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Case Studies in Accountancy

Michael Keene

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By

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A case study submitted to Dr. Victoria Dickinson for complete fulfillment of the requirements illustrated in the case study for Accy 420.

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ABSTRACT

Case Studies in Accountancy is a compilation of case studies completed in fulfillment of ACCY 420. My cases are titled as followed: A Tale of Two Cities, Financial Statements, Presidential Debate, Tax Cuts and Job Act and *Taxodus*, Professional Interview, Financial Crisis, Case Competition Amazon Overview, Case Competition Amazon Audit Analyst, Case Competition Amazon Tax Advisor, Case Competition Amazon Advisory Consultant and Case Competition Amazon's Equity Position. These cases covered a variety of topics in the world of accountancy as well as touching on our personal lives. In the first semester of the course, cases were typically individual before moving onto our group case competition in the spring. Our group consisted of Mary Grace Gaines, Niland Fortenberry, Sahara Karki, ShaCori Ruffin, and me and we decided to analyze Amazon. This thesis is a culmination of all our work throughout the year in Honors Accounting.

Case I: A Tale of Two Cities Case Study

INTRODUCTION

Deciding where to move after college is one of the most important decisions that people will make throughout their entire lives. This is especially important for accounting majors as it sets the foundation for your career by dictating the people, industries, and companies that you will be working with. This case study was engineered to help students with that decision as we were required to identify our top two cities and answer a set of 17 questions. These questions helped us highlight the various pros and cons of each city, allowing us to make a more informed decision. I began by researching Houston and answering the questions based on my prior knowledge along with some of the data that I found on the internet before I began answering the series of questions for Dallas. Although I thought I knew a decent amount about Dallas, I found myself caught off guard by how much that I didn’t know yet. With that being said, I based my answers for Dallas almost completely on my research.

This case study really opened my eyes to the countless similarities between two cities that I previously thought were polar opposites. Growing up in Houston, we liked to think that our city was way better than the financial powerhouse located just 240 miles north on I45, but after researching, I’ve concluded that they couldn’t be much more similar. From population, to climate, to industries, to taxation, to even public transportation, Houston and Dallas are nearly identical. Furthermore, I learned things about my own city that I never would have known such as the extremely high crime rate and the greatness of the Texas Medical Center. On the other hand, my preconceived notions about Dallas were completely wrong. I learned that they have some of the top school districts in the state as well as having one of the busiest airports in the country. All in all, this case study really opened my eyes and changed my opinions for the better.

Houston, Texas

1.) What is the population?

The population of the city of Houston is 2.32 million people. Although that doesn't sound too big, the Greater Houston Area adds nearly another five million, putting the total metropolitan population at 7.07 million. That ranks Houston as the fourth most populous city and the fifth largest MSA population in the country. I enjoy the big city and have become accustomed to living in Houston, so I would love to be able to start my career there.

2.) Describe the climate and seasonal fluctuations. Are you accustomed to living in this weather? If not, describe some of the challenges from this climate.

Growing up in Houston, I have become very accustomed to its hot and humid climate. Houston's averages are pretty consistent year to year, staying around the 70's in the spring, 90's in the summer, 60's to 70's in the fall, and the 50's during the winter. Furthermore, average yearly rainfall is about 50 inches, surpassing the United States average by 18 inches. However, these averages can be very misleading as it could be 45 degrees and rainy when you leave your house in the morning and 70 degrees and sunny by the early afternoon, you just never really know. As frustrating as the climate can be at times, I would much rather be too hot than too cold and that might as well be the definition of Houston weather.

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

Being located so close to the coast, Houston was mainly built on grassland, prairies, and marsh, standing only about 50 feet above sea level. While this has led to serious flooding issues over the years, it has also created one of the most unique metropolitan layouts in the country. The towering skyscrapers in downtown are surrounded by thick vegetation, bayous, and parks, while the MSA is bordered by dozens of lakes and rivers as well as the Gulf of Mexico. I love the outdoors and so Houston is right up my alley. The beach, tons of lakes, two of the top three golf courses in the state, and prime hunting land are all within an hour or two from the city, making it paradise for someone like me.

Figure 1: Buffalo Bayou

Figure 2: Galveston Bay

4.) What are the individual tax rates within the city (e.g., consider federal, state and local income tax, property tax, and any other taxes you'd be likely to pay. Quantify what this means based on a starting salary of approximately $55,000/year)?

The federal marginal tax rate is 22 percent, however, with an income of $55,000, my effective tax rate is only 9.59 percent. The FICA tax rate is 7.65 percent, while my state and local tax rates are zero percent. Although the average effective property tax rate for Harris County is 2.09 percent, I plan on renting an apartment for my first few years so that will not be factored into my calculation. Federal fuel tax is 18.4 cents per gallon on gasoline and the state fuel tax is 20 cents per gallon, making my total fuel tax 38.4 cents per gallon. Lastly, sales tax in Houston is

8.25 percent. Based on a starting salary of $55,000, I will pay $5,275 of federal income taxes and $4,208 of FICA taxes, bringing my tax burden to $9,482 and my after-tax income to $45,518. The SmartAsset Tax Calculator estimates that I will pay $1,472 in combined sales and fuel tax which raises my tax burden to $10,954 or roughly 20 percent of my salary. One of the great things about Texas is that there are no state or local income taxes. That leaves me with a relatively higher after-tax income which is nothing to complain about.

5.) What transportation hubs are in the city?

The biggest form of public transportation in Houston is the METRO system which covers over 1,300 square miles using its fleet of 1,236 buses and 76 train cars. Houston is also home to two major airports: George Bush Intercontinental Airport and William P. Hobby Airport. George Bush Intercontinental is the sixth largest and fifteenth busiest airport in the United States. Although they're still around, taxis have become less popular with the huge increase in usage of Uber over the last five years. Commuting to and from work in Houston will be done by car for the most part which, in my opinion, is much easier than walking or taking a taxi in places like New York. Having two airports is also very convenient because neither one is ever too crowded.

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

The most prevalent industries in Houston are energy, construction and real estate, manufacturing, aerospace, trade, and health care. The five largest companies in Houston are Schlumberger, Sysco, Baker Hughes, Halliburton, and Waste Management. The industry that appeals to me the most is energy. Oil and gas has always been an interest of mine and Houston is the best place to start a career in that field.

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?

Health care in Houston is unmatched. It's home to the Texas Medical Center, which is the world's largest medical center in the world. Seven different TMC institutions ranked among U.S. News and World Report's top hospitals in 2020, including The University of Texas MD Anderson Cancer Center taking the number one spot among cancer hospitals in the country, marking the thirtieth year in a row that it has been ranked in the top two. Although Houston's school districts rank among some of the best in the state, its private schools rank among the top in the country. Therefore, I plan on sending my children to private schools in order to better prepare them for, not only college, but for the rest of their lives. Living just a few blocks from the largest medical center in the world has always been comforting to me and will especially be as I continue to age. I grew up attending private school and I could not be happier that I did. It provided me with countless opportunities and prepared me for college better than I ever could have imagined and so I would love to be able to send my own children to private school as well.

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

Violent and property crime are both very common in Houston, making its crime rate much higher than the United States average. One in every 96 Houston residents fall victim of a violent crime such as murder, rape, robbery, or assault while one in every 24 fall victim of property crime such as burglary or theft. Houston is also a major hub for drug and human trafficking. A main reason for this is that the widest freeway in the country, Interstate 10, which travels from Southern California all the way to Florida, goes right through Downtown Houston.

There are dozens of dangerous neighborhoods throughout Houston, but the two to be most weary of are the Third Ward and Sunnyside. While crime is certainly a concern for everybody, it has never been a major concern of mine living in Houston. Although there is certainly a fair share of neighborhoods to avoid, if you can manage to stay away from them then you should not have any problems.

<u>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.</u>

I plan on living in Hanover Rice Village. Rent will be anywhere from $1,300-$1,500 depending on if I have a roommate. For a one-bedroom, I'll pay around $1,500 for a 628 square foot apartment. On the other hand, I could get a two-bedroom and pay roughly $1,300 for a 1,317 square foot apartment. Hanover has plenty of amenities including a pool, 24/7 fitness center, outdoor grilling and dining area, parking garage, state-of-the-art appliances, marble countertops, hardwood floors, and much more. Hanover is a place that I have always dreamed of living in after college and so if given the opportunity, I would jump on it.

Figure 3: The Hanover Houston (1)

Figure 4: The Hanover Houston (2)

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

The typical mode of commuting is by car. Driving from Hanover to Downtown Houston is a fifteen-minute drive but will probably be closer to thirty minutes during rush hour. Traffic in Houston can be terrible at times but living in a place that is so close to downtown will significantly reduce commute times.

11.) Where will you do your grocery shopping?

I will do my grocery shopping at either H-E-B or Kroger which are located just five and six minutes away, respectively. Once again, location is key. If I’m lucky enough to live in Hanover, I’ll be surrounded by dozens of restaurants, grocery stores, retail stores, etc. making things like grocery shopping very convenient.

12.) How will you do your laundry?

I will do my laundry myself by using the washer and dryer included with my apartment. For any reason that either my washer or dryer don’t work, I can always take my laundry back to my parent’s house. Maybe they will even do it for me!

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

I would like to keep being active at First Presbyterian Church which is where I was baptized and confirmed. I would also like to keep volunteering at the Houston Food Bank and the Star of Hope where I have consistently volunteered throughout my life growing up in

Houston. These places mean a lot to me as I grew up going to them all the time and so I would love to be able to return to them during adulthood and continue to grow in my faith and give back to my community.

<u>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.</u>

I am an avid Houston Astros and Houston Rockets fan, so I will definitely continue to engage and attend games regularly. Although I'm a Dallas Cowboys fan, I will do my best to root on my hometown team, the Houston Texans. I also love the game of golf, so I will play one of the countless great courses around Houston every chance I get. One of my favorite municipal courses in Houston happens to be just a short 10-minute drive from the apartment complex that I intend to live at and it also has a great running trail bordering the course as well as the medical center where I can go on runs and bike rides before or after work. Getting to come back to Houston and root for my hometown teams as well as play the golf courses I grew up on would be awesome.

<u>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?</u>

Living at Hanover in the Rice Village would give me the convenience of being within walking distance from the house I grew up in. Assuming that my parents stay in Houston for the time being, going back home would be a piece of cake! This is a main factor for me in making my decision because ideally, I want to be located relatively close to my parents. Whether I live four hours or four minutes away from them, I'll make sure to visit them all the time.

