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A COLLECTION OF CASE STUDIES ON FINANACIAL ACCOUNTING THEMES

By

Colton Jones

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

Oxford, MS

May 2024

Approved by



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Advisor: Dr. Victoria Dickinson



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Reader: Dean W. Mark Wilder

## **ABSTRACT**

This thesis is a collection of accounting case themes. There are eight cases that comprise this thesis including: Operational Risk Assessment, ESG and Cybersecurity Risk Assessment, Audit Risk and Planning, Tax Planning, Famous Economist, Liquidity Crisis, Financial Crisis, and Excel Fundamentals – Formulas for Finance. There is an immense variety of topics presented and studies throughout this compilation. All have given me an immeasurable learning experience. Case I through Case IV contend with the Case Competition that spread throughout the entire Fall semester. The company that these cases focus on is Chuy's Holding Incorporate

## Table of Contents

|  |           |
|--|-----------|
| <b>ABSTRACT.....</b>   | <b>1</b>  |
| <b>CASE I: OPERATIONAL RISK ASSESSMENT.....</b>                    | <b>3</b>  |
| <b>CASE II: ESG AND CYBERSECURITY RISK ASSESSMENT.....</b>         | <b>12</b> |
| <b>CASE III: AUDIT RISK AND PLANNING.....</b>                      | <b>23</b> |
| <b>CASE IV: TAX PLANNING .....</b>                                 | <b>33</b> |
| <b>CASE V: FAMOUS ECONOMICS .....</b>                              | <b>40</b> |
| <b>CASE VI: LIQUIDITY CRISIS.....</b>                              | <b>47</b> |
| <b>CASE VII : FINANCIAL CRISIS.....</b>                            | <b>51</b> |
| <b>CASE VIII : EXCEL FUNDAMENTALS – FORMULAS FOR FINANACE.....</b> | <b>55</b> |
| <b>REFERENCES.....</b>   | <b>56</b> |

## **CASE I: OPERATIONAL RISK ASSESSMENT**

The week of September 7, 2022, presented a new challenge for our group. We were assigned the task of researching the operational risk assessment of our company, Chuy's Holding Incorporated ("Chuy's"). Each of us utilized a different search engine to discover more about the company given to us. These engines included Yahoo!, Google Chrome, DuckDuckGo, Ask, and Bing. Each of the group members then went on to research three broad topics. These included the organizational structure of the company, the risks that the company could potentially face and their effect on the company, and how management should address its most severe threat. Lastly, we joined a zoom meeting with the RSM Assurance Manager, Cassie Coppedge, to ask her some questions related to these topics. By meeting with her, we were able to get a better idea about Chuy's operational risks and her thoughts about the company and its organization structure, along with the risks it has faced in the past.

It is very interesting to see the varying results for our group members when he/she researched the same topic because of the search engine they used. We found that Yahoo had scattered results, mostly with the results of Chuy's financials. Google Chrome remained consistent in good findings for research purposes regarding the assessment. DuckDuckGo seems to be a better resource than Yahoo, but it is not as persistent as Google in good findings. Ask had decent results in the beginning, but it did not remain consistent throughout research. Bing had lots of unique information, but some of the information was found to be outdated. One of the many things our group learned is that the different search engines filtered unique results that presented some interesting biases. Comparing our findings allowed us to collaborate in a whole new way. This led to a better understanding of Chuy's and its risk assessment. It also helped to ensure that our research is consistent with each other.

## **Organizational Structure**

Chuy's Holdings Inc. is a full-service Mexican restaurant chain. It is focused on Tex-Mex cuisine that offers a unique experience for its customers. The quote that sums up this experience is: "If you've seen one Chuy's, you've seen one Chuy's." It was founded in Austin, Texas, in 1982. Since its inception, Chuy's has expanded into 17 states with ninety-six restaurants. These include Texas, Florida, Arkansas, Alabama, Colorado, and more. Chuy's headquarters is in Austin and is run by its President, Chairman of the Board, and Chief Operating Executive, Steve Hislop. Under him are Vice President and Chief Financial Officer Jon Howie and Chief Operating Officer John Mountford. Besides its headquarters, the company used to have four subsidiaries, Chuy's Opco, Inc., Chuy's Services, LLC, Chuy's Holdco, LLC, and Chuy's Bevco, LLC. But after discussing this with Cassie Coppedge, she remarked that their subsidiaries did not include any assets and were opened in certain states if the company needed an alcohol and liquor license there. As they were not reported on their most recent Form 10-K, Cassie said that Chuy's probably closed them because they were no longer needed.

## **Potential Risks**

As a restaurant in a massive industry, Chuy's faces certain risks in its operations. These include inflation, interest rates, energy prices, supply chain, political climate, global unrest, workforce shortages, and food shortages.

### ***I. Inflation***

In terms of inflation, it has been at a record high since 1981 and has affected all industries in the United States, including the restaurant industry. According to the Stock News article, "How Sky-High Inflation is Affecting the Restaurant Industry," the author writes that "inflation undoubtedly impacts the restaurant industry because of the basic food costs that restaurants incur.

From February 2021 to February 2022, food prices surged 7.9 percent, which is its largest yearly jump since 1981” (Dutta). Chuy’s indicates this in the most recent Form 10-K, where they state that the company is aware of this threat and the measures they have taken to help combat it. One way Chuy’s does this is by raising its menu prices. According to their 2021 Form 10-K, Chuy’s writes that “we have been able to partially offset inflation and other changes in the costs of key operating resources by gradually increasing prices for menu items, more efficient purchasing practices, productivity improvements and greater economies of scale” (Chuy’s Form 10-K). By doing so, Chuy’s has been able to alleviate the detriments of inflation, but “there can be no assurance that [they] will be able to continue to do so in the future” (Chuy’s Form 10-K). Unfortunately, due to various problems in the world, such as supply chain and interest rates continuing to rise, inflation is an issue that will continue to affect Chuy’s financials in the near future.

## ***II. Interest Rates***

Due to uncertainty surrounding economic and financial futures and limitations regarding its Revolving Credit Facility, Chuy’s vulnerability is particularly high regarding the potential increase of interest rates due to inflation. This is due to borrowings under the Revolving Credit Facility occurring at variable rates. Such increases could restrict the company from investing and fulfilling the continuing needs of the company. This would, therefore, prohibit Chuy’s from addressing its agreed-upon financial covenants (Chuy’s Form 10-K). Failure to satisfy basic needs within any business would cause detrimental effects. This affects not only customer satisfaction levels but also the business’s reputation. In an article written by Kara Phelps, she states, “Restaurants that rely on lines of credit for expansion, investment, remodeling, and mergers and acquisitions may also have a tougher time paying for their brand’s growth” (Phelps). With the

variable rates of Chuy's Revolving Credit Facility, increased interest rates are at risk of causing the expenses for new locations and tenant improvements to be less unattainable. There is still much unpredictability in interest rate changes at the present time will affect the short-term and long-term goals of the company. With the federal funds rate being held at around 0 percent in the first quarter of 2022 to its increase by 2.5 percent in less than six months in response to inflation, it is easy to see the unpredictability surrounding the financial sector (Tepper). With the Chuy's investment in expansion, the interest rate increase will most definitely affect the goals of the company.

### ***III. Energy Prices***

Along with inflation comes an increase in energy prices and other resources. Because Chuy's is mainly based in Texas, its "profitability is dependent, among many other things, on [their] ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services" that occur in the state (Chuy's Form 10-K). Recently, the cost of electricity in Texas has risen. An article from The Texas Tribune written by Mitchell Ferman states, "The cost of electricity in Texas is tightly tied to the price of natural gas, which has more than doubled since Russia invaded Ukraine in late February" (Ferman). Electricity bills have risen more than 50 percent from last year's prices because of this ongoing war. The Russian invasion of Ukraine ultimately "upended the world's energy market" forcing Texas to produce more natural gas (Ferman). This then forced them to raise their energy prices. This affects Chuy's, because when energy prices rise, so does the cost of operations. It is a chain reaction; once one price rises, others must rise to accommodate it. The recent rise in energy prices has and will continue to affect Chuy's operation prices, especially because of its predominant presence in the state of Texas.

### ***IV. Supply Chain***



Another area of potential risk that will continue to affect Chuy's operational prices is supply chain issues. In an article written on earth.org, Alexander Pham states, "Food commodity prices are also up by a third compared to the previous year amid disruptions to supply chains. This has led to more food protectionism, which in turn could push costs even higher" (Pham). This affects Chuy's because as supply chain issues persist due to the increased demand after the COVID-19 pandemic, prices will continue to rise, increasing the cost of the goods Chuy's sells. Another thing that supply chain issues may bring about is problems with their food items being adequately maintained. According to Chuy's "We cannot assure that all food items are properly maintained during transport through the supply chain and that our employees will identify all products that may be spoiled and should not be used in our restaurants" (Chuy's Form 10-K). This will negatively affect Chuy's by driving up costs even more because they cannot be sure that every shipment has been maintained and is not spoiled en route to their restaurants. Chuy's profit margins are coming under pressure as costs creep up throughout the supply chain network. Whether it be from unmaintained shipments, rising fuel prices to transport goods by road, sea, or air, increasing commodity prices raising the cost of raw materials, or many different things. Supply chain issues pose a significant potential risk for Chuy's as they try to succumb to these problems.

