Spring 5-7-2022

An Investigation of Accounting Matters through an Accumulation of Case Studies

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AN INVESTIGATION OF ACCOUNTING MATTERS THROUGH AN ACCUMULATION OF CASE STUDIES

by Sean Fitzhenry

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

Oxford, MS

May 2022

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Abstract

The following thesis is a compilation of case studies concerning assorted accounting topics. The studies range in subject from an interview with an inspiring business professional to discerning potential financial and accounting solutions for the massive global company, Google, and many more. In total, there are twelve works within this thesis which were all completed under the instruction and guidance of Dr. Victoria Dickinson within the Sally McDonnell Barksdale Honors College and Patterson School of Accountancy curriculum. Through this year-long journey, I found many areas of the accounting world which, to my surprise, piqued my interest, such as how global income tax rates have a monstrous effect on domestic and world-wide tax avoidance and evasion. The work and research which I completed within this thesis has changed me for the better as a student and as a business professional, and I would like to thank everyone who led me down this path and helped me along the way.

Case I: A Tale of Two Cities

Executive Summary

A Tale of Two Cities, requires a thorough investigation into two cities in which the author might live after college. In this particular case, these cities are Memphis, Tennessee and Chattanooga, Tennessee. This case requires researching items such as population size, typical climates of the different regions, crime rates, apartment sizes and prices, typical modes of transportation, sports and entertainment of the respective cities, and many other topics. Researching these different topics provided an eye-opening experience. Prior to this case, my entire baseline for this project is based on what I have always know: my hometown, Memphis. I suppose these assumptions are common for all of my peers completing this assignment as well. That being said, I learned vital information about Memphis that I otherwise would not have known. While researching Memphis was interesting, the researching process for Chattanooga was even more eye-opening considering that I know almost nothing about the city, except for the natural beauty it offers. During this process, I have learned positives and negatives that each city provides, as well as the striking similarities between the two cities, such as average rent and typical modes of transportation. While they share some similarities, Chattanooga and Memphis also greatly differ in terms of population size, economic industry, cost of living, and extracurricular activities and entertainment. The case study also requires the author to develop a model for a monthly operating budget for each city. This activity proved to be extremely beneficial, not only for this case, but also as a general skill in life. While this exercise will prepare me for the first city I live in after finishing college, I realize that this will not be the last time in my life I will have to do so. This research process has prepared me to investigate different cities throughout the normal course of life. In summary, this case study requires research of two different cities amongst a wide array of subjects and ultimately comparing them in order to decide which one fits the best.

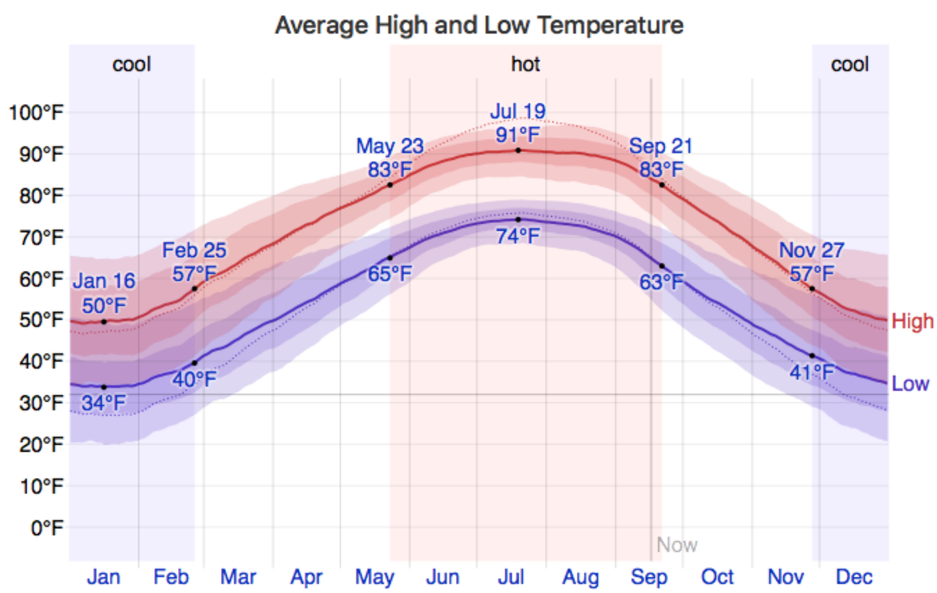
Memphis, Tennessee

1) What is the population?

The population of Memphis, TN is about 650,000 people. I am very comfortable with this size of a city. I do not love the idea of a huge metropolis or a tiny rural town; I prefer a city that sits somewhere in the middle.

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

Memphis embodies the typical warm and muggy climate that dominates the South-Eastern United States. With long summers and short winters, I am accustomed to living in this weather. Despite being comfortable with it, the weather still presents challenges in the warmer months, especially during the summer, when it can be dangerously hot in the sunny afternoons.



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

Memphis is located on the bottom left corner of Tennessee along the Mississippi River. The city is located on a bluff with an average elevation of 285 feet. Memphis sits on one of the largest aquifers in America that is over 2,000 years old and supplies most of the city with water (Houston).

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

In Tennessee, there is no state income tax, which is a huge plus. Therefore, the total income tax for a starting salary of $55,000 would be $9,482 with a take home value of $45,518. I would likely rent an apartment to start out, so there would be no property tax to pay.

5) What transportation hubs are in the city?

Memphis is home to the Memphis International Airport, which is a convenience. Other than the bus system, the public transportation system in Memphis is lacking. However, as opposed to a New York City or Washington, D.C., Memphis is a very drivable city.

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

Memphis' industry is relatively spread out, as it does not focus on a particular area. That being said, Memphis is home to some Fortune 500 companies. The five largest companies, in descending order, are FedEx, International Paper, AutoZone, ServiceMaster, and Mueller Industries. St. Jude, a world-renowned children's cancer research hospital, also resides in Memphis (Major).

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

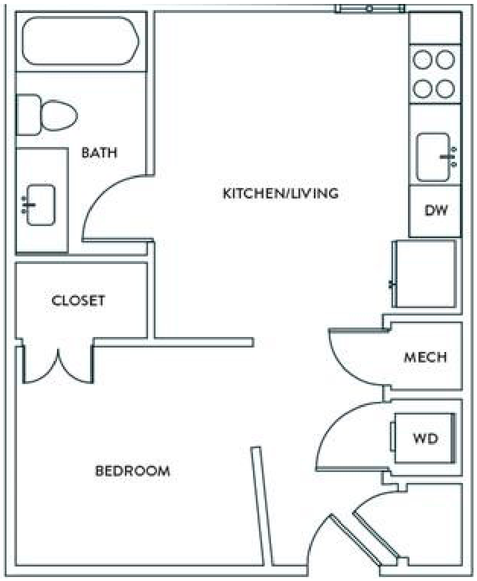
Memphis does not have a particularly good public-school district. I would send my children to a private school, if financially possible. However, Memphis does tout some of the best hospitals in the state, including St. Jude, Le Bonheur Children's Hospital, and Baptist Memorial Restorative Care Hospital.

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

Memphis is a crime-heavy city, as it is one of the leaders in murders in the entire country. Parts of downtown, South Memphis, and North Memphis are the places to avoid in the city. Most places of business reside in East-Memphis, Midtown, and Downtown; the places near work are usually safe.

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

The average apartment rent in Memphis is approximately $825 for a one bedroom, 910 square foot apartment with a five percent year to year change. For an apartment in the middle of the city (Midtown), a one-bedroom apartment that is 489 square feet costs $931 (Memphis). Amenities include a pool, clubhouse lounge, fitness center, controlled access parking, and others.



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

The typical modes of commuting are the bus and driving. Living in Memphis, I would typically drive to work and not use public transportation, considering the relative lack of traffic.

11) Where will you do your grocery shopping?

Grocery shopping is not a hassle in Memphis. If I were to live in the apartment above, I would simply go to the Kroger that is less than a mile from the Citizen.

12) How will you do your laundry?

The Citizen apartment includes a washer and dryer, which is typical in a mid-priced Memphis apartment.

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

I would like to be a part of the Animal Protection Association, St. Peters Church, and the Memphis Toys for Tots Program. Memphis has ample civic organizations in the city, most of which revolve around solving the poverty problem in the city.

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

Memphis is home to the Memphis Grizzlies (NBA), Memphis Redbirds (AAA baseball), and Memphis 901 FC (USL Soccer). Memphis provides an enormous venue for entertainment in the FedEx Forum, which is the home to the Memphis Grizzlies but also serves as a venue for concerts and other entertainment. Memphis in May is a huge event in Memphis which takes place downtown and hosts many different events such as BBQ Festival and a Music Festival, amongst many others.

