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An Analysis of Various Financial Reporting Standards

Mary Grace Gaines

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By

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

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Approved by

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ABSTRACT

This analysis is a compilation of one year's work in the Sally McDonnell Barksdale Honor's College's Accounting Practicum Program over the 2020-2021 academic year. Under the direction of Dr. Victoria Dickinson, this thesis is composed of eleven case studies ranging from an analysis on asset concepts to a group project assessing Amazon's financial statements. Each case study granted the opportunity to dive deeper into a specific topic in the field of accountancy and apply the topic to the business world. Through purposeful research, scholarly conclusions have been made regarding various financial standards and other unique issues related to accounting.

CASE I: A Tale of Two Cities

Executive Summary

In this case, I was asked to choose two cities in which I want to live and work, and I answered a series of questions regarding the cities I chose. This case required me to research topics such as the crime rates in each city, possible apartments, school systems, income taxes, and had me create a budget for my second year in each city. Before starting this case, my number one city was Nashville, Tennessee, and my number two city was Birmingham, Alabama. My top priority when deciding on a city is how far the city is from my home of Tupelo, Mississippi. I want to be just a few hours away so that I will be able to go home when my family needs me, but far away enough to start a life on my own. Based on this priority, I chose Nashville and Birmingham as my top two cities.

During this case, I learned many things about Nashville and Birmingham. I was astonished at how high the crime rate is in both cities, as they both are higher than the national average. I was also surprised by how the public-school system differed in each city. Based on my research, Birmingham's public schools are highly-rated and there are not many large private schools. In Nashville, however, the private schools in the area have rave reviews and many students, while it seems that the public schools are struggling. I also learned a little about myself in this process. First, I learned that the standard of living I am used to may not be feasible straight out of college. Also, when I was creating my budgets, I did not know what kind of expenses I might incur, as I have never had to pay bills for things like insurance before. Lastly, it took some time for me to decide on what recreational and other organizations and events in which I would want to participate, as there are so many options from which to choose. Being

from a small town, I never had many options in which to participate. All in all, it was interesting to learn more about these two great cities and to see if I fit in with the culture of either city.

What is the population?

The population of the Nashville differs greatly from Birmingham's population; however, the metro area of each city is home to a similar number of residents. Within the city limits, the population of Nashville is approximately 700,000, but the total metro area is home to 1,249,000 residents. The state capital of Tennessee, Nashville is the twenty-third most populated city in the United States and the third-largest growing city in the nation. On the other hand, Birmingham's population is around 210,000, with 1,152,000 residents in the city's metro area, making this the most populated city in the state of Alabama. Both of these cities are larger than any other place I have lived, but I believe I would enjoy living somewhere with a larger population for a change.

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 in the southern region of the United States, Birmingham and Nashville have similar climates. Both cities are classified as having humid, subtropical climates, with the average high temperatures around ninety degrees, while the average lows are approximately thirty degrees. During the fall and spring seasons, there are frequent thunderstorms due to temperature changes which occasionally result in tornadic activity. Nashville tends to get a few more inches of snow every year than Birmingham, but neither city gets more than a few inches of snow a year, and some years they go without snow. Because I am from North Mississippi, I am accustomed to this humid, subtropical climate; thus, I believe my transition into either of these cities would be seamless in terms of climate.

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.

Because Birmingham is only 192 miles away from Nashville, the two cities have similar topography. Nashville sits at the start of the Highland Rim, which forms an elevated rim around much of the city. Due to this, Nashville is very hilly. A prominent feature downtown, the Cumberland River flows through the center of Nashville. Birmingham is flanked on both the northeast and southeast by long parallel mountain ridges, which are the tailing ends of the Appalachian Mountains. The city itself sits in the Jones Valley, which is drained by small creeks into the Black Warrior River. Both cities have more hills than I am used to, but with that comes beautiful scenery, so I think I would enjoy the slightly different topography.

Birmingham is pictured below:

Nashville is pictured below:

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)?

In Birmingham for the 2019-2020 tax filing season, my income taxes would be approximately $12,303, which is broken down into this chart from Smart Asset's website:

Your Income Taxes Breakdown

Tax Type	Marginal Tax Rate	Effective Tax Rate	2019 Taxes*
Federal	22.00%	9.59%	$5,275
FICA	7.65%	7.65%	$4,208
State	5.00%	4.13%	$2,271
Local	1.00%	1.00%	$550
Total Income Taxes		22.37%	$12,303
Income After Taxes			$42,697
Retirement Contributions			$0
Take-Home Pay			**$42,697**

* These are the taxes owed for the 2019 - 2020 filing season.

Not included in this chart is sales tax, which would be ten percent in Birmingham and 9.25 percent in Nashville. The income tax I would have to pay in Nashville would be less, because there are no state or local taxes; thus, my income tax would be about $9,482, which is highlighted in this chart from Smart Asset's website:

Your Income Taxes Breakdown

Tax Type	Marginal Tax Rate	Effective Tax Rate	2019 Taxes*
Federal	22.00%	9.59%	$5,275
FICA	7.65%	7.65%	$4,208
State	0.00%	0.00%	$0
Local	0.00%	0.00%	$0
Total Income Taxes		17.24%	$9,482
Income After Taxes			$45,518
Retirement Contributions			$0
Take-Home Pay			**$45,518**

* These are the taxes owed for the 2019 - 2020 filing season.

I found it interesting that the income tax in Birmingham was higher than in Nashville, but they are similar enough that I do not think it would affect me too much either way.

What transportation hubs are in the city?

Since Birmingham and Nashville have a relatively large population and metropolitan area, they have relatively good transportation. Birmingham's public transportation is called the MAX: Metro Area Express, Birmingham-Jefferson County Transit Authority. There are also numerous taxi services and rideshares, along with shuttles to various events, such as to Tuscaloosa for Alabama football games and to the Talladega Superspeedway. The airport, entitled the Birmingham-Shuttlesworth International Airport, provides direct service to fifty cities and seventy flights a day. WeGo Public Transit provides hourly service in Nashville between downtown and the airport. Nashville, unlike Birmingham, has a commuter rail, the

Music City Star Commuter Rail, that has six different stations so riders can take advantage of the services. Along with taxis and rideshares, Nashville has a booming airport, Nashville International Airport, which is served by sixteen airlines and has five hundred and eighty flights per day with direct service to seventy-two cities in North America and Europe. With access to good transportation in each city, I will be able to go anywhere I need to go.

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

Nashville's major industries include: healthcare management, automobile production, finance, higher education, insurance, and music production. With this in mind, the city's largest companies headquartered in the Nashville region comprise of Asurion, Bridgestone Americas Inc., Community Health Systems, Nissan North America, and Cracker Barrel Old Country Store Inc. Birmingham's leading industries consist of healthcare, trade, finance, research, government, steel, and iron. Because of this, some of Birmingham's most prominent companies include: Encompass Health, Regions Financial, American Cast Iron Pipe Company, B.L. Harbert International, and Alabama Power. With both city's major industries including healthcare and finance, there is a good chance that I would be working with one of those industries during my accounting career.

