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## A Collection of Accounting Case Studies

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**A COLLECTION OF ACCOUNTING CASE STUDIES**

by

**DANIELLE GONSOULIN**

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

**UNIVERSITY OF MISSISSIPPI**

**MAY 2024**

Approved by



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Advisor: Dr. Victoria Dickinson



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Reader: Dean W. Mark Wilder

## ABSTRACT

Over the course of a year, I performed case studies on various economic and financial topics and events. For the first half of the year, I worked in a group with three of my peers to develop audit, advisory, and tax plans for a publicly traded company named Agilysys. We evaluated economic conditions and the company's financial and nonfinancial data to determine what areas both internally and externally the company can target in order to improve its operations. Once the four case studies were written and reviewed, we created a slideshow and presented our ideas on Zoom to a group of around 25 accounting professionals from all around the country. The second half of the year consisted solely of individual research. I analyzed important economic figures and events in the past and evaluated their impact on modern society and what we can learn from them. Overall, the point of this thesis is to showcase what critical thinking in the accounting profession looks like and present case studies that can educate the reader on varying financial topics.

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# Case 1

Agilysys, Inc.

Company Structure and Operational Risk

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## Task for the Week

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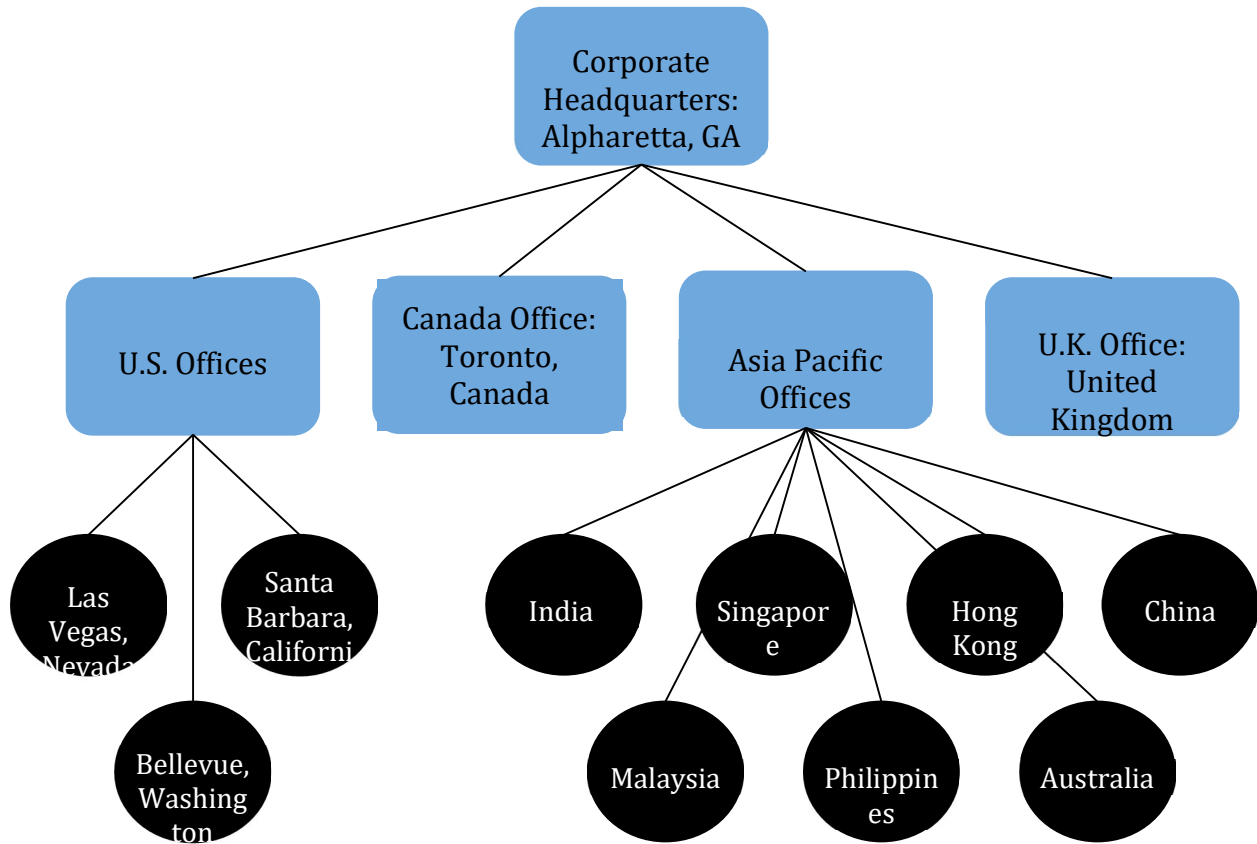
This week we formulated an assessment of operational risk for our company, Agilysys, Inc. Before analyzing any risk factors, we examined the structure of the overall company and outlined the geographical, organizational, and subsidiary structures for Agilysys. Our assessment of the company includes not only identifying economic, political, and global factors posing possible risk to the income of Agilysys but also analyzing specific characteristics of these factors and the potentially detrimental effects they presented for the company. With all of these factors facing Agilysys, we determined the most severe threat to the company. Assessing risk for Agilysys allowed us to better understand how the company works and how improvements could be made to minimize risk and improve operations.

Throughout the completion of the task, we learned and employed research skills using a variety of search engines to find appropriate information and verify if that information is a relevant and fair representation of Agilysys' health. Additionally, while researching, we were able to obtain a more in-depth understanding of the specific operational risks that Agilysys currently faces. Furthermore, the task called upon us to consider the wide variety of domestic and international effects that impact a company's financial performance as well as how they overlap. For example, when considering the effects of the unpredictable political climate of today on Agilysys' business proceedings, many of the impacts caused by the political climate involve other factors discussed, such as how the party in power will deal with inflation, interest rates, and global unrest, all of which could individually have significant impacts on the supply chain. Overall, the task outlined in the case study allowed us to gain a deeper understanding of how interconnected the world is in terms of economic consequences and volatility, as well as improve our knowledge of the inner workings of Agilysys and its key economic relationships.

## I. Organizational Structure

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**Figure 1. Geographical Locations**



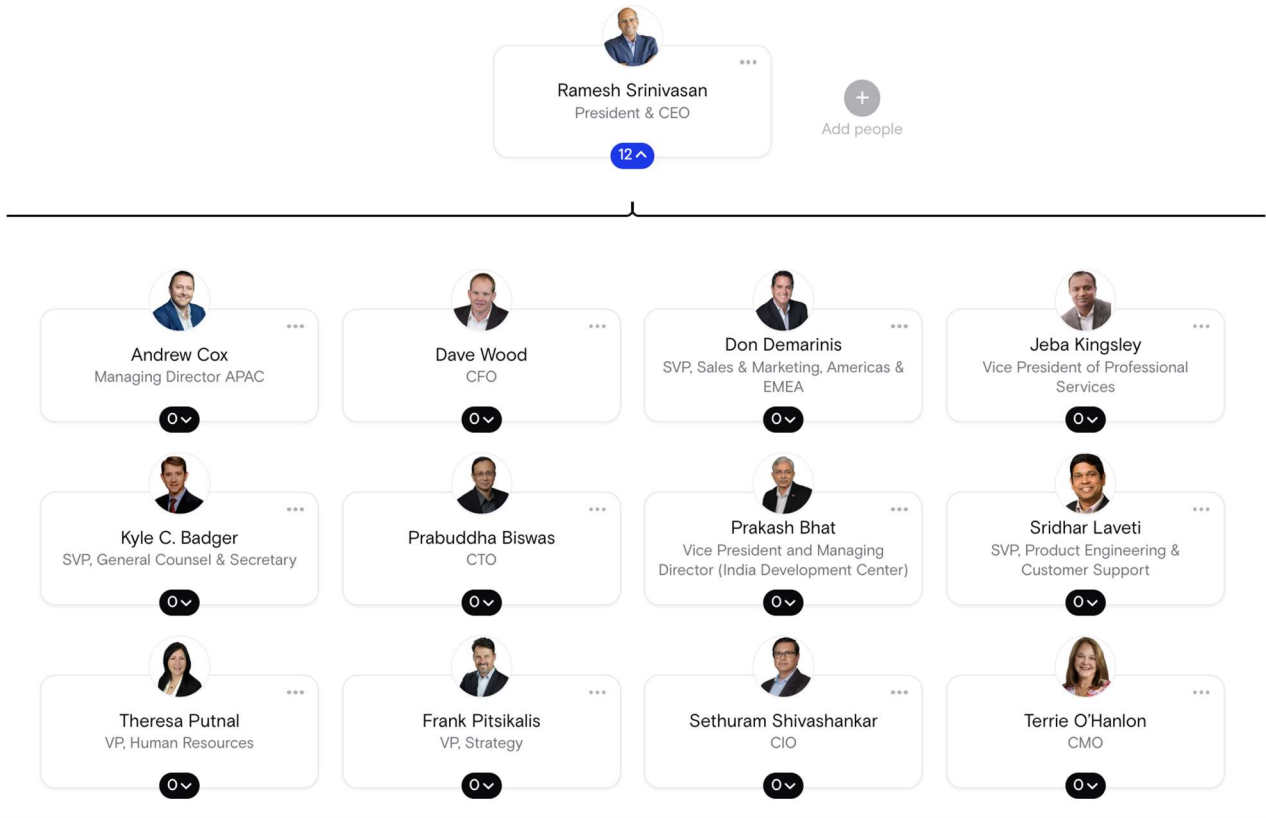
1

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<sup>1</sup> Geographical locations adapted from Agilysys website



**Figure 2. Internal Organization Chart**



2

<sup>2</sup> Organizational chart taken from theorg.com

**Table 1. Subsidiaries Organizational Table**

Agilysys Subsidiaries		
Acquisition	Reason for Acquisition	Date Acquired
ResortSuite	With heightened safety protocols and reduced physical interaction being top priority, ResortSuite delivers a fully mobile-enabled hospitality experience that empowers guests to create their own personalized itinerary with minimal human contact for the ultimate guest experience.	12/16/2021
TimeManagement Corp.	TimeManagement's TMx labor management solution gives hospitality operators the tools they need to improve the efficiency and productivity of the workforce through precision staff scheduling and management.	6/10/2013
Triangle Hospitality Solutions	Triangle Hospitality Solutions operates as a reseller of point-of-sale software and solutions.	4/9/2008
Eatec Corporation	Eatec Corporation is a developer of inventory and procurement software.	2/19/2008
InfoGenesis	InfoGenesis is an independent software vendor and solution provider to the hospitality market, offering enterprise-class point-of-sale solutions that provide end-users a highly intuitive, secure and easy way to process customer transactions.	6/4/2007
Innovativ Systems Design	Innovativ Systems Design is the largest U.S. commercial reseller of Sun Microsystems servers and storage products.	5/30/2007
Stack Computer	Stack Computer is a premier technology integrator with a strong focus in high availability storage infrastructure solutions.	4/3/2007
Visual One Systems Corp.	Visual One Systems Corp. provides expertise around the development, marketing and sale of Microsoft® Windows®-based software for the hospitality industry, including additional applications in property management, condominium, golf course, spa, point-of-sale, and sales and catering management.	1/25/2007
The CTS Corporations	The CTS Corporations is a leading services organization specializing in IT storage solutions for large and medium-sized corporate and public-sector customers.	6/1/2005
Inter-American Data	Inter-American Data is a leading developer and provider of software and service solutions to the hotel casino and destination resort segments of the hospitality industry.	2/20/2004
Kyrus Solutions Inc.	Kyrus Solutions Inc. is a leading provider of retail store solutions and services with a focus on the supermarket, chain drug and general retail segments of the retail industry.	10/1/2003
IG Management Company Inc.	Subsidiaries include InfoGenesis, Inc. and InfoGenesis Asia.	6/18/2007
Dickens Data Systems	Dickens Data Systems is a distributor of I.B.M. computer systems, peripherals and services.	1/16/1998
** Information derived from Crunchbase, ResortSuite, Businesswire, Hospitalitynet, njbiz, seekingalpha, sec		

## II. Potential Risk Factors

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### **(a) Inflation**

The operational risk caused by inflation for Agilysys is driven primarily by the basic economic principles of disposable income and luxury goods. Agilysys' clientele comprises hotels, resorts, casinos, tribal gaming, cruise lines, food services, sports, entertainment, and restaurants. All of these industries are considered luxury purchases, therefore, as prices are driven up by inflation, the general population must devote increasing levels of their income to basic goods, leaving less disposable income available for purchases related to the aforementioned industries. As a result, when these industries receive less business, fewer customers become available for Agilysys. However, Agilysys pitches some products based on their proclaimed ability to vastly cut down labor costs through the streamlined process offered by the technology in order to combat increases in food prices.