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

In this instance, luckily, Memphis is my hometown, so there would be no cost to return home.

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

Monthly Salary- $5,000
Savings (10%)- $500 Rent- $1,000
Groceries- $500
Gas- $200
Taxes- $80
Miscellaneous Expenses- $500
Leftover for Spending- $1500
Total: $5000

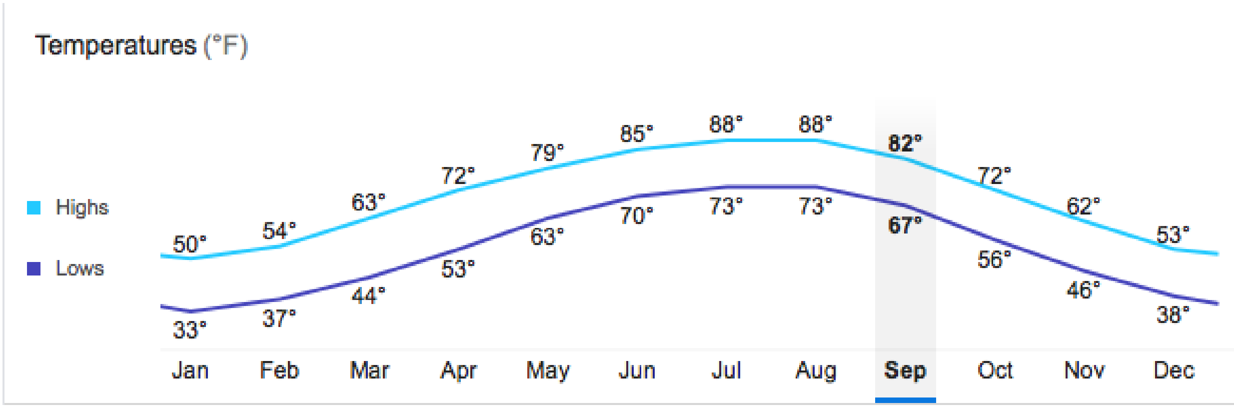
Chattanooga, TN

1) What is the population?

The population of Chattanooga is approximately 180,000. This size appeals to me, although it is slightly smaller than what I am used to in Memphis, which is not necessarily a bad thing.

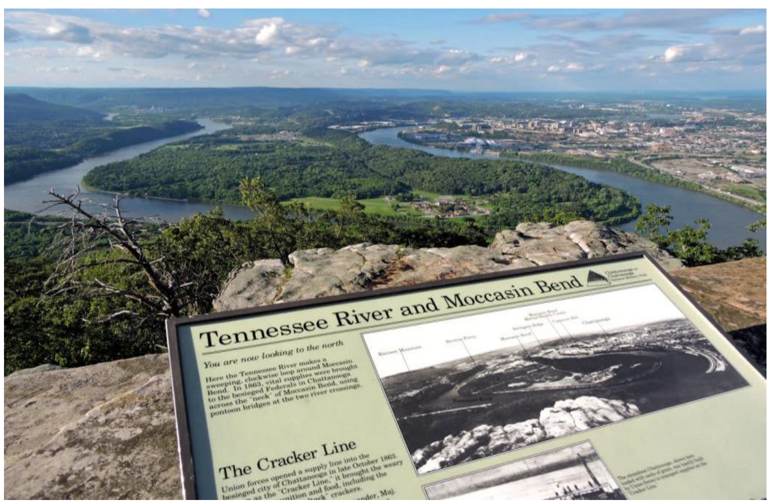
2) Describe the climate and seasonal fluctuations. Are you accustomed to living in this weather? If not, describe some of the challenges from this climate.

The Chattanooga climate is relatively temperate, rarely going below freezing in the winters and above 100 degrees in the summer. I am used to this type of climate, and would enjoy living in it.



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

Chattanooga touts mountainous areas and scenic overlooks along the Tennessee River.



Chattanooga's uniqueness shines brightly in these images, as the city is located in beautiful nature. I would love to live in this geographical area, as it touts such beauty. Both of these images are taken less than 10 miles from downtown (The 8 Best).

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

In Tennessee, there is no state income tax, which is a huge plus. Therefore, the total income tax for a starting salary of $55,000 would be $9,482 with a take home value of $45,518. I would likely rent an apartment to start out, so there would be no property tax to pay.

5) What transportation hubs are in the city?

Chattanooga has a public bus transportation service and an airport. Being a smaller city, there is no subway system in Chattanooga. However, Chattanooga is a drivable city with minimal traffic, compared to a New York City, so this would not be an issue.

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

Chattanooga's most prevalent industries are healthcare, retail, and manufacturing. The city's five largest companies are, in descending order, Erlanger Health System, BlueCross BlueShield of Tennessee, Hamilton County Schools, Tennessee Valley Authority, and McKee Foods Corporation (The 8 Best). To me, the biggest downside of Chattanooga is the smaller size of economic opportunity. However, if I were to not get a job with a Big Four company, I would choose to work in a smaller environment such as this.

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

Chattanooga boasts a fantastic healthcare system, as it is the city's leading industry. The leading hospitals in Chattanooga include CHI Memorial, Encompass Health Rehabilitation, and Erlanger Medical. A large number of the city's public schools are unfortunately below average, and I would send my children to a private school, if fiscally possible.

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

Chattanooga's most common type of crime is property crime. The locations within the city to avoid (areas with highest crime rates) include Alton Park, Broad Street and West 20th Street, Bushtown, Glenwood, And Avondale (Chattanooga, TN Crime).

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

The average apartment in Chattanooga costs approximately $1,000 and is about 930 square feet. The Reserve at Lakeshore, in the middle of Chattanooga and in a safe neighborhood, currently offers a one-bedroom, 800 square foot apartment for $969. Amenities include a sun deck, lake front views, tennis courts, fitness center, and on-site restaurant and lounge. The Reserve at Lakeshore offers a private parking lot and a close proximity to downtown (Chattanooga, TN Rental).

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

The typical mode of commuting is driving. The apartment listed in question #9 offers close proximity to downtown and a relatively short commute.

11) Where will you do your grocery shopping?

As Chattanooga is a smaller city, there is a wide range of grocery stores near the apartment listed in #9. The availability of grocery shopping is a big benefit to me, as I do not like the disadvantages of traffic which large cities present.

12) How will you do your laundry?

The apartment mentioned in question #9 offers washers and dryers, which is a big benefit offered by the typical apartment in Chattanooga.

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

Some organizations I would like to be active in include the Kiwanis Club of Chattanooga, which serves impoverished children in the area, the Dead Bird Music Club, and the St. Stephen Catholic Church.

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

Chattanooga is home to the Chattanooga Lookouts (AA Baseball) and the Chattanooga Football Club (NISA soccer). Chattanooga offers a large music scene, with concerts set up by the Tennessee Music Pathways Project. I would often go hiking and kayaking in the Chattanooga mountains. Chattanooga is also the home Chattanooga Ghost Tours, which has been named a top ten tour in the United States.

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

With my hometown being Memphis, TN, I would more than likely drive home, which is a five-hour drive. If I were to fly home, the short flight would cost about $300 roundtrip.

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

This Budget is very similar to the one of Memphis, as the cost of living is similar in both cities.

Monthly Salary- $5,000
Savings (10%)- $500 Rent- $1,000
Groceries- $500
Gas- $200
Taxes- $80
Miscellaneous Expenses- $500
Leftover for Spending- $1500
Total: $5000

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

Both Memphis and Chattanooga offer unique and differing opportunities. If I were to receive and accept an opportunity with a Big Four accounting firm, then I would choose Memphis. I chose Memphis because I have a deep appreciation for the city, and it is not an overwhelmingly large place compared to New York City. I chose Chattanooga with full knowledge that it is a city which does not house a Big Four accounting firm. Different than most of my peers, I would be completely happy not working for one of the massive accounting firms. If my life plays out this way, then I would love to live in Chattanooga. In summary, if I were to work with a Big Four accounting firm, my ideal city could be Memphis, and if I were to take a job with a smaller firm, I would want to live in Chattanooga.

