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A Compilation of Financial Accounting Case Studies

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A COMPILATION OF FINANCIAL ACCOUNTING CASE STUDIES

By

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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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This thesis is dedicated to my family and friends who supported me throughout these past four years.

ABSTRACT

This thesis will cover varies accounting subjects. Subject matter was provided by the Patterson School of Accountancy. Topics discussed include proposed accounting changes, tax regulations, a case study of a public company, and an analysis of the 2008 financial crisis.

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Speaker Summaries

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ACCY 420

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Deloitte

For our first class, the Deloitte recruiter for the University of Mississippi, Katie Barber, came to talk to our class. She also invited an audit senior from the Nashville office to come speak with us. I was excited for this presentation because I had met Barber before and had liked the other Deloitte recruiting sessions I had been to in the past. The focus of this presentation was how to interview in a virtual setting. Barber gave us tips on how to stand out and be professional in a virtual environment. She talked about how to test meeting software in advance and use proper volume and inflection on video calls. She told us about finding a professional setting with a background that is not distracting for interviews.

Barber and the senior associate emphasized going to a firm that feels like a good fit. They recommended finding a firm with values that align with your own. To demonstrate this, we did an activity to highlight what our values were. We first filled out a chart with our strongest values. We then had to go through and cross out values one by one very quickly. This showed us which values we prioritized the most. I thought that this activity was a good way to show us what we are looking for at a firm. The time constraint on crossing out the values made me use my instincts to pick which values were most important. After this activity I felt that I had a clearer picture of what I wanted in an employer.

This presentation made me excited for this school year and the recruiting process. I was excited about Deloitte and was eager to hear more about the firm throughout the application and interview process. I had been able to do several events with Deloitte during my freshman and sophomore years, and I was glad that we started off the speaker sessions with a firm that I had known before. This made the recruiting process seem less daunting because I knew more about Deloitte than the other firms and I had met their recruiter before.

PricewaterhouseCoopers

When PricewaterhouseCoopers (PwC) came to speak to the class, they opted for more interactive breakout rooms instead of a presentation. I appreciated this because I think that the firms should try to mimic in-person recruiting as much as possible in their virtual events. After a brief introduction, we broke into groups of seven to ten students. Pairs of PwC employees would rotate through the breakout rooms every 15 minutes. The employees who attended were from different cities across the country and worked in both audit and tax. I enjoyed this structure a lot. I planned to apply for a tax internship outside of the Southeast, so I felt that this event was beneficial for me. I was able to speak to employees from cities I was interested in, which is not guaranteed at every recruiting event.

The breakout rooms helped us to have more personal interactions with the employees who attended. More students asked questions because of the small size of the breakout rooms. During this part of the class, we talked about how to prepare for our internships and full-time jobs. The PwC employees said that while our classes in college build a framework for us, on-the-job training will be more beneficial. A lot of the work we will do during our internships will require specific training. This training will use concepts from our college classes, but it will introduce us to more specific processes. When asked how we should prepare for our internship, the PwC employees recommended that we become proficient in Excel. Excel is widely used in accounting, and pre-internship training is very beneficial. The employees mentioned other programs, specifically Tableau and Alteryx, that we could use in our internships or full-time positions. However, these programs require licenses that can be expensive. They said that because of this most of our training will happen once we start with the firm.

Overall, I thought this event gave me a good sense of what PwC is like. The smaller groups helped me to make better connections with the employees who attended. I was even able to reach out to one of these employees for help with a project in my accounting systems class.

KPMG

For this class, Brian Roberson came to speak to us. Roberson is a graduate of the University of Mississippi who started his accounting career at Arthur Anderson in Memphis. He then moved to KPMG in New York City. After a few years at KPMG, he did a two-year fellowship in the office of the chief accountant at the Securities Exchange Commission (SEC). While in this role, he worked to oversee FASB regulations. When this fellowship ended, Roberson returned to KPMG as a partner. He worked within the department of professional practice at the KPMG national office. More recently, Roberson worked in the New York office. He moved to client work as an auditor. Audit partners need to switch off of engagements every five years, so Roberson was exposed to many different companies in his role as partner. He said that partners are able to be offered bigger companies whenever they switch accounts because the New York office has so many clients. He also mentioned that most clients in New York have international operations. This feature gave Roberson the opportunity to travel for work. In 2019, Roberson moved to KPMG's Cincinnati office to work on Macy's. While Macy's is headquartered in New York, most of their accounting is done in the Cincinnati office. Roberson now works as the audit partner in consumer goods and retail industries. He is also an engagement quality control review partner.

