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A Study of Accounting and Economic Concepts with Reflection on Various Speakers

Kaitlin Seiberlich

A Study of Accounting and Economic Concepts with Reflection on Various Speakers

By Kaitlin Marie Seiberlich

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

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Approved by

Victoria Dickinson

Advisor: Dr. Victoria Dickinson

W. Mark Wilder

Reader: Dr. W. Mark Wilder

ABSTRACT

This thesis contains a series of twelve cases covering various accounting and economic concepts, including five cases providing deeper analysis of Alphabet Inc. in relation to audit, tax, and advisory strategies formed based on public information and the company's annual financial statements. The case topics were directed by Victoria Dickinson in accordance with the standards set by the Sally McDonnell Barksdale Honors College at the University of Mississippi. A few of the more technical issues covered in this thesis include a discussion on asset measurement practice, the completion of an excel certification course, and the effects of the Financial Crisis of 2008. Personal research topics are also incorporated, such as a comparison of the cost of living in two different cities, the results of an in-depth interview with an experienced accounting professional, and notes on speaker groups from eight major accounting firms.

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Kaitlin Seiberlich

The University of Mississippi

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Introduction

The purpose of this case is to research and analyze a variety of qualitative and quantitative factors about two different cities. The two chosen cities should be places I am considering for an upcoming internship and potential full-time job at an accounting firm. I was given a total of seventeen different questions that I have discussed throughout this case that were intended to give me a broad overview of what professional life may look like in each of these cities. Some of the questions brought up factors I had not thought to consider, such as the quality of healthcare or school districts in the region, or the availability of specific organizations I might like to join while beginning to build a community in my new location.

The two cities I chose to research are Nashville, Tennessee and Dallas, Texas. Although there are many differences between these two locations, I also learned about a variety of factors that affect adult life regardless of the geographic region. For example, there were a few items in the budget I have not had to calculate prior to my research, such as average utility expenses. Because I have not lived on my own outside of a college campus, I used this opportunity to paint a clear picture of what to expect in the near future. The questions asked in this case study also forced me to consider how important these different factors are to building my ideal lifestyle. I had to ask myself whether I value additional entertainment opportunities over my preferred scenery and climate, or if a short commute to work is more valuable than a lower rent payment.

Prior to this case study, I favored Nashville over Dallas because I had more background knowledge and a greater sense of familiarity with the city. Throughout my research, I was surprised by what I learned about each location, and now feel like I can make a more informed decision about where I can see myself living a few short years from now.

1. What is the population?

The current population of the metro area of Nashville is 1,249,000. The current metro area population of Dallas-Fort Worth in 2020 is 6,301,000, and the Dallas-Fort Worth Metroplex contains a quarter of the population of Texas. Although Dallas' population is much larger than Nashville's, Nashville is actually growing at a slightly higher rate than Dallas. The population size that I am used to from where I grew up in Seattle, Washington lies right in-between these two cities at 3,433,000 people. Consequently, it may take some time to get used to Dallas' larger population. However, the city is also spread out over much more land area than Seattle, so it may not feel quite as dense.

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

The climate in Nashville is reasonably mild throughout most seasons. The spring and fall average around 70 degrees Fahrenheit. In January the average temperature can range from about 30 degrees to 48 degrees, which is very similar to the winter temperature where I grew up. However, Nashville's summers are hotter and more humid than Seattle's, peaking at an average of 87 degrees in August. Thankfully, I do not need to be concerned about adjusting to the heat because I have spent the past couple summers living in Chattanooga, which has a very similar climate to Nashville given that it is only a couple hours south. Overall, Nashville is known to have a sunny and relatively mild climate, which is a huge benefit in my opinion because I did not enjoy the constant rain and cloudy skies of Seattle.

Contrastingly, the climate in Dallas is much hotter and drier than what I am used to. The summer months can reach averages of around 98 degrees in July and August. I believe this would take some time to get used to, but thankfully air conditioning is commonplace in Texas.

The winter, however, is more mild averaging roughly 47 degrees. The annual number of days with measurable precipitation is only 78, while the annual number of days that are predominantly sunny is 234. Along with Nashville, I believe I would also appreciate the sunshine and lower precipitation levels of Northern Texas.

3. **Describe the city's topography, scenery, and other geographic or geological features of the area in which the city is located.**

Nashville sits near the start of the Highland Rim, which is a region with a very hilly landscape. The elevation within the city ranges from 385 feet above sea to 1,163 feet above sea level. While there are great hiking opportunities immediately surrounding the city, the Blue Ridge Mountains, pictured in Figure I are also within a couple hours of Nashville as well. The city is also home to many beautiful parks including Centennial Park, Riverfront Park, and Percy Priest Lake. I personally enjoy spending time outdoors and admiring diverse scenery, so

Tennessee's geography seems like an ideal fit.

Figure I: Blue Ridge Mountains

Due to Dallas' larger population and sprawling suburbs, the geographic landscape of the city has a much more urban feel. It is also much flatter than Nashville, with an elevation range of only 100 feet. What Dallas lacks in natural landscape; it almost makes up for in carefully created parks and outdoor recreational areas such as the highly rated Dallas Arboretum and Botanical Gardens. The city also has sleek, modern architecture that adds to the downtown area's aesthetic look. However, I would still prefer Nashville's natural landscape over the flat sprawling suburbs outside downtown Dallas.

4. <u>What are the individual tax rates within the city?</u>

Nashville has no state or local income tax. Based on a starting salary of $55,000 per year, the amount of federal income, social security, and Medicare tax taken out would total roughly $9,482 for the year. This would leave a take home pay of $45,518. The property tax rate is $3.12 per $100 assessed valuation and the sales tax rate is seven percent.

There is no state or local income tax in Dallas either, so the take home pay would be the same as Nashville at $45,518. The property tax rate is much less than Nashville at about $ 0.78 per $100 assessed valuation but the sales tax rate is slightly higher at 8.25 percent (Dallas City Hall).

Due to the fact that I will be renting an apartment instead of owning land right after college, I would not have to pay property taxes until later in my career, but over the course of my life I would end up paying much more in taxes in Nashville than Dallas if I decide to purchase property.

5. <u>What transportation hubs are in the city?</u>

While many rely on transportation from personal vehicles, taxis, and Uber, there is a public transportation system called We Go Public Transit that consists of buses that serve the downtown areas of Nashville. The Infrastructure of DFW is much more refined than Nashville, and the public transportation system includes buses, trains, or a combination of both through Dallas Area Rapid Transit. I have no strong preference for either driving or taking public transportation to work, but I would be concerned with long commute times that may result in Dallas due to excessive traffic.

6. **What are the most prevalent industries in the city? What are the five largest companies?**

Nashville is a prominent hub for the Healthcare Industry. Unsurprisingly, four out of five of the largest companies offer healthcare services, and are currently listed as Vanderbilt University Medical Center, Nissan North America, HCA Healthcare Inc., Saint Thomas Health, Community Health Systems, and Randstad. While at this point, I am not set on working with clients in any one industry, healthcare does sound interesting to me so its prevalence in the city may be beneficial if that is the route I choose. If not, I can also consider other industries in Nashville including Automobile Production, Finance, and Technology Manufacturing, even though they may have less of a presence than healthcare.

On the other hand, the diversity of the five largest companies in Dallas accurately reflect the broad range of industries the city offers. In order of size, the companies are Exxon Mobil, McKesson, AT&T, Energy Transfer Equity, and American Airlines Group. Thanks to the large population and diversified economy of Dallas, I would be able to choose a career in almost any industry I desire. Some of the most prominent include but are not limited to Technology, Financial Services, Defense, Oil and Gas, and Aviation. During the early stages of my career, I believe it would be helpful to have so many different options to consider.

7. **<u>Describe the quality of the city's healthcare and school districts. Would your children attend public or private school?</u>**

Both Tennessee and Texas are not ranked very highly in healthcare in the United States. However, Nashville specifically has many highly ranked healthcare facilities including Vanderbilt University Medical Center. In Dallas, the UT Southwestern Medical Center is also nationally ranked.

For K-12 education, families in Nashville's Davidson country can choose to educate their children in traditional public schools, public charter schools, optional and magnet schools, or one of dozens of nearby private schools (Scarlett Foundation). The charter, optional, and magnet schools are all tuition-free options that offer a quality education in most neighborhoods. I would likely look into the options in whichever neighborhood I reside in and weigh them against the quality of traditional public schools when deciding where my children would attend, as well as considering private schools as a last resort if they do not provide the caliber of education I desire.

Dallas, on the other hand, has many excellent public-school systems. A total of thirteen DFW area school districts rank among the 25 top performing school districts in Texas according to the Texas Education Agency. Because of this, it would be unlikely that I would consider footing the costs of private school. While Dallas' public-school system seems to outshine Nashville's, this is not one of the most important factors to me in deciding which city to choose.

8. **<u>What types of crime are common within the city and where are the locations within the city to avoid?</u>**

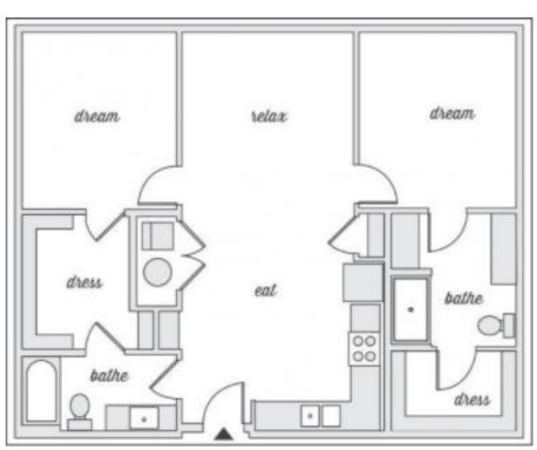
Both violent crime and property crime rates are very high in Nashville compared to the national average. The chances in being involved in a violent crime (armed robbery, assault, etc.) are roughly one in 87 according to neighborhoodscout.com. The Metro Police sites some of the most dangerous spots to be Opry Mills, 3rd and Broadway, and East Thompson Lake.

In Dallas, the chances of becoming a victim of violent crime is reported to be 1 in 129, which is an improvement over Nashville, yet still far above the national average. Some of the most dangerous neighborhoods include South Boulevard-Park Row, Cedar Crest, and South Dallas. I was surprised to learn that both Nashville and Dallas both have relatively high crime rates because I had not previously heard about frequent incidents in either city in the media. While I do not particularly like the idea of living in a more dangerous city, I am not too concerned by these statistics as I can simply take a few extra precautions and avoid the areas I mentioned above.

9. <u>Based on where you see yourself living for the first three years, how much rent do you expect to pay?</u>

If I am living in Nashville, I fortunately have a friend who will be working in the city by the time I graduate, and we could live together in a two-bedroom apartment to save money on rent

Unit 448
2 beds / 2 baths / 1180 sqft



while still living downtown. Terra House, a complex located only a few minutes' walk or drive

Figure II: Terra House Floorplan

from downtown Nashville has a listing for a two-bedroom apartment at $1,913 per month. Split between the two of us, my portion of the rent would only be about $957. As shown in Figure II, the apartment is 1,180 square feet and includes access to the parking deck, gym, outdoor pool, and many other amenities. While this is a great option, if I do not live with a roommate, it would be difficult to find an apartment with such close proximity to downtown for under $1,200. I would likely have to commute at least 20 minutes to find a comparative apartment by myself.