CASE II: Responding to Client Requests for Confidentiality

In Joseph Wolfe and Stanley D. Sterna's article, "Responding to Client Requests for Confidentiality", the authors address the increasing number of occasions of accounting firms' clients requesting nondisclosure agreements as a required provision of the contract. However, this protective step by the client is not normally necessary, as their information is already protected by the AICPA Code of Professional Conduct (Wolfe and Sterna). In fact, clients are aware of this information but still seek to have a separate nondisclosure agreement. On the surface, this appears to be a non-issue for the firm, since they are already required to keep the information confidential. However, under a nondisclosure agreement, the firm is required to return all workpapers to the client or destroy them, despite being personal property of the firm. These papers serve as evidence for the firm in the case of a lawsuit and provide key evidence for the protection of the firm. Nondisclosure agreements also hamper the firm's ability to properly complete their work, as the client has the right to restrict the firm's ability to collect information from sources other than those allowed priorly by the client. Often times, nondisclosure agreements deny a CPA firm the ability to consult with its own advisors and attorneys, increasing the risk for the firm. Clients who focus on research and development are particularly stringent when it comes to nondisclosure agreements because they seek to protect their proprietary information. The authors implore firms to properly consult with their attorneys before signing any nondisclosure agreements which hamper a firm's ability to properly complete their obligations at the lowest risk possible. A Kovel Letter, which is a "letter is issued by an attorney when providing legal advice or services to the client and is designed to protect all CPA firm communications and workpapers under the cloak of privilege between the attorney and the client" (Wolfe and Sterna), offers an extra degree of protection in these matters to both the client and firm. In summary, the authors urge CPA firms to be wary of the increasing number of clients seeking unnecessary and shackling nondisclosure agreements by consulting AICPA resources and their attorneys for proper risk management and protection.

CASE III: Presidential Debate

EXECUTIVE SUMMARY

This case study concerns the future president of the United States and his potential effect on the American economy. To begin the case, I answered the question of what unites our country. I found this question to be extremely thought provoking due to all of the social unrest that surrounds our country. The Black Lives Matter movement, which strives for racial equality for African Americans, is an interesting reform as it serves as a unifying platform to dissolve past ideals. This plays directly into the current political situation, as either of the future presidents strives to unify our country but with differing sentiments and plans. Some examples of what unifies our country includes the American flag, patriotism, sports, diversity, and anxiety towards the future. The next requirement for this case was to watch the first presidential debate between Donald Trump and Joe Biden while taking prudent notes. Particular topics to pay attention to include the future of the American economy and each candidate's plans for taxes, regulations, outsourcing, manufacturing, and overall financial health. As the debate was full of childish interruptions and slights from one candidate toward the other, I relied on the transcript for many of my takeaways. After watching the debate, I learned that Trump created a very successful and growing business economy for corporations through a free-market approach that supports deregulation and lower taxes for big companies. Biden's views differ starkly, supporting big government, raising taxes for corporations and wealthy individuals, huge amounts of government spending, and an emphasis on the improvement of the environment and green solutions. I have never paid any attention to politics, but I enjoyed learning about the country's current state of affairs. After watching the debate and learning about each candidate, I was inspired to register to vote. I learned that this is a huge election in terms of the future of the country, and now I feel like a true American with influence. The final part of the case asked us how we think the two sides of the political system will interact with each other following the election and to formulate a plan on how we intend to function in the aftermath.

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

Considering how divisive politics continues to prove itself to be, I feel that this question is what our country should strive to consider rather than exclusively arguing over the issues. The first thing that comes to my mind is the American Flag. Despite the embarrassing nature of how our country was founded, at least in the racial aspect, I think that the flag is something that resonates to some degree with every American. The flag is an extremely potent symbol in our country. Seeing the flag each and every day flying on a mast, almost every man and woman in our country feels some sort of pride. The flag represents the unique freedoms that the United States offers to each individual and serves as a continuous reminder of all those who bravely risked, and in some cases lost, their lives for our protection. No matter what our country undergoes, our flag still will stand strong. Unlike state flags, which even prove to be controversial in some cases (Mississippi's is a prime example), the American flag embodies unity and strength. Think back to September, 11 2001, and how the flag served as a rallying cry for our country's strength and unity. The flag always has and always will prevail as our nation's most unifying symbol.

Although this sentiment may be losing its influence due to the social events we are currently witnessing, the majority of Americans are united under the passionate view of America's superiority. Certainly for me, patriotism has been taught to me for my entire life and will be taught to my future children, a lesson that the bulk of our country embodies and passes down through generations.

Despite how silly this may sound, sports provide a unique venue for the unification of all different sorts of people. No matter their background, complete strangers will embrace each other simply because of a touchdown or goal. Yes, sports are only a game, but not many other things in this country offer the same level of unity and integration. For example, the Super Bowl is an event which brings together the entire country. Regardless of race, income, sexual orientation, age, or any other classification, most of the country is watching the game, bringing people together in unity. This may not be an overpowering ideal such as the flag, but sports (perhaps also our superiority in sports) unite our country.

Although it is quite a divisive topic, diversity is a *unifying* element of our country. The fight for social justice and against systemic racism is currently at a peak in our country and is proving to be more unifying than divisive. Because people are forsaking the unjust social values of their ancestors, Americans are embracing the idea of complete diversity. This social movement only makes sense because regardless of race, America is a nation of immigrants; each and every person in this country can trace their lineage to an immigrant. Therefore, diversity unites our nation, and this sentiment continues to grow stronger.

On a different note, one underlying sentiment that unites our country is the common anxiety concerning the future of our country. Whether the person is a Republican, Democrat, independent, or just doesn't choose to engage in politics, most Americans feel some uncertainty of what the future holds. Playing into this idea, the upcoming election will have a tremendous impact on the path of our future. There has never been a starker contrast in the two candidates and their supporters. Joe Biden represents the far left while Donald Trump, our current president, embodies the far right. Joe Biden supporters deeply fear that Donald Trump will win the election and continue to impose his fierce Republican views. In contrast Donald Trump supporters fear that Joe Biden will win and impose socialist views on our country. Even those in the middle who do not identify with a party or are moderates within a party fear both candidates as Biden and Trump seemingly refuse to work with the opposite party. So, while the country is divided amongst their respective candidates, or lack thereof (in terms of wanting neither Biden or Trump), the majority of our country feels uncertainty towards the future.

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

Donald Trump

Donald Trump embraces a free-market approach that supports more deregulation of the economy. Before the COVID-19 outbreak, Trump claims that the economy built under his administration was the strongest economy in the United States' history, saying that, "I had to close the greatest economy of the history of our country" (Donald). Building on that sentiment, Trump plans to continue on his path towards reconstructing the post-COVID economy. Trump is a big supporter of big corporations fueling the American economy; his administration offers a corporate tax of 21 percent and other tax incentives for huge firms in his tax proposal that he established in his first term.

Donald Trump is a huge supporter of reopening up the country, claiming that, "People know what to do. They can social distance. They can wash their hands; they can wear masks. They can do whatever they want, but they got to open these states up" (Donald). In the debate, Trump uses New York City as an example of the negative effects of keeping cities closed, calling one of the busiest cities in America a ghost town. Trump goes on to say that keeping cities closed has negative effects on people's mental health, stating that rates of alcoholism, drug use, and divorce are all increasing with a closed country (Donald). In terms of my post-graduate circumstances, the corporate economy will most likely be in good health under Trump's supervision. Trump is a huge supporter of keeping large corporations in the country to keep the country's economy booming. If I were to work for a Big Four corporation (Deloitte, Ernston and Young, PWC, and KPMG), Trump's administration would ensure that these companies remain booming.

Donald Trump has already put 10.4 million people back in the workforce in the past four months, which is an encouraging sign in terms of navigating the post-COVID rehabilitation of the American economy. Trump's final claim towards the economy deals with his free-market approach and lower taxes. Trump states that if the country raised taxes to the extent that Biden has proposed, such as a 28 percent corporate tax, half of the foreign companies that have come over will leave. He continues to argue that these corporations, which are attracted to the rules and regulations of Trump's administration, make the stock market rise, increase 401k's, and create jobs. Trump finishes his defense by voicing a warning to Biden about big corporations, declaring that, "They will leave and you will have a depression, the likes of which you've never seen" (Donald).

In my opinion, under Trump's administration, the general business economy will continue to boom more for corporations and less for individuals. However, this booming corporate economy will open up jobs and keep existing ones. Taxes will remain lower for the big corporations and the wealthy population. Trump will continue to outsource to foreign countries at a cheaper price, which he claims will make goods cheaper for American citizens. In particular, Trump claims he is in the process of outsourcing drug production which will make insulin, "so cheap it's like water" (Donald). Regulations will remain loose on green-house gas emissions for companies, fueling the regrowth of the economy while essentially ignoring environmental consequences. It is as if Trump believes it is his purpose to grow and boost the American economy, which makes sense considering he was an uber-successful business man before his time in office. while leaving the environmental issues for whoever comes after him in four years. While the Trump administration certainly presents its own fair share of issues, I believe that the general economy will be in a successful position under Trump's supervision.