After explaining his career progression, Roberson talked about the structure of KPMG's offices. New York City has two offices. The first is the metro office. This office handles all non-financial clients. The second office is the financial services office, which handles clients who do not make products. Employees will be assigned to work at one of the offices and will not work between them. The New York offices will mainly do audit work within the city. This is different from other firms that I have talked to, who mentioned frequent commutes to the surrounding metropolitan area. KPMG also has an office in Washington D.C. dedicated to policy. This office is called Washington National tax, or WNT.

The class then shifted to a panel with employees from the New York office. They said that the best part of interning in New York was that they were exposed to niche markets. KPMG New York has an array of different industries to choose from, while other cities might only have one or two predominant industries. The employees on the panel said that they chose KPMG for the people and culture. They said that KPMG has a culture similar to the one at the University of Mississippi, and that KPMG is the largest Big Four employer of graduates from the University of Mississippi.

BDO

For BDO's presentation, a partner and manager from the Nashville office came to speak to us. They talked to us about time management and how to prioritize tasks. We first watched at TED Talk by Laura Vanderkam on this concept. This speech told us how to take control of our time even when we are busy. She outlined several ways to save time on simple, everyday tasks. Vanderkam said that doing this would help us to have a happier life that is better managed. She also discussed reframing the things that we are required to do. Vanderkam suggested calling the things we were required to do things that we chose to do. This will make it easier to only do things that we want to do and be more productive with our time.

The speakers from BDO then lead a discussion on the message of Vanderkam's speech. They talked about how to prioritize and what motivates us to do things. They then talked about how our time management will change when we start working a full-time job. This presentation was a good reminder of how important planning and time management is. I think that the topics they discussed were helpful for us as we prepared to intern the following year. They recommended that we familiarize ourselves with planners and online calendars now so that we know how to utilize them to our benefit while working full-time.

I am a person who needs to have everything planned out, but I still struggle with prioritizing tasks and managing my time. This presentation was a good reminder of how intentional planning is. This reminded me that I needed to plan ahead and think about what my motivations were for what I was doing. I then used this information to prepare better for my classes and academic schedule this semester.

After discussing the TED Talk, the speakers told us about BDO. They worked in the Nashville office, and were calling into our class from the office. BDO had adapted a hybrid schedule, which enabled them to do this. They said that they were drawn to BDO because it has the feel of a small firm with the capabilities of a large firm. I liked this description of BDO because it feels similar to why I chose to go to the University of Mississippi.

Ernst & Young

Ernst & Young (EY) started their presentation by giving an overview of EY's mission and goals. Justin Gentry, a partner in the Memphis office, gave this presentation. As of November 2020, EY was operating in 154 countries and reported $37.2 billion in revenue. EY is working on utilizing working data, AI, and Alteryx to streamline their operations. EY encourages their employees to learn constantly, and have EY learning badges to help incentivize this. Employees can earn badges through experiences over time, or by completing specific trainings. EY offers over 100 learning badges and invested $450 million and 16 million hours in learning in 2019. For benefits, EY offers all employees unlimited vacation. In addition, EY has 19 paid holidays, including four-day weekends and summer and winter breaks. They also offer 16 weeks off for maternity leave.

Gentry then talked office culture at EY. He has around six to eight people on his team who he talks often with. Since switching to remote work, interpersonal interaction has fluctuated more. He said that he talks with his team more during busy times. The industry groups in the Memphis office are the central and regional industries and financial services (FSO). The only difference in these groups is what clients they work on. The FSO group focuses primarily on banking and other financial clients. Gentry said that hiring is around a 70 percent to 30 percent ratio of audit to tax professionals hired by the firm. It is easier to be hired for audit because of the higher number of positions. EY also differs from other firms because it has a diversified tax group. This group provides new tax associates the opportunity to rotate through the tax departments at the firm. This process takes two to four years. At the end of this period, associates will be able to pick which department they work in.