#### ***V. Political Climate***

A potential risk that many do not think about is the political climate and how it can affect the restaurant industry. With less than two months away from midterm elections, soon, new changes will be affecting the industry and, along with them, Chuy's. One way to try and figure out how Chuy's may or may not be affected by the midterm elections this November is to look about and see how past midterms affected the restaurant industry. One thing to look for is whether

there is split control or if one party takes control of both the House and the Senate. When there is split control, traditionally, this benefits the restaurant industry, and the majority of industries as one party cannot enact their policies extremely toward one side. Another major thing to look for during the midterm elections and after is labor issues, specifically minimum wage increases. Victor Fernandez, vice president of insights at TDn2K, says, “Labor is the number one cost for restaurants. Almost a third of an operator’s costs are going to labor, so anything that touches that or threatens to increase that number even more will have a big impact” (Kelso). This affects Chuy’s in a major way as they are already facing several challenges already depending upon which party gains control and how much control they have; Chuy’s could have even more issues coming their way.

## ***VI. Global Unrest***

Additionally, the global unrest that the country is experiencing also affects Chuy’s and their financials. One of the ways it affects their business is through the COVID-19 pandemic. According to Chuy’s Form 10-K, “If our suppliers’ employees are unable to work, whether because of illness, quarantine, limitations of travel or other government restrictions in connection with COVID-19, we could face shortages of food items or other supplies at our restaurants and our operations and sales could be adversely harmed by such supply interruptions” (Chuy’s Form 10-K). Not only does the pandemic adversely affect their own employees but those of their suppliers where Chuy’s receives their product from. Another way that global unrest has affected the restaurant industry and Chuy’s, in particular, is the global economy and war. Chuy’s Form 10-K states, “The market price of our common stock could fluctuate significantly for various reasons, which may include... other events or factors, including public health crises, including the COVID-19 pandemic, and changes in general conditions in the United States and global economies or

financial markets (including those resulting from acts of God, war, incidents of terrorism or responses to such events)” (Chuy’s Form 10-K). Furthermore, these events could negatively impact their financials due to this unrest globally. The United Nations predicts that “Ukraine and Russia both play a major role in global food markets” (Ritchie). Because of this, there is a major threat that the war in Ukraine could reach the food security market in the United States.

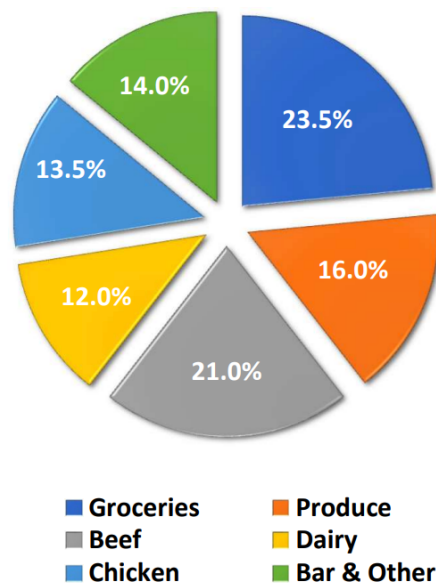
### ***VII. Workforce Shortage***

Along with the lingering effects stemming from the pandemic, workforce shortages are among the most notable and can be seen everywhere a person may go. The lack of available labor is an incredible risk for Chuy’s. The Form 10-K states, “Additionally, the cost of attracting and retaining qualified individuals may be higher than we anticipate, and as a result, our business, financial condition and results of operations could be harmed” (Chuy’s Form 10-K). Since the onset of the pandemic, workers have begun to evaluate what they want in jobs. The pandemic caused what has been referred to as the Great Resignation. In 2021, more than 47 million workers in the United States quit their jobs. Many of them were looking for more flexibility, higher wages, and a better workplace environment (Ferguson). Workers are the backbone of Chuy’s, and without well-trained people to operate the business, it would not be able to perform up to its goals. Chuy’s puts an incredible emphasis upon the training of their employees; however, the company feels that labor costs may soon be more of a problem than their competitors (Chuy’s Form 10-K). With this ongoing issue, there is very little way to predict what the future will look like when it comes to labor issues for Chuy’s.

### ***VIII. Most Severe Threat***

One of the biggest challenges Chuy’s and many others in the restaurant industry face is food insecurity and shortages throughout the world. It is something that has been around since

before the COVID-19 pandemic and does not look like it will be stopping soon. It does not help things either that inflation has also affected food prices. In an article written by Alexander Pham, he discusses this issue by saying that “according to the U.N. Food and Agriculture Organization (FAO), global food prices have jumped more than 70 percent since mid-2020, reaching their highest levels in March 2022.” (Pham). When reviewing Chuy’s most recent Form 10-K in 2021, the company did not mention much relating to this problem. Yet, in 2022, this seems to be a prevalent problem that the company may have to face in the future. It will most definitely affect their financials as the price of food will go and therefore affect their bottom line. Robert Griffiths states, “In the U.S... food costs were up 9.4 percent with prices for things like meats, poultry, fish and eggs up 14.3 percent from the previous year” (Griffiths). As all these food items listed make up the majority of Chuy’s menu, it will most definitely affect them. (See below for a pie chart depicting this.) Therefore, food insecurity and shortages are the company’s most severe threat to success. As management, one should address this threat by informing investors about the effects it will have on their financials. One way to defend against this is to source food locally instead of internationally.



## **Conclusion**

In conclusion, Chuy's Holdings Incorporated is a growing Mexican cuisine restaurant that has experienced a growth in the number of restaurants it has opened recently. Despite this, though, it still faces common challenges in terms of inflation, interest rates, energy prices, supply chain, political climate, global unrest, workforce shortages, and, lastly, food shortages. The latter is the most severe threat that Chuy's faces due to it being in the restaurant industry.

## **CASE II: ESG AND CYBERSECURITY RISK ASSESSMENT**

Our group started off the week with watching a variety of videos relating to the topics of Environmental, Social, and Governance (ESG) and Cybersecurity. These videos gave us useful background information for the topics for this week. We were given the task of researching ESG and cybersecurity in general and in relation to our company, Chuy's Holdings Incorporated (Chuy's). We found this to be a difficult task when it came to researching the topics in relation to Chuy's in particular. Chuy's website alone did not provide any information on their ESG implementation or cybersecurity measures. Their Form 10-K provided little information regarding both subjects. Therefore, the lack of information present made this week's case much more difficult to accomplish compared to the first case. Researching ESG and cybersecurity proved to be a challenge for Chuy's specifically, but we were able to find good general information on the two topics. Through individual and group research, we were able to further our understanding of Environmental, Social, and Governance standards in all industries, including the restaurant industry. We were able to compare Chuy's ESG results to other companies in the food industry. This helped our group to see where our company stood in relation to others regarding its social behavior.

Afterwards, we also researched cybersecurity and how it affects Chuy's and the restaurant industry. This topic was easier to find information about, both in regard to Chuy's and the restaurant industry as a whole. Pulling quotes from a variety of sources, our group was able to gain a better understanding of this topic and how it relates to Chuy's. Spending most of the time in class on Wednesday completing the task, we then formulated a plan to accomplish this. As this is the second case our group has worked on, we worked together much better than the first one as the familiarity of each of our strengths was better known.

## **Environmental, Social, and Governance**

Environmental, Social, and Governance (ESG) is the set of standards for a company's behavior used by socially conscious investors to screen potential investments. According to the Investopedia Team in an article titled "Environmental, Social, and Governance (ESG) Principles and Criteria," "ESG criteria can also help investors avoid investment losses when companies engaged in risky or unethical practices are held accountable" (Investopedia Team). Each component of ESG contains subparts under it. Under the environmental aspect is climate, waste, and natural resources. According to the Investopedia Team, "Environmental criteria may include corporate climate policies, energy use, waste, pollution, natural resource conservation, and treatment of animals" (Investopedia Team). Under the social aspect is taxes, ethics, and employees. The social aspect "[looks] at the company's relationships with stakeholders." (Investopedia Team). Under the governance aspect is community, inclusiveness, and structure. The "G" part of ESG "pertains to the governance factors of decision-making, from sovereigns' policymaking to the distribution of rights and responsibilities among different participants in corporations, including the board of directors, managers, shareholders, and stakeholders. Governance factors indicate the rules and procedures for countries and corporations and allow investors to screen for appropriate governance practices as they would for environmental and social factors" ("What Is the 'G' in ESG?"). Each of these different factors of ESG play a major role in public accounting and their decision-making process.

## Overview of ESG and its Components

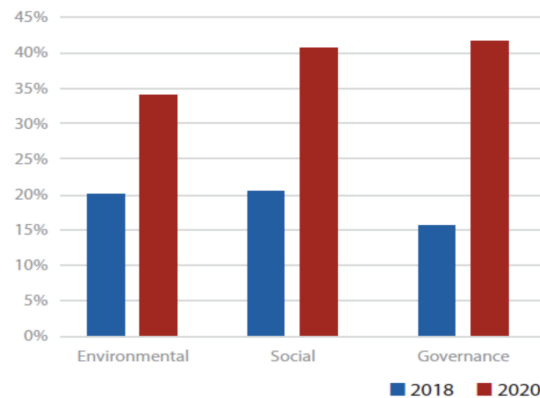


There are many opportunities that exist for public accountants as ESG has become a more highly emphasized area. Recently, investors have been pushing for more documentation and understanding in this area. The Journal of Accountancy article, “ESG Offers Growth Opportunities for 2022,” states, “As ESG becomes a more prominent business priority, it also will become a growth opportunity for accounting firms looking for new revenue streams to offset any declines in practice areas that are being transformed by technology, such as some tax offerings” (Baysden). It has grown exponentially, even over a two-year span. While this is an area of growth for accountants, there are also some risks that are associated with ESG. As this has become a greater area of concern for many companies, the Securities and Exchange Commission has taken it upon themselves to rule on this and the penalties that companies could face if they fail to do this. The Journal of Accountancy article also states, “For instance, the SEC is exploring the possibility of proposing ESG requirements for public companies that would presumably include penalties for companies not in compliance” (Baysden). This penalty might potentially fall onto the accountants as they are the ones responsible for reporting it. If that is the case, and the accountants fail to follow through on this, it could be detrimental to both the company and the accounting firm representing



it. Therefore, the SEC ruling on increasing reporting requirements is a risk to public accounting firms' existing business.