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.

Starting with a $60,000 salary and adjusting for tax expenses, I'm left with a monthly income of $3,955 according to *smartasset.com*. Assuming that I live in Hanover Rice Village with one roommate, I will pay roughly $1,300 in monthly rent depending on the specific unit. I found my monthly expenses for utilities, rent insurance, groceries, gas, auto insurance and food based on average costs of living in Houston, while I used my current rates for my cell phone and internet bills. I budgeted $400 for my entertainment expenses while putting away $800, or roughly 20 percent of my monthly income, towards savings. This leaves me $427 left over for miscellaneous expenses or uses. This budget allows me to still do all the things I want to do such as golf, attend sporting events, hunt, fish, etc. while still covering all of my expenses even with some cash leftover.

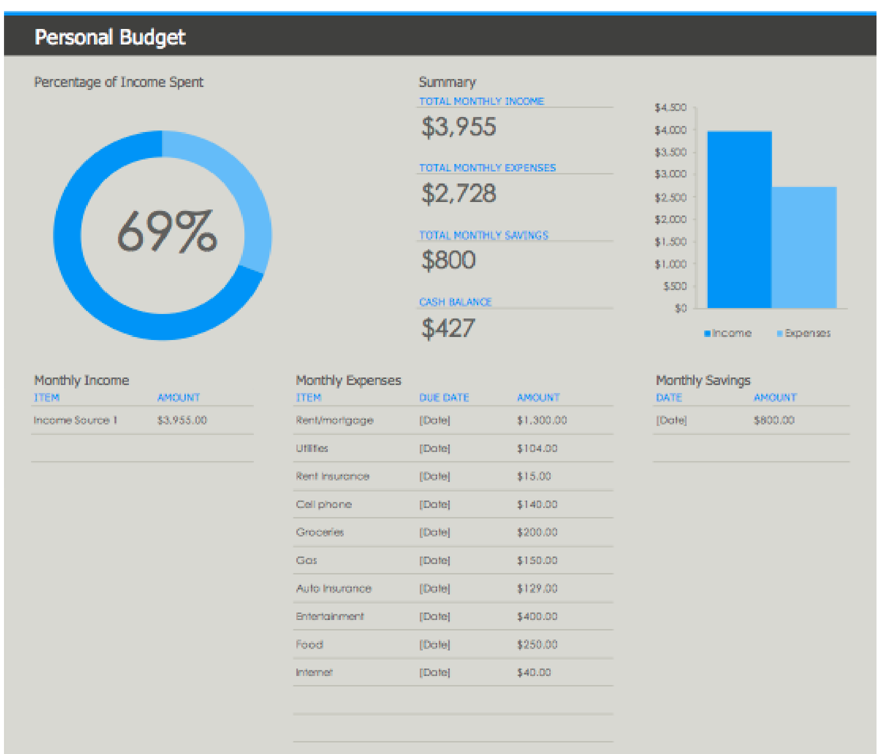


Figure 5: Monthly Operating Budget for Houston

Dallas, Texas

1.) What is the population?

Dallas has a population of 1.34 million people and an MSA population of 7.5 million. That makes Dallas the ninth most populous city with the fourth largest metropolitan population. Similar to Houston, Dallas has a relatively large population which I have grown very fond of growing up in a major city and I would love to be able to start a career here.

2.) Describe the climate and seasonal fluctuations. Are you accustomed to living in this weather? If not, describe some of the challenges from this climate.

Located roughly 240 miles north of Houston, Dallas has slightly cooler temperatures than Houston. Spring months range from the 50's all the way to the high-70's, Summer stays around the 90's, Fall typically drops from the 80's in the early months down to the 50's towards the end, and the Winter months are around the 40's. Average yearly rainfall is 36 inches which is much less than Houston and only four inches above the national average. These statistics are all fairly similar to Houston's climate, making me at least somewhat accustomed to the weather in Dallas. Although I'm not a huge fan of the cold, the climate differences between the two are miniscule and therefore, weather will not be a major deciding factor for me.

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

Dallas was built on very flat terrain consisting of mainly farmland. Even though this seems much different than the wetlands that Houston was built upon, the "white rock crossing" of the Trinity River flows through the middle of Downtown Dallas. Furthermore, Downtown

Dallas is filled with many parks and greenery, giving it a very similar look and feel to Houston. The Dallas metropolitan area is surrounded by many lakes and rivers as well as great hunting land. The Dallas-Fort Worth metroplex also boasts four of the top six golf courses in Texas. Dallas, similar to Houston, is some sort of a paradise for someone who loves the outdoors. Having great golf courses, hunting land, and fishing all around is a big positive and both cities have got just that.

Figure 6: Trinity River

Figure 7: Klyde Warren Park

4.) What are the individual tax rates within the city (e.g., consider federal, state and local income tax, property tax, and any other taxes you'd be likely to pay. Quantify what this means based on a starting salary of approximately $55,000/year)?

The individual tax rates for Dallas are all the same as Houston except that the average effective property tax rate in Dallas County is 1.99 percent compared to Houston's 2.09 percent. This will not matter though because I plan on living in an apartment. Keeping federal, state, local, and FICA tax rates consistent, I will again be left with $45,518 after-tax income. The SmartAsset Tax Calculator estimates that I will pay $1,472 in combined property, sales, and fuel tax which is the same as it would be in Houston. This leaves me paying roughly 20 percent of my salary towards taxes. Not having to pay state or local income taxes goes a long way, especially as a recent graduate working paycheck to paycheck.

5.) What transportation hubs are in the city?

The main form of public transportation in Dallas is DART which provides bus and rail services around the city. The Dallas Fort Worth International Airport is the third busiest airport in the country and lies just 20 minutes from Downtown Dallas. Just like Houston, the use of taxis in Dallas has diminished recently due to the increasing popularity of Uber. Commuting to and from work will be done using a car which is the easiest way in my opinion. Moreover, having one of the busiest airports in the world just a few minutes away is a huge bonus, making for extremely convenient transportation.

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

The most prevalent industries in Dallas are financial services, technology, energy, defense, and manufacturing. The Dallas Fort Worth metroplex is home to an astounding 23 Fortune 500 companies. The five largest being Exxon Mobil, McKesson, AT&T, Energy Transfer Equity, and American Airlines Group. These industries appeal to me as I have always been very interested in energy as well as financial services and Dallas is a great place to be for either one.

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?

Although Dallas' healthcare is not as renowned as Houston's, it's still among the best of the best as it has two hospitals ranked in the top five best hospitals in Texas by U.S. News and World Report. Dallas school districts as well as private schools are significantly better than they are in Houston, boasting the top ranked private K-12 school in the country and eight of the top 10 school districts in Texas according to *niche.com*. This leaves me with a tough decision to make on whether to send my children to public or private school. I would have my kids apply to St. Mark's School of Texas (top ranked private school) and if they get in, great, but if not, I'll send them to one of the best public schools in the state. It's a total win-win situation. Living in Dallas I will feel very confident in the healthcare that my family and I will receive and if worse comes to worst, the largest medical center in the world is only a few hours away. I will also feel great about the education my kids will receive in attending top rated schools across, not only the state of Texas, but the entire country.

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

Being a big city like Houston, the crime rate in Dallas is much higher than the national average. One in every 129 Dallas residents falls victim to a violent crime such as murder, rape, robbery, or assault while one in every 30 falls victim to a property crime such as burglary or theft. Just like Houston, there is also a ton of drug and human trafficking as there is in most major cities. There are plenty of neighborhoods to avoid in the Dallas area, but the main ones to avoid are South Boulevard-Park Row, Cedar Crest, South Dallas, and the Convention Center

District. These crime rates are much lower than they are in Houston and even though I've never been too worried about crime in Houston, I would be lying if I said the crime rate was not a factor in my decision.

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 plan to live in Hanover Midtown Park. Similar to Hanover Rice Village in Houston, rent varies depending on whether or not I have a roommate. A one-bedroom apartment is 709 square feet and will cost around $1,200 while a two-bedroom apartment is 1,176 square feet and costs $1,400 per person. The amenities include a courtyard, "resort-style pool", outdoor grilling and dining areas, 24/7 fitness center, media rooms with TV's, bocce ball court, ping pong table, parking lot, conference rooms, stainless steel appliances, washer and dryers, wood flooring, and much more. Hanover is somewhere that I would love to live after college. Whether it's in Dallas or Houston, I hope to be able to live in one of these apartment buildings one day.

Figure 8: The Hanover Dallas (1)

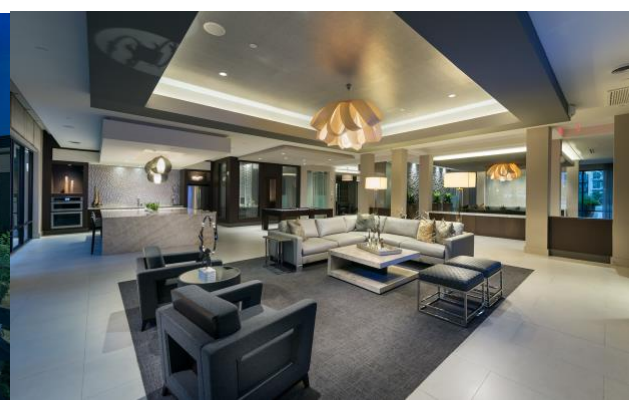


Figure 9: The Hanover Dallas (2)

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

The typical mode of commuting is definitely by car. Downtown Dallas is only a 10 to 15-minute drive from Hanover and coming back home will probably be closer to 30 minutes in rush hour. Being located so close to downtown is a huge bonus as it makes commuting to and from work less of a hassle.

11.) Where will you do your grocery shopping?

I will do the majority of my grocery shopping at Kroger which is located just five minutes up the road from midtown. Once again, being in such a great spot makes all the difference with things like grocery shopping because you never have to travel too far.

12.) How will you do your laundry?

I will do my laundry in the washer and dryer included with my apartment. After being in college for a few years now, I have become very accustomed to doing my own laundry and have no problem getting it done when need be.

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

Having been raised in the First Presbyterian Church in Houston, I would love to get involved in the First Presbyterian Church of Dallas. I also want to be active in giving back to my community by regularly volunteering at the North Texas Food Bank as well as at homeless shelters such as Dallas LIFE and the Night Ministry. Giving back to the community is extremely important to me and so I would love to get involved and volunteer at these places by helping out in any way that I can.