On Agilysys' income statement as of the fiscal year ending March 31, 2022, the largest single component of the company's revenue stream comes from support, maintenance, and subscription services. This data indicates that the majority of Agilysys' income comes from existing clients. Despite this, income from product sales and taking on new clients would still decrease. Therefore, inflation may potentially lower net income.

### **(b) Interest Rates**

As a result of high inflation, interest rates have increased. The Federal interest rate has increased from 2.25 to 2.50, which makes it harder for organizations and clients who finance heavily with debt to borrow money. Therefore, they will have less money to spend on luxury products that Agilysys and its competitors provide.

Concurrently, in Agilysys' March 31, 2022 annual filings, the company reported that the change in interest rates increases the volatility of Agilysys stock. This means that the stock price is going to increase or decrease at a more rapid rate. Since investors tend to prefer consistent stock prices in line with expectations, an increase in interest rates could potentially affect market interest in Agilysys.

### **(c) Energy Prices**

Increasing energy prices could potentially push Agilysys clients out of the hospitality industry. Currently, energy prices have been on the rise worldwide, and many companies have begun exploring other options. The products that Agilysys provides are luxury items for luxury businesses. For example, the advanced technology that some hotels, casinos, and cruise ships have been using was recommended by Agilysys for additional safety and convenience. The clients of Agilysys use large amounts of electricity to power their operations. The use of natural and renewable energy through solar panels is possible; however, it is very expensive to implement the new strategy, and solar panels require a large amount of space for installation. Businesses in the hospitality industry would have to raise the prices charged to consumers, causing fewer people to indulge in the luxuries of the hospitality industry. This could negatively affect the returns of Agilysys if some of its clients go out of business during this potential crisis. However, Agilysys has begun developing software that will reduce the prices of procurement for their clients.

Increasing energy prices will cause Agilysys' clients to become more cautious of their spending due to their own energy prices rising. That is a large threat to the continuing market dominance of Agilysys and many other companies within the hospitality software industry as well.

#### **(d) Supply Chain**

Supply chain management is an important strategy that Agilysys needs to implement in order to control the market and retain high returns. A supply chain issue within the hospitality software industry poses a very large risk because technological parts are a necessity for Agilysys. They have developed a Stratton Warren System that automates the inventory for customers and makes acquiring products for their respective clients more efficient. Agilysys is able to pitch this idea to their customers on the potential benefits and has the opportunity to increase client numbers during times of supply chain crisis. Agilysys does not currently have any long-term contracts with its suppliers, so if a crisis were to occur now, Agilysys' income and client numbers would decline. In the event of a catastrophe or pandemic, a company would see a decrease in the supply of materials needed to create their product and stalled distribution to their customers.

#### **(e) Political Climate**

The unpredictability of our current political climate and elections pose implications that could have strong effects, detrimental or positive, for Agilysys and the business world as a whole. Many of the issues stemming from risks of the political climate are discussed in prior sections such as inflation and energy prices. Depending on the political party that wins upcoming elections, the federal agenda may affect Agilysys. For example, according to recent historical trends, it can be expected that with a Democratic majority in power, there will be a stronger emphasis on clean and renewable energy with limits placed on fossil fuel collection. These policies would increase energy prices due to the forced investments into alternative sources of energy, which would then impact Agilysys operations as described above.

## **(f) Global Unrest**

Potential global unrest poses a variety of impacts on Agilysys' financial performance. The clearest effect for Agilysys is the rapidly increasing tensions between the United States and China which presents great operational risk for the Agilysys office located in China. In regard to the conflict with China, the political climate and results of elections will impact this global unrest tenfold. Additionally, global unrest in general can increase disruptions in the supply chain, as well as increase volatility in the stock market which can cause investors to sell off shares in order to mitigate risks to a portfolio in times of uncertainty.

### III. Most Severe Threat to Success

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The income stream for Agilysys is based on nonessential services; if our clients in the entertainment industry lose their customers, Agilysys loses money. Additionally, the products themselves provided to luxury industries can be considered luxury products. Due to economic recessions, people have less disposable income to spend on nice resorts, restaurants, or excursions. Eating at restaurants has even become more expensive. For Agilysys, this means our clients' businesses are providing fewer services and products. Therefore, having the entire business model tied to one general industry, hospitality, presents the most severe threat to success.

When a company is dependent upon one industry, its success is parallel to the success of that one industry. While Agilysys operates primarily in the hospitality industry, the company serves a variety of clientele within the industry. Agilysys has expanded strategically to reduce risk to its success; however, the fact remains that the company serves many nonessential clients.

One possible avenue of mitigating this severe risk is to expand current software systems to more essential businesses. For example, one of the many software systems that Agilysys offers is a system that focuses on inventory and procurement processes, so if the company was able to adjust the already existing system and form a partnership with an essential industry, such as pharmaceuticals, Agilysys would be placing itself in a safer position in the event of declining disposable income for the general population.

During a recession, many industries falter. If Agilysys were to expand into another industry, forming a conglomerate, the company would be in a safer situation with less risk to their income from clientele simply by increasing clientele. Acquiring more clientele, preferably those in a stable industry, reduces the effect each client has on the overall health of the company.

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## Case 2

Agilysys, Inc.

ESG and Cybersecurity

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## Task for the Week

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Throughout the week, we learned which risk management tactics can be helpful for our company, Agilysys, to further employ. With a unique opportunity to do well in both the ESG and cybersecurity categories, Agilysys may eventually be looked to for guidance in the industry.

As a result of the recent pandemic and technological trends, ESG ratings and cybersecurity are becoming increasingly important topics across all industries. For the first part of this week's case, we analyzed the opportunities and risks associated with Environmental, Social, and Governance factors (ESG). As industry-leading asset management companies and influential accounting firms, such as Deloitte and KPMG, have begun to incorporate ESG metrics, other companies across the U.S. have followed suit. While ESG scores can provide useful nonfinancial information to potential investors, the metrics involved in computing ESG scores are subjective. The process for assessing a company's compliance with ESG is led by MSCI, an independent body providing investing insight. This week we deepened our understanding of ESG and deciphered whether or not the ESG metric rightfully carries weight in the financial industry.

In addition to assessing ESG, we also investigated the cybersecurity risks facing companies today. In a world of constantly evolving technology, threats to a company's well-being and sustainability can strike at any time, and it is important we mitigate these cybersecurity risks. As a hospitality software company, Agilysys is committed to protecting its customers' online data. It is crucial for Agilysys to take the necessary actions toward maintaining client relationships and company image in order to continue to grow its client base. With large quantities of personally identifiable information and financial data, Agilysys has the ability to become a leader in the cybersecurity department for online software management entities.

<sup>3</sup>Figure 3



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<sup>3</sup> Image copied from WSM Partners website

a.) The public accounting industry is in a unique position with ESG becoming increasingly popular. Accounting firms could begin auditing ESG ratings in addition to the current scope of auditing financial statements. ESG ratings now have a strong foothold in investors' and creditors' opinions of companies' overall health, and it would be wise for accounting firms to broaden their expertise. Auditing ESG would allow accounting firms to earn additional revenue. However, with little standardization, it is hard to understand the additional costs that would go into auditing ESG.

The lack of information about ESG could lead to additional liabilities and risks in the accounting industry. ESG's growing influence may incite quick decision-making in an attempt to stay ahead of the curve. Potential risks include a lack of thoroughness and diligence in the field. Regulations need to be established in order to create a level playing field for all companies providing ESG ratings as well as the criteria for these ratings. Since ESG is now a growing factor in investing and financial decisions, large companies may begin absorbing smaller companies based on their ESG ratings in hopes of improving their own; however, this strategy ignores other crucial aspects of a company's health. Eventually, ESG ratings may be disclosed on the actual financial statements. In this case, GAAP would have to expand to cover the standardization of ESG so there would be no manipulation of the scores.

b.) The fundamentally divisive issue surrounding ESG is the challenge in its measurement. Due to long-standing practices of financial reporting and analysis, there are definitive and objective measurements that are employed when determining a company's financial viability. However, when it comes to ESG ratings, there is no such standardization of measurements or a single overarching checklist. High volumes of data that must be sorted through when analyzing a firm's environmental, societal, and governmental impact further contribute to the difficulty of standardization. Additionally, it is difficult to quantify or place a monetary value on benefits produced through sustainable industry practices that could boost the ESG score, especially when contrasted with impacts on the bottom line caused by typical shifts in business practices. Furthermore, no single organization currently exists that has the authority to determine on what basis ESG should be measured. Although MSCI and Sustainalytics have become the most popularly used providers for ESG ratings, they are still independent companies that are not controlled or partnered with a distinct governmental organization or agency.

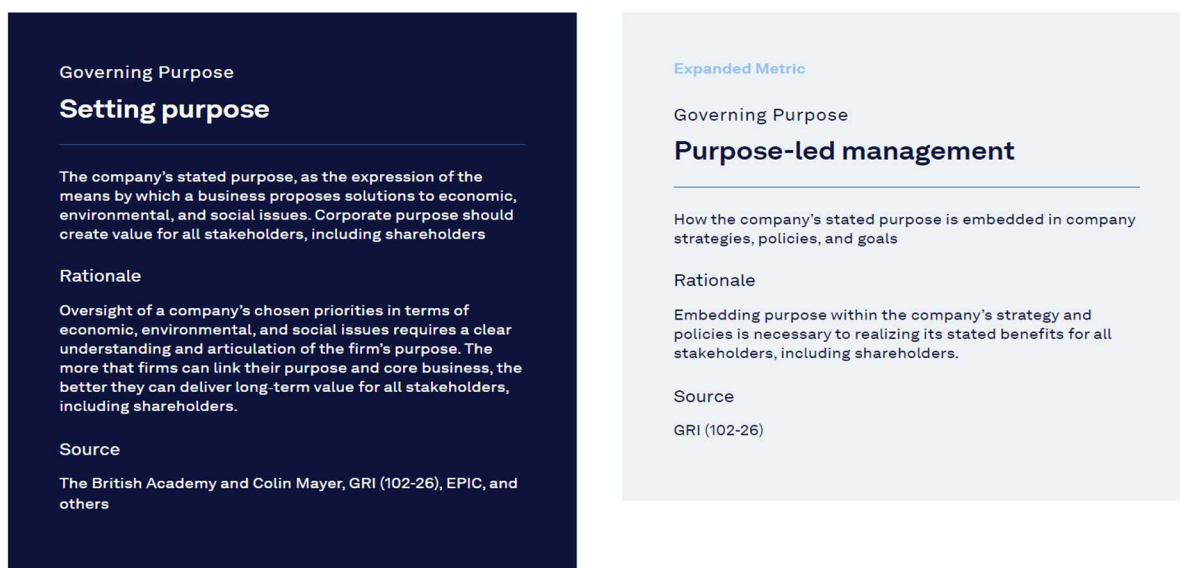
The increasing prominence and relevance of ESG ratings, despite their lack of regulation, poses several economic and political risks for Agilysys as well as the United States as a whole. In regards to the economic risks facing the nation, if companies spend high volumes of resources on improving their ESG rating, based on the form of analysis that holds the most popularity at that specific moment in time, their profits may suffer as their resources are not being devoted to improving the bottom line. While improved ESG ratings may attract investors in the short term, without a continued focus on improving profitability, an economic downturn will occur. Furthermore, increased investments due to ESG ratings rather than true financial performance will lead to overvaluation in the stock market which will only work to increase the degree of possible economic recession.