Dallas seems to offer more single-bedroom apartment options below the $1,000 rent range that are still relatively close to downtown. One example is Unit 1514 at Lakewood on the Trail. It is roughly 17-minute drive from downtown Dallas and priced at $881 per month. The floor plan in Figure III claims 470 square feet, and the apartment listing shows amenities including a

balcony and access to covered parking, a fitness center, and three resort-inspired pools – one of

Figure III: Lakewood on the Trail Floorplan

which is pictured in Figure IV. One of the benefits of Dallas is its lower apartment prices, and for later on in my career, more affordable homes as well. I would appreciate being able to spend less of my income on rent in Dallas than I would Nashville and save it for other priorities instead.

Figure IV: Lakewood on the Trail Amenities

10. <u>What is the typical mode of commuting? Based on your answers identified in the prior question, what are your likely commute times?</u>

Based on a few reviews I read about Nashville's public transportation system on yelp.com, the majority of locals prefer driving their personal cars over relying on the current bus system. Because Nashville is not an extremely large city, I believe driving is a reasonable way to commute to work every day and the only major downside is potential parking costs depending on where my office would be located. If I were to live at Terra House in Nashville as I chose in Question 10, my commute would only be a few minutes' drive to most offices downtown, and I could also consider alternatives like biking or even walking when the weather permits.

As mentioned previously, the public transportation in Dallas seems to be much more reliable. I could use DART to find a bus or shuttle route, or if I wanted to drive, even with traffic the commute from Lakewood on the Trails would only take roughly 17 minutes. Parking costs would also have to be taken into account in Dallas. One of the concerns I have about Dallas is the amount of traffic that comes with its large population, but if I am living near the downtown area, it hopefully would not affect my commute times too excessively.

11. Where will you do your grocery shopping?

There are a variety of grocery stores within a 10-mile radius of either apartment that I could choose from, including Publix, Kroger, and Whole Foods. In either city, I do not need to be concerned about where to buy groceries.

12. How will you do your laundry?

Based on all of the apartments I viewed for each city, I will be able to use a washer and dryer in my unit, or at the very least in the building. Thankfully, housing in both Nashville and Dallas is very accommodating and I will not have to rely on a Laundromat.

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

In Nashville, there are many churches in my denomination, Lutheran Church of Missouri Synod, in the downtown area. I could visit a few and choose whichever gives me the sense of community that I am looking for. Another organization I would love to get involved with is DECA, which is a career and technical education program for high school students to learn and practice business, accounting, and other related disciplines. Nashville is one of the cities that occasionally hosts the International Career Development Conference, which is an event I competed in in high school and one of my most memorable experiences. Local business professionals can volunteer as judges for the annual regional, state, and national competitions and give feedback to competing students.

A third organization I could see myself joining is called Angel Tree and is run by the Salvation Army of Nashville. This is a program where individuals can “adopt” less fortunate children for the holiday season to provide gifts to those who would otherwise receive none.

Dallas is also home to many Lutheran churches that I could visit and choose from. A few of the ones listed downtown are Holy Cross, Our Redeemer, or Zion Lutheran Churches. Any one of these would be a great place to start forming a community. Additionally, Dallas has many large public high schools that have DECA chapters, so although the International Career Development Conference is never hosted in the city, I could still volunteer as a judge or mentor for local and state competitions. There may be opportunities to work more closely with students in Dallas’ high schools and share some insight into the business world once I have some experience under my belt. Lastly, Dallas has a large variety of charitable organizations that reach individuals both locally and nationally. One that I could see myself getting involved with is Love for Kids, which is an organization that aims to help local underprivileged families provide basic necessities and care for children who are suffering from illness or disabilities.

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

In addition to visiting the obvious country music scene, if I was living in Nashville, I would take full advantage of its beautiful outdoor environment as well. Whether I am hiking in the nearby mountain ranges in Tennessee, kayaking the Cumberland River, or running through one of Nashville’s many parks, I know I could find great recreational activities in the city. I could also keep up with Ole Miss Football by watching them play Vanderbilt University at Vanderbilt Stadium.

Complimentary to Dallas' more metropolitan feel, many of the entertainment options in the city are intelligent and sophisticated. The Dallas Museum of Art and Perot Museum of Natural Sciences are both must-sees on my list. The stunning AT&T Performing Arts Center shows seasonal Broadway plays and musicals, and the Kessler Theatre hosts concerts year-round. For more casual activities, I could take a swim in White Rock Lake or walk through the downtown Arts District. While both cities have a very different feel and different types of entertainment, I believe I would find ways to enjoy my time in either one.

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

To get to where my parents live in Chattanooga, TN, my drive from Nashville would only be about two hours. In my car this would use roughly 10 gallons of gas round trip, so it would only cost $19.00 to visit my family (using a gas price of $1.90 per gallon). The ability to easily make the trip home for any weekends, holidays, or special occasions is one of the reasons Nashville stands out to me as a great place to start my career. Especially during my first year or two getting used to a new city, it would be nice to be able to go back home to a sense of familiarity whenever I choose.

Contrastingly, in Dallas I would have to fly home, which would limit the frequency that I could make the trip. The cost of a roundtrip plane ticket from Dallas to Chattanooga is currently around $200.00 Because of limited flight options and time spent going through security at the airport, it would be much more difficult to fit a whole trip into a weekend, but still possible since the flight time is only two hours.

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

Monthly Budget		
	Dallas, TX	Nashville, TN
Monthly Salary	**5,000.00**	**5,000.00**
Federal Income Tax	(608.00)	(608.00)
Social Security	(310.00)	(310.00)
Medicare	(73.00)	(73.00)
Disposable Income	**4,009.00**	**4009.00**
Rent (see Notes)	(881.00)	(1000.00)
Utilities (average bill in respecitve city)	(139.55)	(159.32)
Car Insurance	(141.46)	(141.46)
DART Pass	(80.00)	-
Groceries	(300.00)	(300.00)
Gas	(34.00)	(34.00)
Phone bill	(55.50)	(55.50)
Potential Student Loan Payments from Grad School	(300.00)	(300.00)
Maximum 401k Contribution (optional)	(1,623.00)	(1,623.00)
Discrecionary Income: Entertainment, etc.	**454.49**	**395.72**

Figure V: Comparative Budget

Notes: In order to compare the cost of a single-bedroom apartment in Dallas with a single-bedroom apartment in Nashville, I used $1,000 as the expected rent expense in Nashville instead of the amount I previously included in Question 9 for half of the two-bedroom apartment's rent.

While the budget in Figure V shows that Dallas is a slightly less expensive option, over the course of many years and factoring in property taxes I will eventually have to pay when I purchase a home, the small savings will be intensified. The overall cost of living in Dallas is much lower than similarly populated regions all over the country, and it is one of the most attractive features of the city in my opinion. However, I would have to sporadically spend money on plane tickets to visit my family due to the distance, and this may tighten my budget during the first few years of my career.

17. <u>Finally, based on your full analysis, determine which one is your preferred city and why.</u>

After analyzing the many factors included in this case study, I have found benefits and drawbacks to both cities. I am drawn to Nashville because of the more moderate climate, beautiful scenery, and short distance from my family. Dallas is further away but has a very attractive cost of living and infinite entertainment and career opportunities. Overall, Nashville still stands out as my preferred city because of its optimal location and the outdoor lifestyle it offers. However, after learning more about Dallas and forming a more complete picture of the city, it comes in at a very close second. If competition to land an internship or full-time position is too tight in Nashville, I could thankfully still see myself thriving in Dallas after graduation.

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"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."

Kaitlin Seiberlich

Case II: Asset Analysis

Kaitlin Seiberlich, Blake Hydeman, ShaCori Ruffin, Jamison Russ

The University of Mississippi

28 September 2020

Introduction

Our second case focuses on asset analysis and the most truthful way to report the value of a company's assets. The thought process for the case is broken down between three questions. Each question provided us with two viewpoints to choose from. As a group, we were tasked with deciding how to approach the question, discuss pros and cons to each viewpoint, and come to a conclusion on the best option available with the use of outside resources. The first question asked about the purpose of assets in a company's operations and whether they are a means to the end of revenue generation or the end itself. The second question required the consideration of the techniques for the valuation of assets as either "in use" or "in exchange", regardless of their place as an end or a means. Based on our chosen response for question two, the third question asked about the implications of the valuation methods by examining the changes that would result in the journaling of assets.

Our group came to a quick conclusion for the first question: that assets are used and transformed in the generation of revenues, and the balance sheet should reflect those changes. The second question generated more debate because asset classification affects the impact of the valuation method. We spent the majority of the discussion on this question analyzing different scenarios using examples and analogies for each of the viewpoints. We determined that most assets should be recorded at value-in-exchange. Short-term assets such as inventory and liquid investment's use is their exchange value, so there is little discrepancy between the options. Longer-term assets such as property, plant, and equipment posed more of a debate. Generally, a specifically designed manufacturing plant could bring more in future cash flow than would be brought by the immediate sale. The generally accepted practice now is to keep fixed assets at book value and depreciate them across their normal life so that any change in the value of assets would only be recorded when they were realized in a sale. Even though unrealized losses can be accounted for, it is not acceptable to record unrealized gains; those should be backed by an actual event except for a for-sale security. Some assets are not recorded exactly at for-exchange value, but it represents an appropriate general practice.

For the third question, the changes to the journal entry system would depend on the frequency of revaluation of assets if they are to be kept at value-in exchange, so we explored the varying levels of change depending on the ease of revaluation for the asset.

Question 1

We approached this topic from the viewpoint of an end user who works in financial services (private equity, creditors, investment bankers, etc.) that is trying to accurately value the company. We believe that these users are trying to properly recognize the intrinsic value of a firm's operations based on their operating income. This income should not be subject to unrealized gains or losses resulting from the use of Viewpoint 1, as those are abnormal and could easily be misrepresented. This misrepresentation could be the product of an uncertain liquidation value, seasonal changes, and life stage of the company. By valuing a company based on their cash flows, there is an idea of the liquidity position of the company, rather than their "true value." This allows investors and creditors, in particular, to have comfort that their positions are not subject to bankruptcy because a company's earnings were skewed by substantial unrealized increases in asset values.

Viewpoint 1: Pros

- Certain aspects of a company are more easily and reliably measured than others.
- Takes into account the appreciation of land and other long-term assets

- Intangible assets such as patents or even the value of the workforce employed would be critical in determining the actual value of a company's assets if Viewpoint 1 were to be employed.
    - One case where a focus on the valuation of assets and liabilities gives a more appropriate picture of a company's financial position than focus on revenues and expenses is Tesla, Inc. The company has not yet reported a profitable year, however, the company's heavy investment into Research & Development and huge brand recognition keeps stockholders from selling.