### ***Bar Graph of ESG Skyrocket Growth***



With these challenges comes the challenge of measuring such a complex system of ESG. The conflict mainly comes from the question of who should measure it and how this should come about. In an essay written by the Kenan Institute of Private Enterprise, the author relays key information written by Rebecca Henderson in her book, “Reimagining Capitalism in a World of Fire” about the complexity of measuring ESG. The essay states, “the challenge is that ESG measurement is inextricably tied to diametrically opposed views on the purpose of the corporation, and directly related to debates about whether shareholder primacy or stakeholder governance should prevail” (“ESG Measurement”). Basically, the idea of measuring ESG is so complex because of the differing viewpoints of companies. Right now, the groups that decide the measurement basis used are “many ESG ratings firms, idiosyncratic voluntary disclosures by corporations and mandatory reporting requirements that vary by jurisdiction” (“ESG Measurement”). Additionally, it is also imperative that these measurement bases are unbiased, especially from political agendas. This is because it offers a more accurate representation of information provided to investors if it is not influenced by the political ideals of the measurement

system. In an article titled “ESG Measurement: A Surprisingly Complex Issue,” the author states, “In order to create neutral ESG reporting standards, it is paramount that the funding structures of the standards be transparent, and the standard setters themselves be chosen and compensated in a manner than minimizes capture by outside interests” (“ESG Measurement”). Therefore, it is a challenge that accounting professionals will continue to face with ESG and how it is measured, because it is one of their duties to provide unbiased, accurate results to the stakeholders of a company.

The World Economic Forum views ESG as an important part of the business world. They are striving to find a good balance between profitability and sustainability. We feel that their leadership in ESG is beneficial in helping to “bring more coherence and consistency to it through standards and regulation” (“Strategic intelligence”). As long as the World Economic Forum is doing their part in maintaining these standards, we feel that their leadership is impactful in a good way. BlackRock, an investment management company, has worked to implement sustainability into their investment management practices. Although BlackRock states that their “managers seek to understand how they can use environmental, social, and governance (ESG) data as a lens to identify new risks and opportunities,” they are sure to mention that ESG “information should not be relied upon as investment advice, or a recommendation regarding any products, strategies” (“ESG Integration”). This shows that they are very careful about recommending ESG as the only metric for investment. Vanguard, a company that offers mutual funds and ETFs, has done a great job of implementing ESG standards into their practices. Vanguard’s ESG funds are “indexed and follow an exclusionary strategy that omits companies that don't meet certain ESG criteria” (“ESG Funds”). This is important, because it separates companies that value ESG and those that aren’t fully on board yet. According to Fintel, BlackRock is one of the top investors in Chuy’s owning

3.165 million shares. This consists of “16.0 percent ownership of the company (“BlackRock Inc.”). Being a top investor, BlackRock’s outlook on ESG has an impact on the stakeholder value in relation to Chuy’s ESG strategy. For instance, if investors believe that ESG is important and Chuy’s does nothing in support of ESG, then their relationship is not going to be very positive. On the other hand, if investors do not believe in ESG and Chuy’s does, then there will be conflicts of interest in the future.

After vast amounts of research regarding Chuy’s ESG, we were unable to find any material pertaining to their efforts with respect to ESG. We utilized different search engines, even ones we did not originally pick, and still came up empty-handed. We also emailed Chuy’s RSM auditor, Cassie Coppedge, asking for any help in relation to ESG. She responded that she did not know too much about ESG because she had only had one training on ESG (Coppedge). With what little information we found in their Form 10-K, we concluded that Chuy’s is not doing much in support of ESG. Chuy’s Form 10-K states, “During the fiscal 2021, there were no material capital expenditures for environmental control facilities, and no such expenditures were anticipated” (Chuy’s Form 10-K). This shows that Chuy’s has not, and does not plan to, spend their money on environmentally sustainable facilities. In light of this, Chuy’s can improve in many aspects of ESG. Starting from the basics, Chuy’s must integrate ESG into its business strategy and perform research to carry out materiality assessments. Once these steps have been taken, the company must evaluate their ESG rankings. ESG reporting is important to the stakeholders in order to show what the company is doing in support of ESG efforts. Chuy’s can do so by reporting more of their efforts if there are any. ESG reporting by the company would allow for more consistent, comparable, and reliable information available primarily for investors. From this, investment grade data improves (“Six Steps”). Still, the risks that remain for Chuy’s are evident. If current and future ESG

regulations become mandatory for the restaurant industry, Chuy's must cooperate with the new regulations by providing ESG reports.

According to Barclay's "10 ESG Themes for 2022," in the upcoming years, investors will "expect companies to... make clear and transparent disclosures explaining their goals" ("10 ESG Themes"). Current and future ESG regulation may affect Chuy's financial reporting because of this. Requiring Chuy's to disclose their ESG goals will ultimately allow stakeholders to hold them more accountable. The way in which Chuy's goes about raising capital could be affected by this due to the changes the company must make to align itself with the ESG goals. Future ESG regulation could cause Chuy's to reassess the way in which the company's many restaurants operate. Many of these changes could affect the menu items, so this could be very impactful on the business. Customer relations would likely face the most adversity from changes in the menu as some customers' wants may not be met with changes in the menu and particular dishes. Along with this, regulations on plastics and waste could impact the way in which Chuy's operates on a day-to-day basis. This could affect relations with suppliers in various ways regarding contracts and the types of goods that Chuy's buys from these suppliers (Hussain). All these aspects working together would cause many changes in relation to capital gains; there is uncertainty whether it would or to what extent it might hinder its ability to raise capital. This type of future ESG regulation could have a severe impact on Chuy's; however, whether this will be a potentially positive or negative impact in the long run for the company is yet to be seen.

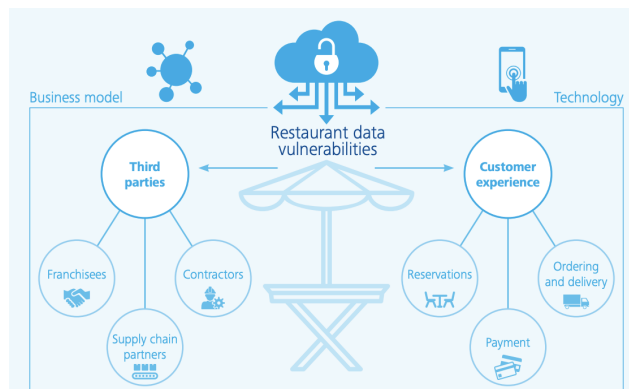
### **Cybersecurity**

Cybersecurity is a second, newly developing area of public accounting that requires more attention now than ever before. Cybersecurity is "the art of protecting networks, devices, and data from unauthorized access or criminal use and the practice of ensuring confidentiality, integrity,

and availability of information.” (CISA) It is a prevalent area in all industries, but especially in the restaurant industry. This is because of the COVID-19 pandemic, the restaurant industry, in particular, transformed to a more digital platform than ever before as online ordering and paying became a more convenient way for customers to interact with the restaurant.

Failures of cybersecurity are prevalent in the restaurant industry because of the increased use of technology from third parties in the ordering and paying for the food service. In a Deloitte paper, “How Restaurants Can Better Manage Cyber Risk,” the authors, Matthew Lew, Jacob Gregg, and Beth Ruck, senior managers in Advisory, write, “new business relationships and processes can create security gaps, alter access to sensitive data, or cause shifts in cyber risk liability exposures” (Lew, Gregg, and Ruck). Because of the pandemic and the demand for faster and easier online transactions, the relationship between the restaurant and a third-party business that specializes in this has increased as well. As a result, cybersecurity risks have increased. Additionally, Lew, Gregg, and Ruck also state that “recent cyberattacks suggest that restaurants may be prime targets for criminals and others looking to cause irreparable damage to companies through the exploitation of sensitive data” (Lew, Gregg, and Ruck). Therefore, this is an area in which the restaurant industry needs to focus resources on in order to prevent the leak of sensitive customer information and simultaneously protect their customers and restaurant as a whole.

### ***Restaurant Data Vulnerabilities with Cybersecurity***



Cybersecurity is becoming a very prevalent topic in every industry. One way to counter cybersecurity risks is to determine who will likely commit a cybersecurity crime. As previously stated, with more and more technology being included in the everyday transactions of restaurants, there are greater risks for cybersecurity breaches. According to the Deloitte article, “The core issue is that a greater number of third parties are handling an increasing amount of sensitive data” (Lew, Gregg, and Ruck). The less sensitive data being handled by restaurants themselves, the greater risk of cybersecurity issues. In an article titled “2021 prediction: Global Data Breaches caused by insiders will rise to 33 percent” written by Lianna Brinded, she states, “But according to global research and consultancy firm Forrester, a lot of these breaches aren’t malicious in nature. In fact, a bulk come from accidental or unintentional data misuse by workers themselves. In its new report, it predicts that 33 percent of data breaches will be caused by insider incidents in 2021, up from 25 percent as of today” (Brinded). This article shows that prior to covid, there were already many cybersecurity breaches caused by the companies alone, but now, with the increased number of third-party companies being involved, their risk is even greater. For those who are most likely to commit a cybersecurity breach, we would say most breaches are caused inadvertently, but most crimes are committed by outsiders who work for third-party companies or intercept sensitive data before it reaches them.