Joe Biden

On the other hand, Joe Biden embraces big government, big taxes, and big spending. He has proposed a new tax on people making over $400,000 that will create four trillion dollars for the economy. Joe Biden says that his plan will create over seven million in jobs over the course of four years and create an extra one trillion dollars in economic growth by buying American goods rather than outsourcing. Joe Biden seeks to restore the manufacturing economy within America, provide financial support to small businesses, and raise the corporate tax to 28 percent.

In terms of COVID-19, Joe Biden believes the country should currently be shut down, favoring the health and safety of Americans over stimulating the economy. Biden pleads with the American people to value life over the economy as he asks, "How many of you got up this morning and had an empty chair at the kitchen table because someone died of COVID" (Donald). Considering Biden's testimony, it does not appear that the economy will be in good shape after I graduate as the market is not his first priority. In terms of actually reopening the country, Joe Biden claims that he currently has a plan that would send funds and health and safety supplies that would enable the reopening of small businesses all throughout the country (Donald). Joe Biden is not necessarily against opening the country; rather, Biden is against the lack of safety and procedures with which some of the opened cities are currently operating under.

Joe Biden believes in fueling the economy through government spending; an example of this that has already been mentioned is his fiscal support of small businesses by sending them payments in order to help them survive and eventually get back on their feet. Another example of government spending concerns Biden's plans for weatherizing houses and creating charging stations for electric cars. Biden proposes that we invest two trillion dollars in green jobs, ending the use of fossil fuels, weatherize four million buildings, place limitations on fracking, install 500,000 electric car charging stations, and build 1.5 million new energy-efficient homes (Donald). As amazing as this sounds, this would take lots and lots of government spending and taxes (which he will increase for corporations and the wealthy). Clearly, Biden and Trump have a stark contrast between their two views, and Biden is the clear frontrunner in supporting the environmental cause. Biden postulates that all of this investing will create millions of jobs, but increasing the governmental budget is always a sticky situation.

In my opinion, Biden's efforts to cut taxes for the middle and lower classes, reestablish American manufacturing, create a better environment, and support small businesses are certainly valiant but unrealistic. Under Biden's administration, the increased harshness and number of regulations and taxes on corporations will eventually hurt the economy. Biden's Utopia is seemingly socialist, with everyone getting a fair shake. While this may be a beautiful image to think about, that is not realistic. Going back to the things which unite us in this country is capitalism in America. Biden seeks to reel in the free market for the betterment of all individuals, but that is not how the American economy has ever operated in the past. I am a huge supporter of manufacturing in America, but I do not know if that is for the betterment of the economy, as it will raise the price of goods. In summary, I think that Joe Biden has extremely good intentions, but his fiscally unrealistic goals will prove to be overwhelming to his administration and end up hurting the American economy.

As you watch the debate, think (and take notes) about the following: How will the two sides of the country come together harmoniously once the election is over?

Quite frankly, I do not think this country will come together harmoniously once the election is over. Whether Trump or Biden comes out of the election victoriously, the next four years for America will be turbulent. The divide between the two parties has been growing for years now, and this election will be the straw that breaks the camel's back. Despite who wins, I believe the victorious administration in this election will take action for the betterment of their party rather than the country. I believe that there will be little communication between the two sides of our political system. Lots of people in this country side with a political party rather than supporting their own ideals; the future president will do the same. I believe that Donald Trump's last four years will be less tumultuous than Biden's first four, but neither will enact any true change. I currently deal with the current political state by keeping my ideals to myself and not engaging in an emotional political conversation. That is not necessarily a healthy way to deal with politics, but it is certainly the easiest and least controversial. At the end of the day, the most important thing for me to have is my strong feeling of American pride and patriotism. No matter who wins the election, that sentiment will always remain steadfast and carry me through the uncertainty that the next four years present for our country.

CASE IV: Excel Course


Corporate Finance Institute®

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

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

Sean Fitzhenry

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.

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Certificate number
95895484

Chair of the Board

Director

Director

Oct 15, 2020

CASE V: Global Corporate Income Tax and the TJCA

Executive Summary

This case study concerns the issues surrounding global corporate taxation issues and the corresponding tax havens in which corporations avoid taxes, as well as the TJCA's (Tax Cuts and Jobs Act) effects on domestic corporations and individuals in America. The expected effects of the TCJA include a growing economy, a higher GDP (gross-domestic product), higher wages, and more full-time jobs. The first required article, "More Jobs and Bigger Paycheck" is brief, yet direct, as it touts different positive outcomes deriving from the TCJA. Some of these benefits include the following: the number of job openings in America reaching a record high in March 2018 at 7.3 million, a 50-year low unemployment rate of 3.7 percent, a blue-collar job boom, and record heights of business optimism (U.S.). The second article, titled "The Positive Economic Growth Effects of the Tax Cuts and Job Act", outlines in-depth the future economic benefits of the TCJA. I found this article to be especially interesting due to the underlying theory that it will take at least 10 years for any true change to become evident. The author of the article, Scott Hodge, the President of the Tax Foundation, uses estimates and models to project the growth of the economy due to the TJCA. As clearly stated in the title, this article provides an extremely pro-TCJA stance, and therefore everything in the article implies that the TCJA will only help the domestic economy. The data that they present is promising and not to be taken lightly. I learned details from the act that I otherwise would not have known, such as why and how income taxes affect economic growth and how a lower corporate business tax can increase wages. Some provisions of the TCJA eventually expire within the next 10 years, which I did not even realize was an option. This article was by far my favorite part of the required readings because of how Scott Hodge incorporates models and growth projections into his article, making the numbers easy to understand without taking away the importance of the data. The final aspect of the assignment asked us to watch a YouTube video, created by Taxodus, which outlines the various ways that global corporations manage to escape the majority of taxes in ways that the average taxpayer cannot. The most interesting thing about this video was the ethical debate surrounding tax avoidance and tax evasion. These mega-corporations use "tax-havens" to shuffle their money around multiple countries in order to avoid taxes, sparking a debate as to whether or not they are breaking or evading the laws. This assignment opened my eyes to the effects of the TCJA and the overlooked processes of how mega-corporations, such as Amazon and Starbucks, avoid taxes as they balance on the fringes of the law.

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

The answer to the question of what the optimal corporate income tax rate should be is that there is not any perfect corporate income tax rate. If there were truly an optimal corporate tax rate, then every country in the world would have the same one. The issue with this hypothetical equity is that the world of economics is intertwined in the political web, making it almost impossible to achieve any type of equilibrium. Every country in the world struggles to balance economics with social values, their own political system, the business world, and a plethora of other factors. However, I would agree with the current structure under the TCJA which has the current corporate income tax landing at 21 percent. There is a fine line between having too low or too high of a corporate income tax. A country with too low of a corporate income tax rate will not create enough tax revenue; a tax rate which is too high will encourage domestic companies to leave while discouraging foreign companies from establishing themselves in the home country

Some countries, such as Kenya, purposefully have a low corporate income tax in order to attract new businesses to their country. The thought process is that the tax revenue generated from these enormous companies will pour back into the country, and the deal is attractive to both the country and organization. Other countries, such as the Virgin Islands, have a zero-tax rate to entice corporations to move their money to them, which can create jobs and profits from the domestic firms that handle the foreign corporation's finances. These "tax havens" are used by nearly every global and successful corporation because of the tax incentives which they provide.

There are two issues with countries that use very low taxes in order to attract foreign companies to move their operations to their home. The first issue deals with the home country itself. Often times, an underdeveloped country offers low-tax incentives. The idea is that the companies will invest with new buildings and operations, create jobs, and help build the developing economy of the home country; however, often times the corporation will only stay as long as the tax incentives are in place. Kenya, for example, has 65 different economic locations within the country which serve as "special economic zones" (Meerman). As the film states, Kenya offers a 10-year period of no taxes in which the business establishes and crystalizes itself without having a tax burden (Meerman). That is, the company can use all useable profits to boost the development of its business within Kenya. After the initial 10 years, Kenya then offers a 10-year period in which the company only has to pay a 25 percent corporate income tax, which is about the global average (Meerman). With all of these profits and a developed business, the company then is able to offer a sustainable economic entity that can offer jobs and opportunities, as well as give back and aid the Kenyan community. However, what usually ends up happening is the company will take advantage of the initial 10-year period with no income tax and then immediately leave for somewhere else offering a similar deal. Kenya then receives no sustainable reward from the deal, leaving Kenya to hope that the next company will stay.