The presentation then shifted to recruiting information. They outlined the process of applying and interviewing for our senior year internships. The interviews would consist of two live virtual interviews with two professionals in the city and service line applied to. After going over recruiting information, we did an escape room with EY recruiters and professionals. I liked how interactive this portion of the class was, as most other firms used the whole time for a presentation.

BKD

For this presentation, BKD partner Kimberly McKay came to speak to the class. She started her career in Springfield, MO with BKD and then moved to Colorado Springs, CO. She appreciated that BKD was flexible with her when she had her children. She did not have to work overtime or travel, and her promotions weren’t affected by having children. At one point in her career, she had the opportunity to work as CFO for one of her favorite clients. She turned this position down because she liked the variety of public accounting. Once McKay made partner, she wondered what her next challenge or goal would be. In 2009 she worked with the AICPA on the healthcare expert panel because she had worked on healthcare clients throughout her career. McKay had encountered a lot of change in her career in 2014. She became the first person to chair this panel from a non-Big Four firm. She also chaired the revenue recognition task force for AICPA this year. To culminate this year, McKay accepted a promotion in Houston. This promotion made her a managing partner at BKD. She commuted from Colorado for the first year before moving to Texas with her family. She cites her being a team builder as a reason that she got this promotion. Currently, McKay serves as the managing partner for the southern region of BKD.

While working at BKD, McKay has become heavily involved with the AICPA. She is a member of AICPA expert panels, where she focuses on healthcare. These panels are made up of healthcare providers and accounting professionals. In 2021, McKay said that the panels were focused on how accounting regulations changed after the CARES Act.

Crowe

This week, Crowe came to speak to the class. Michael Giammalvo, a tax partner in the Nashville office, led the presentation. He talked to us about the importance of technology and data in accounting. Giammalvo explained that data can be either structured or unstructured. Structured data is more organized and easier to locate. It is also harder to scale and requires a commitment to maintain it. Unstructured data is more flexible and easier to maintain. Many accounting firms use bots because they can work faster than humans. While they are helpful for completing work, they are also expensive.

Technology is used to remove tedious work in accounting processes. K-1 forms are complex and hard to enter. Firms are implementing machine learning to help make this process easier. On the audit side, technology is used to remove grunt work. This frees up time and allows firms to add value to their audits. Technology is allowing firms to shift to a continuous audit approach. While this transition is not complete, this will change the way that busy season looks. Giammalvo said that for the first time in his 20-year career the audit industry is changing. Technology use is increasing in the accounting industry and reshaping what the industry looks like. Due to this, Giammalvo recommends that students pursue master's degrees with emphases in data analytics. This degree prepares students to be better equipped to work in public accounting.

After this presentation, Giammalvo allowed the class to ask him questions. When asked about turnover, he said that people are leaving public accounting at a higher rate than before. While private accounting pays more in the earlier years of one's career, public accounting is more lucrative in the long run. Public accounting is also more flexible than private accounting. Giammalvo said that since the pandemic started there has been a huge shift in how and where accountants work. He says that there will never be a structure of everyone going into the office everyday again. There will be more collaborative spaces and less assigned offices. He expects people to work at home for half of the week and spend the other half in the office or with clients. He believes this will be a permanent change in the industry.

Whitley Penn

The presentation from Whitley Penn stated with an overview of the firm. Whitley Penn was founded in 1983. They have nine locations, which are primarily in Texas. Whitley Penn employs around 700 professionals and has 81 partners. They had around 50 interns for the 2021 busy season. Whitley Penn offers a variety of service lines, including audit, consulting, risk advisory, tax, and wealth management.

The professionals from Whitley Penn then talked to us about building our brands. They emphasized the importance of building soft skills. One way to do this is to research and show interest in the things that people in your office talk about. They said that interns who discuss their own interests stand out to the firm's employees. They recommended that we practice our communication skills and be decisive and confident when talking to people.