Viewpoint 1: Cons

- Does not give an accurate representation of the cash flows of the company
- Could lead to misleading users with unrealized gains
- It's more important to consider the operations of the company than the overall position of its assets and liabilities

Viewpoint 2: Pros

- Investors can clearly calculate return on investment and other financial ratios due to the fact that they are able to see all components of revenue and stockholder's equity.
- Users of the financial statements will not have to make assumptions based on unrealized gains and losses.

Viewpoint 2: Cons

- There are a few companies that would be overlooked by potential investors because they will show little net income; however, they may be in an excellent financial position and present minimal risk due to the market value of its assets.

Question 2

Throughout the discussion, we had opposing viewpoints about how to frame this question. We acknowledged that different end users of the financial statements would likely desire different methods of valuation. For example, a user hoping to merge with a company or acquire it with the purpose of continuing operations would better understand the condition of the firm and the true value of its assets going forward if the “value-in-use” method is reported. On the other hand, if the user needs to determine the value of each asset individually from the company, which would be more useful if the acquisition is risky or they want to specify the company’s concrete claim on cash at that specific point in time, the “value-in-exchange” method would be more useful. Creditors would also prefer this method as they examine a company’s ability to pay off their liabilities.

In discussing the many pros and cons to each method of valuation, we took into account the going concern assumption. We also took into consideration the idea that the balance sheet is a snapshot of the company’s current financial position. Given that the potential implied in the going concern assumption conflicts with the idea of a single moment analysis of a company, some combination of the two viewpoints may be appropriate. The idea of asset categorization is the FASB’s current attempt to reconcile the clash between acknowledging potential and actual value. Current assets, such as inventory, are valued the same regardless of which viewpoint prevails. The use of the asset is its ability to be sold, so value in use and exchange value are one and the same. As the time period for which management expects the asset to remain in the company’s possession extends, the more differentiation there is between the two viewpoints. A specially designed manufacturing plant for a specific brand is worth more to the current owner than the plant could be sold for. The largest influence over which method of valuation should be prioritized is the future intent of the users.

Measurement is another consideration. All financial reporting falls under the cost constraint which ensures the accuracy is balanced with the cost of the full truth; how much more accurate is the additional cost of data collection and analytics. Value in exchange recording requires consistent appraisals of complex assets while value in use involves the tracing of future cash flow generation through many indirect channels. The differences between the two often involve intangible assets without reliable measurement techniques. The development of a financially superior measurement tool for either method would add weight to the respective method.

The final decision was based on the cost and usefulness of what a respective change of view would bring. Value-in-use brings the precedent of reporting far more unrealized gains in a predictive fashion. While these predictions would be useful for internal users for planning purposes, externally reported results should be reported more concretely than unrealized gains can allow. Thus, value-in exchange is a more conservative, reliable measure for the value of assets, and will consistently be closer to the book value, and therefore require less volatility and generate a more generally understood definition of the reported value than would be brought about by value-in-use. This increased general understanding allows for more accurate comparisons and a greater depth of analysis for the same effort for users of the balance sheet.

Viewpoint 1: Pros

- With an appraised value, we can understand what a reasonable exchange value would be.
    - Gives an idea of what our assets are TRUE value is in cash

    - Would get an idea of how much cash we can generate today by the sale of the assets
- Creditors have a better idea of the liquidity of the company.
- Potential investors can easily calculate a company's return on investments and return on assets, which would be more useful in comparing potential stock options than simply assessing the value they would receive if the company were to be dissolved and sold.

Viewpoint 1: Cons

- Extremely difficult to value some assets (land, equipment, etc.)
    - Cost constraint of measurement
- More likely to represent improperly because of an information gap
- Doesn't properly evaluate special use assets that have a small market, but are extremely valuable in use (PP&E, specific types of land, etc.)
- Loss of intangible assets
- Going concern could be more than liquidation premise
- Item acquired is less than the valued item exchanged

Viewpoint 2: Pros

- Gives an idea of how much value our assets will bring to us in the long-run
- Internal users have the most comprehensive knowledge of the potential of their assets.
- Not valuing with the intent on exchanging the assets in the short-term
    - Going concern
- Better idea of the operating value of the firm vs. its discontinued value

Viewpoint 2: Cons

- Not a good idea of the cash value of the company
    - Doesn't give proper insight into the true residual value of shareholders' equity
- Could be misrepresented if the projected level of success isn't achieved
- Value could fluctuate with economic conditions, for example, in times of economic turmoil like the present coronavirus, companies that are lose the most demand for their products or services will have a value-in-use of their assets of near zero considering the fact that they are not generating normal revenue.
- Subjective to what a particular party thinks it is worth based on taste and opinions

Question 3

One of the main issues we would incur by recognizing the assets "value-in exchange," would be accounting for rapid decreases in value. For example, with the purchase of vehicles, we may have to create a "Loss on Acquisition of Equipment" account for the difference between the purchase price and the value of the car if sold used on a secondary market.

An example of the journal entry to record the purchase of a vehicle for $25,000 that is immediately worth $20,000 used would be:

Loss on Acquisition of Vehicle	5,000	
Vehicle	20,000	
Cash		25,000

From this point, we could depreciate the asset based on the exchange value at its purchase and its salvage value.

For example, to record the depreciation on the vehicle purchased above, we would have to determine the amount of value lost for a specific measure. For example, if we determined the vehicle lost $.18 of value per mile driven, after 20,000 miles the journal entry would be:

Depreciation Expense	3,600	
Accumulated Depreciation - Vehicle		3,600

If the vehicle were valued as it is currently, the depreciation expense would be $4,600 and the vehicle would have a carrying value of $20,400 instead of the $16,400 if valued in exchange. This illustrates the overstatement of assets that valuing an item in use creates. Creditors and shareholders claim on their assets are truly $16,400 because that is a reasonable estimation of what they would receive if selling those assets today.

If the asset were to subsequently be sold for less than or greater than its book value, we would simply record the gain or loss as we would currently. For instance, if we sold the vehicle above after 20,000 miles for $14,500 the journal entry would be:

Cash	14,500	
Accumulated Depreciation-Vehicle	3,600	
Loss on Sale of Vehicle	1,900	
Vehicle		20,000

If the same vehicle from the example above were to be purchased for $25,000 but its exchange value was $30,000 the journal entry would be:

Vehicle	30,000	
Gain on Purchase of Vehicle		5,000
Cash		25,000

From this point, we could value the depreciation and sale of the asset in the same way as we did in the prior example.

Using value-in-exchange also gives us a much more accurate depiction of the value of a firm that has special-use assets that may be difficult to sell. If they can be sold for a certain valuation that is lower than it’s purchasing price, we would value it at what we could reasonably expect to receive if sold immediately thereafter. The gain or loss account recorded should be considered an expense in the period in which the asset is purchased, and it should be placed on the income statement.

For example, a piece of equipment that is so unique to a firm's manufacturing process that it can only be sold for its scrap value of $10,000 is purchased for $100,000. The journal entry to record this item would be:

Equipment	10,000	
Loss on Purchase of Equipment	90,000	
Cash		100,000

This gives a better representation of what the asset is worth on the balance sheet date. The company can internally determine the amount of future value that the asset would bring, and can report that information in the notes to the financial statements, but it should not be represented on the balance sheet.

If at any time over the point in an asset's life, it increases in value, an adjustment should be made to represent that by increasing the value of the asset with a debit or credit to the fair value adjustment account (valuation account) and a credit to an unrealized holding gain or loss account.

For example, if land that was purchased for $500,000 at it's fair market value and has since appreciated to having an appraised value of $650,000, the journal entry to record the adjustment would be:

Fair Value Adjustment – Land 150,000

Unrealized Holding Gain or Loss – Land 150,000

The same treatment would be given to all other long-term assets, such as machinery. In the event that we purchased machinery at its fair exchange value of $1,500, but its exchange value has subsequently increased $100, the journal entries to record the purchase and adjustment are as follows:

Machinery 1,500

Cash 1,500

For purchase of machinery

Fair Value Adjustment – Machinery 100

Unrealized Gain or Loss – Machinery 100

Addition of useful value of machinery. The Unrealized Gain or Loss should be recorded under other comprehensive income, and not included in net income.

By forcing these long-term assets to be recorded at their fair value, we're allowing users to get an idea of what the true value of the assets is. No longer would assets, like land, be able to be recorded at their cost from years prior. This provides an accurate representation of the investor's claim in the asset, and what the recognizable value of the assets would be in the event that they were forced to sell assets to pay for expenses. In recessionary times, this is important because investors will not be surprised by the true liquidity position of the company.

Short-term investments would be forced to be recorded using the fair-value approach. Therefore, if a short-term investment decreases in value by $100, the journal entry would be:

Unrealized Holding Gain or Loss - ST Investments	100	
Fair Value Adjustment - ST Investments		100

An example of the difference in Value-in-Use vs. Value-in-Exchange would be if equipment was recorded at its cost of $25,000, and its market value has decreased to $15,000 but it still can provide $20,000 worth of value to the company. In this case, we feel it is appropriate to value the asset at $15,000 in order to represent the value the firm could immediately create as a result of their ownership.

Summary

In summary, we determined that viewpoint 1's idea of valuing assets in exchange is the most accurate representation of the firm's value. If the balance sheet is an indicator of a firm's value at a specific point in time, it should not be represented by values that indicate value to the firm generated over a future period of time. Therefore, the balance sheet should be represented by the best estimation of the exchange value of a firm's assets at that specific point in time. Using this standard, we can get an idea of what the true cash flows of our company could look like in the current environment as well as an investors true claim in the company. While there will be unrealized gains or losses attributable to valuing assets in exchange, they should not be reported in the income statement. They should be considered in the Statement of Comprehensive Income. These gains or losses will also help recognize the value of the asset over a multitude of periods, and would adjust for inflation. This allows users to get a representation of the company's operating revenues and expenses as well as the impact of the changes in asset values. We recognize that valuing assets at their fair value would result in changes to the journal entries, as stated in Question 3. However, we believe that the addition of a few accounts such as "Loss on Acquisition of Equipment" would not violate the cost principle considering the large addition of usefulness it would bring to the financial statements.

"On our honor, we pledge that we have neither given, received, nor witnessed any unauthorized help on this case."

Kaitlin Seiberlich

Case 3: Presidential Debate

Kaitlin Seiberlich

The University of Mississippi

06 October 2020

Introduction

Case 3 consists of three separate objectives centered around the first presidential debate for the upcoming 2020 election, and due to the sensitivity of this topic, my professor asked me to omit the body of this case from the final thesis. The first objective of this case focuses on our country and governmental system as a while. Despite the extreme political division that exists between the two major parties in today's culture, our country is still called the United States, and we were tasked with discussion what common themes still make us "united." After answering this question, I realized how many values and ideals the vast majority of American people value regardless of which party they identify with or how much American culture has shifted throughout generations.

The second objective included watching the debate on an unbiased source and using the content to develop predictions for what the next four years under each of the candidates would look like. This year's candidates include the incumbent Donald Trump, and former Vice President Joe Biden. While Trump and Biden have vastly different viewpoints on a number of topics, the focus of this case was centered around the differences in potential economic impacts of each and how they would affect the present job market and the field of accounting in general.