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.

Growing up a die-hard Dallas Cowboys fan, I plan on going to games every opportunity that I get. Although I'll never stop rooting for the Astros and Rockets, the Rangers and Mavericks will quickly become my second favorite baseball and basketball teams, respectively. I'll do my best to buy into the fandom and attend games as much as possible. Since Houston doesn't have a professional hockey team, I never got into the sport and would be excited to finally have a team to root for in the Dallas Stars. As I mentioned earlier, I love golf and would spend a lot of my free time playing the multitude of great public courses in the Dallas area. I also plan on doing my best to maintain a good physical condition by either running or going on bike rides consistently on one of dozens of running trails scattered throughout Dallas. Having great sports teams and golf courses is a major factor for me and Dallas and Houston seem to have both.

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?

While flying seems like the easiest and most efficient way to visit home, driving the 3.5 hours is definitely the most practical way. A seven hour round trip adds up to about a tank and a half of gas which costs me around $90 versus a $100 flight both ways. Being close to my parents is a priority of mine, but 3.5 hours is close enough to make the trip as often as I want and on short notice.

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.

Starting with a $60,000 salary and adjusting for tax expenses, I'm left with a monthly income of $3,955 according to *smartasset.com*. Assuming that I live in Hanover Midtown Park with one roommate, I will pay roughly $1,400 in monthly rent depending on the specific unit. Once again, I found my monthly expenses for utilities, rent insurance, groceries, gas, auto insurance and food based on average costs of living in Dallas, while I used my current rates for my cell phone and internet bills. I left a $400 budget for my entertainment expenses while putting away $800 (20 percent of my monthly income) towards savings. This leaves me with an ending cash balance of $288 to spend on miscellaneous things compared to $427 I had left over in my monthly operating budget for Houston. Although there is a difference between the two, it's very small and will not play a major factor in my decision.

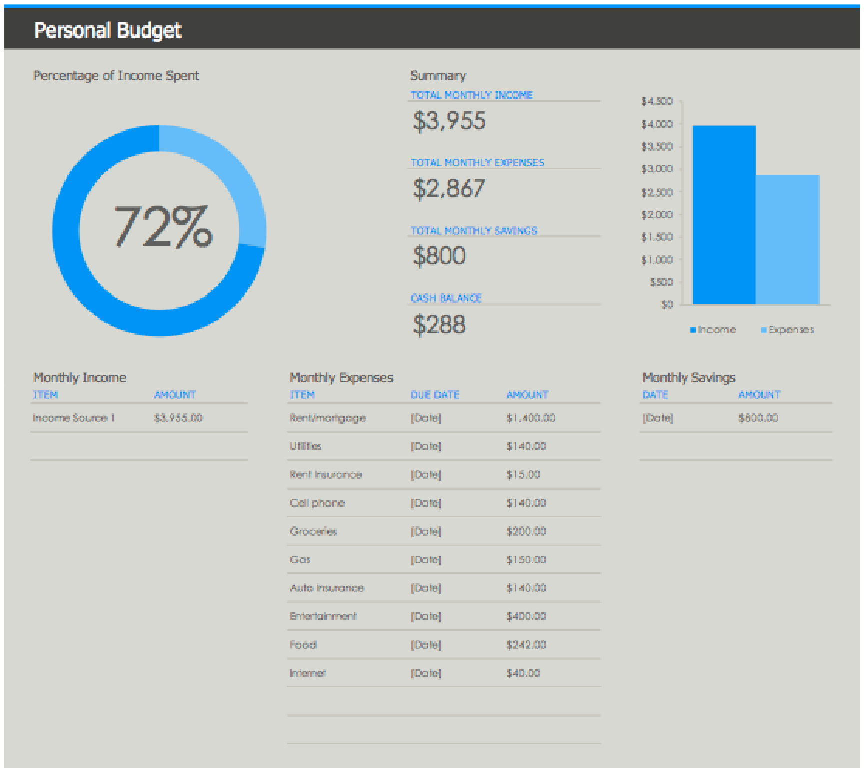


Figure 10: Monthly Operating Budget for Dallas

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

After all of my research and analysis, I have decided that my preferred city is Houston. Even though my eyes were opened to just how similar Houston and Dallas really are, the main factor in my decision was that Houston is the energy capital of the world and that has been an industry that I've always dreamed of working in. While Dallas would offer plenty of great opportunities for me as well, they don't outweigh the pros of moving to Houston. Furthermore, moving back to my hometown will allow me to be closer to my family and friends as well as help me expand on the many connections I've made from growing up there. Houston also gives me a more comfortable environment as opposed to starting brand new in Dallas. At the end of the day, both cities would be great places to start a career, but my preferred city is Houston.

Case II: Financial Statements Case Study

INTRODUCTION

For this case study, we were given three questions covering various financial statement concepts and asked to consider how the FASB would regulate these concepts for financial reporting. Included in this analysis of the case study is a transcribed dialogue of our discussion on the questions. The dialogue is included to show how we approached the prompts and came to our conclusions. Any ideas not expressed in the dialogue were addressed outside of the class discussion period in a Zoom or group message environment.

Covering financial statement concepts in this case study challenged the intellect and really forced us to think outside the box. As students, we have become accustomed to memorizing accounting definitions and concepts in the classroom, while not applying our knowledge to real life scenarios. However, this case study allowed us to do just that, in turn widening our understanding of financial reporting. While placing ourselves into the shoes of the FASB was no simple task, being able to bounce ideas off each other in a group setting helped us to look beyond the surface value and uncover ideas that we had previously never thought about. The first question taught us that the focus of a business—either on revenues and expenses or assets and liabilities— greatly affects operations and furthermore, the value of a company. In question two we learned about the valuation of assets and its effect on financial statements, creating a push and pull between comparability and firm-specific value. Lastly, question three forced us to dig even deeper on question two and consider how these different methods of asset measurement require different financial reporting. Although this case study was conceptually challenging and even frustrating at times, we've come out of it with a much deeper understanding of financial statement concepts and how we, as future accounting professionals, can contribute to the conversation about accounting regulations.

Dialogue:

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

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

Anna: I also think I would go with Viewpoint Two. I do not like the description in Viewpoint One where it is compared to a greenhouse, storing and growing assets. You need to move around your assets. To actually do anything, there has to be some movement.

Michael: Lele when you were talking about what you read today, were you saying that the company had net income but did not have cash flows?

Lele: Yeah, and they still went bankrupt.

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

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

Lele: Let's talk about the other parts. I have written down a lot about the pros of Viewpoint Two.

Michael: Let's talk about why not Viewpoint One.

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

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

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

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

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

Michael: I feel like Viewpoint One is referring to long-term assets and investments as opposed to short-term.

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

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

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

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

Coleman: What about a company for Viewpoint Two?

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

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

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

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

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

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

Michael: Let’s move on to Question Two.

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

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

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

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

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

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

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

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

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

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

Coleman: Yeah, I think so.

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

Question 1:

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

Question 2:

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

Question 3:

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

Decrease in value of land:

Unrealized holding loss	2,000	
Land		2,000

Increase in value of land:

Land	3,500	
Unrealized holding gain		3,500

Accumulated yearly interest on a note:

Notes receivable	1,000	
Interest revenue		1,000

Accumulated yearly interest on a bond:

Bonds receivable	4,250	
Interest revenue		4,250

Accumulated yearly interest on securities:

Securities receivable	800	
Interest revenue		800

Adjusting entry for restricted cash:

Cash	5,000	
Restricted cash		5,000

Reversing entry for restricted cash:

Restricted cash	5,000	

Cash		5,000
Depreciation expense on supplies		
Depreciation expense-supplies	2,125	
Supplies		2,125
Depreciation expense on equipment		
Depreciation expense-equipment	10,500	
Equipment		10,500
Depreciation expense on buildings		
Depreciation expense-building	50,000	
Building		50,000

Case III: Presidential Debate Case Study

INTRODUCTION

In this case study, I was required to first give my thoughts on what “unites” us Americans to warrant naming our country the United States of America. This exercise helped give me some perspective before watching the debate. Based on what I learned from the debate, I made predictions about the effects of the candidates’ various economic policies and how these policies will later affect me in my job search. Lastly, I was asked to discuss how I will deal with the results of the upcoming election regardless of the outcome and to create a plan to be an agent of positivity.

My answers to these questions came mostly from the debate and partly from prior knowledge. In, not only watching the debate, but later reading the transcript I was able to get a good understanding of each candidate’s stance on the issues covered in the first debate. Furthermore, helping me stay updated on current politics.

This case study covering the first presidential debate helped to really put politics into perspective for me. Growing up, I would always hear my parents talk about politics, but I never payed close attention because at the time, they didn’t directly affect me. While I may have had my general political beliefs geared towards the benefit of my parents, I had never thought about how these policies would one day impact my own life. This case study helped me to do this by breaking down the major policies of each candidate and relating it back to myself. I learned a ton about tax policies and their subsequent effects on the stock market as well outsourcing. I also realized the huge impacts of economic policy on industries as a whole. However, my biggest take away from this case study is that at the end of the day, we can’t let politics divide our country no matter how important an election may be. Overall, this case study taught me a ton and gave me a completely new perspective on politics.

Requirement 1: You live in the United States of America. What is it about our country that "unites" us to warrant naming our country that?

In 1776, our Founding Fathers pledged the United States of America and its citizens to freedom and equality, creating the foundation for the American Dream. Building our country around these ideas brought people together from every corner of the globe in search of these common values and goals which ultimately helped America become the world power that it is today. Nearly 250 years later however, we seem to have forgotten these ideals and all that they stand for, leaving us in a state of violence and hatred. Now, more than ever, we need to come together and embrace these values that unified us in the first place, leaving this divided country that we have come to know so well behind us.

Before the United States of America, freedom and equality were merely postulations. Often dreamed of, but rarely materialized. Thus, leading to the concept of the American Dream. American citizens were given rights that they previously never had such as freedom of speech, freedom of religion, freedom of press, freedom to bear arms, etc. These kinds of liberties were unprecedented around the world and helped to unify the American people on the basis of their shared freedoms. Furthermore, the formation of a democracy and the passing of the 15^{th} and 19^{th} Amendments allowed citizens to feel just as important as their neighbor, giving people a sense of equality. These equal rights and liberties are still relevant today, but for some reason it doesn't feel like it. America has become racist, violent, and hateful, ultimately dividing us and contradicting the very values upon which is was founded. In order for us to unify once again as a nation, we need to revert back to and embrace these ideals that warrant us the title of our country. A country which was built on the idea of the American Dream, promising the freedom and equality for all. That's what unifies us and that's what makes us the United States of America.

