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**EXPLORING ACCOUNTING EVENTS AND CHALLENGES: DELVING INTO AN
EVER CHANGING INDUSTRY**

by

Ravyn Garrett

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

The University of Mississippi

May 2024

Approved by



Advisor: Dr. Victoria Dickinson



Reader: Dean W. Mark Wilder

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ABSTRACT

This thesis is a result of a class that exists to facilitate discussion between future professionals regarding current events and modern day research in the accounting field as well as the business environment. The thesis course taken consists of a series of case studies that cover varying areas of financial reporting. These cases can vary greatly by topic; some include analyses of business ethics while others involve critically thinking about possible solutions to present day issues. Throughout the cases, my knowledge of the accounting subject continues to grow, and I make several personal discoveries along the way. The writing process typically consisted of reading articles, discussing events, or watching documentaries before researching the topics individually and constructing a thorough case. My thesis seeks to inform readers of my experience researching and learning about different areas of the accounting profession through a series of case studies.

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SUMMARY OF FINDINGS

Although I learned a great amount of information about accounting in the courses that are required for my accounting degree, this course and the topics discussed within it gave me an understanding of my future as an accountant. I did not only gain knowledge about how to solve problems by applying what I learned in my accounting classes, but I also gained knowledge about myself and the way that I think. I learned about ways that I believe others in my profession should handle the tasks given to us. This class taught me the importance of utilizing professional judgment and analyzing how a poor accounting situation can not only affect the individual accountant, but can also affect a business, each of its employees, and everyone that is investing in the business. We as accountants are entrusted with dealing with extremely valuable assets, often in large volumes, and having good intentions is crucial in order to defend them.

In this course, I learned why and how accounting is the language of business and economics is the foundation of business. I advanced my technical skills through gaining an Excel certification in Case 4. I also had to facilitate discussion with individuals of different backgrounds in order to agree on conclusions to complex issues, like in Case 1. The course also strengthened my research skills and taught me how to put my findings into words.

From all cases combined, I confidently claim to have gained an enhanced knowledge and understanding of financial reporting topics—a knowledge that is deeper than I could have ever learned without the course. Since I was taking classes that taught me technical skills, it was refreshing and incredibly beneficial to have been able to apply my knowledge to discussions of real-world events in the business world as well as general concepts throughout the profession.

This, in turn, made me a better student and inspired me to grow my technical skill set so that I can be a better steward of financial information in my career.

CASE 1: DISASTER CONTINGENCY

Bruce Buehler

Ravyn Garrett

Kolby Husted

Emma Yates

1 March 2023

Introduction and Summary

On February 3rd of 2023, a Norfolk Southern freight train derailed in East Palestine, Ohio. There were several hazardous materials and chemicals contained in the 38 cars that the train was pulling, many of which were released into the environment upon derailment of the train. After the incident, Norfolk Southern conducted a controlled burn in order to avoid explosions that may cause more intense consequences for the citizens of East Palestine.

In this case, our group was meant to research the incident and examine ways to account for the incident while dealing with the aftermath. This included examining compensation efforts and amounts, observing cost cuts implemented before the incident, examining the company's Environmental, Social, and Governance (ESG) Report for 2022, examining technology put into place to prevent disasters such as these, and more.

Throughout researching and writing the case, our group learned about the best practices as auditors when it comes to accounting for unexpected events and disasters such as the chemical release that occurred due to the train derailment. We learned how to examine financial information and ESG reports in order to discover useful information, and also were able to put our skills towards how we ourselves would solve the issue if we were the auditors of Norfolk Southern. It was beneficial to have prior knowledge of ESG standards, accounting for extraordinary events, and disaster prevention while analyzing the unfortunate incident that occurred last month.

ESG Report Findings

An ESG report gives information and data about a company's environmental, social and governance initiatives. We can look at an ESG report to find reasoning in explanations of decisions, incidents, and countless other events. Norfolk Southern's derailment and the chemical

issues that followed released an immense amount of potentially toxic waste, causing the community of East Palestine, OH to endure hardships. It is important and beneficial to observe the company's ESG report to see if there were any rules in place to prevent problems such as this.

The 2022 pre-derailment ESG report from Norfolk Southern focuses on two substantial topics: advancing sustainability and safety. Norfolk Southern takes a long-term view in their company and its future, hoping to be around for generations to come. In the report, their president and CEO, Alan H. Shaw, even goes as far as saying that the company's success means operating sustainably and safely. Investments to make the railroads safer and more efficient, to lower costs, and to build more infrastructure were stated, as well. An "Engaged Oversight" section of the ESG report states that additional steps were taken to assign vital areas of responsibility to specific committees including climate, safety, sustainability, human capital management, and cybersecurity. The question is, how did a company who promotes so much sustainability and safety have such a terrible derailment accident? From the ESG report, as stated above, they delegated responsibilities from the Board of Directors to numerous committees that only focus on one goal and that goal only. That sounds good, but the delegation of power opens new possibilities for fraudulent activities, concealing information, and more, all of which could have been related to the derailment issues. Another focus of Norfolk Southern's ESG report was an attempt to cut emissions as much as possible. One thing we know about Norfolk Southern pre-2022 is that a major goal of theirs was to cut capital investment costs and go lean—something that does not typically involve cutting carbon emissions.

Through investigation of Norfolk Southern's pre-derailment era, it is found that the ESG report was not useful in improving the operations of the company. The ESG report pushed main

ideas of safety, sustainability, and cutting emissions, but had no tangible evidence to support these claims. It is seen that the Board of Directors basically delegated much of their problems and worries to lower levels and allowed committees with their own personal agendas to run the company's programs.

Sensor Technology and ESG

The article gives an overview of the latest technological advancements in the railway industry. There has been a recent push for the requirement of electronically controlled pneumatic brakes (ECP). These brakes use digital communication to cut the reaction time using air power. It is a potential upgrade to the braking system, but it would be a costly enhancement considering every train car must have it for it to work. Another proposal has also gained traction in the push to advance railway technology. The technology would use sensors to detect potential issues with the train cars. Sensors could be used on the train tracks or on the wheels of the train. It is a much more cost-efficient way to prevent issues and should become more popular in the future. Many people think the sensors would have prevented the Norfolk Southern derailment, while ECP would not have.