Chuy’s faces many potential risks pertaining to business interruption, security of financial assets, and data privacy. According to Chuy’s Form 10-K, “Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations or if software or third-party vendors that support our information technology environment are compromised, our business, financial condition and results of operations could be harmed and subject us to litigation or actions by regulatory authorities” (Chuy’s Form 10-K). This shows that Chuy’s faces potential

risks themselves, but also that outside parties' issues could affect them as well. Those that could be affected outside of Chuy's from potential breaches would be their consumers and investors. Consumers could be affected by possible data breaches by their account information being leaked, or if Chuy's has to shut down, they would not be able to eat at Chuy's and would have fewer food options. Investors could also be affected by their account information being leaked if a data breach were to happen, which would lessen investors' likelihood of investing more in Chuy's.

Chuy's Holding Incorporated recognizes this threat of cybersecurity and acknowledges that failure of their informational technological system could have massive repercussions on their business as a whole. In their recent Form 10-K, Chuy's states, "We accept credit cards as a method of payment at all of our restaurants. In addition, we offer secure web-based credit card payment options utilizing QR codes and Text to Pay. In an effort to provide the best security to our customers' credit card information, we utilize P2Pe solution, an encryption platform, to ensure that no credit card data is stored in our internal systems... In addition, we deployed industry-leading switching and firewall protection at all company owned internet connections. This allowed us to increase our visibility into the use of our private network and enhanced our ability to detect malicious or improper digital activity. We also periodically assess our networks for vulnerability." (Chuy's Form 10-K). Here, the company states the multiple ways in which they are adequately protecting themselves and their customers from cyberattacks and threats. Since contact with sensitive information of their customers is a big part of their transactions, Chuy's is taking the appropriate measures to combat possible leaks.

## **Conclusion**

In conclusion, ESG and cybersecurity are prevalent topics in today's world. They both impact investment decision making and are key components in the success of a company. ESG

represents the sustainability of a company and its ability to meet the standards set. Cybersecurity involves the security of a company's technological aspects. It is important that companies keep up with ESG regulations and cybersecurity awareness to provide the safest, and most effective, business practices for their stakeholders.



### **CASE III: AUDIT RISK AND PLANNING**

For this week's assessment, our group's task was to find audit risk in our company's financial statements, particularly the balance sheet and income statement. We start by reviewing Chuy's Holding, Inc. (Chuy's) Form 10-K from the Securities and Exchange Commission (SEC) website. We can identify six separate accounts that we deem risk-worthy through these statements. Out of the six, we chose three to focus our attention on as the most important accounts in this area. From there, our group discusses which two internal controls from the list (segregation of duties, proper authorization, adequate documents and records, physical control, and independent checks) pertain to each risky account.

A major aspect of an auditor's job responsibilities is to review a company's financial statements, identify risky accounts, see what internal controls are in place, and then decipher a way to test the rights and obligations, valuation, completeness, and existence assertions of account balances. These latter three assertions are the ones that our group primarily focuses on when it comes to the three risky accounts. Valuation is the audit assertion for deciphering if "the assets, equity balances, and liabilities have been valued appropriately" ("Assertions in Auditing"). Completeness is the audit assertion for deciphering if "the assets, equity balances, and the liabilities that are completed and supposed to be recorded have been recognized in the financial statements" ("Assertions in Auditing"). Existence is the audit assertion for deciphering if "the assets, equity balances, and liabilities exist at the period ending time" ("Assertions in Auditing").

Following our internal controls discussion, our group's task is to develop substantive testing to test the quality of these internal controls in a risky account and the data analytics that can help accomplish this.

## Operating Lease Assets

Auditing the risks in certain accounts require knowledge of the company's internal controls, and how much one can trust them. When reviewing Chuy's balance sheet for the year 2021, our group was told from previous conversations with Ms. Cassie Coppedge that Chuy's leases constitute a significant concern to the auditors at RSM (Coppedge). We confirm this when we immediately notice that their Operating Lease Asset account is one of the largest accounts in the asset column. Their materiality compared to total assets for 2020 is 32.23 percent, and for 2021 is 29.97 percent. Due to most of their restaurant buildings being leased property and the fact that they make up roughly thirty percent of total assets, operating leases becomes one of the main areas of focus when auditing the company. According to the AICPA's "Accounting for Leases," they state, "on February 25, 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). The objective of this ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements." (AICPA). Since operating leases are a complex area of accounting, with the FASB recently releasing stricter regulations in reporting them, the completeness of if they all appear on the balance sheet is important to auditors.

According to EY's article, "Guide to auditing the implementation of ASC 842, *Leases*," "the first risk we should consider in auditing the implementation of ASC 842 is the risk that a complete population of leases is not identified as of each reporting date in the comparative financial statements and the financial statements for the year of adoption" (pg. 30). Based on this, our group then decided that completeness in this area is the assertion with which auditors need to be most focused on, in comparison to the others of existence and valuation. "One of the biggest challenges of implementing Topic 842 is ensuring the identification of all contracts where there is

an identified asset being provided. This is significant not only for the preparation of the opening lease accounting entry, but also to ensure accurate recording of new or updated lease arrangements throughout the year. This is a critical "completeness test" that auditors need to perform" ("Lease accounting standard"). Whether or not leases are all completely accounted for has a major impact on how they appear on the balance sheet.

Chuy's needs to have strong internal controls in this area. One of the internal controls that our group deems to be important in this aspect is adequate documents and records. According to the Deloitte article, "Internal controls considerations for lease accounting," it is the auditor's job to "analyze and challenge the transition implications and conclusions documented by the preparer considering relevant contract terms and evaluate the impact under ASC 842" (Baker, McGovern, and Torr). This means that auditors need to ensure adequate control over documentation in this area so that auditors can rely on the information presented in the financial statements. "Going forward, for both public and private enterprises, having confidence in financial statement numbers likely depends more than ever on the development and use of appropriately designed and documented internal controls" ("Internal controls considerations"). The second internal control we thought was important for Chuy's to have are independent checks. Similar to adequate documentation and records, this internal control helps with the reliability and accuracy of the accounting information on operating leases.

After establishing the internal controls that are most important for leases, the next item to evaluate is how one is going to test whether or not these controls are strong. There are two primary ways to do substantive testing: a test of details and substantive analytical procedures. The latter is what auditors use more often when verifying leases. An example of a substantive analytical procedure that auditors perform in testing leases is the review of lease contracts. EY suggests that

one way to accomplish this is to “reconcile the Master Lease Schedule to the information in our workpapers that we used to test the lease disclosures in the prior-year financial statements. If there are any differences, resolve the difference and assess the effect on our assessment of the completeness of the Master Lease Schedule” (“Guide to auditing pg. 31”). From this, auditors can determine that there is no misstatement of the completeness of the leases shown on the balance sheet. Additionally, after talking with the RSM auditor, Cassie Coppedge, she mentioned that another internal control that Chuy’s has for their operating leases is lease commencement and lease modification controls (Coppedge). These are other examples of the kinds of controls companies must implement to trust management’s financial statements.

The substantive analytical procedures are easier to do with the help of data analytics and visualization when it comes to reporting leases. These tools help both auditors and management interpret the information better. In the article “Benefits of Data Analytics for Effective Lease Management,” Ryan Hendrie writes, “real-time data analytics helps relieve some of the burdens associated with compliance through the implementation and use of data analytics tools, intuitive dashboards. By collating all your leases in one centralized data repository, entities are in a position whereby they can easily access, analyze, and interpreted all of their critical leasing information.” Through the use of data analytics, manual processes become more automated and, therefore, quicker to complete. This then allows for more testing of leases and their complexities to be done in a shorter period of time. While speaking with Ms. Coppedge, she mentioned how the RSM audit team still completes lease calculations manually. Thus, one area of improvement is to use lease software to streamline the leasing process and subsequent testing procedures of them in order to get a more accurate understanding of their completeness (Coppedge).

## Revenue

An important risk account for Chuy's is its revenue account. The main risk associated with misstating their revenue account is existence. Since the revenue account is vital to the income statement and the calculation of net income, it is important to state it correctly. It is common for companies to overstate their revenue account as they try to boost their earnings on the income statement and account for transactions that did not happen or inflate the numbers of actual transactions. If this is understated, the company could not be accounting for enough of its transactions. Both of these instances can affect investors' willingness to invest in the company, whether their revenues are over or understated.

Chuy's must have strong internal controls in this area. Our group deems two main internal controls to be important in this aspect: adequate documents and records and physical control. This means that auditors need to ensure adequate documentation of revenues and physical controls so that things do not go missing. According to the Government Finance Officers Association, "A revenue control and management policy establishes proper control over all receipts and receivables and helps ensure sound financial management practices" ("Revenue Control Policy"). Part of the revenue control and management policy needs to be adequate documents and records. This provides evidence that revenues accounted for are accurate. Some things that can be implemented to help ensure adequate documents and records can be the creation of invoices, consistent documentation methods, and the timely preparation of documents. The second part of Chuy's revenue control and management policy must include physical controls. Some physical controls could include fireproof files and computer backups of records.