Requirement 2: For each of the candidates, forge a prediction about how their presidency will affect the job market when you graduate and the general business economy for the companies that will either be your clients or your employers. How will taxes, regulations, employment, wages, outsourcing / manufacturing, and overall financial health (for individuals and companies) differ under each administration?

Trump:

If President Trump is elected for a second term, its effects on the job market will be similar to the first term. The next four years will begin with a continued push to re-open the country amid Covid-19, resulting in a rise in the stock market and a fall in unemployment. Once a vaccine is made available to the public and the country gets back to some sort of normalcy, we will continue to see the record highs and lows in the stock market and unemployment rate, respectively. Two of the main reasons for this are Trump's emphasis on low tax rates and bringing back the manufacturing industry. These two essentially go hand in hand as maintaining a low corporate tax rate encourages companies to stay in America instead of outsourcing to places such as China. Furthermore, the president's tax plan gives many incentives to companies who are currently outsourced to return to the United States. As far as personal income taxes go, Trump's 2020 tax plan will reduce middle-class income taxes while keeping other tax class rates consistent with the Tax Cuts and Jobs Act of 2017. Moreover, Trump will most likely continue to relax regulations which benefit businesses while potentially harming the environment. Whether you agree or disagree with Trump, there is definitely a lot of good and bad. Trump's economic plans for the future help to improve the overall financial health of individuals and companies by creating tons of job opportunities and lowering taxes but fail to help lower income households by not raising the minimum wage.

Growing up in Houston, I always wanted to move back home and work in the oil and gas industry. With that being said, oil and gas companies love Trump because of his relaxed regulations regarding fracking. If Trump is re-elected, these regulations will most likely stay in place, allowing the oil and gas industry to continue to thrive in Texas. Ultimately, this will keep the job market steady and make finding a job in the industry much easier.

Biden:

If Joe Biden is elected as president in November, it will have a much different impact on the job market from what we are used to. The country will most likely stay shut down longer because of Covid-19, forcing more small businesses out of business and keeping the unemployment high. When the country eventually opens back up, the stock market will inevitably rise, and unemployment will fall, but not to the extremes there are under Trump. The main reason for this being Biden's plan to raise corporate tax rates seven percent. By raising taxes, income will fall and therefore, stock prices per share will fall. Biden also plans to implement dozens of environmental regulations with the ultimate goal of creating a carbon-free future. These regulations will help preserve our environment while hurting businesses which is the opposite approach of Trump. Biden's stance on bringing manufacturing jobs back to the U.S. is similar to Trump's, but he hasn't created any incentives for companies to do so. Therefore, Trump blurted out in the debate that he thinks Biden will get bullied by China. On the other hand, Biden plans to raise the minimum wage from the current federal rate of $7.25 to $15. While this is a significant increase and great for lower income families, he also plans to raise personal income taxes for all tax brackets which will offset a portion of this increase. Biden's plans help to increase financial health for individuals in the lower-class by raising the minimum wage, while hurting companies as regulations and corporate taxes significantly increase.

The oil and gas industry is not necessarily a fan of Biden when it comes to his regulations. Biden's plan to re-join the Paris Accord will create tons of regulations and will ultimately result in the complete stoppage of digging for new oil. This will require restructuring for the entire oil and gas industry and make finding a job much more difficult. However, this will lead to an increase in jobs in the renewable energy industry, making it very possible to find a job in the energy industry as a whole.

Requirement 3: How will the two sides of the country come together harmoniously once the election is over? Frame your answer in terms of how individuals, like yourself, will achieve peace with the other side and they, with you. You do not have to discuss which side of the debate you personally fall on, but rather imagine going to class and eventually work with the people around you knowing that half of those people share a different viewpoint. Both sides believe this is the most important election in American history, so emotions and tensions will be running high. How do you personally intend to function in the aftermath? Discuss coping strategies for yourself and suggestions for reminding family, friends, and colleagues about the values you outlined in Requirement 1. Formulate a plan to be an agent of positivity and discuss the content of that plan.

I have personally never been one to enjoy conversations about politics. First of all, someone either gets upset or takes it too far, but more importantly, political views shouldn't define people's opinions on one another. With that being said, regardless of how I feel about the results of the election, I will do my best to refrain from contentious political debates and maintain a positive attitude. Furthermore, I'm a firm believer that you can find something good in anything and this stays true in regard to politics. After the election, we need to all come together and look at the bright side because in the end, politics aren't the end all be all. Our culture has become so obsessed with these arguments that we've forgotten our core values, allowing politics to divide our once unified nation. In an effort to be an agent of positivity I plan to spread this idea and put an end to end any unhealthy conversations about politics, creating a more positive environment for all of us.

Case IV: Tax Cuts and Job Act and *Taxodus*

INTRODUCTION

In this case study, we were prompted to watch the short documentary *Taxodus* as well as read an article written by the U.S. Department of the Treasury and another by the Tax Foundation. The documentary took us around the world to show the various ways companies can get around paying their corporate income taxes. Companies such as Google, Amazon, Starbucks, and Apple all employ different tactics to avoid their taxes and *Taxodus* helps to display the irony in this. The two articles we read covered the Tax Cuts and Jobs Act of 2017. The articles discussed the pros and cons and showed us how these new policies will contribute towards long-term growth in our economy. After watching and reading the material, we were asked to answer a question on our opinion about the corporate income tax rate and what we think it should be. Lastly, we were asked how this case study had affected our own opinion on pursuing a career in the tax service line of public accounting. I answered these questions based on what I learned in the documentary as well as the two articles.

Throughout this case study, I learned a lot about a world of tax in which I was previously oblivious. I always thought of taxes as something that everyone has to pay once a year and then you don't really think about it again until the following year. I couldn't have been more wrong. After watching *Taxodus* I realized the extents that companies go to in order to avoid paying their corporate taxes. From becoming multinational companies, to keeping profits in offshore accounts, to even moving these profits around to different offshore locations. These were all concepts that I was unaware of and to be honest, I am fascinated by it. The two articles I read about the TCJA helped me understand the effects of these taxes on the overall growth of the economy. While some of these things might be unethical or in some cases, illegal, I am very intrigued by it nonetheless and am eager to learn more in the coming years.

<u>What do you think the optimal corporate tax rate should be and why? Explain your answer including information gleaned from the two links and the documentary (in addition to any other sources you would like to include).</u>

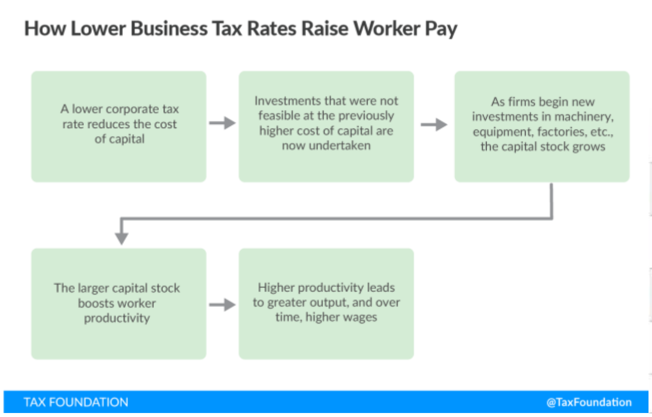
While a single digit or even zero percent tax rate is easy to dream about, it's impractical in theory and so, I believe that the optimal corporate tax rate should be around 15 percent. With that being said, the Tax Cuts and Jobs Act has made huge strides towards this goal by lowering the tax rate from 35 to 21 percent and including certain incentives to bring back jobs to the United States. Maintaining these policies and eventually lowering the tax rates by another six percent will help continue to create new jobs, raise wages, and ultimately, grow our economy in the long-run.

For decades, America's multinational corporations have moved operations into countries which have lower tax rates and maintained those profits in offshore accounts in order to pay less in taxes. In the documentary *Taxodus*, they take us around the world to show just how these companies such as Google, Amazon, Apple, and Starbucks get away with this. For example, when the corporate income tax rate was 35 percent, Apple found a way to only pay 1.9 percent by using a method coined "Double Irish with a Dutch Sandwich". While this example is just one of the dozens of different tactics used for tax avoidance, they all walk the same line of legality. Companies go to great lengths by creating teams of accountants and bankers to figure out exactly what they can and can't get away with in order to maximize their pre-tax income. Denis Healy describes this fine line by stating that the difference between tax avoidance and tax evasion is “the thickness of a prison wall”. While this is true and companies really push the envelope on this issue, at the end of the day, corporations wouldn’t feel as pressured to avoid their income tax if they weren’t losing over a third of their pre-tax income to the American government. Therefore, lowering the corporate income tax rate to 15 percent will help decrease the need for employing these shady tactics and bring companies back to America.

Ever since the implementation of the Tax Cuts and Jobs Act in 2017, we have seen companies start to return to the United States, bringing back jobs along with it. In March of 2018, we start to really see the effects of the TCJA as there was a job opening for every single unemployed American for the first time since the Labor Department began keeping track in 2000 according to the U.S. Department of Treasury. Just eight months later, the U.S. Department of the Treasury reported a 50-year record low rate of unemployment as it fell to 3.7 percent. While a decrease in unemployment is the obvious outcome from an increase in job openings, wages will also increase as a result. This increase in jobs will ultimately lead to an increase in wages because companies are having to compete for employees more intensively. Therefore, decreasing the corporate income tax rate will bring back American jobs while subsequently helping to decrease unemployment and increase wages over time.

By lowering the corporate income tax rate, companies have more capital to invest into new projects or equipment which in turn, increases long-run GDP. Therefore, the lower in corporate income tax, the higher the long-run GDP. This increase in capital stock, not only helps the company and economy, but also helps employees as capital stock is a main factor in determining wages. The Tax Foundation helps lay this out for us in Figure 1 pictured below. These increases in jobs, wages, and capital stock ultimately work towards the growth of our entire economy as the Tax Foundation Taxes and Growth model estimates that the entire impact of the TCJA will have a 1.7 percent increase on the country's GDP. Described in Table 1 below, the model also estimates a 1.5 percent increase in long-run wage rate, 4.8 percent increase in long-run capital stock, and the creation of 339,000 new full-time jobs. This growth would be even more inflated given a 15 percent rate instead of 21 percent because the lower the corporate income tax rate, the higher the long-run GDP. Therefore, the United States should lower its corporate income tax to 15 percent in order to continue to grow our great economy.