This sensor technology is mentioned briefly in Norfolk Southern's ESG report. Page 14 discusses the technological advancements the company has recently made and plans on making. The sensor technology is not named, but the report does mention that certain "Digital Developments" were made. Norfolk Southern has "deployed fully automated, machine vision-equipped inspection corridors to detect signs and symptoms of pending failures before they occur," (page 14). The sensor technology they are referring to is located on the train car itself. According to the article, Norfolk Southern has voluntarily adopted nearly 1,000 sensors.

There is an uphill battle to require and implement railway technologies such as ECP or sensors. Many politicians have pushed back against the potential ECP requirement and are skeptical that it would have prevented the recent derailment. ECP would be a massive investment considering it must be installed on all trains at the same time. Some think installing sensors would be a much more efficient and reasonable way to prevent something like this from happening again. It will be interesting to watch the debate between the two, but the bottom line is something has to be done.

Compensating for Damages

The article “Locals Near Ohio Train Derailment Diagnosed with Bronchitis, Other Health Conditions After Chemical Exposure” in *People Magazine* details claims against Norfolk Southern that blame the company for their sicknesses. Several citizens of East Palestine, Ohio are being diagnosed with chemical bronchitis only days after the incident. However, the article claims that it is difficult to be sure if the train derailment is the source of the chemical sicknesses. “...Experts say it’s difficult to determine whether the symptoms of local residents and workers are directly linked to the derailment,” the article states (paragraph 10). It goes on to say, “It’s certainly reasonable to say if you have a rash... that it could be related. There really isn’t a way to tell for sure, unfortunately,” (paragraph 11).

An article titled “Animals Are Dying All Over Ohio. Farmers Are Blaming This Train Crash” by *Outdoors* addresses the deaths of rabbits, foxes, and other wildlife that are believed to be a result of the crash. Similarly to the citizens who are coming down with bronchitis after the crash, it is too difficult to be able to determine if these deaths are connected. “Officials haven’t confirmed that the farm animal deaths are related to the train crash. However, they have publicly

announced that at least 43,000 aquatic animals have died as a result of the chemical spill,” states the author, Corey Buhay (paragraph 3).

Although there is sufficient reason to believe that the train derailment is the reason that these people are becoming sick, it would not be reasonable to expect direct compensation without concrete evidence. The train derailment was a recent event, so the details are still in development. As of now, Norfolk Southern should not be held legally responsible for compensating those who are getting sick or the people whose animals are passing away weeks after the incident. However, it has been confirmed that a significant number of aquatic wildlife have died directly resulting from the chemical release. This means that it is reasonable to expect compensation from Norfolk Southern in some way for what can definitely be connected to the spill, especially since Norfolk Southern is responsible for the derailment.

Since there is a lack of information about the incident so soon after the derailment, it can be useful and beneficial to look back on similar incidents and observe how they were handled when it comes to how to determine the amounts of compensation that should be paid. A recent and similar incident is the British Petroleum (BP) Deepwater Horizon explosion and oil spill in the Gulf of Mexico in April of 2010. Settlements were not reached until 2016, but once an agreement was reached, British Petroleum was responsible for paying the largest environmental damage settlement in the history of the United States at a total of \$20.8 billion.

When the settlement was reached, the claims against the business became covered. Similarly, with the lawsuits already piling up against Norfolk Southern, a similar settlement could solve the legal disputes. An article detailing the allocation of the settlement money says, “When Congress passed the RESTORE Act in 2012, it dedicated 80 percent of all administrative and civil penalties from the responsible parties to ecological and economic recovery efforts in the

Gulf,” (NOAA paragraph 1). This money was split between research and restoration efforts, organizations and institutions, governmental funds, and more in order to make up for the damage that was caused due to the spill.

It can be safely assumed that following a similar course of action would be beneficial in the case of the trail derailment, considering that both disasters caused disastrous environmental consequences and have had several lawsuits against them citing the incidents.

Should Shareholders Continue to Receive their Payments?

Since the Norfolk Southern derailment on February 3, Norfolk Southern has spent more than six billion dollars. Between businesses, residents, schools, and community assistance funds, it appears Norfolk Southern is attempting to mend their relationships with the public. However, once more research is done, it becomes clear that they are spending even more money on payments to shareholders. CNN reports that in March of 2022, Norfolk Southern devised a plan to spend \$7.5 billion “to repurchase its own shares in order to benefit its shareholders,” (Isidore). Although they have not spoken out to state that this plan is still in place, they have not spoken up to say that it has been redacted, either.

Norfolk Southern revealed they have over \$1.2 billion of insurance coverage to assist with the damage caused from the derailment. This could mean a portion of the funds going out to the communities are not directly from Norfolk Southern’s account, but actually from insurance money. It is also noted that, in 2022, total shareholder payments were \$4.6 billion (Isidore). This number is important because they are not spending that same amount on safety or on their employees. For instance, train companies are laying off employees and giving hourly employees less than seven sick days a year. This raises questions about whether an increase in staffing would have helped to prevent the derailment. Additionally, the FRA proposed a plan to place a

new, modernized braking system on trains carrying hazardous materials (Isidore). The project would be costly, but spread across twenty years and the entire industry, the benefits would outweigh the costs. Railroad associations note that improvements like these are small costs in comparison to the amount these companies are paying shareholders; however, improvements like these increase safety across the entire train industry.

The idea of repurchasing shares for shareholder benefit has been an extremely common theme lately. An article states, “Share repurchases are designed to help increase the value of the stock by reducing the number of shares outstanding, and each share becomes more valuable because it represents a greater percentage of the company’s overall ownership,” (Isidore). This is a useful tactic because even if the overall profit falls, earnings per share can still rise. When companies repurchase their own shares, especially at such a high volume, it increases wealth for their shareholders. CNN writes that across America in 2022, “share repurchases reached almost one trillion dollars for the first time,” (Isidore). This is an absurd amount of money that corporations are investing back into their shareholders whenever they could be focusing on an increase in safety or increased wages for their employees.

For the previous question, the group was unsure what amount of compensation Norfolk Southern should be responsible for. Since the derailment was so recent, it is hard to know the exact amount and area of damage caused. However, we do think Norfolk Southern should be held accountable for the derailment because small steps towards increased safety beforehand could have made a large difference. It is important they stop focusing so much on their shareholders and shift focus toward safety and employees. Safety is imperative because in an event like a derailment, it affects a greater amount of people than just Norfolk Southern internally. For this circumstance, shareholders should not be rewarded their full compensation

because of the tremendous negative impact that the derailment has had on East Palestine. Additionally, it is unknown how far the negative effects of this derailment will travel.