Lastly, I was tasked with brainstorming ideas for how people of both parties can come together harmoniously after the election and come up with a few strategies I can implement in my personal life to help improve cooperation with those around me. This question forced me to think about how deeply ingrained political views can be within individuals, and how to respond respectfully to opposing viewpoints. I believe it will take a lot of understanding and hard work to lessen the divide between people of different parties, but I think we would all benefit from discussing new ideas and learning from different perspectives than our own.

<u>You live in the United States of America. What is it about our country that "unites" us to warrant naming our country that?</u>

Throughout the 244-year history of the United States, the political climate and the values of the American people have fluctuated greatly. We have collectively gone through many ups and down that have altered the goals of each generation. Yet, somehow throughout this time our country has remained united in a few core values we refuse to give up; for example, the people of the United States have held on to freedom and individuality above all else. The first settlers came to our land in hopes of religious freedom from the government of England, and over the aforementioned 244 years since the formation of our country, our desire for personal freedom has remained constant. The memorable First Amendment to the Constitution highlights this desire for by stating, "[c]ongress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the government for a redress of grievances." This showcases how early in our basic rights were established during the formation of the Unites States to prevent governmental bodies from taking away its citizens' individuality.

Another ideal that was prevalent among Americans throughout history is the desire to earn a living and own property. During periods like the Great Depression, the humble dream of owning a home was at the forefront of every young American's mind. Recently, younger generations have been trending away from purchasing homes early in life, however; the same emphasis on success still exists in people of all demographics, just in a slightly different form. As said by U.S. Representative Ted Yoho, "The American dream comes from opportunity. The opportunity comes from our founding principles, our core values that are held together and protected by the Constitution. Those ideas are neither Republican, Democrat, conservative, liberal, white, or black. Those are American ideologies."

While the political climate of the United States is currently very divided, values such as personal freedom and opportunity are still held and expressed by all people in their own desired manner. While the chosen lifestyle and goals of any given citizen may look vastly different from those of others, we can appreciate that living in a country where this is possible was the overarching purpose of the formation of the United States in the first place.

For each of the candidates, forge a prediction about how their presidency will affect the job market when you graduate and the general business economy for the companies that will either be your clients or your employers.

We know that the impact of Covid-19 has been devastating for the economy and job market as a whole, with some business segments still remaining entirely closed or vastly restructured. For example, the tourism industry is operating at an all-time low, with borders to many countries closed to Americans. The entertainment and food industries have slowly been reopening, with most establishments able to return to semi-normal operations that have been adjusted to maintain social distancing guidelines. As we have witnessed over the past few months, Trump's response to Covid-19 has included efforts to continue reopening businesses in this industry, and likely would continue encouraging state and local health departments to lift regulations over time, barring any major outbreaks. The goal of this approach is to reduce unemployment as much as possible and begin to rebuild the economy and hopefully reach pre-Covid-19 levels of activity at some point in the future. Biden, on the other hand, would pursue a different strategy to eventually reach a similar end goal. He would like to provide more monetary support to business that would allow them to remain closed or delay further reopening efforts until the spread of Covid-19 is more under control. Biden has mentioned that if we had put more effort into containing the spread of Covid-19 initially, we could have returned to a normal economic state with far fewer deaths of American citizens. The economic impacts of either presidency's Covid-19 response are relatively clear in the short-term; Trump would maintain more jobs and strive see lower unemployment rates in the current term, while Biden would provide more financial support directly to those who have been affected to support citizens safely.

As for tax policies, Biden mentioned in the debate that he would raise corporate tax to 28 percent and eliminate some major tax cuts for corporations. This would be paired with a lower income tax for the lower and middle classes to alleviate some of the tax burden for them. This further supports his argument against Trump's Covid-19 response in which he described the countries recovery as, "K-shaped" instead of, "V-shaped" which implies that higher economic classes are making an upwards recovery while lower classes are still heading in the wrong direction. Biden stated that "the difference is millionaires and billionaires like [Trump] in the middle of the COVID crisis have done very well. Billionaires have made another $300 billion because of [Trump's] profligate tax proposal."

On the other hand, Trump believes the best approach to boosting the economy is to continue to allow tax cuts for major corporations without raising the corporate tax to incentivize companies to continue production within the country and continue hiring the American working class instead of moving overseas to realize cheaper production costs. This may create more jobs in the market and boost United States Gross Domestic Product instead of directly reducing taxes on the working class.

As for outsourcing and manufacturing, Biden's tax plans may entice some businesses to more overseas to avoid the increased taxes mentioned previously, resulting in a higher need for outsourcing from other nations to fulfill domestic demand. However, Biden also mentioned an economic plan to buy American-made products. In the debate he stated there would be spending of $600 million on steel, ships, and related products made in the United States to increase Gross Domestic Product. Trump's tax plan may be more attractive to corporations in other industries and cause them to manufacture in America, thus the amount of outsourcing used in these industries would say roughly the same or go down slightly from Trump's previous term. An increase or decrease of the use of outsourcing in America may not directly affect low-level jobs in accounting unless I were to work with manufacturing clients who are affected by either candidate's tax policies.

Thankfully, I can safely predict that the Public Accounting Industry will not be affected as deeply by Covid-19 or the results of the upcoming election as other industries such as live entertainment or public transportation. However, I assume there will be some detrimental effects of the pandemic remaining throughout the hiring process at both national and regional firms in the upcoming year. Competition for internships and full-time offers may be more intense due to health regulations, the inability to crowd employees in office spaces, and loss of business from clients who are struggling as well. I have already seen a few people miss out on career opportunities they would have had if not for the pandemic. However, I can hope that whichever candidate wins the election makes smart decisions about balancing public safety and economic well-being of the country.

How will the two sides of the country come together harmoniously once the election is over? Formulate a plan to be an agent of positivity and discuss the content of that plan.

Despite the results of the election, the people of America will have to continue to find a way to work together and live harmoniously. This may seem more difficult than ever due to the high tensions between the two major political parties, but as a country, we have been through more testing times than now. For example, there is no point in American history that has been more divided than the period of Civil War from 1861-1865 over the abolition of slavery. Our country was broken apart by opposing viewpoints, to the point of violence and dissention, but the demand for equality by law eventually prevailed. The recovery took years of continued fighting for what was morally right in the public's eyes, but eventually set the stage for the Civil Rights Movement of the 1960's, and the ongoing progress since then. Thankfully, our country currently does not have to build itself up from shambles, but simply be reminded that we have worked to overcome injustices in the past and that the American people as a whole can dictate the future of our country beyond the results of one election.

In the meantime, individuals on either side of the political scale can remind themselves that we can remain hopeful for future change while also respecting the values and opinions of others. If freedom is really as important to American citizens as it is made out to be, we will recognize each other's rights to voice opinions and view differences as a chance to learn, analyze, build relationships, and better ourselves and our knowledge. On a more personal level, I believe that one of the things we can all work to improve is the "cancel culture" that seems to be fueled by media and social platforms. I believe it is counterproductive to immediately discredit someone for voicing an opinion that the majority of people may disagree with. Instead, we could focus on respectfully explaining why we disagree, and giving everyone involved the chance to learn from mistakes. The only thing being accomplished by the current cancel culture is silencing people who have unpopular viewpoints and creating an environment where many people may fear discussion of current issues or politics in general. This in turn contributes to the polarization between parties and minimizes the opportunities for individuals to learn about politics in a comfortable environment.

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."

Kaitlin Seiberlich

Case 4: Excel Certification

Kaitlin Seiberlich

The University of Mississippi

14 October 2020

Corporate Finance Institute®

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

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

Kaitlin Seiberlich

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

Excel Crash Course - Spreadsheet Formulas for Finance

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

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

VERIFIED CFI™ CERTIFICATE

Certificate number
95927517

Chair of the Board

Director

Director

Oct 15, 2020

Figure VI: Excel Certificate

Case 5: Corporate Tax Rate

Kaitlin Seiberlich

The University of Mississippi

25 October 2020

Introduction

The debate over tax rates has been ongoing for decades. Every four years, tax is discussed as a featured topic of the presidential debates. While personal taxes are often the forefront of this discussion, another area that greatly affects the field of accounting is the corporate tax rate. One side of the corporate tax debate aims to raise taxes in order to provide more revenue to alleviate the tax burden on some individuals while allocating more money towards government funded programs, while the other side prefers to keep the corporate tax rate low in order to fuel the economy, create jobs, and provide a prosperous environment for its citizens.

For this case, I was tasked with developing my own argument about what the optimal corporate tax rate should be by using a few required sources. The first of these sources was the Documentary, *Taxodus: Playing the global tax avoidance game,* which was originally released by the VPRO Documentary Channel. The documentary dives into the topic of tax avoidance and explains the use of tax havens by major corporations. I found the film highly interesting because it provided insights into how complex the effects of the tax code can be for corporations. Additionally, we were given two articles, "Testimony: The Positive Economic Growth Effects of the Tax Cuts and Jobs Act" published by the Tax Foundation and, "More Jobs and Bigger Paychecks" from the U.S. Department of Treasury. These articles provided a great background into how the corporate tax rate can affect the economy.

After reading the required material, I had a few questions left unanswered so I looked into additional sources before settling on my conclusion. Throughout my research process, I learned how to apply concepts from my economics courses here at The University to today's economy and gained a great deal of knowledge about the field of tax accounting.

<u>What do you think the optimal corporate tax rate should be and why?</u>

Based on the two articles that were assigned, the documentary *Taxodus*, and my additional research, I believe the corporate tax rate that would be most beneficial for our economy is roughly 21 percent, as it is now under the Tax Cuts and Jobs Act of 2017. According to an article published by the Tax Foundation, the average tax rates around the globe have been steadily declining since 1980 (Corporate Tax Rates around the World, 2019). In order to maintain a competitive standing internationally and continue attracting large corporations to invest their money into our economy, the United States must keep the corporate tax rate relatively low. One of the current presidential candidates is planning an increase in the corporate tax rate of seven percent, effectively raising it to 28 percent, in order to provide more tax revenue to lessen the tax rate for other groups and provide more money to spend on government programs. A rate of 28 percent would bring the United States back over the global average and create the effect of reducing the size of the economy through disincentivizing corporations to stay within the country's borders.

One of the assigned articles, also published by the Tax Foundation, mentions that two relevant measures of success in the economy are long-run gross domestic product and the availability of full-time jobs for citizens. Large, successful corporations who operate within the borders of the United States will contribute a considerate amount of money to the country's economy by raising capital and expanding their operations to achieve their goals. In order to continue growing, a company will require more human labor to keep up with expansion, thus creating more employment opportunities for Americans. The wages that are paid to employees by these corporations along with continued investments in capital will reenter the economy and fuel growth of gross domestic product in the long run.

The priority of most companies is to maximize profits despite loyalties to any specific country, so if corporate tax rates are too high, many companies will simply move operations to a new location to minimize costs. We can see examples of this pattern even on a national level. For example, while Tesla is currently headquartered in California, CEO Elon Musk is threatening to move the headquarters to a more cost-effective state such as Texas or Nevada. While relocation of the headquarters would cost an estimated $1 billion, much of the spending would likely by recovered through tax incentives (CNBC News). If the corporate tax rate in the United States is raised to a number such as 35 percent, the rate it was before the Tax Cuts and Jobs Act of 2017, we would see a similar trend occur on a much larger scale as businesses slowly migrate outside of the United States.