In conclusion, America has taken a step in the right direction ever since the TCJA in 2017. Jobs are starting to come back, wages will soon rise, and our economy is growing. In order to continue and increase this growth, the corporate income tax should be lowered to 15 percent so we can continue to see this sort of record growth in our economy which we have become accustomed to.



Economic Impact of the Tax Cuts and Jobs Act

Change in long-run GDP	1.7%
Change in long-run capital stock	4.8%
Change in long-run wage rate	1.5%
Change in long-run full-time equivalent jobs (thousands)	339,000

Source: Tax Foundation Taxes and Growth Model, November 2017.

Figure 11: Tax Rates Lower Worker Pay

Table 1: Economic Impact of TCJA

Did this case increase or decrease your interest in pursuing a career in the tax service line of public accounting? Explain your position.

This case definitely increased my interest in pursuing a career in the tax service line of public accounting. I have always planned on doing audit, but after doing this case study my mind has been opened to the world of tax. Seeing how companies can find different ways to get around paying taxes was fascinating to me and so now I have a bit of a tougher decision to make in a few months concerning the service line in which I want to work in. While I knew how different countries had different tax rates, I was unaware at the amount of incentives given so that companies will set up operations there. In *Taxodus* they explained how Kenya gives companies a ten-year tax break when they begin operations along with no requirements to stay there. This allows companies to exploit Kenya of its resources and then get out before ever having to pay taxes. While this is completely unethical, I can't help but be fascinated by it. In conclusion, this case study really opened my eyes to a world in which I was previously oblivious and ultimately left me with a much tougher decision between audit and tax.

Case Study V: Professional Interview Case Study

INTRODUCTION

In this case study, we were asked to interview someone that works in the field that we hope to pursue one day. We were given a series of questions to ask them but were also given the liberty to ask them additional questions wherever we saw fit. These questions ranged from asking about aspirations and regrets all the way to a favorite vacation, but with the larger focus on trying to steer us students on the right path. After the interview, we were then prompted to write a biography about the interviewee and include some of things that we learned in talking to them.

This is actually the second time I've had to do a case study like this and both times I interviewed my father. While the list of questions was different, I walked away from both interviews being extremely impressed with my dad's life in all that he has overcome and achieved. In this interview, I got to really dive into some of the details of my father's life that I never even knew before. My father had to put himself through school and really struggled to provide for himself. This is a reality that I was fortunate enough to not have to know, but hearing my dad talk about these struggles helps to put everything into perspective for me. Furthermore, helping to magnify the importance of hard work and dedication no matter your circumstances. It was also very helpful, to hear all of his different advice. I always thought of my dad as a hard-nosed worker who rarely allowed himself to have fun, but for him to tell me to not rush and enjoy school while I still can was very comforting. Overall, my father has had an incredible career and left me with very large shoes to fill in terms of success, not only in the workforce, but as a father, husband, and man.

Biography:

The person that I decided to interview for this project is my father, Kurt Keene. He and his two brothers were raised in San Antonio, Texas by their parents, Richard and Patti Keene. He grew up in a normal household, playing just about every sport under the sun. He was a straight-A student and joined every club that he could. To say he was an overachiever would almost be an understatement. In high school, he was forced to grow up earlier than most in dealing with family issues, but my father used it as fuel to the fire, working his tail off to be able to put himself through school. While my dad may have got into schools such as Princeton and Notre Dame, those were never realistic options for him financially as he was on his own. Instead, attending The University of Texas on a full scholarship, working as an RA to pay for housing, and working a side job to pay for books. He majored in accounting with a minor in finance. After graduating, my father went to work for Ernst & Young in Houston where he worked primarily on M&A's and ran national recruiting for UT Austin. After about a decade, he left to work for a private equity firm named Rice Capital. This job required a lot of traveling and long nights and so in 2006, he left to start his own private equity firm with two other guys named Vista Private Equity Group. This company was a good change of pace as he had three young kids at the time and needed to be able to spend more time at home. After 12 years with Vista, he got a call to join a high-frequency trading firm called Quantlab Financial as the CFO. Now, a couple years down the line, he has been promoted to COO/President and continues to grow the company and bring them to new heights.

Interview Questions:

<u>Tell me about your life growing up before you started college or your career.</u>

"I grew up in an ordinary lower-to-middle-income family with two brothers. We had a ton of fun together playing sports and driving our parents crazy. Unfortunately, our parents got divorced when I was in high school, forcing me to grow up faster than most kids do and be the responsible one in the house. This extra responsibility was tough, but it helped me to work hard and succeed in school and sports."

<u>What were your college years like?</u>

"My parents weren't able to put me through school, but luckily, I was offered a full-ride scholarship to The University of Texas. This was a dream come true as I grew up as a Longhorn. Although I would've loved to join a fraternity, I just didn't have the money to pay for it and so I spent most of my free time playing intramural softball, golf, basketball, you name it!"

<u>Did you know you wanted to do this when you went to college? If not, how did you decide to pursue this field of study?</u>

"No, I actually went to UT as a petroleum engineering major, but when I was a sophomore the oil prices dropped, and I decided to shift over to accounting. I had always wanted to do M&A's but planned on getting there by doing petroleum and then going back to law school. It all worked out though as I got to start off doing M&A's early in my career with Ernst & Young. If I hadn't gotten that opportunity so early in my career, then I may have ended up going back to law school. Who knows?"

Are you glad that you chose Accounting, or do you wish you had majored in something else?

“Yes, I’m glad that I majored in accounting because it gives a great foundation and starts your career with a “Big 4” firm which gives you great professional experience. My focus at EY was on M&A’s so I spent a lot of time with acquisitive companies, allowing me to combine my accounting foundation with my broader passion of corporate finance. But in short, yes, I’m glad that I chose accounting.”

Did you get a master’s degree? If not, do you wish you had gotten one?

“No, I did not get a masters. I planned on going back to UT and getting an MBA after EY so that I could enter into the private equity and investment banking world, but I was offered a job by one of my private equity clients (Rice Capital) to go directly into private equity without my master’s.”

Although you don’t regret not going back to school and getting your master’s degree, would you recommend the same path for new grads?

“Times change and so I think in today's world, getting a master’s degree is important to open doors and get opportunities. I was fortunate to get an opportunity without one, but it’s becoming increasingly more important to fulfill that master’s degree in order to provide people with full optionality.”

Walk me through your first jobs until where you are now. What important things did you learn at each position along the way?

“I started at EY in Houston working on a lot of M&A’s and ran national recruiting for UT Austin. I thought accounting work would be really boring, but I learned a ton about the basics of how businesses operate which helped my transition into private equity. I left public accounting after about a decade and started working for Rice Capital which was a private equity firm. We invested in about 70 companies in a 10-year period as we were constantly cycling through companies. I took what I learned at Rice and started a smaller private equity firm with 2 other guys called Vista private equity. We focused mainly on small and middle market companies around the Houston area mainly in real estate. After about 12 years, I was made an offer to come to Quantlab financial which is a high frequency trading company. I’ve been with the company for two-and-a-half years now and have moved from CFO to now the COO/President. While this has definitely been the hardest and most time-consuming job I’ve had, it’s been extremely rewarding in being able to teach and sort of coach my employees on a daily basis.”

What's the best part of your job? Worst part?

“Best part is setting strategy, transforming cross functional collaboration across the firm, continuously clarifying and managing priorities and coaching an organization to develop a strong EQ and understanding of our business as a whole. The worst part is probably that the unique needs of a multi-varied organization create demands on me that can be overwhelming at times. Even though we have great people, there is always a challenge to managing the unique, tangible and cultural needs of a broad organization that consists of PhD’s, technologists, administrative and other types of professionals.”

What has your life been like outside of your work?

"In short, life has been great. It's been super rewarding being able to raise 3 kids and see them grow up to be great, respectful young adults. While they're a pain in the butt at times and take up most of my free time, it's been the most rewarding process of my entire life."

What has been the best vacation you've ever taken?

"As celebration of closing a deal, our lenders threw in a closing party at Pebble Beach. It was 4 days of world class golf and food. Also, just to top off what was already an awesome trip, one morning before an early tee time, I went down to get a cup of coffee and I met Roger Staubach. If you know me, you know how much I love golf and the Dallas Cowboys. What more could I ask for?"

If you could change two things about your life, what would they be?

"While I don't wish to change anything in my life, I can't help but wonder what could have been had I made other decisions such as taking my appointment to go to the Air Force academy when I was 18 or by not taking a different private equity job in NYC in 2006 instead of forming Vista Private Equity Group. Looking back, I am glad I made the decisions that I made but I can't help but wonder."

What do you wish you would have known when you were 21 years old about life and your career? What piece of advice would you share with me and my classmates?

"I wouldn't be in a race to get out of school and start working. Take an extra year to get a master's which will pay great dividends in your life. It's very hard to go back to school once you're in the workforce so if you have any interest in a master's degree, get it sooner rather than later. You're only young once so take advantage of it."

What are you most proud of?

"Going off of what I said earlier, the thing I'm most proud of is that your mother and I have raised three really great kids who have their heads screwed on straight. As far as my career goes, while it's been successful, I'm extremely proud that I've always held myself and others to a very high moral and ethical standard. That's more important than any monetary success in my book."

What do you think will be/was the biggest challenge for your generation?

"Ha-ha that's a tough one! I'm pretty sure I'm the last year of the baby boomers and I feel like the biggest challenge for us has been adapting to these newer generations and how they may be wired differently. These newer generations are so technologically based and for the most part, lazier than older generations and that's definitely been a struggle for me throughout my career and also as a father."

What will be the biggest challenge for my generation?

"The world is leaving your generation a lot of problems. These problems are decades in the making. We have big deficits as a country as well as environmental problems, pandemics, conflict with other countries, rising power in China, and more. It's getting more and more challenging every year and that's going to be tough for your generation to navigate all of that, especially upon graduating college and entering the workforce."