East Palestine's Derailment: a Political Problem?

The derailment of the Norfolk Southern has brought much controversy, not just over the incident and its aftermath, but also politically. The East Palestine region is a more conservative area that voted for Donald Trump three-to-one, which led to multiple media commentators to say that that was to blame for derailments. Other media outlets searched for a conclusion, as well, alluding to the fact that the Biden administration was slow to react to the disaster because of the area's voting trends. While American citizens of East Palestine fight horrible emissions in their area, fading wildlife, lower valued homes and assets, and countless other problems, hundreds of billions of dollars are being sent to Ukraine under the Biden administration. This money comes straight from American taxpayers' pockets. Instead of funding its own citizens and ensuring the East Palestine communities and those around the area are safe, the government is funding an extremely expensive war, but at what cost? The citizens of East Palestine and the surrounding area have the right to be angry at the government. When a disaster of this level happens, political affiliation should not be a factor in administering aid. The technology and ability needed to run environment scanning, other testing, and the proper cleansing and elimination of said problems, are at large something that few actually have access to. It takes real professionals and experts to diagnose and fix environmental problems, especially those that involve potentially toxic chemicals. Exclusion of aid due to political preferences is a circumstance that needs to be evaluated deeply if these media outlets are correct. Not only should the East Palestine community be angry with the government for its delayed actions, but American citizens as a whole should also find it to be an injustice.

Audit Procedures

Financial reporting after an event such as this is quite difficult because it is different from a natural disaster or a disaster preparedness audit. The financial reporting risks that may be associated with the derailment would greatly be reliant on ensuring that the amounts listed on the financial statements are correct. Because of the inability to forecast an event such a derailment, amounts on the budget would be extremely skewed from the current numbers. The cash audit would be important to ensure that all amounts are appropriately and correctly accounted for.

Audit procedures would be fairly similar to previous years. In their 2022 audit, Norfolk Southern is said to have poor communication concerning multiple safety features. According to WKBN27, “The audit states that the required equipment inspections were performed, but in some cases, either the defective conditions that were identified by the inspections were not reported to the mechanical department for repair, or the equipment was not removed from service until repairs could be made,” (Simeon). The audit summary states there were shortcomings in their mechanical department that could have led to a derailment. As a multi-billion-dollar train company, this would seem to raise a red flag for an area of improvement. Internal audit procedures that monitor safety would need a large amount of attention. These internal auditors focused on safety would be responsible for ensuring that these mechanical errors would not be lost in communication. In addition, train cars carrying hazardous materials are supposed to be noted by a card listing every material on board. However, Norfolk Southern was said to not have been double checking that this was being done. When the derailment occurred, these cards had not been put on all of the train cars that contained hazardous material. Therefore, it took almost a week to identify all of the chemicals that first responders were exposed to. It would be immensely important for auditors to ensure there is someone in place to check to confirm the

identifiers are in place. Perhaps by changing these two small internal positions to ensure communication about mechanical issues and proper identification of chemicals, this derailment could have been avoided.

Financial statements would also be affected by this derailment. The most affected portion would be assets that have been destroyed. When an asset is destroyed, it will be recorded as an expense, and these expensed assets would have an effect on the balance sheet. Another affected portion of the balance sheet would be environmental liabilities. Because the derailment leaked an immense amount of hazardous chemicals, the negative toll on the environment will be substantial. The implications of this derailment will be large because of the chemicals that the area was exposed to. It will be important to confirm that all assets such as machinery, inventory, and equipment are correctly accounted for. Although the derailment could have been avoided if Norfolk Southern had followed their audit suggestions from 2022, it will not be even more difficult to audit their whole company in 2023.

CASE 2: LIQUIDITY CRISIS

Ravyn Garrett

5 April 2023

Introduction

In this case, our task was to educate ourselves on accounting for held-to-maturity investments and read assigned materials in order to learn more about the Silicon Valley Bank (SVB) Crisis that occurred on March 10th, 2023. The Silicon Valley Bank collapsed on a day where there were more withdrawals than the bank could keep up with. It had a considerable amount of uninsured money, and its held-to-maturity securities decreased in value greatly. This bank failure is one of the largest in the history of the United States.

Our class watched videos on the subject and read different articles from websites such as the CATO Institute and CNN. After taking thorough notes and having discussions with our classmates, we were given questions regarding our personal thoughts on the collapse and how it was handled from all sides. We discussed the fact that the audit of the bank was approved only weeks before the collapse and also discussed the collapse's effect on the future economy and future policies.

Learning about this banking failure taught me many things about the economy in today's world, the government's response to financial disasters, and more. The most interesting part of the case was when we read the article about the federal spending budget. When different classmates gave opinions on what should receive less funding in order to possibly bring down the national debt, I got an insight into the minds of other future accountants, who will be managing issues such as the banking crisis in the years to come.

This case taught me the importance of thinking critically and logically to find solutions that are not obvious. It is not always possible to look at past events in order to solve problems happening in the present day, as the economy of today is different than it was years ago, and new financial and governmental rules and regulations exist today than ever before.

Effect on the Economy

The Silicon Valley Bank's failure is not the first of its kind and likely will not be the last. Such drastic failures are bound to have negative consequences on the economy, as millions of bank users lose their money and their trust in different banking institutions that were thought to be sophisticated. Companies such as Etsy and Roku were connected to the Silicon Valley Bank, and for those companies and individual bank users, even more disaster may have ensued. However, the Federal Government has stepped in and said that they will repay the full amount that the bank owes to its depositors. Therefore, users of Silicon Valley Bank are safe from losing all of their funds.

Silicon Valley Bank was using its depositors' money to invest in billions of dollars worth of government securities which were classified as held-to-maturity.

The collapse of banks will negatively affect the economy in a number of ways, but most of them have minor impacts for the general public. What I believe will negatively affect the economy is the increased government spending in order to make up for the mistake of a non-government entity such as Silicon Valley Bank. When the federal spending budget was observed during class, it was very clear how excessive the spending is, especially because of its percentage increase from previous years. There are already many programs that are overfunded. American taxpayers are taking on the burden of paying back the users of Silicon Valley Bank. The monetary response should likely be exactly what it is—the money should be paid back by the Federal Government, but this should not extend to future bank failures. Regarding fiscal policy, it is my belief that Congress should make a law restricting the amount of depositors' money that can be used to invest in debt or equity securities.