In regards to the political risks associated with ESG, parties could stand on the platform of improving the aggregate ESG ratings for the economy under the banner of aims to improve the environment and sustainability as a whole. However, due to the lack of standardization of ratings, if the results did not reflect the stated desires, a new system of measurement could simply be employed and broadcasted as a false political victory. Furthermore, there are both economic and political implications if a party were to push automation as a means of increasing sustainability. One example would be large-scale job losses. The aforementioned political and economic effects would have large impacts on any publicly traded firm such as Agilysys. Additionally, if key members of the supply chain for Agilysys were assigned poor ESG ratings, those suppliers could be lost due to increased investments, or Agilysys' own stock could suffer through a decreased ESG rating through association. There is a fine line between the benefits and risks of wide-scale ESG ratings, and the benefits will not be stable until there is a concrete standardization for ESG ratings that is controlled by an unattached organization, not a publicly traded company whose own stock is affected by the ratings assigned.

c.) The World Economic Forum defines itself as an international non-governmental and lobbying organization. Essentially, many types of people such as professionals, journalists, company leaders, etc. meet to make important decisions about agendas all across the world. The World Economic Forum has a positive view of ESG and pushes for its application. Strategic Intelligence states that “at its root, ESG is about expanding our appreciation of a firm’s performance and impact” (Forum, 2022). However, the Forum also recognizes the current problems of ESG such as its lack of measurement principles.

In order to solve this prominent issue, the Forum takes a leadership role in ESG and provides “Stakeholder Capitalism Metrics”. As discussed in earlier points, the main downfall of ESG ratings is that there is no common measurement metric such as the Generally Accepted Accounting Principles. Listed on the World Economic Forum’s website is a set of “21 core and 34 expanded metrics and disclosures” that “reflect a six-month consultation process with more than 200 companies, investors and other interested parties” (“Explore the metrics,” 2022). There are four main categories in this metric: people, planet, prosperity, and governance. Each category has multiple sections each with its own set of core metrics and their related expansions. One example of a core metric under governance is “setting purpose”, which defines what a purpose is and states that a company’s purpose must create value for all stakeholders. Its expanded metric is “purpose-led management”, which states that how a company’s purpose is integrated with a company’s strategies and goals is also measured in its ESG score. The World Economic Forum is encouraging companies to consider sustainability and other ESG factors when disclosing information to stakeholders and developing investment insights.

**Figure 4**



Prominent asset management companies such as Blackrock, the world's largest asset manager, are supportive of the shift towards using ESG. Pam Chan, the Chief Investment Officer and global head of the Blackrock Alternative Solutions Group, says company leaders need to start thinking differently now that society is paying more attention to a company's sustainability efforts. The Vanguard Group, a major investment management company, offers a fund that specifically invests in companies screened for certain ESG criteria. Vanguard is also the largest owner of Agilysys stock, which gives them some influence over Agilysys proceedings. If large Agilysys investors push for Agilysys to focus more on raising their ESG score, this may impact how the company operates for better or for worse. For example, if Agilysys does not meet Vanguard's ESG criteria, it may receive decreased funding. This could potentially lead Agilysys to sacrifice profits in exchange for earning a higher ESG score.

So far, as reported by the World Economic Forum, 170 companies have adopted the Stakeholder Capitalism Metrics and 70 companies have reported against them. All of the Big Four accounting firms are among the 170 with KPMG and Deloitte quoted on the World Economic Forum website. Our group believes that developing a common set of metrics to reference when creating ESG scores is a necessary step in the rapidly shifting investment climate. However, these metrics will only become truly useful if they are standardized for the entire United States economy. Any major shift in the social and economic climate will have a period of time when businesses are playing catch-up with the rapidly changing needs of their investors. The World Economic Forum is attempting to take charge with its metrics, but we will have to wait and see how its leadership will unfold.



d.) Agilysys operates in the hospitality software industry, so they already maintain a very low amount of carbon dioxide emissions; however, they do hold meetings at least three times a year to explain their steps to more sustainable processes. The use of heat sensors to track occupancy, paperless workflows, and energy-efficient lighting in the rooms of guests has allowed for a downstream increase in sustainability. The changes that Agilysys makes, however, are not implemented all at the same time. They introduce small steps over different periods in order to allow better adaptability and see how stable the work environment becomes after a change. Many of their procurement processes have become standardized to avoid waste, especially at their clients' food service establishments. By digitizing the inventory method, clients can better recognize what needs to be replaced depending on activity level during a certain period.

Furthermore, during the pandemic, many companies began shifting their focus from sustainability to cleanliness, so the elevated use of personal protective equipment increased the creation of plastic waste. On the other hand, by making use of contactless technology, both cleanliness and sustainability can be practiced simultaneously. For example, Agilysys has begun using mobile check-in kiosks to limit plastic usage at their clients' resorts. Agilysys has been taking many steps to become more environmentally friendly, and its committee fully supports Agilysys' decisions.

e.) Currently, ESG is not regulated, but it has become an increasingly popular metric with which to judge companies. As potential standardization of ESG occurs, there could be many changes on the horizon for Agilysys. From financial reporting and raising capital to the company's position within society, many factors are uncertain. Without a favorable ESG rating,

it may become difficult to raise capital from shareholders and stockholders. Investors are constantly looking for opportunities to buy into competitive companies. In order to stay competitive, companies must understand and excel in ESG. Additionally, investors may not look into companies unless an ESG rating is stated clearly and accurately. For Agilysys, a company with relatively low emissions and waste, sustainability comes naturally, but its clients, being luxury hospitality companies, have a focus on single-use, no-contact factors that improve cleanliness but not sustainability. Will Agilysys' ESG fall due to the actions of its clientele? Possibly. As regulations slowly churn out, Agilysys needs to build relationships with government regulators as well as its clients, suppliers, and creditors.

ESG is on its way to becoming a vital part of financial reporting. When a metric carries so much influence, it must be standardized in order to be a fair judgment of a company's performance. If ESG were required on the financial statements, this could increase the time spent by accounting firms to audit and advise. ESG can affect a company's position in society with social and governance factors. It is important for a business to make a positive impact on the community around them by using their resources in order to build relationships and increase valuation, which ESG attempts to measure. On the other hand, increased ESG regulations could harm some relationships. For example, suppliers could be forced to increase prices due to heightened costs from sustainability efforts. This would in turn cause issues in the supply chain and could possibly force Agilysys to pass on these increased costs to its customers. Agilysys would likely then lose business, and revenues would decrease.

## II. Cybersecurity Risk Assessment

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a.) Within the hospitality software industry, cybersecurity is an important implementation that should be monitored daily. In 2017, there were 1,579 breaches, a record number, that released over 150 million sensitive records reported by the Identity Theft Resource Center as disclosed by Agilysys. The risks of having a cybersecurity breach are extremely prevalent today because of information that could be revealed to hackers, including financial and personal information of clients and companies

Securing the property management system (PMS) can highly reduce the effect of a cybersecurity attack. Being proactive and developing firewalls that will maintain the safety of information is difficult in this industry and for our company because of strenuous effort and high costs to determine the weaknesses of a security system. With the shift to more technologically advanced systems, less paper is used, so Agilysys and other companies that operate within hospitality software are more prone to becoming victims of a cybersecurity attack. For example, if a hacker gained access to Agilysys' online information, then a lot of Agilysys' clients would be at risk, which would cause a downstream reaction of information loss. Having a reactive approach is not effective because, by the time the hacker was revealed, the information would likely have already been compromised. Cybersecurity failures do happen and companies like Agilysys are primary targets because their information is not as well protected as hospitals or banks. Also, these companies open a large variety of victims to choose from for the hacker; therefore, third-party security partners would be a great addition to have.

b.) According to Verizon's 2021 Data Breach Investigations Report (DBIR), 70% of cybersecurity breaches are financially motivated. Therefore, people who commit cybersecurity crimes are likely to steal a company's information for monetary gains. For example, someone may hack into Bank of America's online database containing the bank account information of their clients in order to transfer money out of the breached accounts. As a software company providing services to clients who cater to people with higher disposable incomes, a hacker looking for money may be inclined to illegally access Agilysys' online databases.

Concurrently, a company may hire third parties to steal their competitor's online information in order to gain an unfair advantage or leak private information to reduce their competitor's credibility. At some point, one is likely to receive a spam call from an unknown entity. One may wonder how this entity acquired its information. The companies making these spam calls may have breached a website's or another company's cybersecurity systems in order to obtain clients' contact information. These shady companies may be especially interested in Agilysys as their clients have collected contact information from people who will have at least some disposable income. For example, one of Agilysys' clients is the Kiawah Island Golf Resort. Malicious parties looking to gain private information about wealthier individuals would be highly interested in breaching Agilysys software at this resort.

c.) The industries served by Agilysys's products cause cybersecurity to be a significant risk for the firm. The majority of Agilysys' products are used as digital interfaces for resorts, hotels, casinos, and restaurants for services such as check-ins and orders. As a result, the customers in these industries are inputting high-risk personal information such as names, credit card numbers, and addresses. This creates a large cybersecurity risk due to data privacy and identity theft.

These potential breaches pose risks not only for Agilysys but also for the people whose information has the potential to be stolen as well as the actual institution to whom Agilysys provides services.

In addition to the tangible losses that could be caused by security breaches related to private information, Agilysys faces substantial brand and reputation risk in the form of cybersecurity threats. If it became public that multiple resorts, hotels, or casinos supported by Agilysys suffered identity or credit card theft, the firm's stock would plummet, many existing contracts would likely be terminated, and new customers would become increasingly difficult to acquire. Furthermore, cyber-attacks on the automated systems used by the supply chain could cause devastating impacts on Agilysys's ability to continue producing its products in order to meet the demand of current and future customers. Another element to consider is that the automated industry itself has an increased susceptibility to cyber-security risks as the fundamental business process could be broken down by a cyber attack from anywhere around the world. While Agilysys has committed to increase use of capital to limit the leaks of personal information, cybersecurity remains, and will continue to be, a substantial risk in the business model of an automated-centric firm.

d.) Agilysys is committed to protecting itself against cybercrime. As an online software company, a majority of the company's information is stored online; therefore, a cybersecurity breach would be devastating. Since Agilysys recognizes the threat cybercrime poses to the industry, the company has taken precautions to safeguard against loss of data, privacy, and trust. Employees are regularly trained on scams such as phishing and masquerading to mitigate unintentional disclosure of data. With this proactive approach, Agilysys isn't a sitting target

waiting to be tested. Agilysys states that “by selecting solutions provided by experienced technology vendors with a focus on innovation and who keep their clients top of mind, you will reduce risk and be in a great position to protect your property” (Agilysys, 2019).