Case Study VI: Financial Crisis Case Study

INTRODUCTION

In our final case study, we were asked to dive into the nitty gritty of the financial crisis in 2008. Our class was given a list of materials that we were asked to consume in a specific order. First, we watched two YouTube videos that gave a brief background of what happened, then we watched the documentary *Inside Job* and lastly, we read two articles which gave varying opinions on the crisis. After taking in this abundance of information, we were asked about how these materials affected our own trust in institutions and government as well as our beliefs about our role as a member of society. We then took a look at our current position and began to identify parallels between then and now, asking ourselves what we can learn and how we can use this information to try and prevent future crises.

I don't want to speak for the class, but for the most part, I believe that we all had at least a basic understanding of what happened in 2008. Maybe your parents told you about it once you were old enough, maybe it was super fascinating to you, and you read all about it or maybe you just watched the movie *The Big Short*. Regardless, this material was not something completely new to me which allowed me to dive deeper than the surface value, obtaining a greater understanding of the what, how and why relating to the greatest financial crisis in the history of the U.S. One of the main themes throughout this case study was how actions have consequences. As a twenty-year-old, I would've liked to think that I knew all about that push and pull, but I was wrong. Our actions don't always just affect a few people, in some cases, they can have an effect on millions of people. Putting that all into perspective really helped me to understand the gravity of certain decisions and the resulting impact they might have on other people. Furthermore, this relates to our roles in society and how we can learn from our mistakes. Upon completion of this case study, I believe that I now have a better grasp on my role in society and how I can fulfill that role on a daily basis.

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

The only thing that I trust when it comes to financial institutions is that at their core, they are economic animals, doing everything in their power to maximize returns. Is that always a bad thing? No, because more often than not, their intentions are aligned with those of their investors. When they make more money, their investors make more money, and everyone wins. This is how the system is presented, and as I mentioned above, it works in favor of both parties the majority of the time. However, the less regulated these bankers are, the more apt they may be to push the edge of the envelope. In the early 2000's, this led to decreases in the quality of risk underwriting and executional standards, ultimately compromising the trust of their investors which is the very basis of the entire industry. With that being said, I trust that my money would be in better hands now than before the crash and let me explain why. As a result of the market crash, increased regulation and oversight has forced these banks to become increasingly careful over the last decade. Maybe these bankers are still greedy in nature and maybe they're not, but one thing they definitely are not, is stupid. These are some of the smartest people in the entire world. Let's say you got a speeding ticket. The next time you get behind the wheel you're going to be much more careful. Maybe it's because you feel bad, you can't afford another ticket, threats of being kicked off insurance, or any other reason, but the bottom line is that your hands will be at ten and two. This is similar to the financial world now. Regardless of their reasoning, these bankers are more cautious and aware of risks. Once time goes on, I'm sure we will see more deregulation and possibly even another bubble. However, for the time being, I have more faith in financial institutions than I did before the crash and I'm going to trust them to do what they do best- make money.

We live in a capitalist society. There's not much of an argument against that and this financial crisis is a perfect example. Some of the people who led our financial institutions at the time of the crash were the very ones appointed by the government to help get us out of it. As a result, many of the big banks were bailed out while the American people suffered tremendous losses. Let's take Hank Paulson for example. He went from serving as the CEO of the most powerful investment bank in the world, to being selected as the U.S. Secretary of the Treasury amidst the greatest financial crisis our country has ever known. If that doesn't scream conflict of interest, then I don't know what would. Moreover, there are many differing opinions on the way that Paulson handled this situation. Some believe that there was no way to save Lehman Brothers and that he did everything in his power to do so. On the other hand, some people believe that Paulson let them fail, saving AIG in an effort to serve his personal interests and bail out his friends on Wall Street. I'm not saying that I support one opinion over the other. However, if you support the latter, how much can you really blame him? Whether you like it or not, egoism is part of human nature and given the opportunity, I think that most people would've put themselves above the needs of others following such a financial calamity... or at least more than they would like to admit. My point is merely that the conflict of interest within our government is more to blame rather than the actual people calling the shots. Now, this poses the question: if not them, then who? These people are the best of the best. They're some of the smartest people on the planet and have decades of real-world experience. Ultimately, bringing me to the conclusion that there isn't a perfect solution. In a perfect world, our federal government (including both the legislative and executive branches) would prioritize working together in a more constructive manner to solve these types of problems and inherent conflicts. Furthermore, modernizing our regulatory framework for the benefit of, not only our capital markets, but also our citizens' trust that they're in. Regardless of whether this perfect world is ever realized, I hope that we can at least learn from our previous mistakes and hold each other more accountable moving forward.

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

After taking in all of this information, I believe that my role in society professionally and personally go hand in hand. Every member of society should be a good person across all aspects of life and I believe that we all have a duty to do this to the best of our ability. Categorizing this responsibility of ours implies different expectations in the different facets of our lives. While this may be true in terms of how you achieve it, the expectation to be a good member of society remains the same in every part of your life.

Professionally, I believe that I have a duty to have a consistently positive impact on the people around me. First, making sure that the job in itself doesn't compromise my own integrity as well as anyone else's. I want to constantly be aware of, not only the direct impacts, but also the indirect impacts of my decisions in the workplace. I can imagine that this rings true with plenty of bankers involved in the financial crisis. For example, being a great husband and father, donating to charity, and giving back to the community through service work doesn't make you a good member of society if you're knowingly selling junk CDO bonds all the while. Secondly, I want to bring a positive attitude to the workplace every day. In order to achieve this, I want to be very approachable and do my best to keep a smile on my face even when things aren't going great. Lastly, especially as a boss later in my career, I want to help people learn by encouraging questions. Learning is what helps us all get better and what kind of a boss would I be if I had a closed door all of the time? As long as I can manage to do all of these things to the best of my ability, I believe that I will have done my part to be a positive member of society in my professional life.

From a personal standpoint, I believe that the principle of having a positive impact on the people around me remains the same. To me, being a good member of society in my personal life begins with the people closest to me. How do I treat my family and friends? Am I having a positive impact on their lives? If I can treat these people well and have a good impact on their lives, I'll move on and do my best to make a difference my community. There are many ways to do this such as service work, donations, etc. However, the point remains that even if I'm achieving all of these things personally, what is that worth if I'm not accomplishing them at work? My hope is that by continuing to put things into perspective and asking myself these questions, I can uphold my duty to be a good member of society in my home life.

Maintaining this responsibility of being a good member of society may be achieved through different means, but at the end of the day, the goal is the same. Moreover, being an upstanding member of your community doesn't mean anything if your integrity is compromised in your professional life and vice versa. This case study has really helped me see and understand this, giving me a better sense of my role and responsibility in society.

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?

There are definitely a lot of parallels between the political landscape from then and now. Ex-financial industry executives are still very prominent in our government, and we've seen some of the consequences of that throughout the recent pandemic. Although this time around there were bailouts for many small businesses and families too, big banks still got the best end of the deal yet again. We continue to see lobbyists influence the results of elections as well as the wealthy give handsome donations to the parties which will benefit their personal needs. The list goes on and on because honestly, not a whole lot has changed. Some people believe that we need to uproot the entire way our government is run. They say we should eliminate lobbying and cap donations. In theory, it's a great idea in terms of reducing bias among our elected officials, but it would never happen. The people who would have to pass those bills are the very people who benefit from these donations. On the contrary, I believe that there is an easier solution. If we can do a better job of holding each other accountable, I like our odds of avoiding another crisis.

Everything revolves around the bankers regaining the trust of investors. These banks are managing billions of dollars all under the assumption that their goals are aligned with those of the investor and as I mentioned earlier, the entire basis of the industry revolves around that trust. Once it's lost, everything crumbles. I'm not saying that we should pretend like nothing happened and go right back to the old ways. However, all the recent mistrust in these investment banks can only lead to more turmoil. I think that we need to hold these bankers accountable by simply maintaining regulations and the only way for that to happen is if there is some accountability among the two political parties. If we continue to see these huge swings between regulation and deregulation under different administrations, more bubbles are inevitable. It’s not a binary choice between regulation and no regulation, we obviously need some. However, the key is framing a consistent balance between the two. If we can remove the politics and focus on the long-term health of our financial markets, we give ourselves a chance at success. I understand that this won’t solve every problem we have, but it’s a step in the right direction.

Case Study VII: Case Competition Amazon Overview

INTRODUCTION

This week, we were asked to pick a company that is domiciled to the U.S. and has been publicly traded for at least five years. We were then assigned to research the company in order to gain a better understanding of their financial standing. We were encouraged to look at annual reports, articles from the news, and content from the University's databases. After researching, we were prompted to summarize the state of the business based on our findings.

Due to the rapid growth of online delivery services, our group decided to research and analyze the financial position of Amazon. Through our reading of various sources, we found that Amazon has been and continues to be a very successful company. Amazon has been one of the highest performing stocks over the last decade, and it is continuing to grow at record rates. Even amidst an unprecedented year in business, their level of sales reached new heights. Such a great deal of success does not occur without a near perfect execution of a company's goals. In order to understand how they have been able to maintain such a high level of success, it is essential to look at the core of the business.

Amazon's business strategy focuses specifically on products that consumers tend to buy more frequently. They track engagement trends and consumer usage through their members and seek to increase their sales through improving customer experience. They also boast an impressive inventory turnover, while managing to collect from their customers before meeting their obligations to suppliers. To continue to meet their customers' needs, Amazon seeks to increase the diversity of their products by offering a wider range of collections. The consumercentric business mindset is the main reason behind the success of Amazon, as it results in strong customer loyalty and high revenues. Evident in the yearly metrics, between 2018 and 2019, Amazon saw a 20 percent increase in net sales, and though financial reports have not been released for 2020, it is predicted that online sales saw a 32.4 percent increase from the previous year. Furthermore, Amazon has seen a large increase in shareholders, and the price of shares has more than quadrupled in the last four years. Amazon seeks to retain shareholders by not paying dividends, and by offering restricted stock in an effort to encourage both their shareholders and employees to have a long-term mindset. Lastly, Amazon aims at maintaining long-term growth through free cash flows.

Over the last decade, Amazon has significantly increased their investments into the advertising business. They have infiltrated the long-standing duopoly of Facebook and Google and will continue to grow its market share over the coming years. Advertising is the fastest growing part of the company and is valued around $400 billion. While this is considered to be a conservative valuation, that number could skyrocket over the coming years.