Effect on my Future Career

This event may potentially affect my career by changing the rules of accounting that I will need to follow. The specific changes that may be made to the auditing profession are unsure; I would not be able to guess what they will be. However, because of such a prestigious public accounting firm being faulted for approving an audit only a short time before the bank's collapse, there will likely be stricter accounting standards put into place regarding banking issues. The Silicon Valley Bank's Collapse truthfully affected many innocent individuals, companies, accounting firms, and the Federal Government, so the issue is not one to be taken lightly.

When it comes to how I will think about my career, I think back to the discussion in class and the emphasis on accounting being a noble profession. There are many situations that may arise in which it would be easier to not ask further questions so as to not get myself or my future place of employment in trouble. I believe that doing the right thing and doing the most research that I can into something that I think may cause a future problem would be the best thing that I alone could do to help prevent such issues.

On a personal level, when it comes to how I will store my future career earnings, I will surely be careful where I am placing my money. I also plan to keep my money spread out in multiple different accounts with different banks, since the FDIC only insures \$250,000 of each depositor's money. Although the government is covering the money that was not insured in the case of SVB, the same will likely not apply in the future, as banks are able to learn from this terrible situation.

Accounting Changes and Response

I believe that the most important accounting change that could be made is even further rules and regulations on risk assessment for the entities that are being audited. Since a full

investigation has not been launched, one could not know how much KPMG was at fault for the incident, if at all; however, it is possible that the issue was due to a lack of transparency from the bank.

Perhaps banks will have to more clearly define where their money is coming from while investing in securities. This will let accountants be able to further assess a banking institution's liquidity instead of mostly assessing its worth in assets or liabilities.

CASE 3: FINANCIAL CRISIS HISTORY

Ravyn Garrett

12 April 2023

Introduction

In this case, my classmates and I were instructed to watch a movie and read an article discussing the Global Financial Crisis, also known as the Financial Crisis of 2007-2008, and critically think about the events which caused this to occur. We were meant to watch the documentary “Inside Job,” which interviewed many key players in the events leading up to the financial crisis, and read a Rolling Stone article detailing Goldman Sachs’ role in the many turbulences of the United States economy.

Watching the documentary gave me deeper insight into just how much the American public is lied to by large financial institutions. We are taught, as citizens, to place all of our trust into these institutions, which are usually backed by the Federal Government. However, it is clear that the Federal Government favors these financial institutions more than it favors its taxpayers’ money, the same people who vote them into office. I will explore this new distrust in these institutions further into the paper.

The *Rolling Stone* article that we read for this case was titled “The Great American Bubble Machine,” and was written by Matt Taibbi. The article went into depth about Goldman Sachs and their suspicious behavior that they have been allowed to get away with for decades with no regulations put in place on them from the Federal Government.

The materials that we were given for this case taught me that there are always going to be obstacles that I, as a future accountant, will have to face. Additionally, it was interesting for me to learn what led to the Global Financial Crisis. I have heard about it from my family members before, but there is a lot to the story that is difficult to understand. Thankfully, my accounting and finance classes have enabled me to understand the financial events that occurred clearly, and I hope to apply this knowledge to future conversations.

Effect on Trust

The materials given have certainly negatively affected my trust in financial institutions and the government. Throughout the film, I was aware of how terrible and impactful the unethical activities of investment and private banks were, and I was shocked at their direct effects on the United States economy. However, it was not until later in the film that I realized how many of the same men that were participating in illegal and unethical activities were being appointed to very powerful positions in the Federal Government, such as Chairman of the Federal Reserve. The presidents who selected these men were not unaware of what was going on behind the scenes, but it didn't matter. The government had already shown that they will not stand up to these financial institutions that are taking advantage of their power. One example of this is when Citigroup was illegally formed, but granted exemption for a year before a law was passed stating that what they did is actually legal. The Chairman of the Federal Reserve at the time did not say anything about the issue. The government chose not to regulate the derivatives that had the potential to cause economic disasters.

The one part of the documentary that made me think that the Federal Government was looking out for United States citizens is the scene where the senators are harshly criticizing the Goldman Sachs employees regarding their bets against their own securities.

Changed Beliefs

The materials that we watched and read changed my beliefs about my role in society in several ways, both professionally and personally. Professionally, reading about Goldman Sachs and watching the documentary encouraged me to be sure that I am a noble accountant once I enter my career, and make hard decisions for the greater good when necessary.

Personally, the materials made me realize just how much everyone is looking out for themselves. Throughout learning about the individuals that contributed to the Global Financial Crisis, I considered whether or not I would act in the same way that they did if I were in their same shoes. They likely knew that, because of other peoples' involvement in the activity, the economy was bound to crash as a result regardless; part of me wondered if I should blame them for taking the chance to provide for themselves. In the end, though, I certainly did find it appropriate to blame them. I would not do the same thing in their position because there are countless moral and ethical issues surrounding their illegal and suspicious activity.

There will always be obstacles that I will have to face in my future career as well as my personal life. Ethical issues run rampant among careers that so heavily involve finances, and it is important to do what is best for everyone.

Parallels

One parallel between the political landscape that brought on the financial crisis and our current political environment which is most visible to me is that there is a refusal from the Federal Government to regulate financial institutions. Another is that I believe the Federal Government continues to ignore the wants and needs of the nation as a whole when deciding on where its financial assets are being distributed.

This crisis can teach everyone around the world a multitude of things; most importantly, though, I believe that it teaches not to blindly trust anyone, no matter how reputable their brand. The false ratings on the CDOs involved in the crisis were a key factor to the economic downfall of the United States. Since I am an accounting major, I believe that it is my duty to educate myself on events such as this so that I can identify similar situations in the future. The average

American is not able to see where these problems may arise and is likely to trust the government as well as these famous financial institutions due to their prestige.

CASE 4: EXCEL CRASH COURSE

Ravyn Garrett

22 April 2023



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

Ravyn Garrett

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
72308491

Scott Powell
Chief Content Officer

April 22, 2023

CASE 5: ACQUISITION METHODOLOGIES

Ravyn Garrett

12 September 2023

Introduction and Summary

In this case, my class watched the documentary titled *The China Hustle*. The documentary, directed and written by Jed Rothstein, details a string of events that occurred after the financial crisis of 2008. Investment firms in the United States were at a low point following the crisis, and investment bankers that worked at these companies were attempting to find ways to make high profits again. An opportunity arose when these bankers were able to facilitate investment transactions for Americans in Chinese companies through reverse mergers. These Chinese companies were marketed as growing and profitable companies, and therefore a solid investment.