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?

In terms of healthcare, both Nashville and Birmingham have highly ranked hospitals and care facilities. The Nashville public school systems, on the other hand, are not quite as excellent. According to Niche, the Metro Nashville Public Schools have a B- overall rating, with a C- in health and safety. Because of this, I would either send my children to Williamson County Schools, which is in the suburb of Franklin, Tennessee, or a private school, such as Harpeth Hall School, Montgomery Bell Academy, The Ensworth School, or Christ Presbyterian Academy. In Birmingham, however, I would most likely send my children to public school, as the public education is much better than in Nashville. Depending on the school for which my home is zoned, my children would probably attend Mountain Brook City Schools, Vestavia Hills City Schools, or Homewood City Schools.

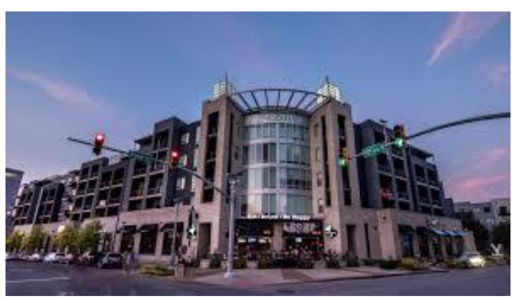
What types of crime are common within the city and where are the locations within the city to avoid?

Birmingham and Nashville both have much higher crime rates than the nation average, with Nashville's crime rate being eighty-two percent higher than the national average and Birmingham's being one hundred eighty-seven percent higher. In each city, property crime and theft are the most common types of crimes. In Birmingham specifically, the violent crime rate is four hundred and two percent higher than the national average, with one in thirteen people being a victim of a crime. The major neighborhoods to avoid in Birmingham are Airport Heights, Penfield Park, Airport Hills, East Birmingham, and Evergreen. Nashville's violent crime rate is 192 percent higher than the national average, with a one in twenty chance of becoming a victim of crime. Shepherd Hills, McKissack Park, Buena Vista Heights, and Elizabeth Park are all areas that should be avoided, as they have much higher crime rates than the rest of Nashville. At first, these statistics on the crime rate frightened me, but after further thought, most large cities in the United States will have a relatively high crime rate due to the vast number of people in each city.

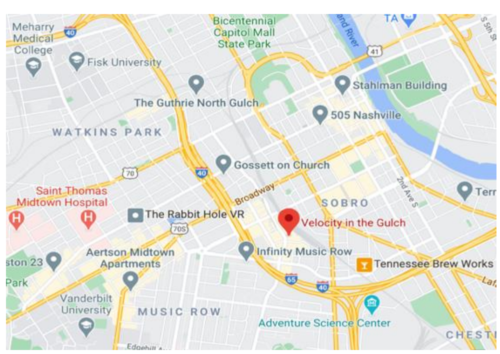
Based on where you see yourself living for the first three years, how much rent do you expect to pay? Back up this assertion with sample properties from each location (including pictures). Describe the square footage, amenities, need for a roommate, availability of parking, etc.

To be in a good neighborhood that is close to the downtown accounting firms, I have learned that I must pay a little more rent than I would like to pay. In either city, I see myself paying around $1,000 in rent, and I plan to have at least one roommate which would help with the cost of rent. In Nashville, there is an apartment complex in the Gulch neighborhood with two-bedroom units available for rent called Velocity. The total rent is $2,139, which includes 960 square feet, stainless steel appliances, hardwood floors, and in-unit washers and dryers. It is within walking distance to downtown Nashville, where the major accounting firms are located. Velocity provides residents with covered parking, a fitness center, and is pet-friendly.

The outside of Velocity is pictured below:



A map showing Velocity's proximity to downtown and the Gulch is shown below:

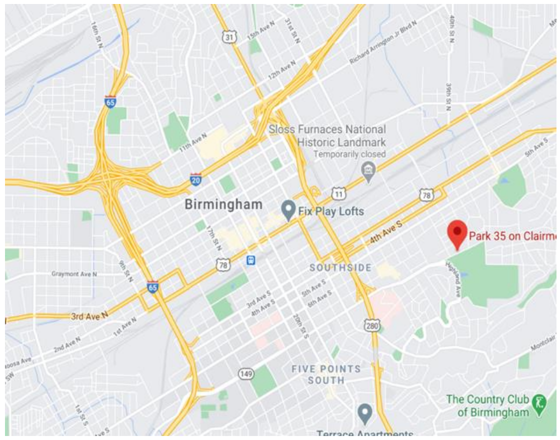


The inside of a unit at Velocity is pictured below:

Park 35 on Clairmont Avenue, located in Birmingham, has two-bedroom apartments available for $1,618 a month. This unit provides more space than the apartment in Nashville for a lower price, with 1,075 square feet. The amenities include: hardwood floors, a fitness center, a community pool, stainless steel appliances, and is pet-friendly. This building is located by the Highland Park Golf course, and is minutes away from the Lakeside District and the University of Alabama at Birmingham.

The outside of Park 35 is pictured below:

A map showing the proximity of Park 35 to downtown is shown below:



The inside of a unit at Park 35 is pictured below:

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 in both Nashville and Birmingham is by car, and the majority of people drive alone. In Birmingham, the average commute time is twenty-six minutes, however, my commute would be approximately ten to fifteen minutes if I were to live at Park 35. The average commute for someone in Nashville is also twenty-six minutes, but if I lived in Velocity, my commute would be five to ten minutes. I prefer to have a short commute, so living near my workplace is important to me.

Where will you do your grocery shopping?

I plan on doing most of my grocery shopping at Target, Publix, and Kroger, with the occasional trip to Trader Joe's, Whole Foods, and Fresh Market, as both cities have these great options.

How will you do your laundry?

I plan on doing my laundry in my apartment because both of the apartments I chose have in-unit washers and dryers so I do not have to go to a laundromat.

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

Being involved in the community in which I live is important to me, so I have selected a few organizations in each city for which I have a passion. In either city, I would volunteer with the local humane society – in Nashville, Nashville Humane Association, and in Birmingham, the Greater Birmingham Humane Society. I would also join a church, and based on my research, I would join Christ Presbyterian Church in Nashville or Covenant Presbyterian Church in Birmingham. In terms of charitable organizations in Nashville, I would like to volunteer with Book 'Em, an organization that empowers Nashville's economically disadvantaged children by encouraging a love of reading and owning books. In Birmingham, I plan on working with Community Kitchens of Birmingham, which provides warm meals to the Woodlawn and Southside neighborhoods to help alleviate hunger and food insecurity.