However, a major caveat of changing the tax rate is that the effects are not seen in the short-run. The changes and increases in gross domestic product and availability of jobs take time to materialize in the economy, and will result in slow increases over time. For example, the Tax Foundation Taxes and Growth Model predicted that the effects of the Tax Cuts and jobs Act will result in gross domestic product being $560 billion higher than it otherwise would have been in 2027. While these predictions have likely been altered substantially due to the effects of the Coronavirus Pandemic, they show that the major benefits would be seen ten years after the implementation of the tax cuts. Due to the fact that we only have roughly two years of data prior to the pandemic, it is difficult to provide evidence of substantial changes, although positive effects on the confidence of consumers and had already been reported.

One immediate effect of the change in tax rate that materialized in 2017 was that companies, “brought back a total of $155.1 billion in offshore cash, the Commerce Department said” (CNBC News). While we are not yet able to determine if this level of growth will continue into the future, economists are hopeful that the trend of corporations investing in our economy will continue for many years to come.

In order to see the effects of substantially lowering the corporate tax rate play out in today's globalized economy we can look to Ireland. Ireland currently has one of the lowest corporate tax rates in the world at only 12.5 percent. The rate has remained at this level since 1998, and has resulted in economic prosperity for the country. A representative from UHY, a leading international accounting and consultancy network, states that, "Ireland attracts well-known and international corporations, including Intel, Microsoft, and Google, because we have one of the lowest corporate tax rates in Europe. Ireland has become an increasingly dynamic and rewarding business location" (Farrelly Dawe White, FDW). Due to the lower tax rate, Ireland is bringing in large portions of business from other countries, including the United States, and seeing successful results.

However, some criticisms of Irelands low tax rate exist as well. Because of the obvious correlation between the presence of major corporations and the low tax rate, the country's economy now relies on this rate. Ireland would have difficulties raising the tax rate without devastating effects, and while this may not seem like an issue considering the good standing of the economy, it may not be beneficial for the United States to follow suit. Restructuring our economy by implementing a rate lower than the current 21 percent may bring similar consequences. The current tax rate provides revenue for the government to fund necessary programs and protections for its citizens without relying on solely taxing hard-working individuals. Additionally, the risk of not being able to collect these revenues if our country relied on a lower rate like Ireland are especially deterrent in times like the present pandemic. In response to this crisis, the government has increased spending in certain areas like unemployment and stimulus checks to keeping affected citizens afloat. Additionally, consumer confidence in the economy has dropped to a point of concern and tax revenue has not increased to cover the expenses. The uncertainty of the situation would be even more dismal if our corporate tax rate was held lower without the possibility of raising it like Ireland.

An additional criticism of further lowering the tax rate below 21 percent also supports the principle that corporations prioritize maximizing their revenues over loyalty to any specific country. While a corporation may choose to continue operations or even remain headquartered in the United States, they can implement tax avoidance strategies. As mentioned in the documentary, even if we lowered the corporate tax rate to an extremely competitive number, other countries will still have lower rates. As stated in the documentary *Taxodus*, “you can’t beat zero”. Companies that are set on avoiding tax expenses at any rate can still find legal ways to route income through other countries and hold it outside the United States.

The Cayman Island and British Virgin Islands are just two examples of countries without a general corporate tax, and there are many availabilities in countries in Africa to operate for a limited number of years without tax liabilities. Even Apple, an extremely well known and esteemed corporation, only paid a rate of 1.9 percent tax on profits generated outside the United States in a recent year. Additionally, a comment from Starbucks that was included in the documentary reveals that their company has also negotiated a favorable tax rate with the Netherlands that they are unable to disclose for privacy reasons. It would not be feasible for the United States to match these countries with an extremely low tax rate and forgo all of the associated revenues.

Overall, there are many factors to consider when settling on the most effective corporate tax rate, which is why the debate will continue on what the best approach would be. After weighting the consequences and benefits of raising and lowering tax rates, I continue to support the rate of 21 percent. After the upcoming election and over the course of the next presidential term, I will be interested in continually observing the effects of whichever tax rate is chosen and implemented.

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

After watching the *Taxodus* documentary and reading multiple articles online, I was slightly more interested in the Tax practice in public accounting than I previously was. I didn't realize how complex the effects of the tax code are on international corporations, and I believe it would be interesting to learn more about how corporations react to changes in it. I previously assumed that the majority of the work in the tax service line consisted of applying laws and aiding companies in correctly filing tax forms, and I didn't realize that the field also provides opportunities to develop strategies and make high-level decisions. However, this kind of tax management would likely not be a part of the daily job in a tax career until much later after many promotions and advancements have taken place.

I think that the tax profession would provide me with the ongoing challenges that I desire in a career due the fact that the tax code is consistently changing and tax accountants must learn a new set of rules and how to best apply them after each adjustment. However, the content of the work does not spark my interest as much as work in the Audit service line. Additionally, for those who start their career in tax and spend years developing skills and moving up through the ranks of a tax practice, it becomes very difficult to switch to any other specialty to type of accounting. I am personally more interested in getting a broader picture of each client's company that I work on in public accounting instead of just how it operates in response to tax. I have enjoyed learning the content of courses like Intermediate Accounting, which consists of topics in financial accounting that will be used more heavily by auditors than tax professionals. However, throughout the course of my research, I have realized how much respect I have for tax professionals and all of the intricate laws they work with.

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"On my honor, I pledge that I have neither given, received, nor

witnessed any unauthorized help on this case."

Kaitlin Seiberlich

Case 6: Interview

Kaitlin Seiberlich

The University of Mississippi

11 January 2021

Introduction

For Case Six, I was given a list of eleven interview questions to ask any member of the business community who has worked in the professional world for a number of years. The minimum age requirement was 35 years old in order to ensure that the interviewee would have substantial experience in their chosen career path. I decided to interview a family friend of mine from when I lived near Seattle, Washington in order to get the perspective of someone who I already look up to. While I had a small amount of prior knowledge about Melissa Lee's personal life, I only knew that she was working as a certified public accountant in the audit service line at the time I left.

I was surprised to learn that Melissa had originally studied wildlife biology in college and had a career in the sciences before she switched to the accounting field. She has now been working in accounting for roughly twelve years and has greatly enjoyed it. Based on what she mentioned about her skillset and the constantly changing nature of the work, this interview has confirmed my belief that public accounting is a great match for me. Because there are so many different types of roles available, I know that I will always be able to find new challenges throughout my career. One of the other most intriguing parts of the interview was hearing about how she has managed to balance many different roles with raising kids and maintaining hobbies and relationships successfully. I believe Melissa is a great role model for me because she is not only ambitious and driven, but also shares some of the values I have for a life outside of work. Overall, this case gave me a lot to think about regarding how I can start my career in accounting off well from the very beginning, and now I know I have a mentor to turn to if I have more questions in the future.

<u>Interview Content:</u>

Melissa grew up in White Center, Washington, which is located just south of just outside of Seattle, and has continued living in the region for the majority of her life. Besides staying active and spending time with her friends and family, school work was always a major priority for her since she planned on attending college from an early age. Melissa recalls that her parents were very supportive of her interests, and she enjoyed swimming competitively for most of her life before graduation.

After succeeding in high school, Melissa began college at the University of Washington and was initially shocked by the new level of difficulty in balancing challenging classes with being a member of the Air Force ROTC program. She remembers planning on becoming an engineer and going straight into Calculus her first semester at the University, but after struggling to get through the material, stated that she, “realized this was a wakeup call on how things worked in the real world; nobody was going to hold my hand and it was all on me.” After her first semester, she began to actively look into a new variety of subjects and career paths to figure out what better suiter her academic strengths and interests. Melissa fell in love with sciences from there on out and studied biology and physics, eventually obtaining a Master’s of Wildlife Biology. It was not until later in her career that she become interested in the field of accounting.

The first job Melissa had when she was young was actually a filing clerk for a Datsun dealership, where she ended up finishing the filing work intended to take her all summer in a matter of weeks. Though she was not aware of it at the time, this reflected her natural organization skills that would help her in accounting many years later. After her Master’s she worked as a lab assistant for roughly two years, studying genetics by mutating DNA of Horn Toads and then worked at a pharmaceutical company called Imunecks for many years afterwards. While she was very fascinated by these roles and greatly enjoyed working in the sciences, she eventually decided she was ready for a new and more personally challenging profession because most of the tasks she was assigned ended up becoming routine over the years.

Melissa laughed as she explained that she first started looking into the field of accounting because each career suggestion list was alphabetical, and accounting was always placed at the top. However, after she started researching the field, she was amazed to find out about the many different types of accounting that existed within private and public companies, as well as forensics for the government. Because she knew she was a very detail-oriented person, she believed her skillset matched what was needed for accounting work, and soon after began accounting coursework at Peirce College and subsequently sat for the CPA Exam after graduation.

From there she gained experience interning and working for Columbia Bank in their accounting department. She spent most of her time with mergers and acquisitions during the Mortgage Crisis of 2009 when Columbia Bank acquired multiple smaller banking institutions and was required to ensure compliance with the Federal Deposit Insurance Corporation (FDIC). Melissa then wanted to experience work in public accounting and spent five years at Johnson Stone & Pagano CPAs in Fircrest, Washington as an auditor. While she was interested in the work, she wanted to move on to a similar role with more opportunity for work-life balance, so she transitioned to internal auditing for private companies.

After Covid-19 impacted businesses this year, she transitioned into working in the auditing department at World Vision, a Christian humanitarian aid organization, which Melissa believes is one of the most fulfilling and inspiring jobs that she has had so far. One of the biggest takeaways I got from hearing about how the many different roles Melissa has worked in and learned from over the years is that if I end up working in an industry, location, or role that I do not particularly like it is always possible to explore other options and find out what suites me the most as long as transitions are done respectfully and responsibly.

Despite her success in her career, Melissa has a vibrant life outside of work. She is married to John Lee, has been very involved in raising her two step-children, and believes her family is the most important part of her life. She also has a love of gardening, and currently has a beautiful backyard full of floral arrangements and fresh vegetables centered around a small gazebo. After seeing her garden in person a few years ago, I believe it is a great example of how Melissa has been able to successfully balance her personal interests and hobbies with a career in accounting, which is one of the reasons I look up to her as a great role model.

Additionally, Melissa says that she loves to travel, even after frequently travelling for work during her time at Johnson Stone & Pagano CPAs. She believes that one of her favorite vacations she has taken was when her and her husband took a cruise through the Mediterranean both in 2005 and again just two years later in 2007. She has a great story of when they toured the Vatican in Rome and got to meet the Pope and he greeted each guest in their native language, from English to German to languages she couldn’t even recognize. Her only regret from these trips was that the cruise only stopped briefly at each destination and she would love to go back and explore Europe more closely if she ever gets the chance.