The documentary states that investment conferences—such as those hosted by Roth Capital—helped to start the investing frenzy. Certain investment firms invited potential investors from all over the country to participate in luxurious conferences that featured special guests like musicians and public political figures. These guests at the conferences helped to build investors' trust and confidence in the quality of the companies that they were investing in, as well as building their trust in the actual investment banks that were hosting these conferences. These conferences lead to a high volume of investors purchasing stock in these Chinese companies in a short amount of time. In turn, the price per stock became overvalued. Inevitably, over time, these stocks went down in price to their fair value and left investors with very low-valued stock to sell.

I had never heard of this financial disaster before watching the film. To be frank, everything I have learned in this course has driven me to lessen my trust in financial institutions in America, as they are often only protecting themselves rather than innocent American customers. I learned that natural skepticism is a trait that is useful for individuals to have in today's world.

Effect on Trust in the Financial Industry and Government

This documentary further diminished my trust in American banking and financial institutions. The documentary makes it clear that individuals that work in the financial industry are often led by their own selfish desires. It is my opinion that choosing a career in finance or accounting would imply that one wants to use their expertise to provide a service to others. Workers in financial services should be eager to help their clients; after all, that is what they are paid to do. When enough individuals act selfishly with a large enough sum of money, innocent people's lives are ruined.

This documentary did not positively affect my trust in the United States government; however, it did not negatively affect my views either. I have already been driven to minimally trust in the government after learning of the various financial disasters that have occurred through negligent accounting and greedy financial practices.

I had mixed thoughts and feelings regarding the individuals chosen to represent the investment industry. While some of them clearly had a carefree perspective on what happened, others were truly trying to right the wrongs and hold others accountable.

Special Purpose Acquisition Corporations

A special purpose acquisition corporation (SPAC) is a company that exists for the facilitation of mergers into other private companies. They are corporations that consist of a private company that wants to be able to be publicly traded. The special purpose acquisition corporation itself is not a business, as it does not conduct any business operations. SPACs are widely known to be more efficient than traditional Initial Public Offerings (IPOs) because they simplify the capital-raising process.

SPACs are similar to the reverse mergers discussed in the film. SPACs are actually a special type of reverse merger in which capital is raised before the private company is purchased by the SPAC to be traded on the stock exchange. The reverse mergers discussed in the film can be implemented in a few short months. They allow private companies to acquire a public company so that the private company can also be listed in public markets.

Views on Global Business

This documentary included many examples of American citizens' interests being disregarded when it comes to the global business environment and investments in foreign companies. The documentary compared China to "the Wild West" when it came to global financial investors, in that there was no legal action against those that committed crimes (such as those shown in the documentary).

Although the foreign companies given as examples in the documentary were the ones that were only doing about ten percent of what they were claiming to do and 75 percent of Chinese revenue was discovered to be fraudulent, American investment firms did not do their due diligence in choosing safe investments. The consequences that the Chinese companies faced for their actions were minimal, yet their gross overstatements enacted terrible consequences on the lives of thousands of American investors.

It is heartbreaking that investors in America that relied on their income from investments for retirement were left penniless through the deceit from the American investment banks and foreign companies. The documentary interviewed an elderly man who was excited to be able to retire and pay for the remaining years of his life through his investments; this man and his wife were robbed of their money from companies and individuals with a complete disregard for Americans' livelihoods. Although foreign companies had misused the paid-in capital that they

received from investors, American investment banks were the ones facilitating and encouraging these transactions for personal gain. Many investment bankers made a fortune from selling foreign stock in companies that were overstating their revenues. By the end of the crisis, Americans had collectively lost billions.

My Role in Society as a Professional

This course has taught me a lot about how important it is to be a moral person and professional. Accounting is an extremely important profession; accountants not only have an abundance of access to information that can get them ahead, but they often also have access to other people's money. When one chooses a profession that involves money in this way, it is important to remember what the right thing to do is. Since those that work in the financial industry have a lot of influence on individuals' financial decisions, it is easy to fool others into doing something that is not actually best for them for your own personal gain. This is what happened with the investment bankers that encouraged investors to purchase stock in foreign companies.

I am confident that I will always strive to do the right thing in my professional life, even if it is difficult.

CASE 6: MILITARY INDUSTRIAL COMPLEX

Kate Downs

Ravyn Garrett

Kai Jeffreys

Griffen Kenneally

Caroline Klocke

24 October 2023

Introduction

In this case, our group was asked to investigate different components as well as opinions concerning recent military spending in the United States. The relationship between the defense industry and the national defense that it supplies, referred to as the military-industrial complex, presents many loopholes and questionable aspects in the context of the Ukrainian-Russian war. Through a series of articles and videos relating to this issue, we were able to better understand not only the history of increased military spending, but also the benefits and drawbacks of global intervention for the economy. In the first video, which was a farewell speech delivered by President Dwight D. Eisenhower, Eisenhower urged for increased military spending and to take nothing for granted. He also speaks of alert, knowledgeable citizenry as he boasts on our military strength, enabling the safety and security of private domestic comfort. Ironically, he concludes his statement with pleas to not commercialize the military—the irony being that the defense industry now stands as one of the most profit-driven industries in America.

Furthermore, presidential drawdowns, an efficient and useful asset of our executive branch, is a tool intended to support global allies through allocating U.S. soldiers and weapons. Over the years, this defense fund has increased from \$100 million to \$11 billion. Some of these funds have gone towards Ukraine. However, concerns arise regarding the nature of oversight in such funds. Volodymyr Zelensky, the current Ukrainian president, utilizes his background as a performer to appeal to the masses. His relaxed style of leadership, presented through his casual attire when making public statements, raises concern for some American taxpayers who question Zelensky's reputability. Another concern of taxpayers is the fact that the United States, seeing itself as morally obligated to assist foreign nations financially, is essentially depleting our nation's own funds that could be used to solve issues within our own borders.