After establishing the internal controls that are most important for revenues, next up is to evaluate how the auditor can gather evidence that the account is not misstated. Much like leases,

substantive analytical procedures and a test of details are two major ways to do substantive testing. According to Audithow, “Substantive Analytical Procedures for Revenue mainly include inspection and observation by the auditors to inspect the changes in trends that have occurred in the previous years” (Sinra). An example, an auditor must ensure no inconsistencies in the sales figures over time. The actual occurrence of revenue should ideally be aligned with the actual revenues recorded if this were not the case, an auditor would have to follow this up with tests for details. According to Accountinguide, “In the audit of revenue, test of details usually focuses on the occurrence of revenue, completeness of revenue transactions, the accuracy of the revenue record and the cut-off of the accounting period” (Bory). Each of these different aspects provides value when doing a test for details. Occurrence tests whether the revenue transactions that a company recorded exist. Completeness tests whether all revenues that happened, the company recorded in the proper accounts. Accuracy tests whether or not the revenue transactions recorded are free from error or not. Cut-off tests whether or not the company recorded all its revenue transactions in the correct accounting period. From this, auditors can determine whether there is or is not a misstatement of the revenues accounted for on the income statement.

According to Chartered Accountants Worldwide, data analytics cannot always entirely substitute conventional audit procedures, “they can be powerful enablers which allow auditors to perform procedures and analysis which were not traditionally possible” (May, Lim). Data analytics techniques are becoming mainstream and helping to speed up the audit process for auditors in new ways that were not even possible only a couple of years ago. An example of how data analytics can streamline the audit process for revenue is how data analytics tools can now be used to “allow auditors to trace revenue transactions to debtors and the subsequent cash received” (May, Lim). This, in turn, speeds up the auditing process tremendously. By allowing the auditors

to assess the risk of whether or not the revenues accounted for truly exist. By ensuring that revenue is accounted for correctly, investors can be confident that the numbers stated on the income statement are true. Using data analytics, Chuy's can ensure that they properly account for their revenues throughout the year.

### **Inventory**

Another significantly risky account for Chuy's is its inventory account. The risks associated with misstating their inventory account are existence and valuation. Because the inventory account is an asset account, it is important that Chuy's states it correctly, not over or under-stated. If Chuy's overstates its inventory account, the company could be accounting for excess inventory costs that do not exist. The company is not accounting for enough inventory if it is understated, which could lead to re-ordering already existing inventory. Valuation is also important to inventory accounts because if Chuy's does not state the value at the correct amount, the amount can be misleading to companies as to how much product they have or do not have. This can create problems in calculating total assets on the balance sheet.

A helpful way to measure inventory value is through internal inventory controls. Internal controls are critical when it comes to keeping an accurate record of inventory. According to an article written by Carr, Riggs & Ingram, "Internal inventory controls are intended to help a company verify that it has sufficient resources to produce and sell goods to meet demand, avoid maintaining excess products, and eliminate costs associated with purchasing, producing, and holding excess ("Using Internal Controls"). This goes to show the importance of internal controls within companies. Without internal controls, there would be no way to track inventory precisely, and many problems could arise. Inventory control helps to eliminate potential problems by working to "prevent theft and damage loss, manage quantities on hand in conjunction with

customer demands and required purchasing/production lead times, and make certain that inventory costs are accurately captured and reported” (“Using Internal Controls”). Physical inventory control would help mitigate the misstatement by ensuring that Chuy’s accounts for all inventory properly. By ensuring that inventory is only accessible by certain authorized employees, Chuy’s could eliminate the risk of theft and damage to materials. This is important, especially in the restaurant business, because employees have easy access to the food in the restaurant. Without proper controls, inventory could easily go missing without anyone realizing it. Setting up physical control over the inventory could alleviate the problem of employees potentially stealing/eating food without paying. Another important internal control aspect for a business-like Chuy’s would be keeping adequate documents and records. Providing accurate inventory reports is important when it comes to buying more produce. Without accurate information, Chuy’s would not be able to purchase the amount of produce needed accurately. This could cause recurring, unnecessary purchases. Also, one must consider the negative effects on costs that misstating amounts would cause.

Inventory audit procedures are a large part of testing numbers to ensure that the company states the correct amount. Because there is often a large amount of inventory in a restaurant, auditors must go through many inventory audit procedures. In an interview with Cassie Coppedge, she stated that Chuy’s actually does not do an inventory test because they have never had problems relating to inventory count (Coppedge). If this were a problem for Chuy’s, the auditors could “test the last few receiving and shipping transactions prior to the physical count, as well as transactions immediately following it” (Bragg). Auditors will do this to eliminate extraneous items from the company’s physical inventory count. Besides analyzing the cutoff, auditors will observe the actual physical inventory count. They do this to ensure that a company is accounting for all inventory.



Because there is normally a large shipment of food inventory each period, auditors will also review freight costs. Auditors do this by “[tracing] a selection of freight invoices through [the restaurant’s] accounting system to see how they are handled” (Bragg). By doing this, auditors can see when it was shipped and received, where it came from and where it went, and how much each shipment cost. Although there are many more tests that auditors can do, another important test is the test of item costs. Auditors will do this by “[comparing] the amounts in recent supplier invoices to the costs listed in [the company’s] inventory valuation” (Bragg). This helps the auditor to see where each item of inventory came from. All these tests help ensure that inventory is calculated correctly and stated accurately. Without these tests, auditors could not decipher if the inventory was correct.

According to an article by NSKT Global, data analytics can be very helpful in analyzing the “patterns and trends that can be leveraged to improve business operations by properly managing the inventory” (NSKT Global). Using data analytics in inventory management is important for supply and demand in the restaurant business. By analyzing demand, Chuy’s can satisfy its customers by keeping the right amount of inventory to meet those demands. Without data analytics, companies like Chuy’s would not be able to do so in an efficient manner. While this helps to ensure there is enough inventory, data analytics also helps to ensure that it is not too much. Inventory costs are a large part of a company’s expenses. Companies can lessen inventory costs by ensuring that inventory is managed correctly, which ultimately lessens expenses. Data analytics helps ensure that Chuy’s is operating efficiently, keeping track of its inventory, maximizing customer satisfaction, and maximizing profit.

### **Conclusion**

Consciousness and confidence in a company’s internal controls are key components for an auditor in evaluating risky accounts. The three audit assertions of valuation, completeness, and

existence were especially useful in deciphering and assessing the Operating Lease Assets, Revenue, and Inventory accounts. For the Operating Lease Assets account, adequate documents and records and independent checks are two internal controls that ensure the accounting information is reliable and accurate. Adequate documents, records, and physical control help ensure that Chuy's correctly states its revenue and inventory accounts. These internal controls help certify that Chuy's financial information is complete and accurate to allow for the best decisions to be made. The use of data analytics over these accounts allows for a more efficient examination of Chuy's operations that will keep them both financially sound and incur less risk. Through these checks and procedures, even the riskiest accounts possessed by Chuy's will be accurate and free from error, allowing for more credibility and decision-useful information.

## CASE IV: TAX PLANNING

For this week's assignment, our group was tasked with tax planning for our company, Chuy's Holdings, Inc. ("Chuy's"). We started our research for this assessment by reviewing PricewaterhouseCooper's tax policy outlook form, "2022 Tax Policy Outlook: Managing constant change." From this form, our group grasped a better understanding into the events that are continually affecting tax policies. After our initial research, we began to look into the corporate tax credits that are specific to the restaurant industry. In this research, we learned about the many tax credits available for a company like Chuy's. Although this research felt redundant at times, we were able to further our understanding of tax credits and restaurant industry-specific tax credits.

We then were able to pick which opportunities we believed were best for our company. Deciding on a strategy for Chuy's proved to be a challenging task, because of the vast amounts of research required. Since tax policies change often, we had to make sure the information that we found was up to date.

After choosing a strategy, we were tasked with quantifying it. Due to limited access to information, we had to get creative. Eventually, we found a good source that helped greatly with the quantification process. The source we used was the Cost Management Services (CMS) WOTC savings calculator. Cost Management Services has been working with employers for 20+ years to help them save money through WOTC tax credits. Along with the WOTC calculator, our group also used Indeed and Glassdoor. These are two of the leading job search websites to help determine the exact number of new employees Chuy's plans to hire. All in all, we believe that our strategy would work well for Chuy's considering the results we found.

## Restaurant Industry Tax Credits

The restaurant industry has the option for a variety of different tax credits. When researching this aspect of the case, our group discovered two common credits across the industry. These are the Federal Insurance Contribution Act (“FICA”) tip credit and the Work Opportunity Tax Credit (“WOTC”). Both allow restaurants to reduce the amount of tax they pay to the government by taking out a specific amount of credit.

The first tax credit, the FICA tip credit, allows a massive deduction in the amount that restaurants owe to the government. In the article, “Restaurants Can Save Big by Claiming the FICA Tip Tax Credit,” the author states that the FICA tip credit “is a general business tax credit available to food and beverage establishments for the social security and Medicare, also known as FICA, taxes they pay on their employees’ tip income. This is claimed on Form 8846: Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips” (Theves). Essentially, this tax credit saves the restaurant money by reporting tips received along with their employees’ normal wages. To qualify for this tax credit, a restaurant must pay its employees above federal minimum wage, which is currently \$7.25 per hour. However, since few restaurant employees are paid minimum wage, the federal minimum wage is set at \$5.15 an hour. According to the article, “Take advantage of these tax credits,” calculating this credit is done by the following steps: “[Step 1] Hours x (hourly rate + reported tips) = Weekly wages. [Step 2] Hours x federal wage rate = Wages paid at minimum wage. [Step 3] Weekly wages – (Wages paid at minimum wage x FICA 7.65 percent) = FICA Tax Credit. [Step 4] FICA Tax Credit x 52 Weeks = Total tax credit you can receive per employee” (National Restaurant Association). Chuy’s utilized this tax credit in 2021 and took a deduction of \$3.36 million to their overall income tax expense. This

credit increased from the previous year where there was a deduction of \$2,539,000 to income tax expense. This resulted in a 32.4 percent increase (Form 10-K page F-18).