Agilysys also has its own secure financial transaction entity called “Agilysys Pay,” which uses special encryption and requires a specific key to decode, thereby eliminating the need for storing credit card information within the systems. While Agilysys has done a good job securing personal information and teaching employees how to avoid scams, with today’s technology and hackers’ innovation, there is always more Agilysys can prepare for. Our team thought it would be an interesting challenge for Agilysys’ own company to hire people to try to bypass Agilysys’ security systems. This exercise would provide a controlled opportunity for Agilysys to see its shortcomings and improve upon them.

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# Case 3

Agilysys, Inc.

Audit Risk and Planning

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## Task for the Week

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Throughout the week, we learned about the different types of audit risks and how to account for them within Agilysys. By examining Agilysys' 10-K, we were able to determine the materiality of the accounts on the balance sheet and income statement to decide which accounts would influence investors' decisions. In order to provide useful yet relevant information, we had to decide which accounts needed to be audited in order to provide reasonable assurance that the financial statements were free from material misstatement. When choosing which accounts to research this week, our group looked for accounts that were strategically important to Agilysys. As a hospitality software company, the revenue, intangible assets, and product development accounts were the most material accounts with a significant chance of misstatement.

In order to further break down the individual accounts, we researched the types of risks associated with each account and how auditors discover these misstatements. We investigated the substantive tests used to sample the account balances when gathering evidence and found that it is increasingly difficult to test the intangible accounts. When the products and services revolve around virtual software, it can be difficult to track the increases in these accounts with a high degree of accuracy. Instead of tracking concrete assets, many of Agilysys' accounts are audited based on consistency between financial documents, such as contracts, and other evidence.

In addition to account balances and substantive tests, we learned about data visualization and how increasing automation and technology could benefit the auditing process. In the case of Agilysys, a larger company with many contracts and transactions, auditors would find it extremely helpful to be able to access technological aids such as a data query that could assist in the audit process. With the ability to complete the audit in a more timely manner, the auditor and the company would both benefit.

## I. Revenue

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### **Risks Associated with Misstatement**

According to Generally Accepted Accounting Principles, known as GAAP, revenue can be recognized when it is both realized and earned. Revenue is usually earned when a performance obligation determined in a contract is performed, such as the deliverance of a product or the completion of a service. In recent years, a new set of revenue recognition rules was introduced in Accounting Standards Codification Topic 606: Revenue from Contracts with Customers (“ASC 606”). According to one rule, goods and services in a contract need to be appropriately classified as distinct deliverables or bundled together in a single performance obligation (Terrell, 2016). Agilysys’ three sources of revenue are product sales; support, maintenance, and subscription services; and professional services. According to Agilysys’ recent 10-K, most of their transactions are recorded via contracts. Support and maintenance revenue is recognized as a single performance obligation as providing telephone calls and technical support is a stand-ready obligation with the same pattern of transfer to the customer. Subscription fees to access Agilysys’ software are bundled with support and maintenance revenue because customers must have access to the software in order to benefit from maintenance performed on it. Professional services, such as consulting, installation, and integration fees, are kept separate because Agilysys believes that their professional services provide a benefit outside of the goods promised in the contract and do not affect a customer’s ability to use other products and services.

As a software company providing numerous intangible products, there are risks associated with how Agilysys classifies some revenue as distinct while bundling others. For example, can professional services such as training customers to use the provided software truly be kept separate from the other revenue categories? Customers may not be able to properly

access the software without the related training. Since Agilysys provides these services, we must check to make sure revenue is properly recognized as distinct or not within the context of its related contract. Each good or service must be evaluated to see whether or not it should be classified as a separate performance obligation (*Challenges to consider in auditing revenue recognition*, 2020). Additionally, when transaction prices are determined in a contract, there is risk involved in prices being properly allocated amongst each separate performance obligation. For instance, if both support and maintenance service and professional service obligations are established in the same contract, more prices could be improperly allocated towards one of the two, which would lead to inappropriate figures on the income statement.

Furthermore, the timing of recognizing revenue and the existence of certain transactions can be a significant risk for Agilysys. As auditors, we need to check to make sure revenues are being properly allocated in the periods that benefited. For example, revenue from professional services should be recognized as the services are performed in the periods they are performed in. Contracts and related transactions must be thoroughly analyzed to ensure they are in agreement with one another. The existence of transactions is also a severe risk as Agilysys could boost their support and maintenance revenue by claiming, for instance, more telephone services were provided than they actually were. Recognizing revenue in compliance with GAAP as a software company is difficult as estimates of future obligations are subjective, and we must exercise increased caution to ensure that investors are receiving information that is a faithful representation of Agilysys.

## **Critical Internal Controls**

Internal controls are a vital part of ensuring the accuracy and management of a company's accounts. The two internal controls that can help mitigate the risks associated with the revenue account are proper authorization and adequate documentation. With revenue, it is important to investors that the right amount is reported. Companies may want to understate revenue in order to accumulate a cushion balance in case earnings decrease in subsequent years. On the other hand, a company may overstate revenue in a bad year in an effort to keep investors engaged even when profits do not look as promising as in a prior period.

Proper authorization of transactions is an integral part of ensuring activities and transactions have passed through the proper channels and guidelines established for reporting revenue. Agilysys would want to make sure that products are being sold at a consistent price in order to state revenue accurately on the income statement. When auditing revenue, it is important to track dates of input, termination of contracts, and amounts of transactions in these contracts. We must ensure that the data was correctly entered and that the amounts recorded are logical prices for the services provided. If the fees associated with the transaction seem unreasonable, there is the risk that a kickback may be occurring. A kickback is where individuals receive compensation for manipulating numbers in a transaction. While reviewing the revenue transactions, we need to ensure that transactions were accurately documented by Agilysys at each step: recording, approving, and reconciling.

Adequate documents and records can corroborate transactions and financial statements. Without the supporting documentation for recording transactions, we cannot be sure that the revenue is accurate. Revenue can be checked with invoices, and these invoices must be dated and inputted into the records in a timely manner in order to recognize the revenue at the appropriate

time. It is also important to examine a company's contracts in order to make sure they have not expired or been terminated and that the amounts being recorded are from services or products currently being provided. Records are an important feature to keep track of when auditing because they should be referenced multiple times.

### **Substantive Tests**

There are multiple tests auditors can perform to ensure revenue is properly stated in a company's financial statements. To perform a popular test, the test of details, an auditor will gather a long list of revenue transactions and select a sample from that list. The sample size depends on a test of controls: if a company has done well in prior periods in stating account balances correctly and having good internal controls, the sample size will be smaller. Since Agilysys uses contracts in their revenue-related activities, the auditor would find the contract related to each transaction in the sample and recalculate each of the three revenue categories. Finally, the company calculations would be compared to the auditor's calculations to ensure that the correct numbers are being reported on the income statement.

In addition to a test of details, an analytical test of procedures can be performed. An analytical procedure is a type of substantive test that focuses on ratios and gross margins. An auditor would compute ratios related to the three types of revenue reported by Agilysys over multiple periods and look for trends. The auditor would see if the periods are comparable and make sense numerically. For example, if revenue peaks by a significant amount in one period, the auditor would dig deeper and ask the company questions about why revenue was so high during that period. By doing both quantitative and qualitative substantive tests, an auditor can ensure that investors are receiving information that is a faithful representation of Agilysys.

## **Data Analytics**

Data visualization can be used to help cover more transactions in a shorter period of time when auditing. With revenue specifically, there are multiple transactions in any given period and performing substantive tests manually can consequently consume significant amounts of time and resources. A data query would allow auditors access to the company's data and/or general ledger where they would then use the query function to pull specific data needed to answer any questions related to the accuracy of transactions. By writing a program to pull information together, the query then allows us to use data visualization to interpret the transactions. Data visualization would allow for Agilysys to improve its relationship with its auditor through communication and learning, real-time monitoring of data, and incorporation of feedback. The audit team can use data analytics to work with Agilysys leadership in order to gain an eye-level understanding of their reporting. Overall, data analytics provides a unique and modern approach for a company's leadership to use while working with auditors to provide relevant information in a timely manner, preventing a waste of time and other resources.

## II. Intangible Assets/Goodwill

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### **Risks Associated with Misstatement**

The primary risks associated with the misstatement of intangible assets and goodwill are their valuation. According to the annual report provided by Agilysys in 2022, goodwill and other material indefinite intangible assets are identified and valued as follows:

Goodwill represents the excess purchase price paid over the fair value of the net assets of acquired companies. As of March 31, 2022 and 2021, the carrying amount of goodwill was \$32.8 million and \$19.6 million, respectively. Goodwill is tested for impairment on an annual basis, or in interim periods if indicators of potential impairment exist, based on our one reporting unit. The Company evaluates whether goodwill is impaired by comparing its market capitalization based on its closing stock price (Level one input) to the book value of its equity on the annual evaluation date. Based on testing performed, the Company concluded that no impairment of its goodwill has occurred for the years ended March 31, 2022, 2021 and 2020. The Company is also required to compare the fair values of other indefinite-lived intangible assets to their carrying amounts at least annually, or when current events and circumstances require an interim assessment. If the carrying amount of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized. (*Agilysys, Inc Form 10-K, 2022*)

Valuation risks stem from the necessity for estimates. The fair value of net assets of acquired companies requires complex estimates to determine the new fair value price that could be achieved in the event of a sale, and estimations bring in an element of subjectivity that can raise concerns regarding the faithful representation of accounting records. Furthermore, the sheer magnitude of goodwill for Agilysys, 15.30 percent of total assets, necessitates its audit risk



assessment. Additionally, Agilysys has assessed zero impairment of its goodwill for the past three fiscal years. For other intangible assets, the issue of estimates once again becomes prevalent as different methods can be employed for the valuation of assets that do not have concrete and material book values such as patents for new products and systems undergoing development. The misstatement of goodwill and other intangible assets can mislead potential and current investors by misrepresenting the value of assets held, and therefore the worth, of the company.

### **Critical Internal Controls**

The two most critical internal controls that can be employed to mitigate the risks associated with the misstatement of goodwill and other intangible assets are adequate documents and records as well as independent checks on performance. Maintaining adequate documents and records allows for checks of estimates, valuations, and consistency for business transactions such as acquisitions of companies and assets that lead to the recording of goodwill. Furthermore, diligent record-keeping forces a company to keep track of current fair values and will expedite the impairment process so that goodwill and intangible assets can be reported accurately. Independent checks on performance mitigate the risk of misrepresentation through increased reliability as estimates and valuations of the fair value of intangible assets must be verified before they are reported in financial statements. Additionally, consistency in independent checks can preemptively prevent cumulative issues in valuations as the error will be caught before it is officially recognized as the value.

### **Substantive Tests**

The substantive audit tests for intangible assets present a unique challenge compared to an account such as inventory as there is no tangible count that can be performed in order to verify the account's reliability and accuracy. Rather, many of the tests revolve around consistency in financial statements and records. For auditing goodwill, records from the acquisition must be examined and verified for key elements such as timing, transaction price, and value of net assets obtained from the acquisition. Furthermore, the auditor must assess the existence and accuracy of impairment through the examination of records. For other intangible assets, audit tests are similar to examining both financial and nonfinancial documents and records to verify key elements such as ownership, accumulated amortization, new acquisitions, and balance sheet reconciliations to ensure that the value for intangible assets is faithfully represented on the balance sheet.

### **Data Analytics**

As the usage of technology in everyday business operations has skyrocketed, its applications in the audit world have followed suit. The implementation of automated data query would exponentially decrease the time it takes to perform substantive tests of accounts such as intangible assets as well as increase each test's reliability. Through automation, updates and adjustments to the value of intangible assets could be made in seconds, and auditors would have the ability to check on accounts at specific moments in time. Furthermore, automation and digitalization of financial records and information allow auditors to perform data queries and examinations in a fraction of the time required in a manual examination. Furthermore, programs could be implemented that would automatically flag reports that contain flaws such as not having the account balance accurately reconciled with the related amortization expenses, purchases, and

disposals. These processes not only offer an opportunity for auditors to take advantage of a streamlined process, but they also provide a more comprehensive audit that aids in the prevention of human errors and omissions.