Forecasts of Future Profitability for Defense Industry Clients

When evaluating the probability of furthering economic and military support to foreign nations, there lies a great political divide in the United States. The political right pleads to halt the depletion of already scarce finances and resources, urging they should be allocated toward fixing internal issues. This argument, presented in the Congressional floor discussion video, is strengthened through the Florida representative's mentioning of continual massacres and deaths that occur domestically. Not to mention, the elephant in the room of our country – our colossal debt that continues to deepen – serves as a gaping hole that enhances US vulnerability when it comes to funding said support for Ukraine. What appears to be US capital reveals itself as assets borrowed from China, an economic and political competitor. The left emphasizes the importance of our loyalty to democratic nations and that we must use our plethora of resources in efforts to protect their rights. They argue that although costly, supporting Ukraine is an investment in the international preservation of democracy against forceful nations like Russia. Either way, US global power diminishes regardless of the direction its policy decides to take regarding domestic or foreign affairs. It is difficult to make a powerful external statement when the internal state of a country crumbles; on the other hand, it may communicate foreign weakness if we withdraw support before the conclusion of a war. Rather, the question stands: should our duty and efforts go toward replenishing our strength from within or from persisting efforts to fight abroad?

Although domestic affairs require more attention and funding, there seems to be no impending stop in increasing the fund for military spending. When applying the previously discussed dilemma toward the defense industry, it will undeniably profit regardless of which step the United States decides to take. Ukrainian politician, Dmytro Kuleba, points out a fact that many American citizens have failed to notice: “Just as we have benefited from Western weapons,

Western arms manufacturers also gain unique advantages in the market to improve their models and create even more powerful weapons,” (Associated Press). With a large growth in production needs, comes a large growth in the defense industry’s financial ability to advance their technology and increase profits. The reality is that defense companies struggle when our country is at peace, and unfortunately, see the most financial gain when the US and its allies are at war. Think tanks, advisors to the senate regarding defense budgets, stain what should be unbiased policy counsel through their secret allegiance to defense industries. It was discovered that every think tank represented in a House Armed Services Committee that revealed their donors from January 1, 2020 to September 16, 2022, got their funding from companies that make weapons (Semler). Through generous donations to think tanks, military contract companies hold the ability to not only corrupt but influence policies to align with their profitable interests. In times of war, large defense companies enjoy the benefits of profits from global conflict. The growing market presents over ten billion dollars’ worth in opportunities, as actual defense is meaningless without the industry driving it. With long-range missile and tank system contracts holding dates with maturity in ten years, there is a surging growth and demand for weapon development. Supplemented by this demand follows not only our depleted inventory due to our generous donations to Ukraine, but also rising war times with the addition of the Palestinian-Israeli conflict. Additionally, Ukraine began their efforts in mobilizing international alliances to pool weaponry from other nations as well as enhance development of Ukrainian defense weapons.

While making this point, it is important to say that the defense industry protects the nation. Without it, we would fall short to our enemies and be put in a vulnerable position as a nation. In 1940, as the Nazis came through France, John F. Kennedy wrote in a letter, “The failure to build up her armaments has not saved England from a war, and may cost her one. Are

we in America to let that lesson go unlearned?” (Stoll). This quote seemed valuable because there must be one thing that was clear through the extent of this case study, and that many sources can agree on. The United States often finds themselves in a position to be at war, or an ally of a nation at war. Therefore, failing to constantly innovate and stay ahead in our military equipment and technology would be foolish.

In simple terms, defense industries will benefit from this conflict, regardless of where the battles are fought. Peaceful circumstances stagnate the profits of weapon contractors. With no end of the Ukrainian war approaching in combination with an impending world war, such companies will experience surges in capital. As national economies and innocent people continue to suffer, arms industries and corrupt government officials will thrive. A lack of true oversight over these resources only opens more opportunities to enhance arms revenue. Regardless of moral obligation, there are alternative loyalties to profit that cloud our true duty to protect. Capital will continue to circulate in the midst of death and massacre, as it offers opportunities to develop greater and more powerful weapons.

With this in mind, it brought up concern for the group. How can we trust that the decisions our lawmakers make are not heavily influenced by the defense industry’s profit-driven interests? Although we see the importance of constantly innovating and remaining a global military leader, it also seems excessive to increase spending once again.

Military Spending’s Effect on U.S. Financial Elements

Military spending has significant effects on topics such as supply chain issues, national debt, interest rates, and inflation. Military spending makes up the largest portion of the discretionary budget. 12 percent of the federal budget is allocated to military spending, whether used on salaries, equipment, etc.; any military-related costs go into this category.

However, the Biden administration increased spending on defense by about \$70 billion from 2021 to 2022. Some of this was due to the additional aid sent to Ukraine that the budget did not previously fit. Increasing the federal budget in this way has a direct effect on the nation's national debt. Since Biden was sworn into office, the national debt has risen by almost \$5 trillion.

Raising the federal defense budget has also affected the supply chain. There is sufficient reasoning to believe that manufacturing companies will not be able to keep up with the surging demand for equipment.

Typically, when money is spent on military funding, the debt to gross domestic product ratio increases, which raises interest rates in the market. Increases in military spending have been shown to increase interest rates, while cuts in the budget have lowered them. The rising of interest rates is highly correlated with inflation, and there is clearly an issue with inflation in the nation today. The excessive military spending that the Biden administration has continued to enact and approve is no doubt making inflation an even bigger problem that Americans face today.

President Biden has asked Congress to approve the most expensive foreign aid package ever approved at once to assist the Ukrainian war efforts. Surprisingly, this package is worth upwards of \$100 billion. Biden has several possible incentives for attempting to send more valuable assets to Ukraine.

One possible incentive for Biden to request this additional aid for Ukraine is because of the upcoming presidential election taking place in 2024. Since this last aid package request is the largest of the others, there will likely be no need to request more aid in the future; the requested aid of \$100 billion should be enough to work with for the rest of Biden's term until the election.

The approval of this large sum of money in advance would give the Biden administration ample time to allocate the funding or spend it at their own pace, but since the amount would have already been approved by Congress, there would be no more time nor a reason for a debate as to whether this aid should be sent. This gives President Biden more time to make other matters be the center of his election campaign.

Another incentive for Biden's request is that, when military equipment is sent as aid to foreign countries, the United States military is often able to replace a portion of the equipment with brand-new equipment. This equipment is replenished by weapons manufacturing companies. When these weapons manufacturing companies are contracted to construct even more weapons and equipment for the U.S. military, they are receiving large sums of money taken from the federal budget. Not only does the U.S. military get new equipment, but as stated, the weapons manufacturing companies are also benefiting from this decision. Although there is no current funding in place to receive new combat hardware, there is proper authority to replace it when given as aid.