The second issue stemming from deliberately lower-than-average corporate income tax rates brings an ethical issue to the front stage. *Taxodus* estimates that Amazon pays roughly 1.9 percent of the corporate income taxes that they originally owe from the profits in China they generate by using offshore accounts and moving their money from country to country (Meerman). The film explains how they do this by transferring their money from their accounts in Ireland (12.5 percent corporate income tax) to the Netherlands (touting a 1.9 percent tax on intellectual property), then back to a different Irish account, and then again to the Virgin Islands (zero percent corporate income tax). This tactical move is referenced by *Taxodus* as the "Double Irish with a Dutch Sandwich". The entire process is murky in the details and laws which allow this financial maneuver, not to mention the name. Tax laws and rates allow for companies to pull off these types of financial moves with little to no repercussions, because many of these matters are actually legal. However, is it ethically sound for these corporations to be paying a small percentage of the income tax they would be paying in their home country? What usually ends up happening is the citizens of that country end up paying additional taxes on goods in order to make up for the taxes the government would otherwise be receiving. Many people would agree that this situation is not fair, and the general distribution of wealth would concur. In addition, countries begin competing with one another by lowering their tax rates to attract foreign companies; in essence, it is a race to the bottom, a zero corporate income tax.

The issues surrounding having a high corporate income tax rate differ greatly than having an extremely low one. The idea of having a high corporate income tax rate is more equitable to the society as a whole rather than the company itself. The company would be forced to pay a higher corporate income tax (if it stayed) and eventually will give those taxes back to the government where it operates. There is an argument that if corporate income tax is so high to the point that the majority of its profits are being paid away in taxes, then why would companies operate in the first place? Naturally, most companies solve this question by moving to a country with a more palatable corporate income tax rate, and so, the cycle begins.

In my opinion, the Utopian business world would mandate one, fair corporate income tax across the world. Of course, this is a totally unrealistic goal as no organization would have the power to impose a globally mandated corporate income tax. However, if the corporate income tax were in equilibrium across the globe, companies would never have an incentive to leave to another country, as everybody has the same tax rates. This would null the shady operations of shuffling finances as well as companies across the globe because there would no longer be incentives for doing so. I do not think it is possible to come up with some magic number of a corporate income tax that will alleviate the problems of the modern business world. I would say that the optimal income tax rate around the globe would be roughly 25 percent (which is about the global average), but obviously, we cannot pick a number and give it to the world. I believe a more realistic goal would be establishing a bottom-limit to corporate income tax, such as 15 percent, that would create corporate income tax equity across the globe, take away the effectiveness and perks of offshore accounting, and keep companies within their home countries while paying taxes.

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

Personally, I already did not have much of an interest in pursuing a career in the tax service line of public accounting, and this case certainly did not do anything to increase that. Tax has always seemed dry and non-evolving to me, and a tweak in the law that alters how I do things does not excite me. Ironically, this case has been by far the most interesting tax-related content that I have encountered, but it did not increase my interest in actually pursuing the tax service line of public accounting.

In terms of the film that we had watched, *Taxodus* explained how accountants are receiving lots of scrutiny for making possible the world of global financial maneuvering in the first place. One of the speakers explained in the film how the banks, lawyers, and accountants are central to the processes for these companies. In the EU, most of the rules and regulations allowing the avoidance (some might call it evasion) of corporate income tax are written by accountants from representatives of the Big Four accounting firms (Meerman) who are now in legal positions. Accountants are taking over the regulatory positions of the financial world rather than lawyers and are often from the same universities or companies. I want to be an accountant in order to eventually help a business succeed and ultimately give back to their communities rather than escape them. Of course, not every accountant is doomed to go down the road of helping major corporations avoid taxes, which can be extremely personally profitable and not necessarily a bad thing to do, but it is not something that interests me in the slightest. I am more interested in being the head of a company in the private sector, a CFO or CEO, rather than being the accountant who helps the CEO or CFO. There is certainly nothing wrong at all with being an accountant in the tax service line; however, it does not interest me.

Conclusion

I believe that the TCJA has put the United States of America in an ideal economic position, including the 21 percent corporate income tax. I previously stated that an optimal corporate income tax rate would be approximately 25 percent for the entire world, but I agree that the 21 percent rate in America outlined in the TCJA is performing extremely well in America. The Tax Foundation argues that the TCJA allows for a lower corporate tax rate that reduces the cost of capital, which increases investments, worker productivity, and eventually creates greater output and higher wages for the average worker (Hodge). So much of the conversation surrounding corporate income tax surrounds the companies themselves, but the

Table 1: Economic Impact of the Tax Cuts and Jobs Act

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

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

average citizen is often the most impacted by these rates. The Tax Foundation's Taxes and Growth model estimates the positive economic impacts of the new TCJA while stressing that

Image 1-1

these numbers will take years to actually take place.

Clearly the changes in lowering the corporate income tax will positively impact the financial status of America and its citizens. America has seen unprecedented growth from the TJCA, but is able to put these measures into place due to its clearly established legal system and economy, which is not something that most of the world countries are able to tout. This case has been educational to me in the realm of domestic, global, personal, and corporate income taxes, and helped me to appreciate the clarity of the United States' legal and economic systems.

Case VI: The Personal and Professional Rise of Tami Fitzhenry

Executive Summary

This case study requires a personal interview with a professional in the business community, relative, or family friend who is at least 35 years of age with an established career or is retired. Although it may seem like a cheap decision, my immediate choice for this interview is my mother, Tami Fitzhenry, as she is the epitome of a self-made woman. This assignment required that we ask professional and personal questions in order to learn how the two coincide and even fuel each other. I chose my mother because, despite knowing her extremely well, I found that I was uneducated about her personal or professional life before I came onto the scene. This assignment was a glaring opportunity for me to know my mother in a deeper sense other than my caregiver and my rock. I admire my mother because of her determination to succeed and create a better life for herself and her family. Tami Fitzhenry's father was a truck driver who never graduated high school, and her mother worked as a clerk for multiple businesses during her professional career. While there is absolutely no shame in the life they created for Tami Fitzhenry, she simply had the talent and drive to obtain more opportunities for herself. As the first person on either side of her family to attend college, she laid the groundwork for her future at Penn State University. Tami used her talents in both math and science to excel in the male-dominated major of engineering, graduating with an impressive collegiate GPA of 3.6. Upon entering the workforce, she climbed up the corporate ladder during her 30 years at Buckman Laboratories, a global chemical company worth upwards of a quarter of a billion dollars. During our interview, I learned the importance and impact that dedication, motivation, and hard-work have on a professional career. While excelling in her professional career, she prides herself on always putting her family and friends first, which is the most important and meaningful lesson that she left with me.

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

Tami Fitzhenry grew up with humble beginnings in a small town in northwestern Pennsylvania called Warren with a current population of approximately 39,000 people. In high school, Tami excelled as a student with her best subjects being math and science. Despite excelling academically in high school, there were no expectations upon her to pursue any further education, as no member of the family had ever attended college. One of the biggest reasons behind her attending college, other than her academic success, was her academic counselor, who urged her to apply to college. Her counselor suggested she pursue engineering because of Tami's talents in math and science. She eventually applied to Penn State University in the engineering college despite never having visited the university or having the slightest idea of what engineering would entail.

2) What were your college years like?

Mrs. Fitzhenry had no expectations of what college would be like considering the only things she had heard were party stories, as nobody in her family could tell her what it might be like. She had never visited Penn State before her first day, and had very little idea of what her major, chemical engineering, would entail. A big reason she chose Penn State was her desire to escape the small-town vibe, and Penn State offered her the perfect opportunity to have a fresh start. In her academics, she says that all of her major-based classes were male-dominated, as she was typically one of five women in a class. She explained that despite noticing the disparity, it never really bothered her, as she was friends with lots of the males anyways. For Mrs. Fitzhenry, her hard work and success in class was pertinent because it was imperative that she graduated in four years due to the high cost of college, which she paid through student loans. During her college years, she was distanced from her family, and her only communication with them was a weekly phone call that needed to be relatively quick because of long-distance charges. I inquired about the impact her parents and family never attending college had on her, and whether or not they could comprehend the accomplishments of her academic work. She responded that her friends and family in Warren could understand her good grades and were happy for her, but they typically did not understand the depth or importance of it. However, she said that it never bothered her, and she was just happy to have the opportunity to go back and continue her education after visiting home for the holidays and breaks.

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?