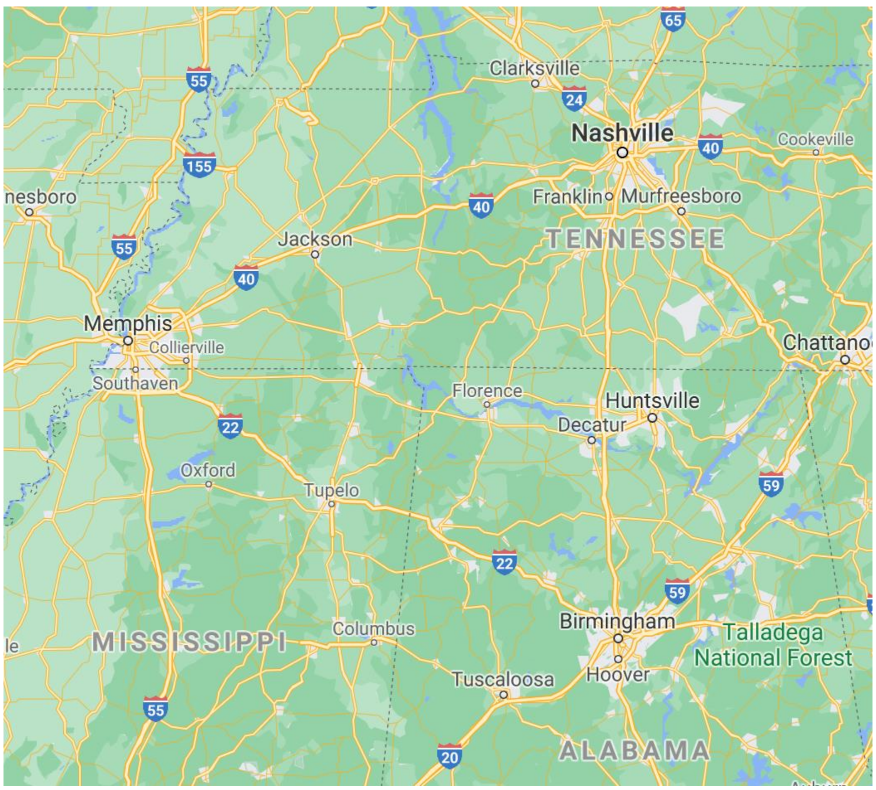
What are the sports, entertainment, or recreational activities that you would be most likely to engage in within the city? Name at least five activities.

Birmingham and Nashville have plenty of ways to be involved and engaged with other like-minded people. In either city, one of my first goals in terms of recreation would be to join a USTA tennis team, as tennis is a social sport as well as great exercise. Also, both cities are known for their wonderful hiking trails and parks, so I plan to frequent those to get a taste of the outdoors. In Birmingham specifically, I would make sure to take part in concerts held at the Birmingham Convention Center and other concert venues, as well as attend festivals such as the Magic City Art Connection, the Annual Gardendale Magnolia Festival, and the Christmas Tree Festival. In terms of sports, I would definitely attend University of Alabama at Birmingham sporting events and try my luck at TopGolf. In Nashville, sports would also be a priority to me, as I would frequent games played by the local NFL team, the Tennessee Titans, as well as the NHL team, the Nashville Predators. I would be sure to attend events in which Ole Miss has a team, whether for the SEC Basketball Tournament or in competition against Vanderbilt University. Other than sports in Nashville, I would also take part in their many festivals, including the Country Music Awards Festival and Let Freedom Sing! Music City July 4th. Along with the festivals, events held at the Ryman Auditorium and the Bridgestone Arena would be high on my list of places to attend. Sports and music are very important to me; thus, I chose activities that peaked my interests.

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?

Because I am from Tupelo, Mississippi, Nashville and Birmingham are relatively close to home, which is something I am looking for in a city. By car, Birmingham is two hours from Tupelo, while Nashville is four hours away. Thus, each trip would cost about as much as a tank of gas, which would equal approximately $40 today one way, $80 roundtrip. However, if I were to live in Nashville, I could make it home in about an hour, due to the fact that there is a flight out of the Nashville International Airport that has direct service to the Tupelo Regional Airport. The cost of the flight is $98 roundtrip, so the cost of flying home from Nashville versus driving is about the same, with the flight being faster.

A map showing the distance between Tupelo, MS and Nashville, TN is shown below:



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.

Nashville, TN Monthly Budget	**$**
Salary	60,000
(Taxes)	(9,482)
Income after Taxes / 12 Months =	4,210
(Rent/Utilities)	(1,750)
(Travel)	(500)
(Personal)	(1,000)
Total Expenses =	3,250
Total Savings =	960

Birmingham, AL Monthly Budget	**$**
Salary	60,000
(Taxes)	(12,303)
Income after Taxes / 12 months =	3,975
(Rent/Utilities Expenses)	(1,500)
(Travel Expenses)	(500)
(Personal Expenses)	(1,000)
Total Expenses =	3,000
Total Savings =	975

Finally, based on your full analysis, determine what is your preferred city and why?

Based on my research, Nashville would be my preferred city for several reasons. First, I love how close it is to my home. I am the oldest of four children, so being able to go home when there are special times in my family's life is important to me. Also, there is always plenty to do in Nashville, as it is the home of country music and has a growing population with many young people. I love all of the sporting events that make their way to Nashville, providing me with numerous enjoyable opportunities. Lastly, I prefer Nashville over Birmingham because of the people of Nashville. Everyone I know from Nashville that attends the University of Mississippi adores Nashville and have such pride for the city. I believe that speaks volumes for Nashville, and is one of the main reasons why Nashville is so appealing to me.

CASE II: Asset Concepts

Executive Summary

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

The first question asked us to decide whether the valuation of assets and liabilities or the determination of expenses and revenues was the primary goal of financial reporting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Kate: "Definitely."

<u>Question 3:</u> Based on your answer in Question 2, how will current accounting have to change to accommodate this value definition? Provide examples of specific transactions and how their journal entries (either accounts or amounts) would change under this new definition.

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

<u>BUY:</u>

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

<u>DEPRECIATION:</u>

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

SELL:

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

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

BUY:

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

SELL:

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

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

BUY:

Factory	100,000	
Firm Specific Value	20,000	
Notes Payable		120,000

SELL:

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

CASE III: Excel Course

The Excel Crash Course Completion Certificate is shown below:

Corporate Finance Institute®

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

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

Mary Gaines

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

Excel Crash Course - Spreadsheet Formulas for Finance

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

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

VERIFIED CFI™ CERTIFICATE

Certificate number
95927335

Chair of the Board

Director

Director

Oct 15, 2020

CASE IV: *Taxodus* and Corporate Income Tax

Executive Summary

For case four, I was assigned to read two articles on the corporate income tax rate in the United States; the first article was published by the U.S. Department of Treasury, which is entitled “More Jobs and Bigger Paychecks”. The second article was a bit lengthier; it is called “Testimony: The Positive Economic Growth Effects of the Tax Cuts and Jobs Act”. After reading those two articles, I was charged with watching a documentary called *Taxodus* in which corporate tax evasion through tax havens and offshoring was discussed in great detail. Surprisingly, it was a very interesting and captivating film, which I was not anticipating when I discovered that it was a documentary on taxes.