As additional commentary regarding the previous point, there are "think tanks" which counsel Congress regarding military spending. These think tanks are largely funded by weapons manufacturers. This means that weapons manufacturers are directly encouraging the U.S. government to spend more money on equipment so that the weapons manufacturers can recognize even more revenue.

Costs of Conflict

Both can be said to be true when it comes to Biden's intentions to be duty-bound by the defense industry but also to have a personal allegiance to Ukraine. There is a double meaning behind the request for the huge federal aid package to help Ukraine. Biden's request to Congress

for aid of over \$100 billion comes as a benefit to America in that we are able to boost our own defense industries and sustain American manufacturing jobs. Most of the aid will consist of weapons and equipment made by American defense contractors. This alone is not only a reason to push this defense spending package, but it allows a rebate from Congress spending if it is completed.

When it comes to Biden's allegiance to Ukraine, it can simply be assumed that it is based upon his own personal debts he owes to the country by way of his son. In 2020, Biden seemingly threatened to withhold the billion dollars promised to Ukraine if the Ukrainian prosecutor General Victor Shokin was not fired. This comes as a result of the prosecutor's investigation of a corruption scheme in 2006 involving Joe Biden's son, Hunter. Hunter was the recipient of over \$3 million from the natural gas company called Burisma Holdings. Ultimately, the prosecutor was fired and the transaction was fulfilled. Biden's overall apparent goal on the forefront is to unite America over the importance of helping Ukraine.

Many lives have been lost as a result of America's aid to Ukraine. The cost of the war in terms of quality of lives has been great as it pertains to safe living conditions, food security, and economic development. Individuals often forget to recognize the great effects of this not only on the Ukrainian people, but also of those in surrounding countries. Russia and Ukraine were formerly critical suppliers of food commodities. Russia is using the weaponization of food to drive food prices up in places like Africa. This has disrupted Africa's economy and has caused poverty to increase, resulting in the potential loss of lives. Ukraine is not financially stable enough to not need any support from America. With increased support for the defense industry in Ukraine, we as a country can help fight atrocities. The funding is not only needed for military defense purposes, but it is also needed to support the first responders in Ukraine as well as to

provide some relief and meet the needs of the Ukrainian refugees. There are millions of Ukrainian refugees. The longer the war goes on, the smaller the chances of them returning home, as they are more apt to integrate into the societies of their host countries. This affects their economy and the quality of lives of the people who are currently still living through these conditions, as the majority of the labor force makes up these millions of people who are displaced and are refugees.

The Risk and Gain of Funding War

Over the course of more than two decades, the United States has spent billions of dollars on the war in the Middle East, costing the U.S. military thousands of military personnel. There is also an increase of military members who are permanently injured or suffering lifelong trauma as a result. An article about the issue writes, “Despite 20 years of outside support, billions of dollars of funding, an extensive program of training and U.S. air support, the Afghan security forces largely collapsed” (BBC 10). Within weeks of President Biden calling American troops home, the Afghan country and government collapsed despite the United States’ previous sacrifices. The war in the Middle East was a grave loss for America. The American military was able to keep terrorist factions at bay for many years. In terms of the cost of this aid, an article states, “In baser terms, Uncle Sam has spent more keeping the Taliban at bay than the net worths of Jeff Bezos, Elon Musk, Bill Gates and the 30 richest billionaires in America, combined,” (Tucker 3).

The cost alone of aid for troops injured or killed in the war has risen to 300 billion with another half a trillion to be expected in the coming years. The interest payments are expected to increase to 6.5 trillion by 2050 with the United States already paying off over \$500 billion of interest payments. Trillions of dollars were lost, over 7,000 troops were killed with tens of

thousands more permanently injured, and Afghanistan fell back into the hands of the group they had been fighting with for over 20 years.

With the war in Ukraine, we have sent and continue to send billions of American taxpayer dollars in aid, thus increasing our national debt another \$70 billion at least. Unlike the war on terrorism, we are aiding in this war without us having been directly involved. The large majority of aid being sent to Ukraine has been directed to war efforts. Hundreds of tanks, rocket launchers, and missile defense systems have been sent to keep the Russian offensive at a halt through the first few years. Ex-U.S Lieutenant General Ben Hodges stated that, without our aid, Ukraine “would've been probably overrun, defeated, certainly would've lost a lot more,” (Chasan 10).

Despite this aid, and unlike the war in the Middle East, America has reportedly not sent over a single troop. In scope with the previous conflict we are in, keeping American soldiers safe should be priority number one. On top of militaristic aid, the United States government has been financially aiding the Ukrainian economy, funding multiple small businesses and paying the salaries of all first responders in the country. The position of the government and the country is divided on the President’s response to fund Ukraine. Many right-leaning congressmen and women oppose the continuous aid on the war in Ukraine. They believe that if we are going to continue to go into trillions dollars of debt, it should be spent on the safety of American citizens and not foreign fights. On the other hand, left-leaning congressmen and women believe that protecting a democracy from a “tyrannical” power such as Russia is worthy of putting our country deeper in debt. Through the defense of Ukraine, America does have a lot to gain. If Ukraine is successful in defending its country, the U.S. gains an ally right on Russia’s doorstep. Ukraine is a country with vast oil reserves and resources.

The risk of helping Ukraine is becoming an enemy of Russia, which boasts immense militaristic power. If the United States aid packages are able to keep Russia from acquiring Ukraine, there is much to gain.

Concluding Thoughts

The group found that the effects of military spending on the American people are often more negative than pleasant, if only because the government clearly does not have the citizens' interests in mind when making these decisions. Instead, there is significant push from weapons manufacturing companies to spend more money on new equipment for the U.S. military. President Biden and his administration clearly have selfish motivations behind some of the federal spending. There is also an utter disregard for the desires of the American people while the Biden administration sends funding to foreign companies.

President Eisenhower clearly was accurate in his predictions as to how military spending will affect the nation as a whole. His mention of misplaced power is occurring before us as citizens of the United States. In our opinion, when it comes to foreign conflicts and foreign policy, the United States should prioritize the lives of the American people more than those with no allegiance to the United States. The federal budget was raised by billions of dollars to accommodate for foreign aid during President Biden's time in office, and the effects of this increased spending is unfolding as seen by rising interest rates and inflation.