As previously stated, Tami laid the groundwork for her entire professional career based on a recommendation of her college counselor to pursue an engineering degree due to her excellence in math and science. She explains that she quickly learned it was an uber-competitive major at Penn State and that lots of people were weeded out when facing the challenging courses of the major, such as organic chemistry. Upon pursuing the degree, Mrs. Fitzhenry decided to continue within engineering because of the rigorous nature of it; if she could make it through the program, then she would be able to set herself apart. She laughed in retrospect, while telling this story, at the enormous impact her college counselor had on her in making a small suggestion to pursue engineering.

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

Tami Fitzhenry began her impressive 30-year career at Buckman Laboratories in a technical sales role in Columbus, Ohio. Due to her education in chemical engineering, she says she was proficient at solving technical problems associated with the field, but she had to improve her knowledge of people in order to be successful as a saleswoman. In more detail, Mrs. Fitzhenry stated that she needed to better her understanding of how to influence others and get them to value the information you are relaying. During her time as a saleswoman, Tami encountered some not taking her seriously, as the papermills she visited to sell products were heavily male-dominated. She experienced that the papermill environment was not as accepting of women as the academic world. Most men, she says, were willing to help, but it was a battle for her to prove that she was indeed capable; she did not experience hardly any sexism at Buckman, but more so at mills she visited. All in all, the male-dominated nature of the industry never deeply bothered her, she states, but she knew she would have to work a little bit harder than everybody else for the same results.

After three years as a saleswoman, Tami moved into more of a “technical management type role”. For the next seven years, she served as a product manager in Memphis, Tennessee and felt that she was able to use her skills and have a bigger impact in her new role. There, she enjoyed the lack of traveling for work, learned the business and financial aspects of the entire plant, and became fluent in supply chain management. For this role, she said, she had to learn all of the business aspects of her role on the fly as she had never received any education in the area.

Next for Tami was another seven-year stint as the manager of procurement for North America, which entailed buying products from other businesses and selling them under the Buckman company name. During this time, she earned her certification as a purchasing manager, which required her to learn all of the principles of private and government purchasing. She applied this knowledge as she began to negotiate with high-level employees of other companies and “deepen her level of sophistication exponentially”.

Following the previous role, Mrs. Fitzhenry accepted a job as a customer service manager, a title which she would hold for the next three years. The role happened to be open, and she was so frustrated with how ineptly the group was currently being handled that she decided to do it herself. This position was the first time that Tami had exclusive management over a large group of people. She said that she was extremely excited for the growth opportunity and the ability to help others. The job itself was not difficult; rather, the challenge was getting her group to function as one and do their work properly. For Tami, the job had a large impact on her as a person; she learned how to influence people, as she couldn't simply do the work for them. She says that the job forced her to develop immensely as a person because the only way you can truly learn how to manage people is to actually do it. The role challenged her in a way that she could not academically prepare for, in dealing with other's "issues", and the entire process served as a growth experience for her.

Tami Fitzhenry claimed her final role for Buckman Laboratories when they decided to restructure the company in 2010. As well as continuing her role as manager of customer service, she became the head of logistics and the inventory planning group for North America, which she explained is essentially supply chain management outside of procurement. At this point in her career, Mrs. Fitzhenry began to manage other managers, as well as their employees. She pointed out that she gained a new level of accountability at this point in her career as she reported directly to the president and vice-president of operations for a global company worth hundreds of millions of dollars. In her 10 years in this role, Tami expounded that the hardest aspect was to coordinate two groups of people that were not related. She learned to overcome the difficult task of getting people in their own silos to think outside of their particular function. In 2019, Tami retired from Buckman Laboratories after an impressive 30-year career.

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

Tami's life outside of work has been predominantly spent raising her three boys: Seamus (24), Ian (22), and Sean (20). For her, while work was constant and personally fulfilling, the better part of her life was her family. Outside of work and her family, Mrs. Fitzhenry’s biggest outlet was decorating and interior design.

6) What has been the best vacation you’ve ever taken?

As her best vacation, Tami recounts her cruise to Alaska with her family and another that she was friends with who also had four boys. On this cruise, she took a helicopter, rode Iditarod sled dogs, and other things that other people “don’t usually have the blessing or opportunity to experience”. Lastly, she stated that this unique experience was unforgettable, and the rare nature of the trip made it her best vacation ever.

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

In 2007, Tami began working with a professional coach who taught her that you are responsible for your reactions to things, not necessarily the action itself. For her first change, she would want to start working with a coach earlier in her professional career and have the opportunity to apply those principles earlier in her personal and professional life. Secondly, she would have liked to understand stress and how to personally manage it earlier in her life. She says that both of her hypothetical changes would have made her better in general, and she would have been able to pass that knowledge on to others earlier in her life.

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?

Mrs. Fitzhenry wished she knew that nobody “really knows” or has all the answers. She tended to doubt herself and should not have, and she urged all of us to avoid that mistake. Her advice is to, “move forward with what you know, observe and respect others, but know they are not inherently better to fill a role than you”. Her biggest suggestion is to free yourself from self-doubt and keep moving forward at all times.

9) What are you most proud of?

Through her tears, Tami emotionally conveyed that she is most proud of the fact that she was able to work successfully without ever sacrificing raising her own children and spending time with her family. She feels no regrets about working, that it helped her as well as her family, and conveyed a sense of contentment that she never missed a thing with those that matter most.

10) What do you think will be the biggest challenge for your generation?

COVID-19 is completely altering the professional workplace environment. Mrs. Fitzhenry feels the biggest challenge for her generation will be how they transition to the new tech-based work environment, as opposed to everybody sitting around a table. She doesn't think younger generations will have an issue at all with it and feels that her generation must either adapt or be phased out.

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

Describing how my generation has a tendency to easily change jobs and geographical locations, Tami believes the biggest challenge will be "business continuity". She believes that my generation appears to be much less comfortable staying in a role for an extended period of time. Mrs. Fitzhenry understands there is not a need to stay with a company for 30 years, but there is a lack of "tribal knowledge" about the company with lots of turnover. This leads to the same mistakes being made over and over within companies.

12) What inspired you to return to work?

Not having been retired for even a year, Tami decided that she could not sit idly. Instead, she concluded to entertain her real passion, decorating and interior design. Now that she finally has time, she can focus on design rather than sidelining it as just a fun activity as she had done for years. Currently enrolled at the New York Institute of Art to obtain her certification in interior design, Tami is displaying the same determination that boosted her to the top of the corporate ladder at Buckman. She will be launching her own LLC in 2021. In terms of her inspiration to return to the workplace, Tami cited her deep need to create, keep her mind active, and maintain a sense of self-fulfillment. Now that she has decorated nearly every inch of her own house and is no longer weighed down by 40-60-hour weeks, Mrs. Fitzhenry has elected to take her talents elsewhere and begin a new fulfilling career where she will undoubtedly succeed.

Case VII: Case Competition Week 1 - Overview

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

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

Based on the consolidated notes Alphabet has included in their 2020 financial statements, Google's "revenues are primarily derived from online advertising, the market for which is highly competitive and rapidly changing. In addition, [Google's] revenues are generated from a multitude of markets around the world. Significant changes in this industry or changes in customer buying or advertiser spending behavior could adversely affect [their] operating results" (Securities and Exchange Commission).

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

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

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

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

Case VIII: Case Competition Week 2 – Audit

Executive Summary

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

Marketable Securities

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

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

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

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

Accounts Receivable

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

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

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

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

Property and Equipment, Net

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

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

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

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

Accrued Expenses and Other Current Liabilities

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

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

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

Revenues

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

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

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

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

Cost of Revenues

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

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

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

Case IX: Case Competition Week 3 - Tax

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

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

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

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

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

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

Case X: Case Competition Week 4 – Advisory

Executive Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Google relies heavily on advertising and advertising-related projects for profits, as it currently produces 83 percent of its revenue from the industry. As advertising space is currently extremely competitive, cyclical, and reliant upon the state of the macroeconomy, there is growing competition to Google (Mistry). Companies such as Facebook, Amazon, and Snapchat are capturing their own slice of the advertising market (Mistry). With the growing competition, Google faces a threat of losing its dominant share in the advertising arena that serves as the source for the vast majority of its revenue. Additionally, Google misses out on the market share of highly regulated countries like China and Russia due to noncompliance with censorship demands.

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

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

Therefore, if Google were to adopt blockchain technologies, we would see a tremendous market increase.

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

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

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

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

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

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

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

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

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

build, Alphabet will continue to fight government regulation and face the threat of potentially being broken up.

