitalism in their everyday actions too. It is important to me to be honest with everyone and follow the principles of any corporation that I will work for in the future so that I can be successful in the long run.

I also believe that it is very important to have a strong ethical institution that will make sure nothing crooked happens within our large corporations and the government of the United States. If there was an institution filled with people who follow their own moral principles, the financial crisis of 2008 could have been prevented.

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

I believe that are parallels between the political landscape that brought on the financial crisis and our current political environment. Individuals within the political landscape always want to have significant control of their office. They are still money driven, and I believe that there are still crooked politicians performing wrong actions behind the scenes. I believe that our country as whole needs to do more research into deciding who should hold office in our government. As stated earlier, there also should be an institution that investigates the ongoing actions and transactions of our politicians. If our entire country can become educated about these matters, future crises can be prevented from occurring.

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

Signed Tyler Burke