CASE 7: ENVIRONMENTAL CASE

Ravyn Garrett

16 November 2023

Introduction and Summary

In this case, students were assigned several articles that spoke of rule changes placed into effect by the Securities and Exchange Commission involving the auditing of climate-related reports regarding business activities. These reports are often referred to as Environmental, Social, and Governance (ESG) standards for corporations.

These rule changes place into effect a framework that calls for three different levels of reporting for climate activities, with the emission of greenhouse gasses being its primary focus. Scope 1 asks for information regarding the direct greenhouse gas emissions from the company; Scope 2, greenhouse gas emissions from companies that provide it with its energy; and Scope 3, greenhouse gas emissions throughout the entire supply chain, which even includes possible auditing of private companies which would otherwise not be audited.

After reading several articles regarding these new ESG rules that are expected to be put into place in 2026, students were then to watch a documentary titled *Planet of the Humans*, which challenges the “green energy” movement. The film’s director, Jeff Gibbs, interviews several individuals that are knowledgeable about green energy and directly confronts individuals who are leading the charge. Gibbs began the documentary with hopes of discussing and uncovering positive information about clean energy. However, it is soon discovered that there might be no such thing as “clean” or “green” energy; in most cases, this energy is unreliable and needs fossil fuels or other finite resources to either be created or to simply survive.

I learned that the truth about clean energy is completely different than what the public is led to believe. Throughout the case, I will discuss what I learned from the assigned materials.

Opinions Regarding Rising ESG Regulations

I discovered a lot from reading the assigned readings and watching the documentary. To be truthful, I feel less hopeful about the future of humanity and our planet after reading and watching the materials. It is plain to see that humans are shamelessly taking all of the resources that were provided to us on Earth with no regard for the future of humankind. It hurts me to observe the mass waste that is created from companies like Shein, Amazon, and Temu, which encourage careless spending habits and play a large role in overconsumption as well as the maximalism that runs rampant in the culture of my country today. These companies are essentially resource-wasting hubs.

Because of this, I believe that ESG regulations are not a negative thing in and of themselves. I believe that the world could benefit from holding corporations accountable for careless overproduction and destruction of the planet in the name of profit. However, after watching the documentary, I am unsure what ESG regulations will accomplish. It seems that what Americans have been told are “good” forms of energy are not truly much better for the environment than finite resources such as coal and oil.

A fault with renewable energy like wind power and solar power is that power outages are highly common and difficult to prevent. If the wind stops blowing, wind turbines cannot produce electricity. If clouds cover the sun, solar energy plants will face outages. This is one of the biggest reasons why many of these companies must still rely on energy produced from finite resources.

For example, in the *Planet of the Humans*, the electronic company Apple made a claim that they run on “100 percent renewable energy, in all of our facilities, worldwide,” (*Planet of the Humans*). In reality, these companies are not able to rely on solar and wind power alone; they are

connected to grids that rely on coal for energy. When auditors begin auditing individual companies' ESG reports, I find it difficult to believe that they will know what they are looking for. Is it acceptable to give a clean opinion to a report that claims to run on "100 percent" solar and wind power? It is too unclear on what is the right thing to do for the environment that auditing companies' ESG reports will no doubt be a tricky concept to master.

The Facts About Green Energy and ESG Standards

Those that stand to profit most from clean energy are bankers, billionaires, and corporations. Billionaires that have made fortunes on the harvesting of finite resources are funding programs that are meant to produce clean energy.

It is possible that the government wants this regulation because they truly believe that regulating the market in terms of ESG principles will affect the planet for good. However, due to the government's rocky reputation in which the true desires of the American people are placed last, I find this hard to believe, especially considering the evidence presented in the documentary. Besides individual politicians' incentives for pushing the concept of a "green" future, I am unsure of how the government benefits from these regulations. In terms of politicians, it is widely known that many politicians win elections based on their stories of hope for the future. Many of them make promises that they simply cannot or do not plan to keep. Many leaders claim that, upon election, they will make large strides to better the nation's negative impact on the climate and environment. They promise that clean energy policies will be adopted. A large percentage of Americans are heavily concerned with the earth's climate, and making this promise is a sure way to win over a crowd and beat an opponent in an election. Without being able to make false promises about fixing climate change, many politicians lose power.

In the end, all of humanity will be harmed from the way that the earth's finite resources are being treated. However, in the meantime, middle- and low-class Americans will be the most harmed. The costs of "carbon offsetting," (Gregorie 1) which is meant to reduce humanity's ecological footprint, is being placed onto consumers. In reality, the corporations that produce unnecessary amounts of greenhouse gasses into the atmosphere should be absorbing these costs. The truth is that the average American is not responsible for a fraction of the carbon emissions as the average corporation is, so it is not fair that they must have to pay to offset the environmental impact of the items that they are purchasing from manufacturers while corporations do not.

In terms of who will be harmed from ESG regulation and auditing, I believe that oil and gas companies will suffer the most. These resources are the very resources that ESG principles are fighting against. The criteria for these ESG regulations are heavily impacting oil and gas companies because they were essentially established in response to its overproduction.

ESG legislation will surely raise the United States' national debt as similar implementations have done. It is my hope that ESG legislation will result in more jobs being created for American citizens, but it might instead get rid of entire industries.

I am unenthusiastic to participate in this area of public accounting because I do not feel equipped to audit ESG documents. I believe that there is a lot of truth that still needs to be uncovered when it comes to the health of our planet and ways to truly make a difference for the good. There comes a point in time where the government needs to stop lying to the American people. It is safe to say that we all want a safe climate and planet for our descendants to enjoy.

CONCLUSIONS REACHED

I can say with certainty and complete confidence that having taken this course and constructing my thesis will greatly enhance my future professional career. I will be able to better assess risks and understand issues as they arise. I will be confident in my ability to face these issues head on as I navigate through my future as an accountant. Throughout my thesis, I discussed the idea that a job as an accountant is one of service. We are entrusted with financial resources and information and we are the gatekeepers that are responsible for protecting these financial assets. We are often the ones that are able to help outsiders better understand financial information. As accountants, we act in the best interest of others, not ourselves. It is our duty to maintain order and try our hardest to uphold important values.

The complex thinking that the completion of this course required will benefit me in my career for decades to come.

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