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

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

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

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

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

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

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

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

Appendix

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

Image 1-1

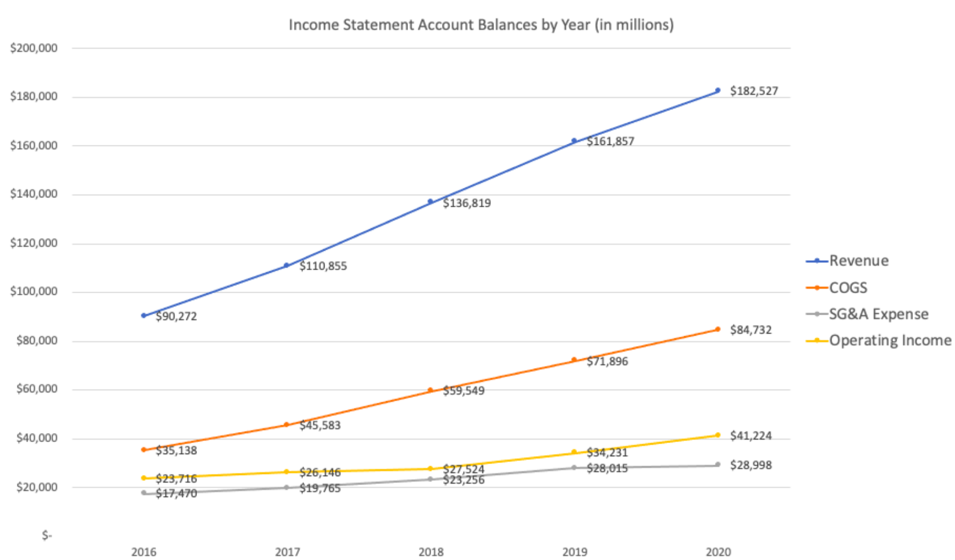

Image 1-2

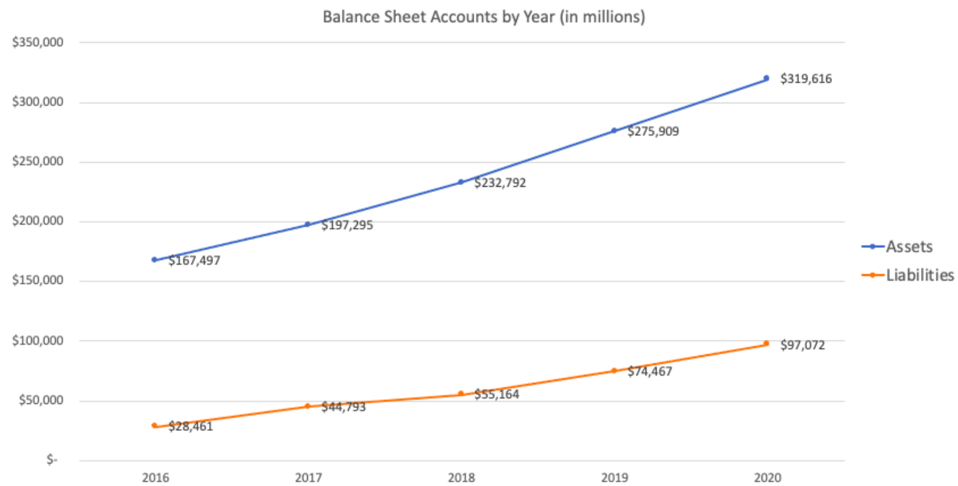

Image 1-3

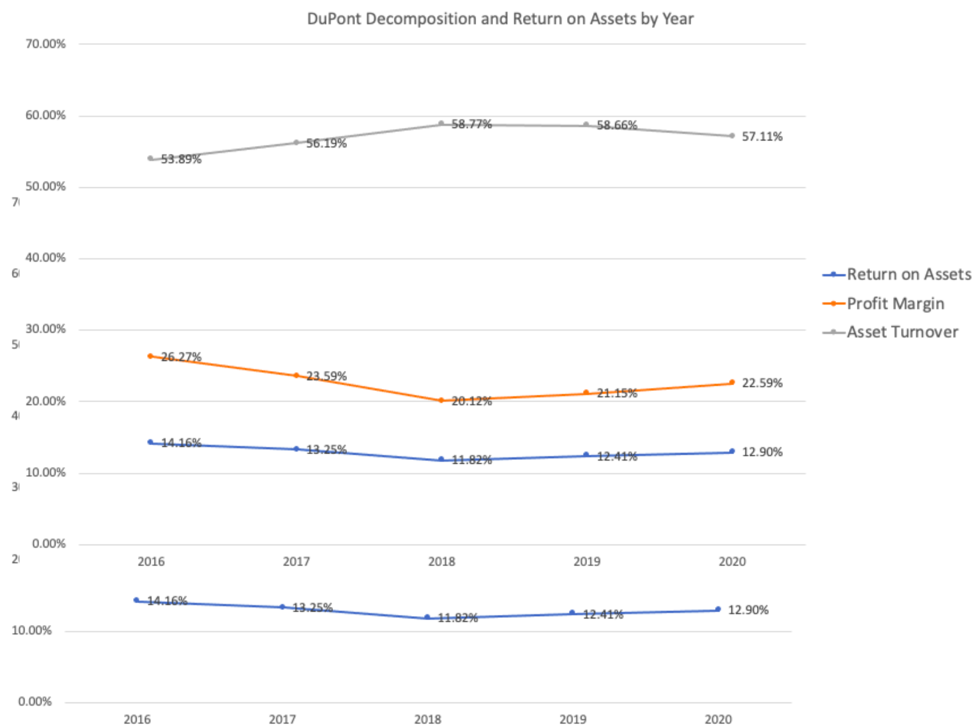

Image 1-4

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

Image 1-5

Case XI: Case Competition Week 5 – Earnings, Stock Price, and Analysis

Executive Summary

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

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

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

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

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

1a. What was your stock's closing price on the last day of the fiscal year?

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

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

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

1c. What was your stock's closing price from today?

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

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

2a. What is your company's beta (look under the statistics tab)? What does this statistic mean in respect to the company's risk level?

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

2b. How many analysts follow your company (answer the next several questions from the analysis tab)?

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

2c. What is the forecasted growth rate for your company?

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

2d. What is the buy or sell recommendation for the company's stock?

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

3. Identify how your net income and common shares outstanding will change over your recommendation horizon. For example, if you plan to suggest that the client issue equity to implement your tax and advisory recommendations, then this value should increase over time accordingly. For each future year that your net income and/or shares outstanding change, compute a new expected stock price as follows: Projected stock price = Your P/E ratio from 1(b) *.

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

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

Share Price Trends

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

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

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

Case XII: Crisis, Corruption, and Wall Street

Executive Summary

Never in my life have I experienced a more eye-opening assignment for scholastic purposes, and for this I owe my deep gratitude towards Dr. Vicki Dickinson. This case study mainly concerns the 2008 financial crisis, delving into the pervasive corruption and greed of politicians, Wall Street, economists, and others. For this case, we were required to immerse ourselves in five different sets of materials: two YouTube videos, one movie, and two articles. The initial two videos, “What is Crony Capitalism?” and “Cause of the 2008 Financial Crisis” (an interview with the renowned economist Dr. Thomas Sowell), discuss the nature of capitalism and how government intervention in markets leads to corruption. In particular, Dr. Sowell illustrated the government’s hand in aiding the 2008 crisis rather than preventing it. The movie, titled *Inside Man*, explains in detail the curation of the 2008 financial crisis and its sickening roots in greed and corruption by a relatively small group of individuals. The first article, “Recipe for Disaster: The Formula That Killed Wall Street”, offers insightful comments concerning David X. Li’s Gaussian copula function which tremendously aided the boom of the subprime loan industry. Lastly, “The Great American Bubble Machine” is a particularly opinionated, yet powerful, article which explicitly defames Wall Street for their excessive and sickening acquisitiveness. From this case, I gained a deep wealth of knowledge of the housing crash; previously, I always thought the plummeting economy in 2008 was due to unforeseeable consequences and unfortunate events. Instead, I learned of Wall Street’s deep involvement as they quietly built the recession from the ground up and became nauseatingly richer as the poor became poorer. After the recession, the average American had less education and wealth than their parents for the first time in American history (*Ferguson*, 1:37:25-1:37:35); this effect illustrates the viciousness that this crash had upon the American people. I discovered just how deeply entrenched the top staff from leading financial companies, such as Goldman Sachs and Lehman Brothers, are entrenched in politics, spreading from the Federal Reserve Board to the Securities and Exchange Commission to the presidential inner-circle. The astonishing impressions that I have taken away from this assignment will have a lasting impact on how I view Wall Street, American government, and my role as a professional.