Overall, Melissa is very happy with how her life has turned out and the freedom that she has had to explore her interests while also getting to spend valuable time with her family. However, she mentioned that one thing she would change if she could go back is making her religion a bigger part of her life sooner on. She only became a Christian after about halfway through her life and says that she thinks the peace and comfort that comes with Christianity would have been helpful to her in her younger years. Now, her faith is a big part of her life and she does her best to live up to her values.

Another regret she shared with me was that when she was young and her parents got divorced, she moved back and forth frequently and did not make as much of an effort to build roots in one place and keep up with her closest friends. She wishes that she kept in contact with more of the people she grew up with. This topic hit close to home with me, because I moved from Seattle and left all of my childhood friends and memories about three years ago and have not had a chance to go back. Thankfully, today's technology makes it easy to set up a video call to keep up with them the best I can.

Some great advice that Melissa gave me for my future life and career in general was that I do not have to have everything figured out now. Even though both her and I tend to be the type of people who like to make detailed plans and be prepared for everything we do, she told me I can always change my mind later, and there will always be unplanned things that happen in life. Melissa is a great example of someone who followed their intuition about what they wanted to do for a career, but eventually shifted to something entirely different. Even though I know I want to work in public accounting, it was helpful to hear that if I do not get the specific job or location that I want, there are so many different opportunities that may come along instead.

When I asked Melissa what she was most proud of in her life, her first answer came quickly. She immediately mentioned her kids, and explained that after watching them grow up and face challenges throughout the years, she is so proud that they ended up being great people with close-knit families. After they recently became parents, she says it brings her joy to know that they are doing a great job raising their own kids and she loves seeing them make their own way in the world.

For her own generation, she believes that the biggest challenge they have faced so far is learning to balance careers with families and life at home. Because they are one of the first generations where so many households grew up with both parents working while the divorce rate rose even higher, they did not have as many examples of cohesive home life as parents were starting to figure out how to handle both a successful career as well as household responsibilities. She worries that this may have been passed down through her generation and will impact the workforce culture for a long period of time. In the future, Melissa predicts that the most difficult aspect of life for her generation will be keeping in touch with the technology that younger generations use because they have seen such a huge change in what devices are involved in day-to-day life.

As for my generation, Melissa believes our biggest challenge will be developing the type of interpersonal communication skills that will allow us to be successful in the professional world. Because we rely so heavily on technology to communicate, she has noticed that our generation tends to shy away from more personal communication. Melissa also made a great point that some of the younger kids who are starting elementary school or high school during the pandemic are missing out some of the formative years when these types of skills are initially introduced. Without even being able to shake someone’s hand, it is difficult to keep up the same type of relationships or the personable culture that her generation is used to. However, she is hopeful that when we start working full-time in a post-pandemic environment, we will be able to recover these skills. I agree with her statements and can definitely see some of the affect technology has had on even my own communication skills, but also believe that all of the networking opportunities through the Patterson School of Accountancy have helped me become much more comfortable striking up a conversation with a professional that I have never met.

"On my honor, I pledge that I have neither given, received, nor

witnessed any unauthorized help on this case."

Kaitlin Seiberlich

Case VII: Introduction to Alphabet Inc.

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

University of Mississippi

3 February 2021

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

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

Based on the consolidated notes Alphabet has included in their 2020 financial statements, Google's

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

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

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

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

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

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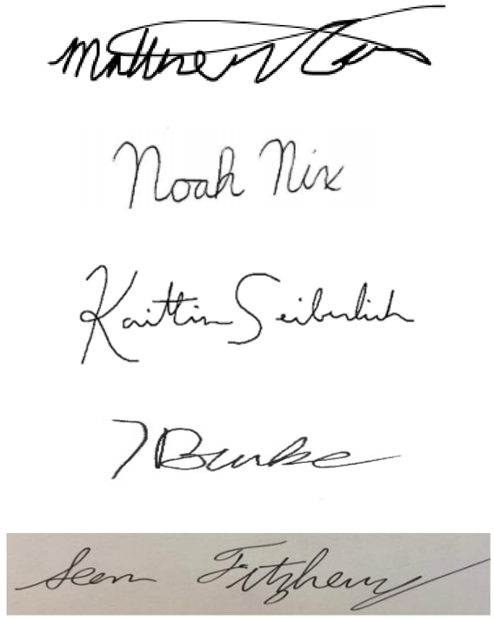
“On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case.”



Case 8: Audit Analysis

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

University of Mississippi

10 February 2021

Introduction

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

Marketable Securities

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

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

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

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

Accounts Receivable

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

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

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

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

Property and Equipment, Net

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

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

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

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

Accrued Expenses and Other Current Liabilities

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

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

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

Revenues

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

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

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

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

Cost of Revenues

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

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

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

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"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."

Matthew [illegible]

Noah Nix

Kaitlin Seiberlich

J Burke

Sean Fitzhenry

Case IX: Tax Analysis

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

University of Mississippi

February 10, 2021

<u>Executive Summary</u>

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

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

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

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

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

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

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Noah Nix

Kaitlin Seiberlich

J Burke

Sean Fitzhenry

Case 10: Advisory Analysis

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

The University of Mississippi

February 24, 2021

Introduction

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

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

<u>1. Answer the following questions about your company's operations:</u>

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

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

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

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

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

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

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

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

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

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

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

The results of this question can be found in the appendix following this section. The applicable tables and charts for this question are as follows: Figure VII, Figure VIII, Figure IX, and Figure X.

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

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

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

(1) Google relies heavily on advertising and advertising-related projects for profits, as it currently produces 83 percent of its revenue from the industry. As advertising space is currently

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix

Figure VII: Alphabet Financial Information

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

Figure VIII: Income Statement Account Balances

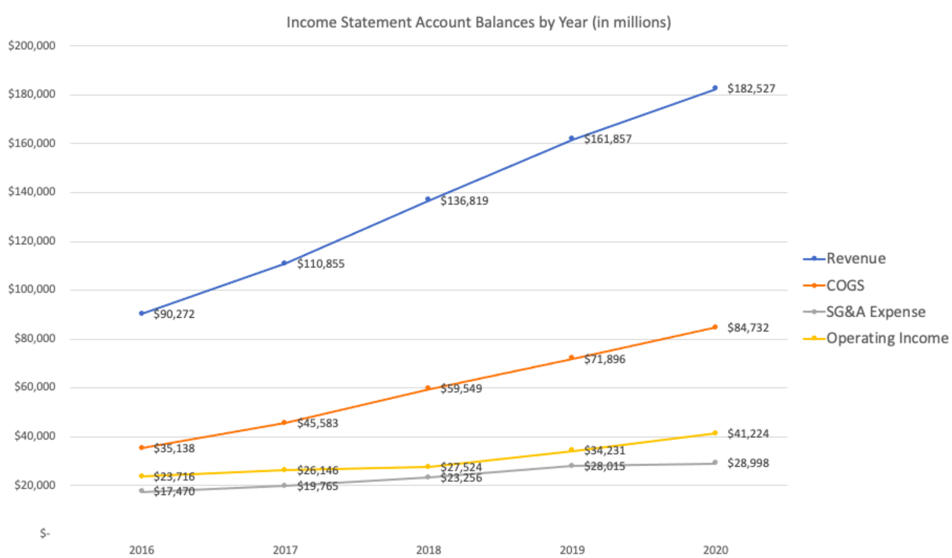

Figure IX: Balance Sheet Account Balances

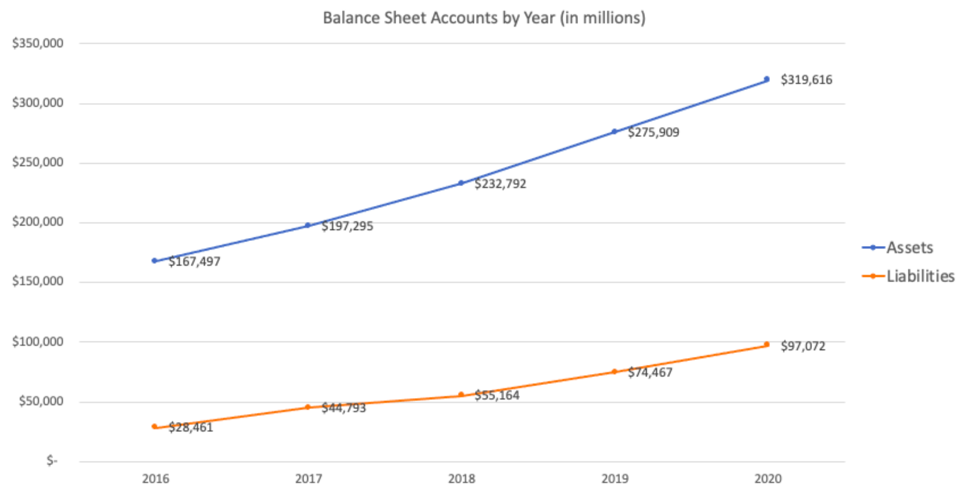

Figure X: Decomposition and Return on Assets

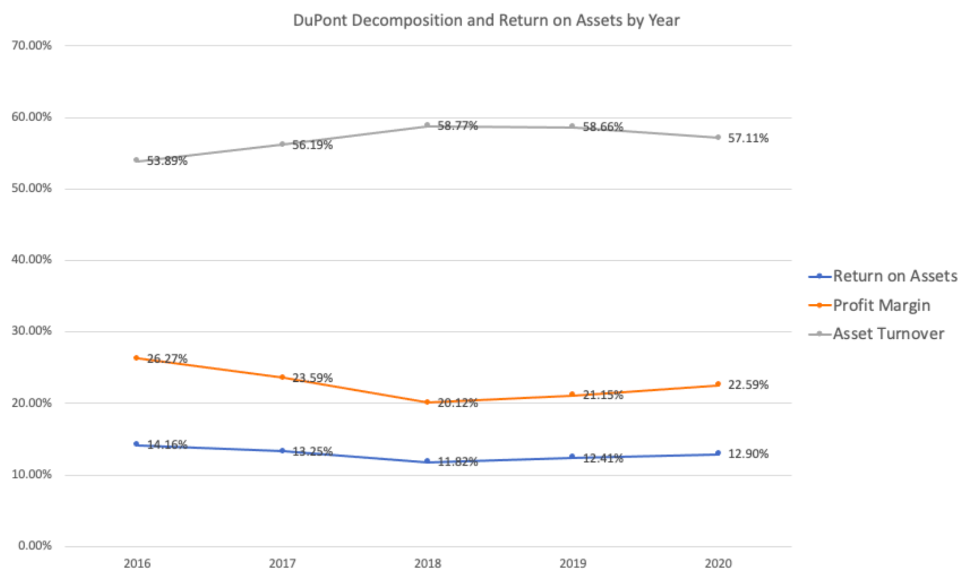

Figure XI: Alphabet Financial Information and Projections

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

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"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."