### III. Product Development

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#### **Risks Associated with Misstatement**

Product development is an account that has a significant amount of funds dedicated to it because of the research and development needed to create competitive products. Agilysys is in the hospitality software industry, so the development of new technology and products is prevalent in advancing the company. Due to the continuous betterment of technology, it is important to be able to update products or release new replacement products in a timely fashion. Product development is used to research and develop these new products. However, the classification of product development is very broad; therefore, it may encompass expenses that are not contributed towards further research and development of products. If money was compiled into the product development category that should have been elsewhere, then it offers an incentive to increase product development because there would be a higher tax reduction for the company. The tax credit is not applied based on the actual innovation of a product. As long as substantial research has been conducted, then the company is awarded the benefit of the tax credit. On the other hand, it may be difficult to calculate and record the correct amount of money that has been contributed to product development along with the increased revenue of the professionals conducting the research and tests of the products. The misstatement of product development can result in a loss of reputation for Agilysys and decrease their funds for the development of future products.

#### **Critical Internal Controls**

Two critical internal controls that will mitigate the misstatement of product development are independent checks to track the spending on product development and ensure it is being used

efficiently and proper authorization to allow different research projects to be overseen separately. Independent checks are important in managing the amount of funds spent on a specific project and its progress toward production. Sunk costs are relevant in research and development, so having a perspective other than the creator provides the company with valuable information that could prevent the expense of significant amounts of capital. Being able to control and record financial information is an important aspect of research for Agilysys, especially with the shift to technology in recent years. Proper authorization helps the product developers each have their own tasks overseen separately and gives them the best opportunities to develop successful innovations. While the developers may have the information for the product to be deployed into production, someone would have to review their work before this can happen. By independently checking the financial information and proper authorization of employees, product development would become more accurate.

### **Substantive Tests**

In the case of product development, it becomes more difficult for an auditor to examine all of the money that has been contributed to the process. Product development includes all of the costs that are used for research and development and any other costs that have occurred throughout the prototype and testing phases. The database in which all of the costs are tracked must be examined to ensure that they have been allocated correctly to the product development expense. Records for goodwill and other intangible assets may have to be reviewed as well if they helped conduct the development of a product because of the software or information purchased in order to conduct the research. Auditors must verify both financial and nonfinancial

statements to ensure the teams that conducted the research and development have properly stated all of the relevant information.

### **Data Analytics**

Data queries can be used to store much of the information that comes with product development. Each transaction that occurs from the costs of researching and developing the product can easily be traced back to the product, and with the increase in technology in recent years, Agilysys has begun investing heavily in the development of new software. Data queries can easily update or fix recently incurred costs in seconds. It also would be able to show where a certain amount of money is allocated because there are multiple projects and tests being conducted at the same time. Because of data queries, auditors can quickly locate the designation of money and time for each given product being researched and developed. Information can also be stored in the database, which means the trials and prototypes can be located and reviewed by different auditors to ensure that the money is allocated correctly. Using data query, the process of auditing the costs of research and development eliminates many errors.

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# Case 4

Agilysys, Inc.

Tax Planning

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## Task for the Week

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This week our group assessed how expanding Agilysys' research and development (R&D) efforts could lead to increased tax savings. In order to accomplish this, our group researched multiple tax credits to discover which of these credits could apply to Agilysys. With many factors affecting the rates that apply to individual companies as well as the 2022 U.S. tax policy in general, there are many different approaches to minimize a client's legal cash tax payments.

After reviewing Agilysys' current tax strategy, we were impressed. With a one-half percent effective rate, it proved challenging to recommend a solution to the company. The most applicable avenue we researched was the research and development tax credit. The federal R&D tax credit reduces a company's tax liability for domestic expenses; one of the expenses included in the credit is the development of software, Agilysys' specialty. Additionally, businesses can carry forward any unused credits for the next 20 years. This can be used as a strategy in conjunction with a net operating loss in order to eliminate nearly all taxes paid.

As we learned more about tax planning, we started to recognize some patterns and strategies. Using our newfound tax knowledge, we prescribed an interesting solution to lower Agilysys' tax expenses even further than their already low rate. We learned new skills from this tax planning case and used these skills in order to provide an estimate of the proposed solution's tax credits. We propose that Agilysys invests research and development efforts into another foreign subsidiary in order to take advantage of relatively low international effective rates. If Agilysys bought a new building for R&D purposes, we believe this purchase would holistically lower the tax burden, creating an even lower effective tax rate for the company.

## I. Agilysys Tax Credits and Information

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**Table 2**

	<b>Corporate Tax Rate</b>	<b>Gross Receipts Tax</b>
<b>Nevada</b>	-	0.05%
<b>Washington</b>	-	0.47%
<b>California</b>	8.84%	-

*Table describing tax rates in states where Agilysys offices are located.*

While room for improvement exists, Agilysys currently employs a very effective tax strategy. Through the use of a variety of tax credits, as well as a deferred tax credit stemming from the net operating loss suffered in 2021, Agilysys was able to employ an effective tax rate of only one-half percent. Furthermore, Agilysys was able to take advantage of tax credits and deductions made possible through the variety of offices held in foreign countries. However, the increases in the success of revenue-generating operations will prevent Agilysys from having as many credits available at their disposal, and they must continue to develop and maintain a long-term strategy that will allow them to reduce income tax expense to its legal limit.

Additionally, the upcoming midterm results have the potential to alter the current tax structures that Agilysys will be subject to. If the Republican party is able to gain a majority in the House of Representatives and the Senate, they will have the power and authority to prevent additional legislation that imposes more significant tax rates on corporations. However, if the Democratic party holds the majority in Congress, they will have the ability to design new tax policies that would likely be passed by President Biden and require higher volumes of taxes to be paid by Agilysys and all other corporations. Due to the potentially dynamic nature of new legislation, Agilysys must be capable of adapting and altering their implemented strategy so they

can maintain a low effective tax rate. As a result, they can hold more disposable income that can be distributed to shareholders or reinvested into critical elements of normal business operations such as research and development.

## II. Proposed Idea for Tax Savings

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### A. Description of the Idea

Agilysys currently has multiple subsidiaries located around the world. By opening a specific office to research and develop new and existing products in Dublin, Ireland, Agilysys would benefit from the multiple tax credits available in Ireland for research and development. Continuous research and development is conducted by Agilysys; therefore, they have been able to compete at a high level in the hospitality software industry. The acquisition of the building would cost around \$457,000 and refurbishing would cost around \$197,000 (*Commercial property for sale...*, 2022). However, since the building would be dedicated to research and development, they would receive a tax credit of 25 percent on the refurbishment of the building. This expansion would grant Agilysys the opportunity to break into a new market they are currently not operating in and receive incentives for doing so. Ireland also has a corporation tax rate on active business income of 12.5 percent, which can be offset with a foreign tax credit. Agilysys has been successful at keeping its income tax expense low due to not repatriating its income back to the United States from overseas offices. The location in Dublin would offer another opportunity to continue to defer their taxes from foreign operations.

The development of new intellectual property in Ireland would also provide benefits for Agilysys. As technology continues to evolve, Agilysys could develop new copyrighted software to provide to their clients and be able to qualify for a 6.25 percent tax credit for intellectual property development. Considering Agilysys is in the hospitality software industry, being able to develop new software that is different from competitors is not relatively complex. With the new location in Ireland, Agilysys could achieve this tax credit by having the primary focus be on the research and development of new products and technology.

As stated by Agilysys in their 2022 annual report, an important factor in staying successful in the software industry is the retainment and recruitment of skilled personnel. In order to open an office for research and development (R&D) in Ireland, Agilysys must be able to incentivize talented employees. The average tax rate for key employees is 40 percent. Should Agilysys choose to do so, they could surrender a portion of their R&D tax credit to lower the taxes paid by their key employees to approximately 23 percent. In order to qualify as a key employee, a person must spend 50 percent of their work effort on qualifying R&D activities (*Ireland—Corporate—Tax credits and incentive*, 2022). By implementing this policy, Agilysys would be able to incentivize workers to help open the new office in Ireland while ensuring they are focused mainly on R&D activities.

**B. Quantifying the Idea**

A tax credit of 25 percent can be taken on the portion of refurbishment costs used to prepare the building for research and development purposes. We assumed the portion used for research and development (R&D) refurbishment would be 50 percent.

**Table 3**

<b>Tax Credits on Refurbishment of R&amp;D Building</b>	
<b>Building Cost</b>	
Building	457,318.20
Refurbishment	<u>197,156.00</u>
<b>Total Cost</b>	<b><u>654,474.20</u></b>
<b>R&amp;D Tax Credit</b>	
Portion Used for R&D	98,578.00
Tax Credit Percentage	<u>0.25</u>
<b>Tax Credit</b>	<b><u>24,644.50</u></b>

The tax credit is then available for offsetting corporate tax liability for the current year. Any excess can be used to generate a tax refund or be monetized over a three-year period.

Agilysys’ global intangible low-taxed income (GILTI), as stated in their 2022 annual report, is \$971,000. Agilysys has claimed foreign tax credits which has allowed it to offset most of the tax on its GILTI. As a result of the suggested R&D expansion, Agilysys would gain increased competitiveness in the market leading to higher future revenues. By increasing its GILTI number, Agilysys could offset more of its corporate income taxes over future periods.

The effective corporation tax benefit for the full amount of qualifying R&D activities is displayed in Table 2.B.2 below. R&D activities can only qualify for the tax credit if they are systematic, investigative, or experimental in nature (*Ireland—Corporate—Tax credits and incentive, 2022*).

**Table 4**

Effective Corporation Tax Benefit (%)	
R&D Tax Credit	25.00
Revenue Deduction	<u>12.50</u>
Effective Tax Benefit	<u>37.50</u>

*The numbers Tables 2.B.1 and 2.B.2 were obtained from the PWC Ireland website.*

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Honors Code

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

Signed,

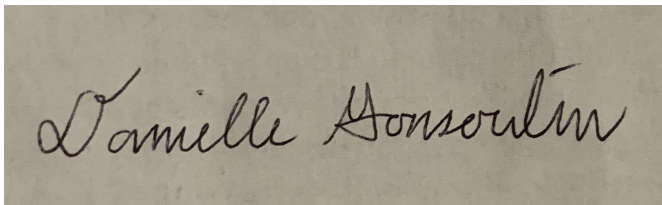
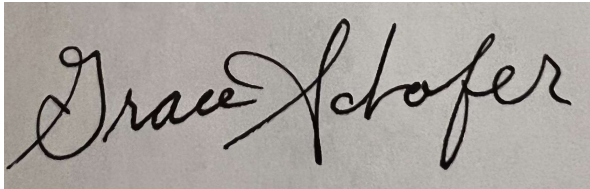
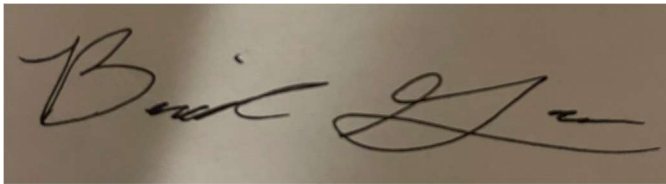
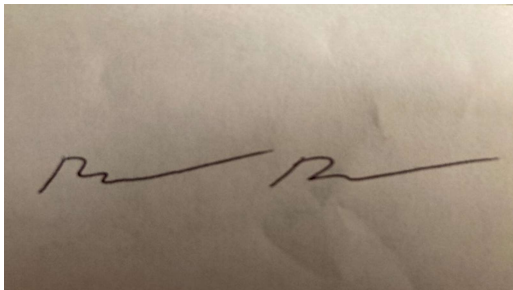
Danielle Gonsoulin

Grace Schafer

Brick Gore

Roderick Russ

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A rectangular photograph of a handwritten signature in cursive script, reading "Danielle Gonsoulin". The ink is dark on a light-colored background.A rectangular photograph of a handwritten signature in cursive script, reading "Grace Schafer". The ink is dark on a light-colored background.A rectangular photograph of a handwritten signature in cursive script, reading "Brick Gore". The ink is dark on a light-colored background.A rectangular photograph of a handwritten signature in cursive script, reading "Roderick Russ". The ink is dark on a light-colored background.