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

It is my opinion that the average person in America feels some level of distrust towards the government, no matter what political ideals they might have. Personally, I have always held a small level of skepticism toward our political leaders, but it skyrocketed after reading and watching the aforementioned materials. In particular, the film *Inside Man* surrounding the financial crash of 2008 concerns me the most about the correlation between financial institutions and the government.

In the 1980's, the marriage between Wall Street and Merrill Lynch serves as a foundation for the currently flawed system. Charles Keating, a prominent American Economist, served five terms as the chairman of the Board of Governors for the Federal Reserve System where he furthered his deregulation agenda (Purdy). In 1998, Citicorp and Travelers merged to form Citigroup, becoming the biggest bank in the world. This merger violated the Glass-Stegall Act that formerly prevented the merger of commercial banking and investment banking. Instead of stepping in, the government decided to give Citigroup a one-year grace period during which they passed the Graham-Leach-Bliley Act. Also known as the Citigroup Relief Act, this bill allowed the unification of commercial and investment banks (*Ferguson*, 16:45-17:05). To the naked eye, these connections between the financial sector and the government might even seem beneficial to the political and economic systems; however, the linking of these two different entities in the late 1900's only laid the groundwork for future economic recessions, with the worst yet to come in 2008.

In order to fully understand how the 2008 financial crisis fully culminated, one must first understand the 2001 internet stock crash and the financial sector's sickening role in it. The 2001 crash, in which investors lost of five trillion dollars, begins with financial banks selling stocks called derivatives that were created due to advanced technology and financial deregulation. Many economists and bankers deemed that derivatives made the market safer while actually making it extremely unstable due to the massive influx (*Ferguson*, 22:17-22:31). Bankers could essentially bet on anything with derivatives, and by the late 1990's there was more than $50 trillion in the market. Because of a lack of regulation and oversight of the entire industry, largely due to the connections between politicians and Wall Street, financial analysts were paid, without consequence, by investment banks based on how much business they brought in rather than giving a true rating on the stocks. This fraudulent practice could have easily been stopped by the government through the regulation of this new market. Instead, the government decided to aid their Wall Street partners by passing the Commodity Futures Modernization Act in December 2000 that *banned* the regulation of derivatives. Certainly, no honest man involved in Wall Street or in the government can attest that they were blind to the future consequences of the bill. Investment bankers sold these garbage stocks to hard-working Americans who, in turn, lost everything while the bankers, analysts, and politicians filled their already-overflowing pockets. After the crash, the firms walked away with wads of cash as they handed out billions of dollars in bonuses to their top staff while investors lost everything; some even lost retirement funds.

The 2001 internet stock crash heightened my distrust in the government and financial mega-corporations. I genuinely do not know if I feel safe trusting a corporation such as Goldman Sachs or Merrill Lynch with my finances. If I were to allow these people to control my investments, I feel that I am only giving them ammunition to hurt others while helping themselves. Goldman Sachs served a major role in the 2001 crash and an even a bigger one in the 2008 crisis, whether it be through internet stocks previously mentioned or the subprime mortgages in the mid 2010's. Matt Taibbi, in his article "The Great American Bubble Machine", says, "It was as if banks like Goldman were wrapping ribbons around watermelons, tossing them out 50-story windows and opening the phones for bids" (Taibbi). The sheer amount of greed and despicability exemplified by these major corporations in the 2001 crash is completely sickening, and somehow the worst is yet to come.

Whether it be through their sheer ignorance or intentional will, President Bush's administration laid the groundwork for the 2008 financial crisis. During his reign, the securitization food chain formed that connected trillions of dollars in mortgage loans and other securities globally around the world (Salmon). President Bush strongly pushed affordable housing, which eventually transformed into banks handing out subprime mortgages to citizens. During this time in the mid-2000's, the average homeowner was borrowing 99.3 percent of their house. Normally, this figure would stand around 90 percent (*Ferguson*, 52:48-53:01) In this system, investment banks combined thousands of subprime mortgages and loans to create complex derivatives called Collateralized Debt Obligations (CDOs). Investment banks would pay rating agencies for a AAA rating on their CDOs, the same rating as a government security, and then sell them to investors globally. To the naked eye, selling or buying subprime mortgages appears to be an extremely risky move, and it is. Even better, these agencies didn't even bother to address the risk, raking in all the money they could before the entire system collapsed on itself. As Felix Salmon explains in his article, "Recipe for Disaster: The Formula That Killed Wallstreet", "Why didn't rating agencies build in some cushion for this sensitivity to a house-price-depreciation scenario? Because if they had, they would have never rated a single mortgage-backed CDO" (Salmon). Based on Salmon's analysis, the true-hearted and honest worker would never partake in these degenerate practices. However, if you enjoy selfishly slinking around in your own cesspool, Goldman Sachs and other top firms are the place for you, where you can purposely sell stinking garbage to the common investor. Instead of shying away from these CDOs, Goldman Sachs stocked up on them as much as they could and sold them for a profit, with the help of rating agencies (*Ferguson,* 1:01:32-1:01:46). Taking it a step further, Goldman Sachs insured their fraudulent investments through insurance agencies who were willing to take the risk on the mortgages not defaulting. When the ticking time bomb on mortgage payments finally hit zero, Goldman Sachs walked away with $22 billion while there were over six million Americans were forced into foreclosure on their homes by early 2010.

Making all of this even sweeter, three out of the seven board members of the Federal Reserve unexpectedly resigned in the midst of the 2008 crash. Unsurprisingly, all of these members were previously connected to Wall Street in some form or fashion before their tenure on the board. My personal favorite is Fred Mishkin, the man who wrote a book for the Icelandic government where he intentionally lied and influenced readers about the positives of deregulation. In the middle of the worst financial crisis seen in American since the Great Depression, our fearless leader Fred Mishkin decided to resign from the board in order to *revise a text book*. Yes, you read that correctly. In an obvious shushing move, the government quickly escorted three snakes off the board in order to protect themselves. While there are lots of financial details and movements that contributed to the crash that haven't been discussed, the sheer interconnectivity between the financial and political entities is on full display.

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

Personally, this case study increased my wariness around mega-corporations and the government. I am not trying to say that I have a deep desire to rip down government and have a bare-bones society, as that would be extremely problematic. In terms of the government, I believe corruption has been a long-standing problem, and I do not believe that it is my personal calling or inspiration to bring change to it. Professionally, however, I believe I have a role to play. Discarding the paper-thin chance that I become the CEO of Goldman Sachs, I know that I can still impact the industry. True change comes from the ground up, and the same sentiment applies to the financial world. Studying to become an accountant and CPA, I will ultimately have a responsibility to maintain ethical standards in the workplace. Not that I was planning to scheme and ruin lives like Wall Street did during the financial crises, I find myself inspired to be honest and true to those I serve in order to promote harmonious and equitable business between myself and my clients. I find myself awestruck at the mind-boggling levels of shameful greed and selfishness displayed by the men (I have yet to find a prominent woman with a disgraceful impact in the crises) involved in the crashes and am determined to have an opposite and positive impact on the industry and my clients.

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 there are a number of parallels between the political landscape that brought on the financial crisis and our current political environment. While there are a number of parallels that will not be discussed here, they all have one thing in common: the opacity of our political and financial systems. From Clinton to Bush (George W.) to Obama to Trump, there are so many unknown things about the government that seemingly happen under the table. I believe a major factor in the financial crises that is sometimes overlooked is the general lack of transparency in our government. Of course, not everything that occurs needs to be public knowledge, especially items that need to be held in secret that have any type of impact on public safety or global relations. However, the government has shapeshifted and blurred the lines on multiple controversial matters within the past two decades matters in order to protect its pearlescent image that is simply an optical illusion. Our population, while being more informed than ever due to a number of factors such as advancing technology and increased social awareness, is seemingly less informed than ever on the doings of government officials. While the amount information about the major doings of the government has increased, so has the number of backroom deals between the financial sector and politicians.

In order to truly change these matters, I believe we need a more transparent democracy and harsher consequences for those involved in fraudulent and illegal matters. The government has completely failed in holding people accountable for the past crises. I believe that positive change is already underway in breaking down previous governmental structures. The case of George Floyd and Officer Derek Chauvin serves as a prime example. Officer Chauvin received a guilty verdict for the killing of an African-American man, a monumental decision that is the first of its kind in our country. Society played a vital role in shedding light on this matter, and I believe the same actions by the American people will be the key to bringing back transparency to the government. No one person will be able to fix our government and its illegal activities for the sake of money. However, society will reach its breaking point with the financial sector and its marriage with government, and Americans will eventually flex their communal muscle together in order to break down the corruption of our financial sector and government.

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