The second tax credit allowing restaurants to take deductions is the WOTC. The WOTC allows restaurants and other businesses to take advantage of hiring employees that are a part of a group with significant barriers. An example of this group includes qualified veterans and people who have been unemployed for up to 27 weeks. According to the article, “Take advantage of these tax credits,” it states that “restaurants can earn a maximum credit of \$2,400 for each employee coming off long-term unemployment at the time of hire. Employers earn a credit equal to 25 percent of the employee’s wages if the staffer works at least 120 hours in the first year and 40 percent if the individual works at least 400 hours—up to the \$2,400 cap, but some targeted categories offer an even larger credit” (National Restaurant Association). This opens up a wealth of opportunity. Therefore, by hiring people that qualify for these terms, restaurants can deduct a certain amount from their income tax expense. This allows them to save money that they otherwise would have to pay to the government. Furthermore, it gives qualified people the opportunity to work. As a result of this, it can be more incentivizing to future employers. The IRS states that the “WOTC joins other workforce programs that incentivize workplace diversity and facilitate access to good jobs for American workers” (“Work Opportunity Tax Credit”). This credit not only benefits restaurants regarding tax credit, but it also benefits them in workplace diversity and inclusion.

Other credits that a restaurant can deduct are operating expenses (the most common) and charitable donations. The restaurant can deduct operating expenses if the expense qualifies as both ordinary and necessary. The IRS states, “An ordinary expense is one that is common and accepted in your industry. A necessary expense is one that is helpful and appropriate for your trade or

business” (“Publication 535”). For the restaurant industry, examples of ordinary expenses are the cost of buying kitchen equipment and the cost of repairing it. An example of a necessary expense is the cost of advertising for Chuy’s business. With charitable donations, restaurants may give away gift-cards, food, and more to a charitable organization for “free.” A deduction can be taken if certain requirements are met. One of the requirements involves being considered a charitable organization. Examples of these include churches and religious organizations, private foundations, political organizations, and other nonprofit organizations (“Exempt Organization Types”). Additionally, to claim the charitable donation deduction, the IRS states that an organization must “have a bank record, payroll deduction records or a written acknowledgment from the qualified organization showing the amount of the cash and a description of any property contributed, and whether the organization provided any goods or services in exchange for the gift” (“Eight Tips for Deducting Charitable Contributions”). This opens the door to tax deduction opportunities if all requirements are met. Operating expenses and charitable contributions are just two examples of the deductions that can lower a restaurant's overall income tax expense owed to the government.

In the restaurant industry, fixed assets should also be a focus when regarding tax credits. These assets consist of real property and personal property. Real property is considered life-long, permanent property and is the majority of what a restaurant purchases. This consists of assets like booths and equipment that is permanently installed in the restaurant. Personal properties, on the other hand, are the assets that are not permanently installed. These assets include the plumbing and electricity used throughout the restaurant. By breaking down a restaurant’s costs and carving out which ones are related to personal property assets, restaurants can use this to their advantage when assessing property taxes.

## State Tax Rates

According to Chuy's Form 10-K, Chuy's "financial performance is dependent on [their] restaurants located in Texas and the Southeastern and Midwestern United States" (Chuy's Form 10-K page 17). From research, we found that "Texas imposes 6.25 percent sales and use tax on all retail sales, leases and rentals of most goods, as well as taxable services" ("Sales and Use Tax"). Florida, being the second leading location for Chuy's restaurants, has a sales tax rate of six percent. This could be an explanation why Chuy's restaurants are mainly located in Texas. Moreover, Chuy's is "sensitive to economic...developments in that state" (Chuy's Form 10-K page 16). As a group, we focused most of our research on the state of Texas because of Chuy's sensitivity to its economic status. We found that in Texas, equipment purchased for sales purposes is not taxable. Examples of equipment that qualify as nontaxable include "deep fat fryers... drink machines that mix or freeze ingredients...ovens," and many more that are utilized by Chuy's ("Restaurants and the Texas Sales Tax"). Also, "work clothing required by law and worn during food preparation" qualify for tax exemption along with "disinfectants applied in processing areas" ("Restaurants and the Texas Sales Tax"). All of these items also apply to Chuy's operations. While this is true, most equipment purchased by restaurants is taxable. This equipment includes "tables, chairs, trays, glasses, dishes, serving utensils, reusable menus and placemats, silverware, tablecloths, and cloth napkins" ("Restaurants and the Texas Sales Tax"). Although Texas has no state property tax, local property taxes cost Chuy's due to their many locations (Accounts). With a projected \$27 billion in state surplus, it has been proposed for half to be used to reduce property taxes; however, this depends greatly on the results of the gubernatorial election in the coming week ("Gov. Abbott"). This would be significant for Chuy's as they spent upwards of \$2.7 million in property taxes

(Securities). Chuy's should expand their current operations to take full advantage of other tax exemptions available in Texas.

### **Tax Strategy for Expansion**

Regarding Chuy's, we feel that the best tax strategy would be expansion. This strategy is used for growing businesses, like Chuy's. In a Forbes article, "5 Tax Strategies For Growth-Oriented Businesses," Jeff Call states, "for a growing business, relocation is likely as you outgrow your initial headquarters. When looking to move, it's critical to assess if nearby municipalities provide tax credits that offset your payroll or infrastructure investments. Additionally, your business property taxes should not be ignored as a fixed operating expense." (Call). Considering Chuy's plans to expand its business by opening more restaurants in the future, this strategy is the most logical of the three. Furthermore, since Chuy's does not currently utilize the WOTC, according to their Form 10-K, it is an area of expansion that will allow Chuy's to capitalize on an additional tax benefit. The "WOTC reduces a business's federal tax liability, serving as an incentive to select job candidates who may be disadvantaged in their efforts to find employment" ("Work Opportunity Tax Credit"). Due to WOTC only being authorized until December 31, 2025, our solution is a short-term solution; however, we believe that it will have a positive effect on Chuy's tax strategy in the meantime. After deciding on an expansion tax strategy, we moved on to quantify a solution.

### **Tax Savings from Strategy**

From our solution, we calculated the WOTC savings possibility if Chuy's selected to use this strategy. According to the article titled "Work Opportunity Tax Credit," it states, "The credit to for-profit employers is 25 percent of qualified first-year wages for those employed at least 120 hours but fewer than 400 hours, and 40 percent for those employed 400 hours or more" ("Work



Opportunity Tax Credit”). From research, we learned that Chuy’s is now looking to hire around 634 employees. Many of these jobs are for hourly employees that may qualify for the 25 percent or 40 percent credit depending on the number of hours worked for their first year. Qualification also rests on the target group that the employee falls under. Out of all the groups, most have a maximum credit of \$2,400 (40 percent of wages) or \$1,500 (25 percent of wages). Based on a sample calculation done by Cost Management Services, Chuy’s potential tax credit is \$228,000 if 15 percent of their new hires qualify for WOTC (“Calculate Your WOTC Savings”). We believe that this is do-able for Chuy’s, especially because they are looking to hire so many new employees. This strategy allows Chuy’s to take full advantage of a new tax credit, diversify their workplace, and create more job opportunities.

*Sample Calculation by Cost Management Services*

**WOTC Tax Savings Calculator**

Industry:

Number of New Hires per year:

Qualifying Ratio: 15%

Qualifying New Hires: 95

Average Tax Credit: \$2,400

**Your Potential Tax Credit: \$228,000.00**

## CASE V: FAMOUS ECONOMISTS

The lives of Thomas Sowell and Walter Williams are nothing less than remarkable. Both being men of firm principles, it is no wonder their reasoning and outlook are incredibly similar. One of Thomas Sowell's key principles includes that of intellectual honesty even if it is unpopular. Sowell's life emulates this, and his story shows how he was led to this. Thomas Sowell was born in North Carolina; however, at a fairly young age, his family moved to Harlem. A family friend introduced him to the library, and from there, his life and intellectual being began to blossom. Sowell credited this to being one of the key events in his life that put him on a track for success. Had it not been for this introduction, his life could have been very different. His first job as a messenger for Western Union and a combat camera man in the military also gave him a range of experiences. Later, Sowell went on to study under Milton Friedman. Though he studied under Friedman, he was surprisingly a Marxist before and after his encounter with the famous economist. It was not until Sowell interned for the Department of Labor that his outlook began to change. From this experience, Sowell had a different perspective. This was one toward a capitalism. Sowell went on to be a professor teaching at Cornell University and later UCLA. In his later years, he went on to work at the Hoover Institute where he wrote not only about economics, but history and race. Sowell's remarkable story leads to the famous economist Walter Williams who was great friend.