This case helped me understand and learn more about what it takes to be an accountant in the tax service line of a Big Four accounting firm. Case four increased my knowledge in what tax accountants actually do, and it did not deter me from being interested in the tax service line. Over the summer, I read the novel *The Firm* by John Grisham which introduced me to the concept of tax havens, as the characters in the book would travel to the Cayman Islands to do much of their illegal tax work. Although it is fictional, *The Firm* helped me have a grasp on what occurs in the world of tax and tax law.

I found the information in this case to be very interesting and informative, as I have not decided between tax and audit yet. At the beginning of this semester, I had my mind set on audit, but the more I read about tax and the more I speak with people in the tax service line, the more I can see myself working in tax. I enjoyed reading in-detail articles about tax havens because they were something that stuck out to me as I did my research for this case. Overall, this case was very enlightening to me because I was able to wrap my mind around what an accountant in the tax service line can do.

What do you think the optimal corporate tax rate should be and why?

There are many layers and opinions on the United States corporate tax rate – how high the rate is, who it encompasses, and the various loopholes and ways around paying the full amount. Depending on who is asked this question, whether an ordinary citizen, political official, or the chief executive officer of a company, the answers will vary based on each person's viewpoint of corporate taxes.

The corporate tax rate in the United States was 35 percent before 2017 when President Trump enacted the Tax Cuts and Jobs Act that reduced the corporate tax rate to 21 percent. This tax reform created a more competitive atmosphere for the United States' corporate tax among the developed-world peers, encouraging more companies to invest in their operations within the United States. However, there are still companies that prefer to use offshoring as a means of having significantly lower tax rates.

For large corporations, the optimal tax rate is 0 percent. As seen in *Taxodus*, many large global companies have found ways to get around paying hefty rates by funneling their money through offshore accounts in tax havens such as the Caribbean Islands, Luxembourg, Hong Kong, and Lichtenstein. These tax havens are known to have extremely low, or zero, corporate taxes, which makes them very appealing for high-revenue corporations like Nike and Cisco. Countries that are considered tax havens are prone to over-leveraging, which can lead to financial crises. The main advantage of a tax haven is little to no tax liability, but they may offer credit advantages to foreign corporations as well.

The companies that take part in financial offshoring go through several countries and banks all over the world, creating subsidiary companies and accounts in which to hold and transport their wealth. Apple, Microsoft, and Starbucks are well-known corporations that participate in these law-bending actions. Companies based in the United States are the largest beneficiaries and users of tax havens; it is estimated that approximately 7 to 10 trillion dollars – about 10 percent of the world's assets – are hidden away in tax havens. Corporations who generate high revenues will find a way to reduce the amount of income taxes that they have to pay. The country with the lowest tax rate is the country in which large companies want to invest and move their capital, so as to pay the least amount of corporate income taxes as possible. For corporations in this global economy, the lowest tax rate is king.

Ideally, the United States would have a competitive corporate income tax rate, which is what the country has had since the Tax Cuts and Jobs Act was enacted. Prior to 2017, the corporate tax rate in America was 35 percent, but now, because of the Act, it is 21 percent. This tax rate is much more in-line and competitive with our other developed-world cohorts than in the previous years.

The competition helps lure new corporations into the country to establish headquarters and/or operations, promoting more jobs and economic growth. Many companies that had outsourced to countries with lower corporate income taxes returned their central operations to the United States after the Tax Cuts and Jobs Act was created, enabling the country to become more financially secure. If the United States' income tax rate for corporate America continues to stay at a competitive rate, the country will experience economic growth and lower unemployment rates.

A higher tax rate is ideal for countries because it brings in more tax revenue, supporting programming such as infrastructure and public education. If corporations take the tax haven route instead of paying the exorbitant tax rates of a country, the country suffers because the corporations are using the infrastructure for their operations, but not paying the correct amount of taxes in order to use them. This results in the blue-collar workers and poorer citizens being struck with higher tax rates because they will be charged with picking up the slack of the corporate world, resulting in more low-income taxpayers. When companies move their operations to tax havens, citizens lose their jobs, creating higher unemployment rates and a reduction in the local economy. Hypothetically, if companies did not financially outsource at the mention of higher tax rates, countries may experience greater benefits when it comes to funding governmental activities and organizations. In this way, governments would prefer to charge corporations higher income tax rates.

Personally, I believe the country's corporate income tax rate should be competitive, but not too low. The competitive rate will encourage economic stability, without sacrificing the credibility of the nation's tax reputation. I think it provides Americans with good jobs and higher pay since the companies employing citizens will not have to pay high taxes. Although some corporations will still employ the use of tax havens, I think many companies would be satisfied with the United States' tax rate. Globally, the average corporate tax rate is approximately twenty-4 percent, while in Europe, which is home to several of America's top corporate tax competitors, has a rate at around twenty percent.

To be competitive with other countries, I think the United States' tax rate should be between 19 and 21 percent in order to attract growth from Fortune 500 companies. If the country's tax rate was extremely low, it would become a tax haven in which there may be illegal occurrences involving tax evasion that the United States would want to avoid. On the flipside, as we saw under the Obama Administration with extremely high corporate income tax rates, countries will leave the United States in order to outsource to a country in which tax rates are lower. Thus, like most things in life, I believe a healthy balance is the key to corporate income taxes.

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

This case sparked my interest in tax and helped me gain an understanding of what working in the tax service line for one of the Big Four accounting firms might look like. I did not realize that tax accountants worked with offshore accounts and tax havens. I knew that they tried to cut tax costs for their clients, but I had not really thought about how they went about it until I watched the documentary *Taxodus*. It made sense to me that accountants might help their clients find a route in which they could save a good bit of money. I have spoken to a former CPA that worked in American tax who saved one of his clients millions of dollars in taxes. He and his team accomplished this by working with his firm's office in Brazil to create ways in which to save the client's money from being taxed at the normal rate in the United States. Based on how he described it, I think they discovered some loopholes and offshore accounts in order to reduce the company's taxes.

I think there is more than what meets the eye when it comes to tax accounting. When you tell someone that you plan on being an accountant when you grow up, their response is normally "Oh, how terribly boring." But as I have come to find out, accounting is anything but boring. In tax specifically, I like that accountants are not working on the same tax return all year; the diversity of tax is something that has really kindled my interest. As cumbersome as it might be, I think it is fascinating that the tax code changes every few years. I like to continuously learn, so that might be a good quality trait to have if I decide to go into tax accounting.