The representatives from Whitley Penn also told us that we should focus on finding our long-term fits when accepting an offer. The culture of the firm and its values should line up with what we think is important. They said we should choose a firm that we want to develop a career at and that will change with us. Finding a firm that you can see yourself growing and being supported at is important as well. They also reminded us that you are always representing the firm, so we should show appreciation to our seniors and managers. They said that feedback upwards is just as important as the feedback associates receive.

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed: Erin Krumwiede

City Selection Case

Erin Krumwiede

University of Mississippi

ACCY 420

Dr. Dickinson

September 23, 2020

Summary

This case gives in-depth information about two cities I would potentially intern in my senior year and live in after college. These two cities will be compared on a number of different factors, leading up to the point where I am able to decide which one I prefer. For my cities I chose Denver, CO and Indianapolis, IN. I chose Denver because I have always been drawn to the west and after visiting my family there last year I fell in love with Colorado. I chose Indianapolis because it is close to my hometown of Mahomet, IL and because I like the size of the city. Although Denver and Indianapolis are extremely different in regards to their geographies, they are much more similar than I had thought.

What I Learned

By doing this case I learned how much goes into the decision of where to live after college. I had never realized how much planning goes into this decision, or that I would need to be thinking far ahead enough as to look at which city has better schools for my future children. I also learned how sure I am that Denver is my first choice. Through my research I saw how many amazing, new opportunities that I would have if I moved to Colorado and it made me excited for what my future could hold there. This case made me see how much Indianapolis is similar to my hometown, and how if I moved there I could easily settle into my old habits and behaviors from before I moved to college. Most importantly, I learned how crucial it is to actually do research on where you want to live. There is so much that I know now about Denver and Indianapolis that I did not know last week. The information that I researched for this case will be instrumental in helping me make my decision on where I want to work after college.

Population

The populations of Denver and Indianapolis are relatively similar. Indianapolis has a population of 876,862 people within its city limits and a population of 2,048, 703 people in the metro area. Similarly, Denver has a metro area population of 2,827,000 people ("Denver Metro Area Population") and a population of 619,968 people within its city limits. Although Denver has a smaller population within its city limits, Denver is a larger city than Indianapolis. Both Denver and Indianapolis are small cities when compared to larger areas like New York, Chicago, or Dallas.

Climate and Seasonal Fluctuations

Denver and Indianapolis have similar climates, but the geography of each city creates differences between their climates. The climate in Denver is semi-arid continental. This means that Denver has hot summers and cold winters. In the winters Denver will experience snow and low temperatures. The climate is heavily influenced by the Rocky Mountains, and the mountains as well as the elevation can cause there to be a large range in between high and low temperatures ("National and Local Weather"). I grew up in Illinois, so I am used to having cold, snowy winters and hot, humid summers. The only aspects of Denver's climate that I am not accustomed to are the changes that the mountains and elevation bring, and the lower humidity in Denver.

The climate in Indianapolis is very similar to the climate that I am accustomed to. Indianapolis has a humid continental climate, meaning that the summers will be hot and humid and the winters will be cold and snowy. Indianapolis is located in the Tipton Till Plain, and the flat land causes cold, winter winds to come down from Canada without any barriers ("National and Local Weather"). As I previously mentioned, I am from Illinois and am used to the unpredictable climate of the Midwest. Indianapolis is located two hours away from my hometown, and the climates are extremely similar.

Topography and Geological Features

Denver lies on the eastern edge of the Rocky Mountains and is in high plains. The average elevation is just over a mile, which is why Denver is called the Mile-High City. Denver is home to many parks and small bodies of water as well as the South Platte River, which runs through the city (*Denver: Geography and Climate*). The Rocky Mountains can be seen from the city, and Denver is within a two-hour drive from the Rocky Mountain National Park. An image of Denver can be seen in figure two in the appendix.

In contrast to the mountains of Denver, Indianapolis rests amongst the lightly sloping plains of the Midwest. There are some rolling hills in the Indianapolis area, and much of the land outside of the city is used for agriculture. The White River runs through Indianapolis and there are several reservoirs and lakes within the city as well ("National and Local Weather"). This is shown in figure two in the appendix.