Walter Williams' story is one that is impressive due to his rising up despite the odds against him. Williams grew up primarily in a single parent home without a father figure until his mother married his stepfather who had a great influence on Williams. A key principle of his life was a come early and stay late mentality. As Williams' life progressed, it is evident how this helped him to achieve greatness. One of Williams' first jobs included that of being a cab driver which was

short lived once he was drafted to serve in the military. Here, he challenged the racial order and was very articulate in how he dealt with the situations that arose related to this. Williams was transferred to Korea where he continued to fight against pervasive racism in the military. He was later honorably discharged. Williams went on to attend UCLA where he and Sowell's paths crossed. Williams went on to teach at many universities, write many weekly columns, and frequently attend radio shows. Williams was never afraid to talk about hard topics related to race. He was stern in his beliefs and voiced his opinion without fear of what could follow due to his statements. Libertarian in his views, Williams believed that the government often did more harm than good and backed his statements with facts and proof. Williams taught at George Mason University for many years before his death. Between the two, Sowell and Williams were very firm in their values and were not afraid to share what they believed to be true. Both influential men have left an impact on many despite the adversity they experienced.

### **My Thoughts on Sowell and Williams**

The lives of Sowell and Williams are very fascinating. Both were able to overcome many challenges that have at times been extremely hard for men of their racial and demographic backgrounds to successfully defeat especially due to the time in which they were born and lived. However, not only did these men beat this, but they thrived. It is very interesting to know how much of an impact of the introduction of the library to Sowell had on his life. Knowing that this simple introduction by a family friend would one day have an impact on so many by all that Sowell has been able to achieve and teach is nothing less than amazing. After hearing many of Sowell's arguments speaking in favor of free markets and capitalism, it is very surprising that he was once a Marxist and has also been willing to tell that he once had a very different point of view. One does not switch these extremely different points of views over a short period of time. What is even

more fascinating about Sowell is that he learned under Friedman and still was a Marxist after taking his class. It speaks volumes that it was not until Sowell had first-hand experience in the government, that his views began to change. It is also interesting that from these experiences he was able to look deeply at what raising the minimum wage entitles and causes to happen in the economy as a result. There are many unintended consequences due to this. This goes back to his statement about there only being tradeoffs in situations and no solutions. When one looks from this perspective, it is noteworthy that often people seek out the right answers, but in hindsight, there often no complete solutions to issues. Some problems get tended to by actions and others are left for people to cope. Another of Sowell's thought-provoking views was that of school choice. From his experience in going to a good school in elementary to then going to a school for a short period of time that did not successfully fit his needs, it is interesting that he is an advocate of school choice. This topic, although he spoke on it decades ago, is still an ongoing issue today. Many of the arguments are still the same, and a great deal of the same issues are still being seen everyday due to poor schools. The fact that Sowell would also go on to write about difficulties some children have in learning and late development is ironic as well when considering his views on school choice.

For Williams, it is exceptional when considering all his accomplishments. From growing up in a home without his father present to having a very successful marriage and life, many would say he defied all the odds. Williams stood up for himself in many situations. When it came to his time in the military, this was especially emulated. Williams was very strategic in all that he did when facing the racism that was still full force in the military. Most notably was his writing to President Kennedy about racism in the both the government and the military. Williams referring to himself as a radical and more of a supporter of Malcom X than Martin Luther King Jr., was also

interesting. Looking at how Williams did not often bend to the crowd when there was much calling of him to do so speaks volumes when thinking about his idea that self-ownership will tell people what is moral and immoral. Williams also seemed to look at situations and look at them more deeply and in a different perspective than most when it comes to issues of race. Many of his arguments seemed to directly foreshadow those of his free market and libertarian views, so it can be believed that he primarily looked at situations based on those principles.

One of the most surprising aspects of these men is the fact that they were friends and had many links to Milton Friedman who was an extremely influential economist when it comes to the free market. What is even more surprising is these economists are rarely given much of a platform or their ideas shared in many economics classes as other economists such as Yellen, Akerlof, and others. Although their views likely differ in many ways, it is important to hear from people of different backgrounds and demographics. Coming from the different backgrounds, they have many different experiences and principles that are still relevant today. With Williams teaching up until the end of his life and Sowell still being active, it is incredible to see their drive for life and passion. These two have shown that their work is serious and there is nearly nothing that one cannot do if they put their mind to it in a free market society. They have proved this with their lives and have motivated countless others to do the same. There are not many people who work when it comes to their age, so it can be inferred that they are very genuine when it comes to their principles and outlooks. Sowell has exemplified to his ideas pertaining to intellectual honesty even when it is unpopular, and Williams did the same with his principles of hard work in coming early and staying late. Many could learn a lot more than economic from these two which is likely why they have been so active going after other topics than economics throughout their careers.

### **Accomplished yet Unacknowledged**

Larry Elder, a right leaning political commentator and conservative talk radio host, points out many thought-provoking questions in his article on Justice Thomas and Economists Sowell and Williams. Elder first speaks of the accomplishments of Justice Thomas but soon thereafter brings up the fact that despite his trailblazing, his accomplishments are not included along with many others from his race. After asking many institutions such as the Smithsonian why his accomplishments are not included, it was defended that their exhibits are those based on themes and not individuals. Although this is true, there are many instances where this statement has seemingly not the case. Elder brings up the fact that many left leaning blacks feel that black conservatives are wrong when it comes to many views. In their opinion, Thomas' views have damaged their community, "took advantage" of race-based preferences to get into college and law school, and "turned his back on those behind" (*The Shameful*). Elder went on to tackle race-based preferences as being one of the reasons for low success rates among students. Elder also described the blackout of Thomas as discrimination. When it comes to Thomas Sowell and Walter Williams, these are two very accomplished black men who also do not receive credit seemingly due to their conservatism. David Mamet's calling of Sowell "our greatest contemporary philosopher," is also shared by Elder (*The Shameful*). He even goes on to speak about how Sowell rose from being raised by family to being a very successful economics student and later professor. He even states at how Forbes magazine even said this it is wrong that Sowell has never been awarded the Nobel Prize because not many other people alive have had so many accomplishments and keeps producing and working even until the time Forbes made the statement in 2015. It is then pointed out that due to the Ebony shoutout, many blacks have never even heard of Sowell. From there, Elder continues by asking how Ebony can exclude Walter Williams as well. Much like Sowell, his defying of all the odds from his upbringing and becoming very successful is never given the

appreciation it deserves (*The Shameful*). Elder ends the article by explaining how damaging and an injustice this failure to acknowledge conservative blacks is to them and all Americans. Elder relates this as to being the reason there is little discussion of government dependency, school choice, and damage done by high taxes, excessive regulation, and laws pertaining to minimum wage among the black community.

Elder's argument is one that needs to be discussed. When one considers all the accomplishments of Thomas, Sowell, and Williams, it is bewildering that they are not given the recognition that many others simply because of the way in which they view different aspects of life and society. In a time where the same issues seem to be growing and not getting any better despite much effort, why are Sowell and William's ideas not considered as ways in which to achieve a greater prosperity for all people? Much of the knowledge of these men has been through first-hand experience. Sowell once had very different views from that of today; however, through his experience especially at the department of labor, he learned that often government could mean permanent government reliance. Elder illuminates this very well in his article. He makes a valid argument to how unfair, unjust, and serious this blackout of Thomas, Sowell, and Williams is. Ignoring their views because they are black conservatives is discrimination. Just because one's views do not align with a group does not mean that they should not exist or be ignored. This picking and choosing of who is vital to society seemingly by opinion rather than by true accomplishments is very interesting to say the least. Although these men have not been appreciated or respected with as they deserve, it is good that there are many who do know the truth about them and how incredible they really are. As a people and society, it is important that everyone is heard, and when they have great accomplishments, these ideas should be shared. As Elder said, it is truly an injustice to not only black conservatives but to all Americans. It could be truly detrimental if this continues.

## **Changes in Viewpoint**

This exercise has done a lot to reinforce my views on the topics presented in the videos that pertained to many of Sowell and William's principles. I personally follow and agree with many of their ideas especially when it comes to the economy. Sowell's principle of intellectual honesty even if it is unpopular resonates greatly with me. I also gained a new perspective from him in that there are truly never any solutions; however, there are simply tradeoffs. His experience at the labor department and lifting the minimum wage is very interesting to me because there are many good ideas that produce many not so good consequences. Unintended consequences can often do much more damage than good when it comes to many policy changes.

When it comes to Williams' principle of coming early and staying late, I feel that this has remained true in many of my experiences throughout life, so this exercise has reminded me greatly of how important work ethic and character is. Williams' willingness to stand up to the crowd even when it is tough, is also a quality that I have learned to better myself. One must stand on their principles because if they do not, they will likely someday find they have nowhere to stand. As I agree with their principles, I feel that they have been treated very unfairly for simply expressing the way in which they feel. Both have tremendous experiences and accomplishments, so why hide what these men say? I personally they have many of the answers to our problems. One must evaluate by themselves how much big government has helped people and then also research how much it has also had unintended consequences. I am thankful for this exercise, and I can tell there has been a change on my outlook because of it. I believe that if everyone is given a seat at the table like Sowell and Williams deserve, our problems could be a lot less.



## CASE VI: LIQUIDITY CRISIS

Class started off the week with reading a variety of articles relating to the topics of the recent and continually present liquidity crisis. These articles gave a good background information for the topics of this week as it one began with the showing of the increase in federal spending in recent years. The task given was that of researching how this crisis will affect the economy, the needed monetary and fiscal policy responses to resolve the issue, and how this will affect our future careers. With this, we were also asked to what should be changed to accounting and auditing rules in response to the current banking crisis. I found it very interesting yet satisfying to finally do more research on this topic due to the current situations. With the fall of Silicon Valley Bank, many people have started to question what is happening within both the economy and the financial world. At the current rate, it is likely that much more of what has been seen recently could happen to other banks. It is beginning to be a grim reminder of the Great Recession. However, this time the results could be even worse if the present path is continued. With the United States possibly on the verge of defaulting its debt and out of control spending, the future does not look to be the best for many people. Results from this would be very unfortunate for young people graduating college and looking for work as well. With potential of another recession and increased interest rates, many people could suffer if actions are not taken very soon to correct the troubles the country has found itself. This case gave a sense of how important of a role the government actually plays and affects daily life. It is also times like this where it can also be seen how important accountants are when it comes to giving reliable information. Without reliable information, many stakeholders may be deceived that their investments and livelihoods are in a good position when they are actually not as was the case for many of the people of Silicon Valley Bank.