As we researched various articles and documents, we began to understand more thoroughly why Amazon has become one of the most successful companies in the world. Amazon has been the leading delivery service that Americans rely upon during the COVID-19 pandemic, creating astronomical growth for the company in 2020. The company has also consistently outperformed the e-commerce and online auctions industry as well as the majority of retailers. Amazon is now presenting themselves as a threat to many other franchises for several reasons. Through Amazon, consumers are able to purchase most products that are sold in retail stores online, which has lessened the challenges presented by an ongoing pandemic. The company has made meeting one’s needs simpler by offering the ability to purchase anything at any time, with a commitment to timely delivery. Despite the risk of intense competition and living in a state of constant uncertainty, it is evident that Amazon does not shy away from seeking to outperform other companies and adapting to the present circumstances, as they continue to reach new heights in sales and attract a loyal customer base that will undoubtedly continue to grow as time progresses.

Case Study VIII: Case Competition Amazon Audit Analyst

INTRODUCTION

This week, we were tasked with auditing Amazon and analyzing the financial statement elements to check the relevant audit risks. First, we downloaded the 2019 10-K and began to discuss the risks associated with the different accounts in terms of their existence, completion, valuation, and presentation. After evaluating this, we chose the six accounts that we deemed the riskiest and began to create internal controls in order to help eliminate risk. We then came up with substantive tests for auditors to use to check the information and ensure that nothing is misstated. Finally, we brainstormed how we could use data analytics to improve accuracy and speed up these tests, as opposed to the substantive tests. Our write up is a culmination of all of this, explaining what we discovered in our research and what we learned from it.

Through our research and discussion, we found that Amazon's riskiest accounts are Inventory, Unearned Revenue, PP&E, Revenue, Long-term Lease Liabilities, and Accrued Expenses. For a company as large and diverse as Amazon, it's difficult to keep accurate and up-to-date accounts of inventory. In an effort to minimize this risk, we recommend a bi-annual physical count of inventory by a third party. This helps to eliminate the conflict of interest of managers and other authorized personnel. We also think that inventory should be maintained by warehouse as well as by department, allowing inventory data to be double checked for more accurate information. Amazon can test this information by performing these third-party physical counts as well as performing an inventory turnover test, to ensure that actual inventory counted is in congruence with the results of this turnover test.

We believe that unearned revenue is another risky account, as Amazon Prime memberships are constantly being obtained or cancelled. In order to ensure the accuracy of membership records, Amazon should perform regular reconciliations to record and understand day-to-day operations of services. Furthermore, there should be a separation of duties for keeping track of membership revenues and merchandise sales. Amazon can test the records that both managers of prime membership and managers of merchandise sales have by comparing the two to see if records are in agreement. They can also use a data analytics system where details of memberships and product sales are both inputted manually by managers. The system automatically flags amounts that overlap incorrectly. Furthermore, if a product sale is bought in conjunction with a prime membership and both the manager of prime memberships and manager of product sales input the transaction, the system flags it, and the correct accounting treatment follows.

Similar to inventory, tracking PP&E for a company as big as Amazon presents great difficulties. We recommend a similar approach to the valuation of PP&E as we had for the bi-annual inventory count. Allowing a third party to come in and perform the PP&E valuation for Amazon eliminates any conflict of interest. Records of these detailed valuations will be kept in order to see what maintenance has been done and is still required. Managers should also keep separate records of machines based on what they are used for (administrative, manufacturing, distribution, etc.). These third-party tests will help to maintain the accuracy of records by reassessing the life of the equipment and adjusting for potential changes in depreciation accordingly. Amazon can implement data analytics by using an automated instrument that records the number of hours a machine is in use. This helps make accurate estimates of depreciation in between valuations.

Another account that we feel imposes greater risk to Amazon is its Revenue account. Amazon has many different streams of revenue and in order to help keep them accurate, we recommend having one manager per department who ensures that the auditors are held accountable for following the revenue recognition principle. Amazon should also have itemized receipts that detail when the item was purchased, from which warehouse it was distributed, and proof of confirmation of delivery of the physical product. This keeps the process very organized and helps to mitigate some of the risk attached to having multiple revenue streams. Amazon should perform regular tests to analyze transactions to ensure that revenues are recorded in the correct fiscal period as well as check the timestamps of all transactions.

Likewise, Amazon's Long Term Lease Liability is another riskier account. This account especially warranted our attention, as we found that there was a 30 billion dollar increase in lease liabilities from 2018 to 2019. A potential risk that we found is the possibility of a distortment of free cash flow because of the significant growth. We suggest that the company provides a detailed disclosure as well as maintain a detailed description of the company's plan to eliminate liability. The company can also introduce data analytics measures to accurately identify lease information and create a portfolio that can help with easing the management of long-term lease information. Improved lease management could have a positive impact on both the financial and operational areas of Amazon. Similarly, Amazon can also perform a regular analysis of the account portfolio to ensure that the accounts are properly updated and contain detailed information regarding the current lease information. Furthermore, Amazon can also perform the debt-to-equity ratio to show the growth of capital, indicate stability, and prove they are capable of paying their debts.

Accrued Expenses is the sixth and final account that we chose. This account was chosen because Amazon is such a vast company with numerous expenses that could easily get lost and miscommunicated through accrual. We suggest that the company analyze each year's allowance for doubtful accounts and ascertain whether the amounts are necessary and backed by former years' allowances. Amazon should also disclose what portion of accrued expenses is debt, as debt is an expense that Amazon is legally obligated to pay, and, thus, should be emphasized. We recommend that Amazon regularly test to see if the expenses recorded have actually been incurred in the fiscal time period. This way, the company can ensure that no expense has been overstated, expensed in another category, or otherwise improperly misstated. We also recommend that a breakdown of the way estimates are made for unused gift cards be disclosed. Gift cards are purchased every day, making it hard to keep track of purchased gift cards that have yet to be redeemed. There is not a system in place to monitor these transactions. Therefore, we propose that Amazon instate an algorithm through data analytics that records real-time use of gift cards rather than expensing gift cards as purchased. This would provide the necessary information to better establish estimates on gift card usage.

During our assessment of Amazon's accounts, we found ways to minimize the company's risk by using data analytics to conduct tests on the accounts that we perceived as risky. Through these processes and others, we believe there are many ways to better streamline the management of risk associated with Amazon. Though this was a challenging assignment that tested our prior knowledge and introduced us to new concepts, we were able to learn how to analyze a company's 10-K and provide recommendations to improve the company of Amazon as a whole. Furthermore, we were able to better understand why some accounts might present more risk than others. This case will undoubtedly be quite valuable in our futures, as it provided us with the unique opportunity to experience a small glimpse into the lives of public accountants.

Case Study IV: Case Competition Amazon Tax Advisor

INTRODUCTION

This week, we researched the world of tax that surrounds corporations. We spent a portion of our time reading through various articles regarding the current state of tax legislation and the potential changes in taxes that are to come with the new administration in the White House. We also researched tax benefits that Amazon has access to in their industry. At the conclusion of our research and reading, we began to brainstorm ways through which Amazon can maximize their tax savings and minimize their tax liability. Throughout this case, we were able to better understand the ways in which taxes can both positively and negatively impact companies. Furthermore, as detailed below, we gained a better grasp on ways in which large companies like Amazon can ethically and legally respond to the continual evolution of the tax laws.

The first tax strategy that we recommend is continually improving warehouses and distribution centers to better use Warehouse Management Systems (Greenfield 9). This software helps companies become more cost-efficient and focuses more on the consumer (Greenfield 9). Though Amazon has already adopted a form of warehouse management, they can further utilize their WMS in order to help motivate their employees to find more efficient ways of distribution (Bowles 19). Experimenting with ways to improve their cost-efficiency can qualify as a research and development expense, which receives tax credits of 10 percent (BDO 1). In 2019, R&D costs were $36 billion which implies a potential tax credit of $3.6 billion (Pratap 3). With an annual increase of $10 billion in R&D costs, Amazon has the potential of claiming a $4.6 billion tax credit in the next year. While this increase may seem far-fetched, Amazon's R&D expenses increased by $13.4 billion from 2018 to 2019, which makes a $10 billion increase a reasonable expectation (Statista 1). Furthermore, these increases in costs have significant benefits if the corporate tax rate increases to 28 percent (Amadeo 20). By increasing expenses that simultaneously offer tax benefits, the taxable income is lower, and the negative effects of President Biden's potential increase in corporate taxes is mitigated. This is a long-term consideration, as Amazon has the opportunity to continually increase their R&D expenses, and the potential for a higher corporate tax rate is likely to be in effect for several years to come.

Another potential tax credit that Amazon can utilize is the tax credit for charitable contributions (WooCommerce 10). Amazon is currently running a program called AmazonSmile. This program donates 0.5 percent of each sale to a charity of their customer's choice (AmazonSmile). Furthermore, there are millions of other products on Amazon's website that can be used for charity, providing some tax credits to the company. We recommend that Amazon increase the percent of each sale to donate more money through AmazonSmile and receive more tax benefits. We also suggest that Amazon utilize the FBA donation program to get tax benefits from donating its excess and obsolete inventory.

Our final tax strategy recommendation for Amazon is focused on distribution. We recommend that Amazon streamline their Prime delivery service, removing the role of other delivery services. By using their Prime delivery vans instead of FedEx or the USPS, Amazon's distribution will become more efficient and provide tax credits. Currently, Amazon has a fleet of 30,000 delivery vehicles (Blanco 2). With a tax write-off of 57.7 cents per mile and each van travelling 75-100 miles a day, the company could save approximately $130 million a year in taxes (WooCommerce 19). Additionally, if Amazon expanded their fleet with electric vehicles, the company could receive a $7,500 write-off for every vehicle purchased (Normile 1). With Amazon's recent purchase of 100,000 electric vans from Rivian, the company could have potentially saved around $750 million in taxes (Blanco 2). With a fleet expansion, Amazon can create more jobs in the United States and, thus, take advantage of the 10 percent tax credit that incentivizes new job creation (Amadeo 23). If their income tax in 2020 is similar to the $162 million income tax in 2019, Amazon could earn approximately $16 million in tax credit (Huddleston 3).

Throughout this week's case, our group faced challenges. We are making recommendations with little expertise, compared to the vast number of tax professionals that Amazon has access to at any given time. Furthermore, we are making recommendations for a company that has already achieved unmatched success and continues to do so each day. With this in mind, it is no surprise that some of our recommendations have, in some way, already been implemented into Amazon's course of business. However, we found that there are many ways to take tax strategies a step further and maximize benefits. Despite the challenges of working with a company who has seen overwhelming success, our group gained a deeper understanding of the ways in which companies use strategic tax practices and how professionals work with these companies to help them achieve maximum benefit. Through this case, we were able to take a step into our futures and have the opportunity to experience a taste of the world of public accounting.