I have also found it interesting that companies will go to great lengths to reduce the amount of taxes they have to pay. The fact that they go through so many countries and banks to reduce their tax rate is somewhat mind-boggling, especially at first glance. As I was reading resources on offshoring and tax havens, I began to think that it sounded more and more like a giant puzzle just waiting to be solved. The more I thought about it, the more it seemed to be true – tax is just a puzzle that is ready to be decoded and detangled.

Surprisingly, I was not deterred from tax accounting after watching *Taxodus*, as many of my friends were after watching the documentary. I liked seeing another side to tax work, because when I first started thinking about tax accounting I thought that it was mostly work done for personal accounts. This part of tax work sounds much more enjoyable and interesting because you are not doing work that is as routine as filling out a client's personal tax forms. Overall, this case increased my interest in working in the tax service line of accounting because of how intriguing offshore accounts and tax havens are. The more I learn about tax accounting, the more I am leaning toward tax over audit.

CASE V: Tony Gaines Interview

Executive Summary

For case five, my class was assigned to reach out to and interview a business professional who has established themselves in the business world. This interviewee had to be at least thirty-five years of age and could be retired. For my case, I chose to interview Tony Gaines, my father. He is a financial planner in Tupelo, Mississippi who has excelled in his line of work since 1994. Because we lived in the same household during the period in which I worked on this case, I was able to interview him in-person rather than over the phone.

Tony is a very humble person; he barely alluded to his successes in the business world. So, after interviewing him, I found his high school and college yearbooks to help uncover information about Tony's illustrious past. His wife and my mother, Julia, was the key to describing his accomplishments. When it came to achievements in his line of work, I went straight to the source – the Wells Fargo Advisors Tupelo Office website. This helped me learn his title within the company and on which types of accounts he prefers to focus. I learned a lot from interviewing my father; since he is private about his success in business and in life, I discovered facts about Tony that I had never heard in my twenty years. We were able to have great conversations from the questions posed, and I am thankful for the opportunity to interview him in a scholastic setting.

Overall, I am very proud of my father and I hope that one day I will be half the person he is. He has excelled in business and in life, which is something to strive towards. Through hearing his experiences in the business world as a young professional, my goal is to take more risks than he did in his early career as that is the thing he most regretted. I loved having the chance to learn more about my father and his experiences in the business world and in life.

1. Tell me about your life before you started college or your career.

Anthony Gillespie Gaines, known by his friends and family as Tony, was born on May 10, 1971, in Memphis, Tennessee. His father is O. T. "Tony" Gaines from Iuka, Mississippi, and his mother is Mary Helen Gillespie Gaines from Smithville, Mississippi. His sister, Heather, is eighteen months older than him. After spending his first six years in Memphis, Tony and his family moved to Iuka, Mississippi, his father's hometown. Located at the northeast corner of Mississippi, Iuka is a small town in Tishomingo County that is known for its drive-in movie theater and Woodall Mountain, the highest point in the state of Mississippi. This is the town in which he earned his nickname "Tall Tony." Growing up near Pickwick Lake, Tony spent much of his time on the water with friends. He attended Iuka Elementary School, Iuka Middle School, and Iuka High School, where he excelled in both the classroom and athletics.

Tony was a straight-A student and eventually earned the title of Star Student of Iuka High School, which honors the student with the highest ACT score in each senior class. He was also a member of the speech club and was the vice president of the school's National Beta Club. A superb first baseman, Tony played baseball for much of his childhood; he quit the Iuka High School team his freshman year when he decided to play tennis. Tony was an original member and helped establish the Iuka High School tennis team his freshman year. Tony played on this team with his older sister, Heather. By his senior tennis season, Tony was named captain of the team. Although he loved being a part of the tennis team, his main sport was basketball. Beginning his freshman year, Tony was a key starter for the Chieftain's basketball team. Throughout his career, Tony averaged ten to fifteen points per game, and had at least ten games where he shot over twenty points. Tony was a contributing member to the district championship team in 1986, 1987, 1988, and 1989. Senior year, Tony earned the titles of team captain and most valuable player for the Iuka High School basketball team.

As much as Tony loved being a part of a team, he also excelled at being a leader around his high school campus. One of his proudest accomplishments, Tony earned the honor of Eagle Scout. Tony was well-known and well-liked among his fellow students; his senior year, he was an escort on the homecoming court and was inducted into the Iuka High School Hall of Fame. Tony graduated with highest honors, as he was one of the top ten students in his class. He was well-known for excellence, as his senior superlative was "Best All-Around." In 1989, Tony graduated with around seventy other students and went on to attend the University of Mississippi.

2. What were your college years (if applicable) like?

Tony Gaines blossomed during his four years in Oxford, Mississippi. As a freshman, he joined Sigma Nu Fraternity where he was eventually elected president, or Commander, of the fraternity. Through this group of men, Tony made many lifelong friendships that continue to flourish to this day. He and his family still "Grove" with his pledge class from 1989. Outside of his fraternity, Tony was very involved on campus. He found that the Associated Student Body, also known as ASB, was something he was passionate about, so he spent much of his time working in the University's student government. In the spring of his junior year, Tony was elected to serve as the Treasurer for ASB. When asked about his favorite part of his college experience, he said the people were what made his experience so memorable. He claims to have made many friends that turned into professional connections that he still utilizes almost thirty years later.

3. 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?

Although he seemed as if he had everything figured out, Tony had no idea what he wanted to do or what he wanted to major in when he went to Ole Miss. Because he always liked working with numbers, Tony decided to become an accounting major. It was a practical major in his mind, so it was something worth pursuing. However, between his junior and senior years, Tony realized that he did not want to grow up to be an accountant but planned to finish his degree. In his search for a career, Tony took the LSAT, the law school entrance examination, applied, and was accepted to the University of Mississippi Law School. By the time his senior year reached a close, he decided he was ready to finish school and enter the workforce.

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

After graduation in 1993, Tony applied to many jobs and accepted a position at Morgan Stanley as a stock broker/financial planner. He chose Morgan Stanley among other offers because it was the company for which his father worked. In the beginning, Tony worked in the Memphis office; after a few years, however, he moved to Tupelo, Mississippi, and joined his father's group. Through working in the Memphis office away from his father's assistance, Tony learned independence and what it meant to be a business professional.

After more than twenty years with Morgan Stanley, Tony decided it was best for him and his clients if he switched companies. In 2010, The Gaines Group of Morgan Stanley Smith Barney changed to The Gaines Group of Wells Fargo Advisors. By this time, his father had retired, and his uncle, also a part of the group, was only working a few days a week and was working toward retirement. Through this company change, Tony learned the importance of doing what was right for his clients. When he looks back at this major switch eleven years later, he says he does not regret it although it was a hard changeover. In 2017, the Gaines Group merged with the other Wells Fargo Advisors office in Tupelo, thus consolidating all of the company's local financial planners. Before this merger, Tony had been in an office with his secretary and his uncle who only worked a couple of days a week. This consolidated office added 5 more members to his office family, making this the largest office Tony had worked in since his days in Memphis. Through this experience, he has learned how to be kind and patient with his colleagues. Currently, Tony is the Senior Vice President of Investments for Wells Fargo Advisors in Tupelo.