## **The Economy and Responses**

In light of the recent collapse of Silicon Valley Bank and the current liquidity crisis, many more banks are in danger as the United States is close to defaulting on its debt for the first time in the country's existence. The United States has a debt limit that is set by Congress that regulates the amount the government can borrow to pay its debts (Debt Ceiling). Congress has the option to raise the debt ceiling which it has done many times throughout history; however, there is a continuing cycle. Every time the government hits the ceiling, it gets raised. It continues to spend more money with no end to this increase in sight. "Federal spending jumped from \$4.45 trillion in 2019 to \$6.21 trillion in 2023, according to the Congressional Budget Office. That is a 40 percent increase in four years" ("Chris Edwards"). Here, it can be directly seen just how much money the government is continually and increasingly spending. With this, "Failing to increase the debt limit would have catastrophic economic consequences. It would cause the government to default on its legal obligations – an unprecedented event in American history. That would precipitate another financial crisis and threaten the jobs and savings of everyday Americans – putting the United States right back in a deep economic hole, just as the country is recovering from the recent recession" (Debt Limit). Raising the debt ceiling will only be a temporary solution. Congress and the Executive Office seem to have no plan on decreasing spending as President Biden's budget proposal shows an 8 percent increase for 2024 ("Chris Edwards"). As the United States currently is experiencing inflation, more government spending will likely cause this issue to get worse. As written in an article in 2021, "Unfortunately, if extraordinary spending levels continue, monetary tapering or even tightening may not have its intended effect. Congress should therefore consider the inflationary risks of continuing its recent pattern of ballooning government spending" (Committee). The current inflation that is being experience has caused the Federal Reserve to

increase interest rate to combat; however, this has severe effects on families with loans due having a large debt from the rate hike (Briones). It can be concluded by some that the only real answer to the problems seen today is to decrease government spending. Many of the programs and bureaucratic agencies are seen at both the state and national levels; therefore, it may be time to relax the national agencies and let the states' agencies do the work.

### **How This Will Affect My Future Career**

As what will happen next is yet to be seen, one can look to the past as see similar financial crises and infer potential effects. One can also heed the warnings of current officials. In the case the United States defaults on its debt, a recession is almost certain. In times of recession, many businesses begin to stop hiring and sometimes ends up laying off employees because of lack of income. Interest rates could also spike making it difficult for many people looking to buy a homes and vehicles to afford them. The stock market could also tumble. Here, many people may not be able to build up their retirement funds and investments like they would hope (Folley). These elements would be particularly bad for students coming right out of college with little way to pay off debt while it grows larger due to the increased interest rate. For those in the workforce, fear of losing jobs and pay cuts could be very detrimental. This makes it harder for people to get ahead and simply have a comfortable life. This can be very disheartening but knowing that this situation could be in the near future helps to plan, and it makes work ethic all the more important. To survive in many of these situations as an accountant, a person will have to be willing to show just how much they want their job. Even more so, they will have to give quality work.

### **Change in Accounting and Auditing Rules**

With the fall of Silicon Valley Bank due to its liquidity issues, one can look at this instance and recognize a need for change in accounting and auditing rules. As it states in one article,

“Auditors are supposed to warn investors if companies are in trouble. They are required to evaluate ‘whether there is substantial doubt about the entity's ability to continue as a going concern’ for the next 12 months after the financial statements are issued” (Weil). Many stockholders were not able to get fully disclosed information; therefore, many were left with their investments being destroyed while some players were able to get major bonuses. “Now that they have, the government should take the opportunity to change accounting rules so that banks don't take on such careless risk for personal profit. Otherwise, SVB may be the tip of the iceberg” (Silber). It is possible that if this continues to go unchecked, there could be more banks and entities to collapse. “This was all legal under current regulatory and accounting frameworks” (Silber). For accounting information to show faithful representation, this should be considered.

## CASE VII : FINANCIAL CRISIS

Class started off the week with watching a video and reading a related article on the 2008 financial crisis. These sources gave a well-informed background for the topics of this week as it began with the showing the history that led to the financial crisis. This included events and actions that were taken decades before the crisis began. The task given was reflecting on how the materials affected my trust in the government and institutions, changed my beliefs on my role in society both professionally and personally, and what parallels are seen between today's political landscape and that around the time of the financial crisis. With this, it was also asked what can be learned from the crisis to help avert future crises whether financial or in other areas. It was very interesting to get an in depth look at this crisis as there is so much going on in today's financial and economic conditions. The financial crisis was very severe and felt by nearly everyone. It is interesting to realize how this massive crisis was caused by a few bad actors. With the recent fall of Silicon Valley Bank, many people are seeing many of the same signs from 2008. It can be worrisome when one thinks of how much damage can be done within the institutions and government meant to serve and protect the people. Accountants have a huge role in making sure that information is reliable and of good faith; however, many times in the beginning of crises and financial institution failures, accounting firms have stated to the shareholders and the public that the institutions were in great financial shape. While many executive officers and select shareholders have been able to make moves to protect themselves from upcoming disasters, other shareholders have been deceived. This shows just how important accountants are. As the current financial situation continues to head down paths that are eerily similar to those of the past, there are many factors that should be considered from the 2008 financial crisis to prevent another one.

## **Trust in Institutions and the Government**

After much research within this case, my trust of institutions and within the government has not grown; rather, it has decreased. With the evidence proven in the documentary and the article by Taibbi, many of the same firms and institutions have been involved in nearly all of the major financial crises in the past. What is even more interesting is that many of the US Treasury Secretaries in a few of the last administrations have had significant ties to the people of firms who have caused and taken advantage in some of the most destructive financial collapses in history (Taibbi). Although this is true, it does not stop there. Taibbi goes on to explain, “The heads of the Canadian and Italian national banks are Goldman alums, as is the head of the World Bank, the head of the New York Stock Exchange, the last two heads of the Federal Reserve Bank of New York — which, incidentally, is now in charge of overseeing Goldman — not to mention ...” (Taibbi). As it is seen many of the people who work for institutions also have deep relations to parts of the government which can at times be seen as conflicts of interest. Just as Taibbi named his article “The Great American Bubble Machine,” the documentary “Inside Job” also speaks about the bubble that led to the collapse. The financial bubble that led to the nearly demise of the financial sector in 2008 was due to the breakdown of the ‘securitization food chain.’ In the past, borrowers got loans and then paid them back to financial institutions of a specific period with interest; however, between 2001 and 2007, loans accelerated, and many loans could not be repaid (Ferguson). With institutions carelessly handling loans, although some argue that it was due to the deregulation of the financial sector that began decades before, it is seen how important the integrity in both financial institutions and the government is in protection and prosperity (Field). For people to gain trust in institutions and the government, integrity must be presented. From evidence of the past, people relating to these circumstances have done very little to ensure trust.

## **My Role in Society**

As I reflect on the materials presented for this case, it is quite evident that integrity of individuals is sometimes even more important than that of an entire firm. Careers are very important and there is much to be gained personally from prestigious careers; however, there are times when one must decide what is going to contribute to the greater good of society. Although it is often tempting for people to withhold information that could damage a business or lead to the loss of a job, it is important to remember that as an accountant, the livelihood of more than just oneself is on the line. When information is withheld, it gives select individual advantages when outlooks are grim. People must be brave and remain true to themselves and others. In the long run, being honest in not only financial situations leads to less problems down the road. People who stand for integrity are the people who end up protecting the integrity firms. Accountants are some of the most influential and important people in the financial world and even society. Their work gets overlooked at times; still, it is the work that retains accountability.

## **Parallels Between the Financial Crisis and Current Landscape**

With the recent fall of Silicon Valley Bank, there are many distinct parallels that are standing out. As it was discussed in the Ferguson documentary, the financial crisis of 2008 involved the fall of some banks soon after it was declared to be in sound shape according to the accounting firms just like the recent bank crisis (Ferguson). The outlook currently on the economy is not one that is widely celebrated. With talk a recession its way, many people are optimistic on how damaging this will be. “Following the collapse of SVB and the other institutions, Fed officials opened a new borrowing facility for banks and eased conditions for emergency loans at the discount window” (JeffCoxCNBCcom). With the history of financial institutions and the government, low discount windows may have unintended consequences. As there is much in

common with the fall of banks in 2008 as the recent fall of Silicon Valley Bank, it can be concluded that consumers may need to have their guard up now more than ever. Just as some actions were within legal boundaries in 2008, some of the same loopholes are being used today. “This was all legal under current regulatory and accounting frameworks” (Silber). It is possible with the current trajectory, there could be mass economic and financial hardship on the horizon. The current situation should be monitored carefully before it is too late.



**CASE VIII : EXCEL FUNDAMENTALS – FORMULAS FOR FINANCE**



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

**Colton Jones**

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

**Excel Fundamentals – Formulas for Finance**

with all the rights and privileges  
pertaining to this certificate.



Certificate number  
72536613

*Scott Powell*  
Chief Content Officer

April 26, 2023

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