Case Study X: Case Competition Amazon Advisory Consultant

INTRODUCTION

This week, we investigated the core business of Amazon more deeply. Instead of reading and analyzing numbers without much context, we looked at the bigger picture and tried to find ways to thwart the company's biggest threats. We began by looking at Amazon's core operations and mission statement. After giving ourselves a better understanding of the company, we looked into Amazon's previous financial statements in order to help us identify the strongest competitors and threats to Amazon. We then started to brainstorm and create strategies aimed at handicapping these competitors while still aligning with the company's mission statement.

Amazon's main focus in business is e-commerce, and, with the purchase of Whole Foods, Amazon also conducts business in stores across the country. Furthermore, Amazon offers their Prime membership, sells online advertising, and offers third-party sellers an opportunity to sell directly from Amazon's website (Sec.gov). The company is headquartered in Seattle, Washington, and Arlington, Virginia, and there are hundreds of fulfilment facilities and offices throughout the United States and internationally (Sec.gov). Amazon's mission is to deliver their customers products and services in a timely and cost-efficient manner (Sec.gov). Their strategy is to be consumer-focused rather than competitor-focused (Sec.gov). To that extent, Amazon "seeks to be the Earth's most customer-centric company" (Sec.gov).

Amazon uses e-commerce to serve their customers through online services. They focus on different product categories; these products are mainly supplied by outside companies wanting to increase revenues by selling their products on Amazon. The majority of Amazon's customers are individual consumers who choose to take advantage of the free shipping offered on most products; however, small businesses also frequent Amazon by utilizing Amazon Business. The demand for products on Amazon is based on glance views, sales history, and projected demand (Johnson, 2). Because the business model of Amazon is, in theory, easy to imitate, the company has several strong competitors. These competitors include any large e-commerce companies, brick-and-mortar businesses, or grocery stores that offer the same products that Amazon sells. Specifically, companies like Walmart, eBay, Target, and Costco compete with Amazon for business. Furthermore, any kind of subscription service, including those that offer access to movies, television shows, music, or free delivery, are a threat to Amazon. Like Amazon, companies such as Netflix, Hulu, Spotify, and Walmart+ are all competing for subscribers. Fortunately, they are not competing against one specific company, as each company lacks the vast array of services that Amazon offers.

Amazon must become more local as they become more global. As last year proved, local businesses need local support. Their customers are attracted by the ease and accessibility of Amazon, but many people have and will start to take issue with the monopolistic-like image of the company. We recommend Amazon increase the number of brick and mortar stores in the United States. The feeling that a customer has walking into his or her neighborhood grocery is far different than the feeling a customer has when clicking “add to cart” on Amazon. Through physical stores, Amazon can become more local, and communities can become more familiar with the company. Furthermore, having customer service available in the same town as the purchased product can provide extreme benefits. Physical stores can also increase Amazon’s awareness of their company’s effects on the business and economic environment, as they are more physically present with their customers and competitors. In doing so, Amazon’s assets, liabilities, and revenues will increase every year as the company adds more and more stores. Amazon's asset turnover ratio will fluctuate over the five-year span while staying in the same range, as they continue to add more stores. However, given Amazon's previous asset turnover ratios, this is fairly typical. Their return on assets and profit margin fall at first, but they begin to trend upwards starting in year four. While these increases are small, they will continue to grow year after year as Amazon get bigger and better. There is also the intangible asset of bettering the public perception of the company, which will help generate more revenue.

Amazon has been achieving great success and has learned how to dominate, even in a pandemic. Although their business is growing, another major threat is competitors imitating Amazon's vision. Though Amazon started as a unique company, the advancement of technology has caused the idea that was once specific to Amazon to easily be duplicated. There are a rising number of e-commerce businesses entering the market every day. These new entrants that are imitating Amazon's business practice pose a threat to Amazon. Similarly, the success and growth of Amazon's business could be another major threat to the future of the company. Amazon is successful at offering the biggest selections and best online shopping experience to their customers. However, because Amazon is a standardized platform, it will be challenging to give that unique and special experience for every single product that they sell. To combat the threat of imitation, as well as the threat of losing their ability to provide quality services, we suggest that Amazon continue to stay ahead of the curve and gain more trust among their customers. Amazon must use R&D to discover new markets, opportunities, and customer needs, while improving their product selection and services. Through new and improved models developed through R&D, Amazon can make themselves more competitive with their prices and even more accessible in the market. Through this strategy implementation, we predict that the typical increases and decreases among assets, liabilities, revenue, expenses, and operating income will follow in the coming years. This is largely due to the fact that the focus of this strategy is to continue to stay ahead of Amazon's competitors. Because Amazon already excels in this, we do not foresee a striking difference in overall numbers. We expect return on assets and profit margin to increase over the years, with slight decreases in some years. Furthermore, we predict that asset turnover will have a similar performance as in recent years; however, based on our predicted numbers, this strategy causes a slight decrease in turnover. However, given Amazon's history of fluctuation in turnover, we do not see this as a major deterrence. Overall, through the implementation of a strategy that focuses on bettering their business, Amazon has the opportunity to continue to achieve great success and avoid losing their business to competitors who are taking advantage of Amazon's innovative ideas.

In our advising work for Amazon, we began to realize that there are a vast number of possibilities to recommend to our company to help them succeed. Our advice is meant to expand Amazon's core businesses and to increase profits. While we know we are not fully equipped to provide positively accurate numbers, we believe our suggestions will help Amazon grow and flourish in the years to come. Through identifying Amazon's greatest competitors and threats, we have been reminded that this company is unlike any other, which makes recommending improvements all the more challenging. This case has proven to be very valuable to our careers, as it has given us the opportunity to apply our knowledge and experience to the advisory practice of public accounting.

Case Study XI: Case Competition Amazon's Equity Position

INTRODUCTION

This week, we were tasked with analyzing Amazon's financial ratios. We began by looking at historical data, including Amazon's closing stock price in 2020, their stock's earnings per share, and their price to earnings ratio. Along with further research, these numbers helped us gain a better understanding of Amazon's past performance so that we could more accurately predict Amazon's future, given our recommended advisory and tax strategies. We then computed future earnings per share and multiplied those numbers by our historical price-to-earnings ratio to predict changes in the stock price over the next five years. We used these predictions to confirm the validity of our recommended strategies and assess the future risk and cost of capital of Amazon. The analyses of our recommendations are detailed below and affirm our continued belief that Amazon is a company that will likely continue to achieve great success.

Our first advisory recommendation is to become more local as the company becomes more global. Thus, our recommendation is for the company to invest in brick-and-mortar retail stores in order to make customers feel as if Amazon is closer to home than they might have originally seemed. With significant increases in buildings, equipment, inventory, and other assets early on, net income only increases marginally. However, net income grows more and more each year, as Amazon continues to establish retail stores and generate revenue. Our recommendation does not include issuing more stock, but we continued to slightly increase outstanding stock based on historical averages. That being said, EPS slightly increases each year, which results in yearly increases in Amazon's projected stock price. Furthermore, our calculation of Amazon's

ROA for the next five years steadily increases year after year and, thus, validates our projected increases in stock price.

For our second recommendation in advisory, we suggest that Amazon continue to stay ahead of their competition by using R&D to further growth. Since Amazon's business model is theoretically easy to duplicate, Amazon will continue to flourish by staying ahead of the curve and continuing to research new ways to provide goods and services to their customers. Because the company is seeing much success, we believe their overall numbers will continue to grow at about the same rate as in previous years. Through continuous research and development, we predict that Amazon will see higher expenses, but also higher revenues due to the continued expansion of the company through R&D. Net income will continue to grow, causing earnings per share to rise, as we did not recommend any stock issuances. Furthermore, we predict that the stock price will continue to grow; this is based on the stock's closing price at the end of the 2020 fiscal year. In our calculation of the future ROA for our recommendation, this ratio increased year after year, which reaffirmed our beliefs that our recommendation for Amazon boosts their stock price and the company's overall growth. This recommendation is not considered risky because Amazon does not have to make drastic changes to the way that the company operates.

Similarly, our first tax recommendation for Amazon is to continue to use more and more domestic distribution centers to more efficiently use Warehouse Management System (WMS). By using WMS to experiment with ways to improve cost efficiency, Amazon can qualify for up to 10 percent of tax credits for future years. After looking at the historical data, by increasing expenses, Amazon has the opportunity to continue to receive more tax credits that might help the company offset some of their tax expenses to be incurred in the future years. For 2021 through 2025, we calculated that this tax credit decreases taxable net income, which consequently increases the total net income after the corporate income tax calculation. As the net income grows every year, the expected stock price and common shares outstanding are also increasing which results in an increase of expected stock price. Additionally, taking advantage of this tax benefit helps in the growth of projected stock forecasts for upcoming five years. However, for a big company like Amazon it is difficult to predict the valuation of the stock price with 100 percent accuracy. However, based on the historical data, we believe that effectively utilizing this tax strategy has the possibility to positively impact Amazon's expected stock price.

Our second tax recommendation revolves around increasing Amazon's delivery service. By increasing Amazon's fleet of delivery trucks, they can create more jobs for Americans as well as take out the third-party delivery service. This not only saves them money within operations but also gifts Amazon with tax credits for creating more American jobs. These tax credits increase after-tax net income and, thus, cause the projections for EPS and stock price to increase in the coming years. Though the increases are not as significant as other strategies, they are still important to consider. Amazon's risk likely increases with this strategy because of the large investment expected to occur with their purchase of electric cards. Furthermore, their cost of capital is also likely to increase. Lastly, it is important to note that this strategy will likely be effective over a limited amount of time. This is due to the switch from gas vehicles to electric vehicles. However, the short-term implications of the EPS and stock price make this strategy important to consider.

Throughout this case, our group faced challenges. This aspect of the competition was unlike anything we had ever attempted. Though we did have previous knowledge of financial ratios, we struggled to apply our knowledge to our assignment. However, as time progressed, we began to understand the implications of our past predictions, and, with corrections and guidance, we were able to more accurately predict the future of Amazon. This case provided us with an opportunity to not only compute financial ratios but also understand the true meanings of the numbers. Furthermore, as we began to gain a more mature and developed understanding of the significance of financial measures, this case work was simultaneously preparing us for our future careers.

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