5. What has your life been like outside of work?

Tony's main goal when he leaves the office is leaving his work there and not bringing it home with him. This has become more challenging since he has begun working at home, as many of his clients now have his cell number. When he's not working, Tony's main joy in life is his family. He relishes in helping his children succeed and taking his children to their various sporting events including tennis, soccer, and football. Ole Miss sports is one of Tony's first loves that he now shares with his children. He has taken them to almost every home football and basketball game, even taking the whole family to bowl games and the College World Series. Tony also enjoys spending time with his friends through playing golf. He and his friends in Tupelo can be seen playing golf most Sundays at the Tupelo Country Club, while he and his college friends have taken trips to play many of the most famous golf courses around the country and world.

6. What has been the best vacation you have ever taken?

Tony has taken many trips in his lifetime; he has visited almost every state in the United States and he has been all over Europe, but Tony said his favorite vacation he has ever taken is when he took his family out West. The family flew into Denver, Colorado, and rented a car. They traveled through Colorado, Utah, and Arizona, visiting many of the area's National Parks. The trip took them to Bryce Canyon, Capitol Reef, Arches, and Zion National Parks, as well as the Grand Canyon. They also stayed in Phoenix, Arizona, before they flew back home. Tony loved taking this trip with his family, as he said it pushed them to new limits. They took hikes in every park they visited which was something his family had never done. The only bad thing about the trip in Tony's opinion was that he realized how crippling his fear of heights had become. When driving along cliffs in Utah, Tony felt woozy and saw stars. Other than this small hiccup, Tony said this was by far the best trip he had taken because he was with his family and made lasting memories with them.

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

In his personal life, Tony wishes he could have met his paternal grandparents. His father's grandparents passed away prior to Tony's birth when their car got hit by a train when Tony's older sister, Heather, was born. Throughout his life, Tony heard many stories about them as they were residents of Iuka before their deaths. His father cherished them, and to this day, he still carries around the key chain his father used. In the business world, Tony wishes he had taken more risks when he was younger. He had several opportunities to invest in real estate deals and new businesses, but he chose not to capitalize on those possibilities. Now, looking back, the majority of the investment opportunities he was offered were successful ventures and he wished he had possessed the bravery to take those risks.

8. 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?

Tony's advice that he wanted shared with the class was this: "It's okay to fail." Because of his regrets for not taking risks when he was fresh out of college, he wants to encourage the class to hit the homerun and not to just try making a hit on the ball. Everyone fails, whether it is failing to sign the client or a bad investment, Tony says that failure and mistakes are what being young is all about. So, in the words of Tony Gaines, "Do something huge!"

9. What are you most proud of?

When posed this question, Tony had a quick response; he answered, "My kids." He has four children – the oldest is twenty, the second and third are eighteen and fourteen, respectively, and the youngest is seven. He says these four children, three girls and a boy, are what make him work so hard. He wants to be able to provide for them and allow them opportunities to pursue their dreams.

10. What do you think will be the biggest challenge of your generation?

As a financial planner who specializes in retirement funds, Tony has firsthand experience with the greatest challenge of his generation – the struggle of feeling financially secure and prepared for retirement. He sees clients all day long who are concerned that they waited too long to start planning for retirement. Tony's encouragement for our class is that we start planning for retirement in our twenties, as he watches money grow. He says that if we start early, our money will multiply to be much larger than someone that starts saving in their thirties or forties.

11. What will be the biggest challenge for my generation?

In Tony's opinion, social media and technology will be both the greatest challenge and the biggest blessing. On one hand, we will be able to excel and be much more productive; on the other hand, we will have a much harder time leaving the office. Since more and more people are using their cell phones, tablets, and laptops at work and at home, they have the opportunity and the weight of being able to respond to clients immediately, no matter where they are. Along with the technology, social media is another two-edged sword. It is great for keeping up with friends, clients, and acquaintances, but it is easy to get sucked into the pressure and it has the power to be one's greatest distraction. Tony worries that our generation will not have the ability to unplug and truly vacation with all of this technology and connectivity at our fingertips.

CASE VI: Case Competition – Overview

Group Members: Niland Fortenberry, Sahara Karki, Michael Keene, ShaCori Ruffin

Executive Summary

This week, we were asked to pick a company that is domiciled in 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 before beginning our write-up.

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 continues to grow at record rates. Even amidst an unprecedented year in business, their level of sales reached new heights ("Amazon.com Inc."). 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 the 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 is the main reason behind the success of Amazon, as it results in strong customer loyalty and high revenues ("Amazon Strategies:"). Amazon experienced a 20 percent increase in net sales from 2018 to 2019, 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 experienced a large increase in shareholders, and the price of shares has more than quadrupled in the last four years ("Amazon.com Inc."). Amazon seeks to retain shareholders not by paying dividends, but by offering restricted stock in an effort to encourage both their shareholders and employees to have a long-term mindset ("Amazon Will Be"). 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 their market share over the coming years. Advertising is the fastest growing part of the company and is valued around $400 billion ("Amazon Strategies"). While this is considered to be a conservative valuation, that number could skyrocket over the coming years.

Through our research, we began to understand more thoroughly why Amazon has become one of the most successful companies in the world, through reaching new heights in consumer management, the stock market, and overall growth. Amazon has been the leading delivery service that Americans have relied 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 a threat to many other franchises for several reasons. Through Amazon you are able to purchase most products that are sold in retail stores online, which has eased the difficulties 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 ("Amazon Strategies"). 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 VII: Case Competition – Audit

Group Members: Niland Fortenberry, Sahara Karki, Michael Keene, ShaCori Ruffin

Executive Summary

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 agree. They can also use a data analytics system where details of memberships and product sales are both input manually by managers. The system automatically flags amounts that overlap incorrectly. Moreover, if a product sale is bought in conjunction with a Prime membership and both the manager of Prime memberships and manager of product sales inputs 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 will help to make accurate estimates of depreciation in between valuations.

Another account that we feel imposes greater risk to Amazon is its Revenue account. Amazon has so 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 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 test this by regularly analyzing transactions to ensure that revenues are recorded in the correct fiscal period as well as checking timestamps of all transactions. By using strategic approach and data analysis to enhance market positions, market margin and protect risker revenue

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 increase in lease liabilities from 2018 to 2019. A potential risk that we found in this tremendous amount of growth in the long-term lease liability is the possibility of a distortion 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. This could have a positive impact on both the financial and operational point with improved lease management. Similarly, they can also perform regular analysis of the account portfolio to ensure that the accounts are properly updated and contain detailed information regarding the current lease information. Moreover, they can also perform debt to equity ratio to show the growth of capital, indicate stability, and are capable to potentially cover the debts.