Matthew [illegible]

Noah Nix

Kaitlin Seiberlich

J Burke

Sean Fitzhenry

Case 11: Earnings Analysis

Matthew Conroy, Sean Fitzhenry, Kaitlin Seiberlich, Tyler Burke, Noah Nix

sfitzhen@go.olemiss.edu, tylerandersonburke@gmail.com, kmseiber@go.olemiss.edu,

mjconroy@go.olemiss.edu, njnix@go.olemiss.edu

University of Mississippi

Accounting 420

Dr. Dickinson

3 March 2021

Introduction

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>3. Identify how your net income and common shares outstanding will change over your recommendation horizon. For example, if you plan to suggest that the client issue equity to implement your tax and advisory recommendations, then this value should increase over time accordingly.</u>

a. For each future year that your net income and/or shares outstanding change, compute a new expected stock price as follows: Projected stock price = Your P/E ratio from 1(b) * Projected EPS Note: this method is the earnings multiplier valuation approach. In graduate school, I will teach you more sophisticated models such as the residual income model.

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

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

indicated below in Figure XII.

Figure XII: Share Price Trends

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

The new ROA over the next five years that we calculated in Case 10 was 8.86 percent for 2021, 9.7 percent for 2022, 10.63 percent for 2023, 11.63 percent for 2024, and 12.64 percent in

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

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

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"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."

Matthew [illegible]

Noah Nix

Kaitlin Seiberlich

J Burke

Sean Fitzhenry

Case 12: The Financial Crisis of 2008

Kaitlin Seiberlich

The University of Mississippi

21 April 2021

<u>Introduction</u>

For this case, we were first assigned two short videos that presented some background knowledge on a concept known as crony capitalism as well as the general causes of the 2008 financial crisis. Next, we were to watch the award-winning documentary, *Inside Job*, directed by Charles Ferguson. This documentary caught my attention through a series of live interviews focusing on major government officials and leaders of financial institutions that were involved in the onset and response to the financial crisis. I was surprised to find out how many causes of the financial crises were described in the film as issues that could have been foreseen with just a little more diligence on behalf of these leaders. The film also provided a more in-depth description of the creation of collateralized debt obligations and the subprime mortgage market and how new classes of securities brought substantial risk into the economy. Finally, we were given two articles to read. The first, written by Felix Salmon, gave us more detail on the groundbreaking equation that prompted the housing boom in 2006 and mentioned some of the consequences that should have been kept in mind while using this equation. The second article focuses on Goldman Sachs and the company's alleged history of selling securities they knew will likely fail in order to make short-term profits, knowing that the government would bail them out if needed due to their prominence in the economy.

After studying all of the material assigned and combining it with my background knowledge from economic courses and a few additional sources, I was able to reevaluate the level of trust I will place in both the government and private institutions going forward. After hearing contradicting responses from some of the subjects interviewed in the documentary, I now know how often public figures can be capable of putting their own fortune ahead of the wellbeing of their clients and country. I am hoping that I will be able to use this knowledge in my career as an auditor to make ethical decisions if I am placed in a leadership role.

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

Interestingly enough, over this semester I have been studying the financial system in an economics course called Money and Banking where I have learned about concepts such as the structure of the Federal Reserve System, how monetary policy can be implemented, and the factors that can bring on financial crisis. These concepts all made an appearance in the documentary, *Inside Job,* as well, and this background really helped me understand some of the issues that were discussed. However, after watching this film, I noticed that the textbook for the Money and Banking course focuses mainly on explaining these concepts without going more in depth on how the government and corporations are involved in the policy-making decision process. It turns out that the author of this textbook, Frederick Mishkin, happened to be one of the officials that was interviewed in the documentary regarding their role in precipitating the behaviors that caused the financial crisis in the first place.

While this textbook was written and published after the documentary, it was interesting to see how some of his interview answers in the film did not align well with the information published in the textbook, specifically in the chapter discussing the financial crisis of 2008. In the film, Mishkin avoids giving any response on the investment rating agencies artificially inflating their ratings prior to the crisis, but in the textbook, he gives the opinion that the ratings were “wildly inaccurate” (Mishkin). It would be interesting to investigate further to see if other inconsistencies or biases exist throughout his published work. While it is likely that the information in the textbook is accurate, it seems that his interview answers were skewed to support the groups he worked for at the time the documentary was released. Watching this documentary highlighted the need to be aware of potential biases in sources I use in my daily life, whether they are from articles, the news, or even textbooks.

One of the topics that stood out to me in the documentary that was not mentioned in the textbook was how the Fed and other government officials who could influence regulation of the financial industry were not blindsided by the fact that major firms like Goldman and Lehman Brothers were intentionally betting against the financial instruments they were selling. Footage was included that showed companies being confronted about this behavior yet the government continued to turn a blind eye and refuse to introduce regulation that could have lessened the impact of the financial crisis. Even with this knowledge, the government still provided huge bailouts to these financial institutions. Knowing how many American taxpayers were affected by the financial crisis and lost their pensions, homes, and chance of stability did affect my trust in institutions and the government and reminded me to be cautious about my financial decisions in the future, especially in times of uncertainty like the current pandemic.

In regards to one of the articles that we were given to read, *Recipe for Disaster: The Formula That Killed Wall Street*, I was surprised at the level of trust investment rating agencies gave to a purely mathematical formula based on prices instead of real-world default data (Salmon). Investors likely saw the new collateralized debt obligation formula as a fast way to make a profit without considering the extent of the risk, and the rating agencies could easily assign a AAA rating based on the math presented without giving consideration to real-world consequences or instability. “In 2007, as housing prices began to tumble, Moody’s downgraded 83 percent of the $869 billion in mortgage securities it had rated at the AAA level in 2006” (Council on Foreign Relations). This artificial inflation of rating prior to the financial crisis was likely a result of extra funds being provided to these rating agencies from companies who had received high ratings on their own securities, and this information left me questioning how trustworthy these agencies can be. In the future, if I am investing my own money, I will take extra care to look into the companies' financial statements and notes to the financial statements myself so that I can hopefully get a decent picture of the company's true financial position.

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

I think this material has affected my beliefs about both my professional and personal roles in society in different ways. Personally, this material has encouraged me to obtain a level of financial literacy that will allow me to be aware of possible consequences of investing or taking on debt, especially when there have been so many unforeseen events occurring in the stock market over the past couple decades, including the crash of the subprime mortgage market, the economic turmoil after the onset of the pandemic, and even smaller events like the GameStop stock upset that occurred earlier this year. This material has also made me consider checking in on family members who may not have any finance or accounting background to make sure myself and others are making smart financial decisions in order to avoid some of the terrible consequences that so many citizens faced during the 2008 financial crisis. I also thought about how teenagers and young adults tend to be comfortable taking on an unproportionate amount of risk and be reckless in their decision making, and how this could apply to personal finances as well. Going forward, I am thankful that I have studied topics such as investing and the time value of money to ensure that I am careful in my investing or borrowing decisions.

As a future accounting professional, this material has also brought up ethical concepts for me to consider that I have not thought about previously. I have studied concepts like impartiality and even general competence in classes in the past, but as I get closer to working with audit clients in less than a year, I am glad that I have the chance to reflect on them further. Again, the fact that major investment banks were selling securities to their customers while simultaneously betting against them is clearly not acting in the best interest of their clients. The firms that are responsible for auditing these companies should, in theory, have the level of competence and impartiality necessary to detect high risk situations. In the past, I have wondered how the employees at Arthur Anderson could have allowed themselves to be caught up in the fraudulent activities of Enron prior to its closure, but the material from this case has demonstrated how it takes only a few poor management decisions to destroy an entire company. Throughout my career, I will be sure to hold both myself and others working along side me to a higher standard so that we can fulfill our duty to the public in ensuring the quality of any clients' financial statements to the best of our ability.

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

One of the more obvious parallels between the political landscape that brought on the financial crisis and the current political environment is the major uncertainty in the economy. After the onset of the pandemic and the extended period of lockdown, many small businesses failed leaving their workers unemployed, and entire industries such as tourism and entertainment collapsed, causing a panic for many individuals around the world. The combination of an increase in unemployment and the uncertainty in the economy caused a huge decline in consumer spending and further halted economic growth. While unemployment is beginning to return to normal levels today, such a large unprecedented catastrophe is bound to leave many citizens feeling uncertain going forward, which can lead to questioning about the security of the financial system, and in dire circumstances, can even cause bank panics. In addition, the amount of people defaulting on loans has increased since the onset of the pandemic, mirroring some of the defaulting of subprime mortgages in 2008. This causes the borrowing in the economy to become more costly as lenders raise interest rates to protect themselves against risk, in turn weakening the efficiency of the financial system in matching funds to productive investment opportunities that can help the economy recover.

Another major concern during the 2008 financial crisis was the emergence of the “too-big-to-fail” problem, where large financial corporations are aware that the government will likely bail-out the corporation if it reaches the point of insolvency because of its importance in the economy as a whole. This enables the firm’s management to make risky decisions that will earn them profits in the short-run, but may not be sustainable in the long-run. This concept reflects the behavior of major investment banks prior to the financial crisis, recklessly issuing subprime securities with no real concern of the true risk involved. Today, in addition to the financial industry, the too-big-to-fail problem can be extended to the airline industry. As companies like Delta, American Airlines, and Southwest faced huge losses due to the pandemic, the government expressed the opinion that these companies are so important to the United States that they would step in before letting them fail. The government did indeed take actions confirming this sentiment when they passed a $25 billion Covid-relief deal with the majority of the funds allocated to the three airlines mentioned previously (Horton). While this may have been a smart move in 2020 to ensure the continuity of the airline industry, it could encourage other major companies to take on excessive risk in the future if they believe a bailout will be extended to them as well, especially when the funds for the bailout come from taxpayers and not their own pockets.

A big takeaway from the 2008 financial crisis that we should all reflect on is how easily people in positions of power, whether in the government or corporate America, can blur the ethical boundaries of their role and make decisions that benefit themselves above the rest of the country. Going forward, I would hope that there will be some form of further regulation or oversight within the financial industry to protect the general public, especially those who are vulnerable to the system. This lesson should also be extended to people working in any client-serving role, where professionals should recognize that they have a great deal of influence over their clients and are obligated to act in their best interest whenever possible.

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"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."

Kaitlin Seiberlich

Speaker Notes

Kaitlin Seiberlich

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BDO

During this class period, two speakers from BDO came to discuss time management in the workplace and answer any questions we had about their firm. We started off by watching a very interesting Ted Talk by Laura Vanderkam about how we can gain control of our free time, even when it seems that we are extremely busy. She mentioned common strategies people use to shave off a few minutes of the mundane tasks that they have to complete each day to end up with more time, but then explained that most of these strategies will not result in a happier, more well managed life. Instead, she suggested that we think about the things we have to do as things we choose to do because we want to do them. This changed my perspective on a lot of the day-to-day tasks I feel control my life, and helped me realize that they are all things I choose to do because of the specific set of positive consequences they will bring.

After the video, the two speakers held a discussion with the class and tasked us with what our own priorities were and why we choose to do the things that we do. They also gave insight on how our time management strategies will likely need to change after college when we begin a full-time job and have new distractions to deal with. Thankfully, I feel reasonably prepared to manage my time after college due to the amount of involvement I currently partake in on top of the many hours I put in each week studying outside of class. I currently attempt to organize the tasks I desire to complete each week in a planner, and write down events in a color that coordinates with the event category. Some of the event categories I use are class, assignment due dates, meetings, networking events, and social events. Additionally, when I am not at school during summer and winter breaks, I work a full-time job at a school, so I have a good idea of what a 40-hour work week feels like.