# Client Proposal: Agilysys, Inc.

Group 6: Brick Gore, Danielle  
Gonsoulin, Eric Russ, Grace Schafer

**01**

**Background and  
Operational Risk**

**02**

**Audit Planning**

**03**

**Tax Planning**

**04**

**Advisory and ESG**

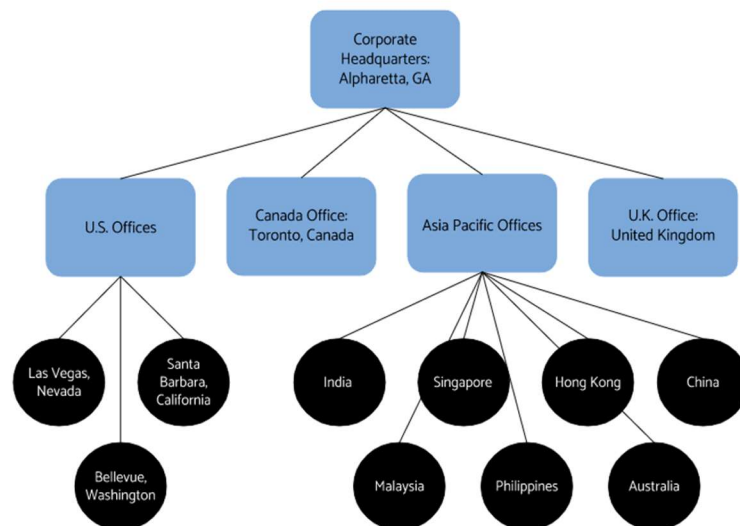
# BACKGROUND & OPERATIONAL RISK



01

## BACKGROUND

- Hospitality Centric Software Provider
- 2022 Net Revenue of \$162,636,000
- \$98,958,000 of Revenues Stemming From Support, Maintenance And Subscription Services



## Key Operational Risk Factors

### Inflation

Decreases in disposable income lead to less essential business for client base



### Interest Rates

- Interest rates have increased to combat inflation
- Increased volatility of stock price

### Energy Prices

- Increased prices for energy required to run businesses
- Increase in caution related to excess spending

### Supply Chain

- Stratton Warren System
- Possibility for new customers in times of supply chain crisis

## Most Severe Threat to Success

### Nonessential Clientele Base

- Income stream tied up in a single industry
  - Success will parallel the success of the industry
- Expand/Augment existing services to more essential businesses
  - Less risk through diversified portfolio of clients

# AUDIT PLANNING

02

## Material Accounts Likely To Be Misstated



### Revenue

- Product sales
- Support maintenance
- Subscription services

### Intangible Assets

- Valuation
- Fair value estimates

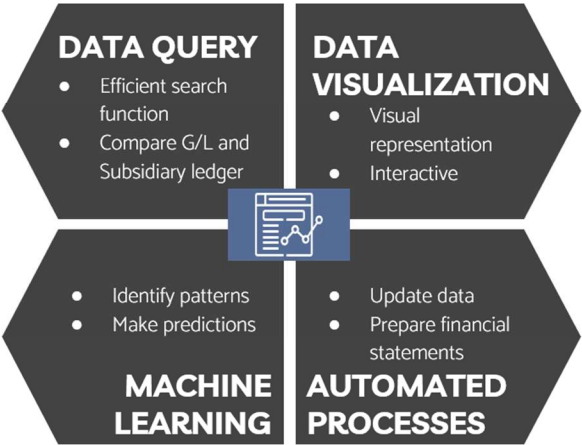
### Product Development

- Competitive area
- Tax incentives

# INTERNAL CONTROLS



# DATA ANALYTICS





# TAX PLANNING

3

## Important Tax Information for Agilysys

**2022 Effective Tax Rate:**  
0.5 percent

**2022 Global Intangible Low-Taxed Income (GILTI):**  
\$971,000

	Income Tax Expense (Benefit)		
(thousands)	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b>Current</b>			
Federal	62	9	59
State & Local	21	30	21
Foreign	853	731	463
<b>Deferred</b>			
Federal	12	12	11
State & Local	7	32	7
Foreign	(922)	(1022)	(360)
<b>Total</b>	<u>33</u>	<u>(208)</u>	<u>201</u>





## Expanding into Ireland

### *R&D Expansion*

Effective corporation tax benefit:

- 25 percent R&D tax credit
- 12.5 percent revenue deduction for R&D expenditure

## REFURBISHMENT TAX CREDIT

### Tax Credits on Refurbishment of R&D Building

Building Cost

Building 457,318.20

Refurbishment 197,156.00

Total Cost

654,474.20



# REFURBISHMENT TAX CREDIT

<b>Tax Credits on Refurbishment of R&amp;D Building</b>	
Building Cost	
Building	457,318.20
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Tax Credit Percentage	<u>0.25</u>
<b>Tax Credit</b>	<b><u>24,644.50</u></b>



## MORE TAX BENEFITS

**Intellectual Property Development**

- New copyrighted software
- Data software works (copyrights), innovative products (patents), etc.
- Can qualify for 6.25 percent tax credit

**Incentivizing Key Employees**

- Important success factor: having skilled personnel
- Surrender portion of R&D tax credit
  - Lower key employee taxes by 23 percent
- Key employee: 50 percent or more of work spent on qualifying R&D activities

**Foreign Tax Credits & GILTI**

- 2022 GILTI: \$971,000
- Increase GILTI number to continue offsetting corporate taxes
- Long-term solution

# ADVISORY AND ESG

04

## Environmental and Social Governance (ESG)

*Potential Auditing and Advising Opportunities*



### Allocated Funds

- Improves ESG rating
  - Attract Clients
  - Increase investors
- Increase long-term sustainability

### Current Situation

- Low carbon emissions
  - Paperless flows
- Standardization of procurement processes
  - Digital inventory
- Employee incentives

### Measuring ESG

- No standard
- MSCI and Sustainalytics
  - No single authority

## CYBERSECURITY



### Proactive

- Secure property management system (PMS)
- Frequent scans
- Continued maintenance

### Security Motivation



- Keep all personal identities and financial information safe
- Maintain reputation
- Continued growth



Questions?

# Financial Crisis

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12 April 2023

## Task for the Week

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This week, I watched the documentary *Inside Job* (2010) which discussed the people and events behind the 2008 financial crisis. The almost two-hour-long film discussed how greedy bankers issued mortgages they were actively betting against in order to line their pockets. It also stated how deregulation of the financial sector and volatile markets such as derivatives was one of the primary causes of the crash. After watching the documentary, I read a RollingStone article about how Goldman Sachs has been the ringleader of every major market manipulation since the Great Depression. This article further emphasized the role of corrupt banks in a failing economy.

At the beginning of the case, I will discuss my thoughts on the governments and institutions involved in the 2008 recession. Then, I will talk about the professional and personal responsibilities I realized I need to carry out as a result of watching and reading these materials. Next, I will point out parallels between our current political and economic climate and the early 2000s recession climate. Finally, I will end the case by discussing whether or not I believe there will be a major recession soon and what society should learn from the financial crises of the past.

Before writing this case, I was entirely unaware of the terrible inner workings of Wall Street and major banks throughout the decades. I have developed a more watchful eye on where I will invest my money and whom I will trust in the future. Additionally, I was shocked to discover that the perpetrators who caused the 2008 economic meltdown are still active in the financial sector today and influencing current events. Money is power, and people with power can worm their way out of having to take accountability for their actions. Although it may seem like the average Joe cannot do anything in these crises, we each have a responsibility to ourselves and to society to do our research and make sure our actions are not ruining the well-being of another person.

The 2008 financial crisis was the result of one main thing: greed. A group of very greedy men banded together in a game of “my jet is bigger than yours” that ended up wasting the global economy. After watching *Inside Job* (2010) and reading the assigned article, I learned that the people and institutions who caused the 2008 recession are still actively in power and suffered little to no consequences for their actions. For example, John Thain, the CEO of Merrill Lynch during the crisis, collected \$90 million in 2006 and 2007 and was given \$151 million when he was fired from Merrill Lynch. Afterward, Thain was shockingly allowed to continue his services in the financial sector as the CEO of CIT Group and now serves on boards in his retirement (“John Thain”, 2023). Thain is not a stand-alone case; many other parasites who ruined the global economy in the late 1900s and early 2000s are still influencing the financial sector and political climate today.

Even before digesting the materials for this case, I had very little trust in large institutions and the government. However, whatever trust I had before is now completely gone, at least for larger entities like Goldman Sachs. I was surprised to learn that the bank I have the most money in, Bank of America, rescued Merrill Lynch after its crash in 2008 (Taibbi, 2010). While many companies are perfectly trustworthy and care for their clients, they are not powerful players in society. The greedier entities who are willing to suck dry unsuspecting people’s bank accounts end up with more money, which equates to more power. The documentary confirmed my belief that the world runs on money. Between the years 1998 to 2008, the financial sector as a whole spent a total of five billion dollars on political contributions (Ferguson, 2010). If one has enough money, there is nothing one cannot buy.

I, unfortunately, do not have much money or power, but I can still exert influence over my surroundings. In just a few years, I will become an accountant, most likely for a Big Four accounting firm. I will gain access to highly confidential information about huge players in the stock market and take part in processes that affect the entire economy. Reading these materials made me rethink my professional role in society. Originally, I was concerned with the fact that I would mainly be dealing with large corporations, which means that as a tax accountant, I would have little to no personal relations with the clients. Would I not just be feeding the hungry monster that is capitalism? However, if during my time as a tax accountant I can help these companies save money, that money can be reinvested into their operations, which could potentially have a positive impact on their market share. This will ultimately put more money in the hands of the investors.

Furthermore, I can always volunteer my expertise to organizations and people in need. For example, offering to help a few personal acquaintances with their taxes could save them money. The people running the massive banks that caused the 2008 crisis had a major disconnect with society; they knew what they were doing was harmful, but because the crisis never impacted their personal lives, they never felt the need to stop what they were doing. When humans are placed in power, they will ultimately change because of it. In many cases, that change is more negative than positive. Even when I hopefully start making decent money as an accountant, I am determined not to lose touch with people in need.

There are concerning parallels between the political landscape that brought along the 2008 financial crisis and America's current political situation. In a RollingStone article, Matt Taibbi (2010) stated that high gas prices, extensive layoffs, and increased taxes were all a political scheme to get money into the hands of big banks—more specifically, Goldman Sachs.



These exact events are occurring now as inflation is running rampant and gas prices are continuing to rise. Furthermore, similar to the housing bubble in the early 2000s, the housing market is continuing to become messier and messier as inflation runs its course.

However, I do not believe we will face a recession as catastrophic as the 2008 financial crisis. For starters, despite the Federal Reserve raising interest rates to all-time highs, the economy has not had a meltdown. Last December, the Federal Reserve projected the unemployment rate would only rise from 3.5 percent to 4.6 percent, which is still a historically low rate (Nam & Rosalsky, 2023). Although there are similarities between the economic and political situation now and the one from the 2008 recession, the current economy is better weathering the storm. However, that does not mean the American economy will have a soft landing. Should the Federal Reserve raise interest rates too much or should the government continue to rack on debt unreservedly, we may face a harsher recession.