Accrued Expenses is the sixth and final account that we chose because Amazon is such a vast company with numerous expenses that could easily get lost and miscommunicated during accrual. We suggest that the company should 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 there be a breakdown of the way estimates are formed for unused gift cards. 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 VIII: Case Competition – Tax

Group Members: Niland Fortenberry, Sahara Karki, Michael Keene, ShaCori Ruffin

Executive Summary

This week, our group was tasked with researching 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 in which Amazon could 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 these companies can ethically and legally respond to the continual evolution of tax laws.

The first tax strategy that we recommend is restructuring warehouses and distribution centers to use Warehouse Management Systems, referred to as WMS. This software helps companies become more cost-efficient and focuses more on the consumer ("Organized Chaos"). Amazon already uses one, and with their commitment to timely delivery, they can use their WMS in order to help motivate their employees to find more efficient ways of distribution. Experimenting with ways to improve their cost-efficiency can qualify as a research and development expense which receives tax credits of 10 percent (Rattner, Palmer). In 2019, Research and Development (R&D) costs were $36 billion, which implies a tax credit of $3.6 billion. With an increase of $10 billion dollars in R&D costs, Amazon has the potential of claiming a $4.6 billion tax credit in the next year and so on. While this increase may seem far-fetched, Amazon saw a $13.4 billion dollar increase in R&D expenses from 2018 to 2019, making a $10 billion dollar increase in the future a reasonable expectation ("10K"). Furthermore, these billion dollar increases in costs have significant benefits if the corporate tax rate increases to 28%. By increasing expenses that simultaneously offer tax benefits, the taxable income is lower, and the negative effects of Biden's potential increase in corporation taxes is mitigated. This is a long-term effect as Amazon can continue to increase their R&D expenses and the potential increased corporate tax rate is likely here to stay for a while ("R&D Tax Credit").

Likewise, another potential tax credit that Amazon can utilize is Tax credit for charitable contribution. Amazon is currently running a program called AmazonSmile that donates 0.5% of its sale to the charity of their customer's choice. Alongside, there are millions of other products on its website that can be used for charity, providing some tax credits to the company ("Charitable Contribution Deductions"). We also suggest that big multinational companies like Amazon can utilize the FBA donation program to get tax benefits from donating its excess, and obsolete inventory like: forklifts, conveyor system or any factory equipment stored in the US fulfillment center.

Our final tax strategy recommendation for Amazon is focused on distribution. We recommend streamlining their Prime delivery service, taking out the middleman 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. 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. Additionally, if Amazon expanded their fleet with electric vehicles, the company would receive a $7,500 write-off for every vehicle purchased (Greenfield). With Amazon's recent purchase of

100,000 electric vans from Rivian, the company saved around $750 million in taxes. With a fleet expansion, Amazon would be creating more jobs in the United States and thus taking advantage of the 10 percent tax credit incentivizing new job creation (Blanco). If their income tax in 2020 is similar to the $162 million in 2019, Amazon would earn approximately $16 million in tax discounts.

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 all the more. Despite the challenges of lack of expertise and 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. Yet again, this case allowed us to take a step into our futures and have the opportunity to experience a taste of the world of public accounting.

CASE IX: Case Competition – Advisory

Group Members: Niland Fortenberry, Sahara Karki, Michael Keene, ShaCori Ruffin

Executive Summary

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 easy and accessibility of Amazon, but many people have and will start to take issue with the monopolistic image of the company. We recommend Amazon increase the number of brick and mortar stores in the United States. The feeling a customer has walking into their 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 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 slightly fluctuate over the five-year span but should stay within 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 gets 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 foresee 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 this week, 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 ill-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 found yet again that this company is unlike any other, which made 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 X: Case Competition – Earnings and Stock Price Analysis

Group Members: Niland Fortenberry, Sahara Karki, Michael Keene, ShaCori Ruffin

Executive Summary

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, earnings-per share, colloquially known as EPS, slightly increases each year, which results in yearly increases in Amazon's projected stock price.

Furthermore, our calculation of Amazon's return on assets (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 research and development (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 accompanied by 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 Systems (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 could 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 will also be expected to increase, resulting in an increase of expected stock price. Additionally, taking advantage of this tax benefit helps in the growth of projected stock forecasts for the 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, the company can create more jobs for Americans, as well as remove the need for a 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.

Case XI: The Financial Crisis of 2008

Executive Summary

In this case, I was first tasked with watching two YouTube videos, "What is Crony Capitalism?" and "Cause of the 2008 Financial Crisis." These two videos gave a brief overview of how the government spends its money and time and provided a brief introduction into the causes of the 2008 recession. Next, I watched a documentary on Amazon Prime entitled *Inside Job*. This film dove into the causes and effects of the Financial Crisis by looking at the large investment banks and their relationship with clients and the government. The movie determined that it was these vast financial entities that caused the crisis. Finally, I was tasked with reading two articles, "Recipe for Disaster: The Formula That Killed Wall Street" and "The Great American Bubble Machine." The articles focused on what the authors believed caused the Financial Crisis; the first article described the formula used to inaccurately rate securities, and the second article focused on Goldman Sachs' responsibility for the recession. Overall, these materials provided detailed information on the Financial Crisis of 2008 and the financial institutions that aided in this recession.

Although I knew the basics of the Financial Crisis of 2008, I was completely unaware of the extent of the impact financial institutions had on the global economy. When I told my father that my case was on the Financial Crisis, he described what he remembered to be a horrific time in the business world. As one who manages stocks for a living, my father said that it seemed as if, about once a week, he would hear of one bank or another going bankrupt or being sold to the highest bidder. Thankfully, our economy has more or less recovered from 2008, but it is feeling the effects of the latest global crisis: the COVID-19 pandemic. I kept this in mind as I looked for similarities and differences between 2021 and 2008 in my research. After watching and reading the given resources, I gained a much broader understanding of the recession in which I vaguely remember living as a child.

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

These materials provided insight into how much control financial institutions exert over the United States government. In an effort to create more regulation for derivatives like CDOs and credit swaps, Brooksley Born, the head of the Commodity Futures Trading Commission, circulated a letter in 1998 to the Clinton administration and business leaders suggesting that there should be greater transparency within these derivative trades in order to minimize losses and damages. Companies like Procter and Gamble and Gibson's Greetings had already lost an abundance of their resources by investing in these securities. However, financial institutions lobbied to have derivatives stay unregulated, which was eventually passed by the US Congress as the Commodity Futures Modernization Act of 2000. This provides an example of how much more power these vast financial institutions have over the United States Government rather than experts in the field (Taibbi).