To conclude the meeting, we talked with the speakers about BDO and its benefits, especially in Nashville, which is my first-choice city for internships. The speakers mentioned that working at BDO gives you the feel of a small firm, where you get to know your coworkers and superiors, while also having large firm capabilities. The culture of the firm overall sounded like a great fit for me, especially given that they were speaking from experience at the office I would be applying to. I believe this meeting was very helpful, and plan on reaching out to out speakers in the future to continue building a connection with BDO.

Crowe

For Crowe's presentation, they had a tax partner from the Nashville office come to speak to us about Data Analytics. He broke down into more simple terms what data analytics really is for those of us who haven't done much work with it before and also explained the overall goal of using data analytics from an accounting firm perspective. He mentioned that most of the data that can be used by firms to find patterns and use to aid audit or tax services must be presented in a structured form that can be more easily understood and visualized. However, most data that exists is in an unstructured form that is difficult to use, so data analytics software combined with data professionals are working on ways to convert this data into a structured form without spending many hours working on data-entry tasks.

One of the concerns that have been voiced recently regarding data analytics and the audit profession is whether or not this new technology will greatly lower the human resources needs of an audit department in the near future. The speaker addressed this concern by showing us a simple chart that showed how the new technology being introduced is changing the role of auditors. He mentioned that the traditional audit activities of firms are declining, but they are also being replaced by more analysis and consulting roles to transform the output of this technology into useful results. He also discussed the Masters of Accounting and Data Analytics program that is offered at Ole Miss and highly recommended that we all choose this program for our Master's in order to stay relevant and in-demand in the public accounting profession.

Another topic that stood out to me during Crowe's presentation was a graph the speaker included that showed a data-focused audit technique where the firm could use software to graph trends in a company's revenue and cost of goods sold to find any outliers, and investigate those further as a potential area of risk. This strategy is something that I had researched for the case competition we participated in this semester, and it was interesting to see that it is actually a strategy in use by large firms today.

Deloitte

For this class period, we had two speakers join us. One was our Ole Miss campus recruiter from Deloitte, and the other was an Audit senior from Nashville who graduated from the Patterson School of Accountancy a few years ago who I had met previously from a Deloitte recruiting event a few weeks prior. This semester, it has been very helpful to hear from people who have gone through the recruiting process recently here at Ole Miss, because it has given me insight on what to expect and helped me to clarify what I am looking for in the beginning stages of my career.

The focus of this presentation was interviewing in a virtual setting and how to stand out throughout the process. One of the biggest pieces of advice that our recruiter has given us throughout the semester is to use the interviewing and recruiting process as a way to find a firm that is a good fit based on how our values and the firm's values align. In order to narrow down a few of our top values, we did an activity where we filled out a chart of our top values based on five different categories, and then had to quickly choose a certain number to cross out. The number of values left on the chart kept getting smaller until we were left with only a few. I was surprised how I was able to identify the things I value most in such few words, but this exercise helped me to see how I can align those values with my career. Both of the speakers also described the way that Deloitte has shown them personally that the company's top priority is its people, and this made me even more excited to start the application process soon.

After the activity, we also discussed helpful tips for using virtual platforms during interviews such as testing any software needed in advance, finding a professional setting, and using proper volume and voice inflection to convey a positive attitude. I have already seen many examples of how these strategies could improve the experience of meetings, networking events, and virtual classrooms throughout the semester when I or one of the other participants have struggled to communicate effectively because of other issues getting in the way. For example, at one point I had an audio issue when using a new platform for a networking event and it was very difficult to handle the situation gracefully without leaving the call. However, I believe this past semester of only online activity as well as this class presentation have prepared me well for our virtual interviews next semester.

Ernst & Young (EY)

Like most of the presentations this semester, EY started off with a presentation about the firm and some of its most exciting qualities. Each speaker introduced themselves, and I was also excited to recognize one of the speakers, who I had met in a EY Coffee Chat just a couple weeks before. In the brief presentation, a partner mentioned the vast range of countries that the company operates in and the decentralized approach to operating within each that they believe gives them an efficiency advantage. He also mentioned the many opportunities to travel, including a program where employees could work in another country for a specified number of months or years. This was interesting to me because I believe the experience of working in a business setting in another country would be extremely valuable and this is something that I have a desire to do. Additionally, he discussed some of the benefits that show how the firm fosters a culture where employees are valued. For example, I learned that there are 19 paid holidays and a minimum of three weeks of vacation for all regular employees.

Afterwards, EY also had a fun activity planned for us by brining in the company "Roobicks" to put together a virtual escape room activity through zoom. We were divided into breakout rooms of about 8 people each and given a series of puzzles and tasks to complete and whichever group completed them the fastest was declared the winner. This was such an interesting teamwork exercise because the puzzles were required very out-of-the-box thinking and weren't related to accounting at all. It allowed us to open up to our teammates, most of whom we didn't know, and forced us to communicate effectively in order to move through each task. Completing the virtual escape room got me thinking that time-pressured games like these could be effective in the work place for beginning to build a team bond in new work groups because members have to put any shyness or fear of saying the wrong thing behind them to quickly work together to accomplish a common goal.

KPMG

During the class meeting with KPMG, a handful of employees at all different levels who graduated from Ole Miss gave their perspectives on a variety of career topics. Although all of the professionals were working out of the New York City office, their advice was highly applicable and very interesting to me even though I do not plan on working in New York. We started off by listening to a presentation given by a KPMG partner who gave us a background of his career progression and the kind of work he did at each step along the way. I found this portion of the presentation to be inspiring because he had started out graduating from the same program we are going through and has gotten the opportunity to work in the industries and with the clients that he found most interesting and slowly built an impressive skillset in order to accomplish whatever he desired.

Next, each other professional gave advice for us upcoming accountants and talked about their experiences in internships, busy season, and the start of their careers. Everything that I heard further supported my belief that Public Accounting is a great career choice for me because I look forward to working in a team-oriented, fast-paced environment. After the presentation was finished, the meeting opened up to questions from students and one of the biggest topics of discussion was the differences in experience of working in a large or small office and what the opportunities for industries and clients may look like in each. This got me to consider which industries I would potentially be most interested in working in and comparing them to what is offered in each of my top choice cities. For example, the Nashville office is relatively small and dominated by healthcare with a few other industry options as well. However, in Dallas there are opportunities to branch out into almost any industry because of the breadth of KPMG's client base in the larger city.

Afterwards, I also followed up with our campus recruiter from KPMG to set up a quick meeting to go over a couple specific questions that I did not get to in the class meeting. We discussed some of the recruiting, networking, and applying processes in relation to specific city preferences and I now have a much clearer picture of how each process should look. Overall, this meeting with KPMG was very informative and got me thinking about the decisions I will have to make over the next few years as I begin my career.

PwC

Our meeting with PwC was the first interactive meeting with a public accounting firm in this class. We started the meeting as a group with all of the speakers and the whole class combined for a brief introduction and then broke up into small groups of about eight students to talk to the speakers on a more personal level. In each group, two PwC speakers would join for about 15 minutes and then rotate to the next group. In my student group, I got the opportunity to ask any questions I had about PwC. There was a mix of audit and tax professionals from a variety of cities, so I got to hear about both practices and the differences between offices across cities. Although there were no speakers from Nashville or Dallas, the two cities I am interested in interning in, I was still able to get my questions answered and the meeting was very helpful overall.

One of the questions I asked in the group was how helpful the classes they took while completing their undergraduate accounting degree were in the first few years of their audit career, and what I can do now as a student to prepare myself to be a successful intern in the upcoming years. The speakers seemed to agree that the information we learn in classes like intermediate accounting is important and lays a good foundation of accounting knowledge, but the vast majority of work done will require on-the-job training. They also mentioned that building technological skills now would help in the future. Based on the answer to that question, I decided to ask one of the speakers who specialized in Digital Acceleration in the Audit field what kinds of technological skills I can begin to work on now. For the most part, he recommended learning Excel but also listed a couple programs I could look into if I am interested in the technology side of accounting. However, he mentioned that I would not be able to use the programs until working for a firm who provides access to them because of their substantial costs. These included Alteryx, a data analytics tool, Tableau, a data visualization tool, and UiPath, a robotic process automation software.

Overall, the meeting with PwC was very informative. I not only got to hear about PwC's office culture and opportunities, but also got to interact with a variety of professionals to practice networking skills and make contacts within the firm that I can reach out to with any further questions during the recruiting process.

BKD

For this presentation, we had a BKD recruiter and BKD's South Region Managing Partner come speak with us about their experience and some of the benefits of working at BKD. The managing partner started the presentation by mentioning how students often like to hear how successful professionals got to that point in their careers and what helped them get there along the way, and then described the stages of her career and life and how working at the firm has impacted her. I found it very interesting when she mentioned how she kept pushing herself to take new steps in her career and take on new challenges because after working in one area for a while, she would get bored and always wanted to be learning something new. This stood out to me because I have been a very goal-oriented person as I have gone through high school and college and have enjoyed being able to take on new challenges by joining extracurriculars or running for leadership positions and I am looking forward to working in a career path where advancement is always possible as well. Something that surprised me about her story is that she is a mother of three children and worked with her superiors to create a flexible schedule earlier in her career. It was great to hear that there are very successful women in the accounting profession that have been able to balance their personal and professional lives when necessary.

Later in the presentation, she discussed the role of data analytics and other uses of technology in the audit service line. She mentioned how data analytics is allowing auditors to examine an entire group of client transactions with software instead of needing to create arbitrary samples to hope to pick up on any irregularities. This is something I was looking into when researching for my case competition and encouraged me to look further into the Masters of Accounting and Data Analytics after undergrad. This presentation reminded me how important these technological skills are for incoming accountants, especially since the profession is changing so quickly with new advances constantly occurring.

Whitley Penn

The speaker presentation from Whitley Penn stood out to me in a different way than some of the other speakers we have heard from this semester. Instead of heavily focusing on data analytics, skills, and training information, the speakers discussed details about the benefits and work environment of their firm. One of the speakers, a Whitley Penn audit partner form the Houston office, shared his personal approach to leadership and fostering a productive culture in the workplace that I thought was unique from other firms. He mentioned that he tends to pay attention to the quality and quantity of work that is being performed by subordinates, and incorporate this information not only into performance evaluations, but also into tangible rewards for high performers. He believes that staff who are invested in their job should be recognized, and one of the advantages of working in a mid-size office is that this is much more doable than if there are hundreds of employees to keep track of.

He also gave us some great advice to take into consideration for our internships by sharing stories of how leaders or subordinates have stood out to him in the past. He described the most important quality in a team member as being someone who has a great attitude and is willing to make personal connections with those around them. One of the memories that stood out to him was when a member of the firm's leadership gifted him a book about managing other people and offered to discuss the concepts with him as he transitioned into higher leadership roles into the firm. This advice is something I will take to heart not only in the professional workforce with future team members, but also with other accounting students here at the University. After having some great role models to look up to in the school of accounting over the past couple years, I can aim to make an impact on some of the younger students who are now entering the recruiting process as well.