What we as a society should learn from the previous financial crisis is that we have the means to properly fight inflation and other crises, we just need to make sure the people we choose to represent us do not ruin our economy in order to fill their own pockets. If people like Henry Paulson and John Thain gain power, then all we can really do is watch the economy suffer. Each individual needs to make sure they truly know where they are investing their money and not just trust whatever he or she is told.

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# Discussion on Dr. Thomas Sowell and Dr. Walter Williams

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1 March 2023

## Task for the Week

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My honors thesis class got to watch two videos detailing the lives and ideals of Dr. Thomas Sowell and Dr. Walter Williams during our allotted class time. My write-up will begin with a brief biographical background of these economists' lives and views followed by my views and opinions on their various points of research. After I discuss Dr. Sowell and Dr. Williams, I will address an article by Larry Elder, a right-wing political commentator and talk-show radio host. He writes about how the media has shut out Dr. Sowell and Dr. Williams and how they have been promoted as harming the Black community. Finally, I will wrap up this case with how this article has changed my viewpoints on the topics presented in the videos I watched.

In terms of political leanings, I am not aligned with either party, which would likely classify me as a moderate in household terms. Therefore, I approached my research of these two conservative economists with an open mind. Since my peers and I were not presented with any videos about people arguing against Dr. Sowell and Dr. Williams' viewpoints, I researched what influential left-leaning figures had to say about the economists in order to develop a more informed opinion. I will discuss the valid arguments both sides have and then insert with own opinion.

Overall, I learned that various media outlets have buried influential figures such as Thomas Sowell and Walter Williams as a consequence of the high political tensions in our society. While they mention hard truths about the American government and the black community, some of their ideas ignore pieces of information that would make them less appealing to the general conservative reader. Both Democrats and Republicans have valid viewpoints about how our society needs to change for the better. We now need to learn how to reconcile those viewpoints and find a compromise benefitting as many people as possible.

## I. Biographies of Dr. Thomas Sowell and Dr. Walter Williams

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Dr. Thomas Sowell is a trained economist, sociologist, and photographer who authored books on economics, race, history, and politics. Born in North Carolina in 1930, Dr. Sowell grew up mostly without a father. He was adopted and raised by his great-aunt and her two grown daughters. When he was nine years old, Dr. Sowell and his adoptive family moved to Harlem in New York City where he received most of his early education (“Thomas Sowell”, 2023). Sowell attributes the course of his career to a childhood friend named Eddie Mapp who came from a highly educated background. Eddie became a mentor to Sowell as he was the one who introduced Sowell to the library and showed him how to check out books. Because of Eddie, Sowell said he was able to get a head start on achieving success in the literary field.

Sowell also credits part of his success to his enrollment in a good middle school in Harlem. He then attended Stuyvesant High School, a prestigious high school in New York City. However, due to financial and familial difficulties, he had to drop out of school to take on numerous small jobs (“Thomas Sowell”, 2023). During the Korean War, Sowell was drafted into the military and assigned to the Marine Corps Combat Camera Division. It was here that Sowell developed a love for photography that would continue to be his creative outlet for the rest of his life. After receiving a Bachelor of Arts degree in economics from Harvard and a master’s degree from Columbia University, Sowell followed George Stigler, a renowned economist, to the University of Chicago to study for his Ph.D. Sowell would later teach at a few universities until he started working for the Hoover Institution at Stanford University as a writer and researcher.

Sowell was a Marxist until he worked as a summer intern for the U.S. Department of Labor. During his internship, he researched how the minimum wage hikes were adversely affecting certain groups of people instead of helping them. After bringing this up with his

superiors, Sowell's work was cast aside. It was then that he began to think that the government was not the answer to the world's problems and began supporting free market economics. This time of his life would affect his future work regarding education, the welfare state, cultural differences, and research about late-talking children.

Dr. Walter Williams was a student of Thomas Sowell, sharing many of his views and ideas. He was an author, educator, and columnist who believed deeply in the American Constitution. He was born in 1936 in Philadelphia and raised primarily by his mother, a very important figure in his life ("Walter E. Williams", 2023). She was adamant about ensuring he received a good education, and Dr. Williams attributes a large part of his success to his mother. While his family was a part of the welfare state, Dr. Williams says they were not part of the "welfare mentality". Due to his childhood experiences and later research, Dr. Williams would go on to protest the welfare state.

As a child in the 1940s, Dr. Williams worked many odd jobs to help his family and to have a bit of pocket money. Dr. Williams would later protest labor laws blocking minors from getting the jobs they needed. He said it was important for children to be able to learn on the job what they were not able to learn from a broken family or a poor school system. Eventually, Dr. Williams met Connie, his to-be wife, as a taxi driver. They got married before he was drafted into the army, and Dr. Williams said he would not have achieved much success without her. Dr. Williams' military experience helped shaped his views on the American government, and after his honorable discharge, he went to college while Connie worked. After he finished graduate school at UCLA for economics, Dr. Williams earned his Ph.D. and found his passion in teaching. He would go on to write in newspaper columns and speak to the world about his views on education, affirmative action, economics, and discrimination against African Americans.

## II. My Thoughts on the Lives and Views of Dr. Sowell and Dr. Williams

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### **A. Dr. Thomas Sowell:**

The main thing that surprised me about Dr. Sowell's life is his advocacy for education and his research towards improving children's lives. As I discussed earlier, Dr. Sowell dedicated most of his career success to his early education. Thus, it makes sense that he would later spend a large part of his life involved in education. Dr. Sowell supported letting parents decide what school their child should attend instead of a government agency. He also thought that there should be more variety in school choices such as charter schools to cater to the diverse student population. I strongly agree with Dr. Sowell's emphasis on early education. A human being intellectually grows the most during their younger years. I will be forever grateful to my older sister and mother for fostering a love of reading in me when I was only in pre-school. Thanks to the large number of books I read as a child, I was able to develop fast reading comprehension skills.

I was also impressed with his research into late-talking children. Before watching the video on Thomas Sowell's life, I had no idea that late talking was an inherent syndrome in children. Dr. Sowell's son was a late talker, which explains his personal stake in the topic. He refused to accept that his son was retarded and worked to find out more about his son's condition. Dr. Sowell discovered that children who started talking later than others showed great numeric ability and generally excelled later in life. I appreciate how Dr. Sowell did not allow society to push his son into the label of being unintelligent.

After researching Thomas Sowell's views on how the welfare state and cultural lifestyle choices have impacted the black community in America, I found points I both agree and disagree with. Dr. Sowell argues that underlying disparities and discrimination against blacks arise not

from inequality or racism but from inherited culture. He says that the “redneck” culture passed on from the British Americans during the Civil War to African Americans has caused increased crime rates, unemployment rates, and amount of single mothers (Vosburg, 2021). However, I disagree with his view because cultures are not something unilaterally inherited from another group of people. I believe cultures are mainly shaped by material circumstances. For example, the Black community has been presented with poor economic chance and segregated housing in the past, resulting in a culture adapted to those circumstances. I find it interesting how Dr. Sowell seems to treat culture as a pair of shoes people can slip on and off and trade for another pair.

Dr. Sowell also claims that liberalism and the welfare state harm black people now more than slavery or its lingering effects. On one hand, I found his claims about the welfare state surprisingly valid. I agree that the welfare state incentivizes people to stay poor and not be successful. Why work a minimum wage job when you can be unemployed and make just as much, if not more, money? By encouraging the black family’s dependence on government funding, the U.S. has created a mindset that blocks individuals from honing their talents.

While I agree with Dr. Sowell that the welfare state can have harmful consequences, I do not agree that slavery has not affected the disparities African Americans face today. As defined by Duke University, generational trauma is essentially the passing down of the oppressive or traumatic effects of a historical incident within a family or group of people (“Inter-generational trauma...”, 2023). The psychological effects of slavery and segregation are still ingrained in society today. Furthermore, there have also been times when the American government has stolen property or wealth from African Americans and never returned it. While I agree that the welfare state and certain aspects of black culture create problems, the way slavery and the Jim



Crow Laws have shaped black culture and affected their economic standing is not something that can be waved off as immaterial.

### **B. Dr. Walter Williams:**

What surprised me the most about Walter Williams was his rebellious and mischievous nature. I especially enjoyed hearing about his time in the U.S. Army. Dr. Williams said it was the first time he had experienced open discrimination such as colored sections of public areas. Furthermore, he was constantly assigned “undesirable jobs” such as painting a tank. As a form of protest, Dr. Williams would not only paint the body of the tank but the wheels as well. After getting shipped out to Korea, Dr. Williams continued speaking out against discrimination by writing a great number of letters to various publishing companies. He even wrote a letter to President John F. Kennedy asking what African Americans should do in face of the rampant racism in the American government and military. Upon receiving a reply from the Deputy Assistant Secretary of Defense advising him on ways to be honorably discharged from the army, Dr. Williams did just that. I appreciate people who stick to their beliefs and are not afraid to tell you how it is, and Walter Williams perfectly personifies this sentiment.

One of the points Dr. Williams argued in the documentary was how affirmative action is one of the best ways to reinforce stereotypes. This is one of the many opinions he shared with Dr. Thomas Sowell. As Dr. Sowell argues, affirmative action has been used in the past by universities to diversify their student population, which led to high failure rates among black students who had been mismatched to a university. While I understand the argument that affirmative action is needed to give more opportunities to oppressed minorities and diversify predominantly white campuses, I find the idea of affirmative action more divisive than inclusive.

Despite its positive effect of diversifying campuses, I agree with Dr. Williams that it ultimately ends up dividing campuses even more. Instead of focusing on using affirmative action to benefit a person based on the color of their skin, why not use it to benefit people with unique characteristics or unfortunate backgrounds? I believe affirmative action can be useful if it is used to help people who would struggle to apply to a university or those who have unusual or unique viewpoints that would intellectually diversify a campus.

I also enjoyed hearing Dr. Williams talk about how the minimum wage discriminates against minors and black people. Although minimum wage may narrow wide pay disparities, it has had little to no actual effect on employment. One possible reason for this is that in response to minimum wage hikes, companies raise product costs, accept lower profits, and cut other nonwage costs, which results in a net effect of zero (Sodsriwiboon, Srour, 2019). Furthermore, should the minimum wage get too high, we could see significant job losses for less skilled workers. Dr. Williams also discussed the impact of minimum wage on minors. Because of the laws in place about underage employment, teenagers have to ask for compensation well above what they are worth. This makes finding a job a lot harder for minors trying to find ways to financially support their family or save up money to get an education. I had never thought about this deeply until I heard Dr. Williams talk about it. While I agree that the minimum wage can be harmful, I do not think it is going to go away anytime soon. Therefore, I think we should find an appropriate level for the minimum wage and potentially find a way to account for underage workers more appropriately.

### III. Discussion on the Larry Elder Article

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#### **A. About the Article:**

Larry Elder is a right-wing political commentator, writer, attorney, and radio host who also hosted *The Larry Elder Show*, a syndicate talk show. Elder has an extensive media career hosting a variety of programs and segments in addition to being a columnist with *Creators Syndicate*. He is a registered Republican with strong conservative views, enthusiastically supporting Donald Trump since his election in 2016. Elder shares many beliefs with Dr. Sowell and Dr. Williams, believing that government intervention should be cut, the welfare state and minimum wage should be abolished, and corporate taxes should be eliminated to favor a free market economy. In further comparison to Dr. Sowell and Dr. Williams, Elder is passionate about education and favors charter schools and private schools over the public school system. He follows many other conservative beliefs, such as systemic racism is a lie, abortion is wrong, and climate change is a myth (“Larry Elder”, 2023). Thus, his article about Dr. Sowell and Dr. Williams will contain a clear bias as his political and social views align with the economists’.