This proved to have disastrous consequences as banks now had free reign to trade default swaps with impunity. Home mortgages were becoming a riskier investment because lenders were beginning to lend to those who had been too unstable to lend to previously, creating a market for sub-prime mortgages. The financial institutions were combining these sub-prime loans with normal, safe mortgages to create a type of investment commodity called a CDO, or a collateralized debt obligation. AIG, formally known as American International Group, sold insurance on these commodities to the institutions in the case that they were defaulted. These banks, such as Goldman Sachs, were knowingly committing security fraud by selling these faulty investments to clients, and when the investments were defaulted, the clients lost and the bank won because it was able to collect insurance money from AIG (Taibbi).

The United States government did not do enough to intervene until it was too late. Because it insured so many defaulted investments, AIG bit off more than it could chew; the company was gravely in debt because it underwrote more credit derivative contracts than it could afford to pay off. The US government stepped in to help AIG and gave it an overly generous deal: one hundred cents on the dollar, which was equivalent to $85 billion in bailout funds. These funds were then distributed to the major investment banks that AIG insured; for example, Goldman Sachs received $13 billion. In comparison, Chrysler was also receiving bailout funds from the government – which was, at the most, 50 cents on the dollar. Thus, it seemed that these large investment corporations had a strong pull somewhere in the government, which, in fact, they did. Goldman Sachs' former co-chairman Stephen Freidman was the current chairman of the New York Fed, and when Freidman stepped down, another former Goldman Sachs employee, William Dudley, was named as his successor. The Secretary of the Treasury from 2006-2009 during which the Financial Crisis occurred was Henry Paulson, who was previously the Goldman Sachs Chief Executive Officer. Thus, it is quite apparent that the large investment firms had supporters on the inside (Taibbi).

Overall, I have lost some trust in financial institutions; in order to utilize one of these firms, I think I would have to have a personal relationship with my banker so that I know the person is trustworthy prior to turning my investments over to them. On the other hand, I have lost some respect for the United States government in the way that they handed out money to financial institutions through AIG. The government allows the financial institutions to step all over them, listening to the banks' every whim. I think there is room for improvement in terms of the way the government handles these regulations and the lobbyists in opposition of new regulations. Although this is not very feasible, Congress could become less corrupt, thus taking away the power of the lobbyist. The government could also limit the number of former CEOs and CFOs from these large financial institutions by instead appointing and hiring unbiased experts in the field, thereby minimizing ulterior motives in business.

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

The materials I consumed while researching this case made me feel a little helpless personally in terms of the global economy. If the world banks make mistakes, I feel the effects of their missteps, but I have no impact upon the mistakes themselves. As an individual, I am affected by the economy much more than I affect it, which is something I had never considered. It makes one feel as if they are a tiny fish swimming in an ocean full of corporate higher-ups that consider you as an afterthought. However, this does not change my belief that I can make an impact in my local economy. Based on the local businesses I frequent, I am strengthening the local economy and the businesses themselves. Although I may frequent a company often, it is also affected by the global economy. For example, during the COVID-19 pandemic, several popular restaurants and businesses in Oxford, Mississippi, had to permanently close their doors because of the shutdown and the economic downfall.

Professionally, I am glad I chose to pursue accounting, because based on my research, it seems much safer than investment banking. It brings me a sense of security to know that I will not be working at one of these institutions, rather, I will be working with them to do their taxes. In my future role, I will be behind the scenes instead of on the front lines in case another financial crisis develops. In the professional world of accounting, I will have an impact on the economy but a much more controlled and regulated impact than someone in investment banking.

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

I believe that there are parallels between the Financial Crisis of 2008 and the current financial and governmental issues centered around COVID-19. First, the collapses of the economies in 2008 and 2020 were similar in terms of the stock market. In February 2020, the market had reached an all-time high, but in March it came to a screeching halt. The world shut down, and with it, the economy. The market continued to decline until mid-summer, in which it slowly began to rise once again. In October 2007, the market hit a high, right before the downturn into the Financial Crisis of 2008 and the recession. By December 2007, the market had plummeted, and the world was on the brink of a recession. During these two economic downfalls, the United States government worked to provide relief and bring the country and world out of the tumultuous situation in which it found itself (Kosakowski).

In March 2020, the United States Congress approved the Paycheck Protection Program (PPP) as a part of the CARES Act, which has distributed more than $700 billion in forgivable loans to businesses. Issued by private lenders, non-bank lenders, and credit unions, these PPP loans were backed by the Small Business Administration (SBA) and were forgivable in full as long as the money was used in approved ways. The purpose of the program was to provide small businesses with capital to retain their employees and rehire laid-off workers. To further revamp the economy amidst the economic shutdown, Congress approved several rounds of stimulus checks for citizens who have reported gross income of less than $75,000. Over the last year, the government has also created programs such as Cobra Healthcare Subsidiaries, Shuttered Venue Operators (SVO) grants, Restaurant Revitalization Fund (RRF) grants, Economic Injury Disaster

Loans, and the Employee Retention Tax Credit to aid in the pandemic recovery efforts (Anderson, Gascon).

The United States government provided similar relief during the Financial Crisis of 2008 by proposing the Troubled Asset Relief Program, or TARP, in late 2008. This program was established to buy toxic debt in order to defend against a complete economic meltdown by utilizing around $700 billion in funds. The Securities and Exchange Commission (SEC) also stepped in by creating a temporary ban on short-selling stocks of investment banks in an effort to stabilize the market. From this crisis, the United States government and other regulators can learn how to better manage and respond to future economic catastrophes (Kosakowski).

A major difference between the way the two crises were handled falls to the federal reserve. In 2008, the government sat back and reacted retrospectively by allowing Lehman Brothers to collapse without any aid. After watching one of the major investment banks disassemble, the federal government decided it was time to interfere with the wreckage in their backyard (Ferguson). Congress learned its lesson by the time the COVID-19 pandemic rolled around; the government proactively took control of the situation and did what they believed to be the best choice of action by shutting the country down and imposing mask mandates. When the economy responded poorly to the mandated government shutdown, the government offered stimulus checks to individuals, PPP loans to small businesses, and a myriad of other programs to help the country rebuild during the global pandemic (Anderson, Gascon).

Through learning from its actions, I think the United States government can take away valuable lessons from the Financial Crisis. For one, I think that the government should work on regulating the corporations that conduct business in the US. In this way, there would be less fraud and tax evasion. With heightened regulations, the US government could better manage bubbles and stop them from bursting. It should also better control the way lobbyists conduct business so that lobbyists are no longer, in essence, purchasing a vote in Congress. While those suggestions may be hard to enact, I think the United States government could learn from these crises by better preparing, both monetarily and legislatively, for the next unforeseen crisis that strikes the country. After handling the COVID-19 crisis seemingly better than the 2008 Financial Crisis, I am hopeful that the government learns from these unprecedented times and prepares more efficiently to fight the next battle we face.

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