Elder wrote an article in August of 2017 called “The Shameful Blackout Of Thomas Sowell and Williams”. The article starts with Elder asking why Clarence Thomas, the second black person to be on the Supreme Court, is not in the National Museum Of African American History and Culture in Washington D.C. He uses this story to segway into his argument that left-wing black people think conservative black people such as Clarence Thomas, Dr. Sowell, and Dr. Williams have illogical views that damage the African American community. He refutes critics’ claims that Dr. Sowell only got into college due to his skin color and that Clarence Thomas rose to his position solely due to his race. Elder then raises an argument in line with

points I have discussed earlier related to Dr. Sowell and Dr. Williams: that accepting students into colleges based on their race leads to “mismatching” and higher dropout rates.

Elder’s main claim in this article as to why prominent figures such as Dr. Sowell and Dr. Williams are disparaged is because of their conservative views. He specifically references the black monthly magazine Ebony in how its Power 100 list has never included Thomas Sowell. Using Ebony as evidence, Elder argues that prominent right-wing African Americans’ accomplishments are minimized because left-wing media does not want the Black community to be exposed to conservative ideas. He claims that this lack of shared ideas is causing harm not only to the Black community but to the entire American population. I agree with Elder on this point, and I see clear hypocrisy among the ideals of the left. For example, they fight for people to share their truth and be true to who they are, but if being true to who you are is not in line with liberal ideals then you are shunned instead of accepted. The way for humans to grow intellectually and as a society is to share ideas with people who have dissimilar views on various topics. Attempting to block this communication by burying the works and accomplishments of figures such as Thomas Sowell is detrimental to the entire American population.

We currently live in a society mostly divided by what political party one aligns themselves with. Many major media outlets, large companies, and cities have liberals leading them. Therefore, it is natural that people with more conservative political views will not receive as much recognition as those who do not, especially in those liberal environments. It is also a natural human tendency to want to be around people who agree with you rather than disagree. In his article, Elder is saying that right-wing people are not receiving recognition in left-wing media. Liberals would likely argue the opposite: left-wing people are not receiving enough recognition in right-wing media. The way we view the world changes based on our experiences

and beliefs, and this article is a clear reflection of that. However, I understand Elder's point about Thomas Sowell and other famous black conservative figures being left out of supposedly bias-free museums, lists of recognition, and award nominations. While it is difficult for us to keep bias out of how we view people, it should be something we strive for. I do not think it is right for a company like Ebony to not recognize influential people in history simply because they do not particularly agree with their ideas.

### **B. How My Viewpoint Has Changed:**

The main topics of the videos that I focused on were the welfare state, education, minimum wage, and disparities against black people in the economy. While watching the videos about Dr. Sowell and Dr. Williams, I was surprised at the new ways they made me look at these topics. After researching who Larry Elder is, I was not surprised by his viewpoints in the article. Growing up in a conservative household, I have heard many of his arguments before. However, before reading Elder's article, I thought that Thomas Sowell and Walter Williams were highly discussed individuals simply because of how the videos portrayed them. Therefore, I found it intriguing to read the article and learn how a person's ideas can get buried based on their political underpinnings.

On the other hand, I would not say my viewpoint on the topics I discussed earlier has changed after reading Elder's article. As Elder is a conservative himself, he did not offer any opinions that contrasted with Dr. Sowell's or Dr. Williams' ideas. He essentially reiterated many of the points I have touched on throughout my essay, which only served to reinforce my original thoughts instead of changing them. Although I now understand that Thomas Sowell's works are not as widely known amongst the Black community as I originally thought, this does not make

me appreciate the topics more. I think it is obvious that people who speak about politically charged ideals will be appreciated more by people in the same political party. I recognize, however, the merit in simply discussing the obvious. Elder is trying to bring attention to political characters he strongly cares about. While his article may help a few people discover Thomas Sowell, those people will likely already be right-leaning. Any left-leaning individuals will simply disregard his article.

Despite my viewpoint on the topics of the videos barely changing, I did realize that the documentaries themselves did not contain anybody who held contrasting views to either Dr. Sowell or Dr. Williams. Even though Elder discussed how left-wing media outlets disregard any right-wing ideas, these videos about two conservative economists are also disregarding left-wing ideas. I find it ironic how there seems to be hypocrisy on both sides of the political spectrum. I would have respected the arguments in the videos more had they included clips of actual debates or interviews with Democrats who disagreed with Dr. Sowell and Dr. Williams. This brings me to my overall opinion that there needs to be a compromise between the conservatives and the liberals. Right now, America seems to be caught in a petty grade-school level fight of “my idea is better than your idea” instead of sitting down and talking through issues like reasonable adults. Simply telling a stranger of an opposing party what your political alignment is can instantly shut down that relationship. We are on the cusp of a different kind of civil war—now is the time to put our anger aside and make the decision to work together to bring about material change for our society.

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# SVB Banking Crisis

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5 April 2023

## Task for the Week

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This week, I researched the Silicon Valley Bank (SVB) crisis and its impact on the American economy. SVB was a bank in California that lent a significant amount of money to technology start-ups. In March of 2023, the bank faced a liquidity crisis that shook the economy and caused the market value of many other banks to plummet.

For this case, I will begin by discussing what caused SVB to crash and how this and other related events have affected the American economy. I will then state what I think should be the monetary and fiscal response to the crisis and inflation as a whole. Next, I will talk about how the SVB crash and future events as a result of the crash will potentially impact the accounting field. I will also discuss how my view of the accounting field itself has changed as a result of my research. In the last part of this case, I will write about the changes in accounting and auditing rules I think should occur due to this incident.

After researching the SVB crash, federal spending, and fiscal policy, I am now confident I can give an expert opinion on the event to anyone who asks. Before doing this case write-up, I knew little about how organizations that bought bonds in low-interest rate periods are now suffering due to interest rate hikes. Concurrently, I found that raising interest rates is not the best way to combat inflation. While monetary policy has the tools to combat inflation, the support offered by fiscal policy can significantly improve the economy. In addition to learning about how inflation has affected the economy, I discovered more about fallacies in the accounting rules and the profession itself. I feel less blind going into my career as an accountant than I had before researching this terrible economic event. Overall, the information I have learned from this case will allow me to make more informed financial decisions as both an individual and as an accountant.

Silicon Valley Bank crashed because of one major problem: they did not have enough money to satisfy customer withdrawals. SVB had \$90 billion of its \$120 billion bond portfolio in long-term government bonds, which are classified as held to maturity (Silber, 2023). When a bond is classified as held-to-maturity (HTM), capital gains and losses are ignored and income earned on the bond is put on the income statement. These HTM bonds naturally boosted SVB's net income, allowing top management to take significant bonuses and salaries. However, HTM bonds are only riskless when they are not sold before their maturity date. SVB bought these bonds before the Federal Reserve started hiking interest rates. Thus, when interest rates began to rise and SVB did little to hedge against its exposure to these hikes, SVB had much less cash than its books showed (Silber, 2023). Eventually, SVB had to start selling their held-to-maturity bonds at highly discounted rates, leading to the inevitable liquidation of the bank.

I believe the collapse of SVB will change the way small banks make investments. Only a week after the crash, small banks across America lost a total of \$108 billion (Adams & Pasic, 2023). As a result, I think small and even mid-sized banks will become more cautious about whom they lend money in order to preserve cash for depositor withdrawals. Additionally, people have begun putting their money in banks assumed "too big to fail", such as Bank of America and Wells Fargo. In fact, Bank of America received more than 15 billion dollars in deposits soon after the crash (Zilber, 2023). I believe this trend will continue and that smaller banks will increase interest rates earned on accounts to incentivize people to not switch banks. My money market account with Ally received an interest rate increase of one percent as a result of the crash.

I believe the Federal Reserve's monetary policy against inflation is a major reason why SVB crashed. With the rapid hikes in interest rates, the Federal Reserve has essentially

condemned organizations that constructed their balance sheets during the period of low rates. I do not think that raising interest rates is an effective way to fight inflation. Instead, fiscal policy can support monetary policy by either increasing taxes or cutting low-priority spending in the federal budget to help decrease demand. The International Monetary Fund released an article with studies showing that central banks acting without the support of fiscal policy need to hike interest rates in order to fight inflation (Gaspar et al., 2023). The CATO Institute discovered that a way for fiscal policy to help involves the government returning to pre-pandemic spending and capping discretionary spending at two percent, which could save \$4.8 trillion in taxes over the next decade (Boccia, 2023). By stabilizing interest rates and having fiscal policy support monetary policy, events similar to the SVB crash can potentially be avoided.

In my financial accounting class, I learned that the main job of an accountant is to provide useful information to stakeholders. KPMG, the auditor for SVB, had an opportunity to let investors know the buried issues in SVB's financials arising from many years of red flags. For example, 97 percent of the SVB deposits were uninsured, SVB grew unusually fast, there were zero hedges in their bond portfolio, and the bank had no chief risk officer (Morrow, 2023). However, I discovered from our class discussion that accountants are sometimes incentivized to stray from their main responsibility to stakeholders. Had KPMG brought these concerns to life in prior years, they may have lost SVB as a client. Furthermore, had KPMG revealed the major issues with SVB during their 2022 audit, the bank probably would have crashed regardless. Had they done this, however, more stakeholders may have been able to avoid the collapse, and KPMG could have avoided a lot of embarrassment. I believe investors are going to start putting more pressure on accounting firms to fully disclose any issues they believe may materially impact a company's future performance.

KPMG's response to the SVB failure motivated me to continue pursuing my career as an accountant. Although I want to become a tax accountant and not an auditor, this situation still affects me. Had just a few people pushed to properly disclose the looming failure of SVB, KPMG could have faced an entirely different outcome. There need to be people in a company willing to push the envelope to do what is right. Researching this event helped me understand that accountants are truly in the service industry. Since I want to eventually become a tax consultant, my service will be my opinion. If the American people begin to distrust accountants due to events such as the SVB crash, we will be unable to perform our jobs properly.

I believe held-to-maturity (HTM) debt securities should start being reported at fair value or at least be tested for impairment every year. Requiring all securities to be reported at fair value would create a consistent and reliable method for accounting for investments whose values depend heavily on the market. SVB may only be the tip of the iceberg—more companies could have losses hidden in plain sight due to HTM securities. Additionally, I think there should be a change in attitude in how accountants approach auditing financial statements. In the judgment section of their report, KPMG focused mainly on the accounting process for credit losses but not SVB's ability to hold its securities to maturity (Weil & Eaglesham, 2023). Had the firm mentioned an issue with the going concern of the bank, they may have avoided a great deal of embarrassment and legal issues. In a world where transparency is growing increasingly important, auditors have also become consultants. Stakeholders rely on auditors to accurately report on the health of a company. Accountants need to repay that trust by going beyond what is legally asked of them in order to properly audit a company and report its well-being to stakeholders.

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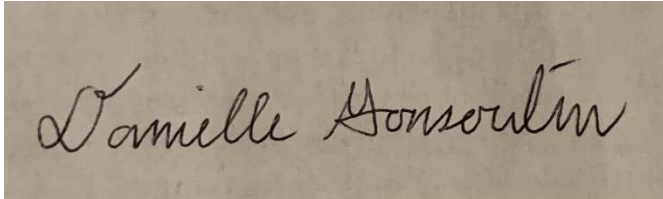
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Honors Code

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

Signed,

Danielle Gonsoulin

A rectangular image showing a handwritten signature in cursive script on a light-colored, textured background. The signature reads "Danielle Gonsoulin".