Taxes

In Colorado, state taxes would be $1,982 for a $55,000 income. There are no local taxes in Denver. Federal tax would be $5,275 for a $55,000 income, and $4,208 would be taken out for FICA. For Denver, after tax income would equal $43,535 ("Free Income Tax Calculator - Estimate Your Taxes."). To calculate estimated property taxes, I found the median home value and the average property tax rate for Denver County. The median home value in Denver is $465,466 (Zillow, Inc.) and the average property tax rate for Denver County is 0.515 percent ("Colorado Property Tax Calculator."). With these numbers, the estimated property tax is $2,397 per year.

The federal and FICA taxes will still be $5,275 and $4,208 respectively. Indiana state taxes are $1,744 for a $55,000 income. Indianapolis has local taxes which would be $875 for an income of $55,000. Income after taxes in Indianapolis will be $42,898 ("Colorado Property Tax Calculator."). I used the same method to calculate property taxes for Indianapolis as I did Denver. The median home value for Indianapolis is $153,159 (Zillow, Inc.) and the average property tax rate for Marion County is 1.048 percent ("Indiana Property Tax Calculator."). Using these figures, the estimated property tax is $1,605 annually.

Transportation Hubs

Union station is the transportation hub of Denver. It can connect to buses, trains, and airport transportation. It is located downtown and within walking distance of some of the Big 4 accounting firms. The main transportation hub for Indianapolis is the Julia M. Carson Transit Center. The only transportation that connects at the Transit Center are buses ("Julia M. Carson Transit Center").

Industries

The main industries in Denver are energy, aerospace, healthcare, broadcast, telecom, bioscience, and IT. Energy and oil are the biggest industries, and Denver ranked 3rd in the world for oil and gas in 2013 ("City and County of Denver Official Site."). Some of Denver's largest private employers are Comcast, United Healthcare, Charles Schwab, and VISA. Denver is home to many Fortune 500 companies. Some of these include Dish Network, Western Union, and Qurate Retail Group ("Major Employers."). I would be most excited to work with VISA or Western Union because I am interested in banking and financial markets.

Indianapolis's most prevalent industries are life sciences, automobiles (Groenfeldt), insurance and commercial shipping ("Indianapolis: Economy."). These industries are reflected in the major employers of Indianapolis. Rolls-Royce Corporation, Eli Lilly & Company, and several hospitals are some of the largest employers in Indianapolis (“Hoosiers by the Numbers.”). Some of the Fortune 500 companies that are headquartered in Indianapolis are Simon Property Group and Allison Transmission Holdings (Editors, Fortune). I do not think that I would like to work in the auto industry or any medical industries, so the primary industries of Indianapolis do not interest me much.

Healthcare and Education

The average yearly healthcare premium after employer contribution is $1,385 in Denver (“Colorado Health Insurance: Find Affordable Plans.”) and $1,289 in Indianapolis (“Indiana Health Insurance: Find Affordable Plans.”). These costs are not very different, and I do not think they will affect which city I choose.

Denver’s public schools were ranked among American metro areas with the most top ranked high schools. There are 151 ranked schools in Denver, and 58 schools in Denver ranked in the top 25 percent of the country (“Metro Areas with the Most Top-Ranked High Schools.”). The public schools in Indianapolis were given a grade of C- on niche.com. When broken down into categories, academics and teachers both received a C- as well, and college preparation received a C (User, Niche, and Alum.). In comparison, Denver received an overall grade of B- on niche.com. The academics and teachers in Denver received a grade of C+, and college preparation received a B-. The categories for extracurriculars and health and safety in Denver outperformed those in Indianapolis as well (Senior). Despite the grades for academics and teachers being so similar for both cities, the Denver public school system is superior to the Indianapolis public school system. This is because Denver has schools that are nationally ranked where Indianapolis does not.

Personally, I would prefer for my children to attend public school. Public schools can give students the same quality of education without the added cost of tuition. While all of the schools in Indianapolis and Denver will not be consistent with the niche.com ratings, the low grades in academics, teachers, and in Indianapolis college preparation is worrisome. However, I think that it would be easier to find a well ranked school or school district in Denver than it would be in Indianapolis.

Crime

According to a study by Neighborhood Scout, Denver is safer than six percent of cities in the United States. The most common crimes are theft, motor vehicle theft, and burglary. In Denver the chances of being a victim of a violent crime are 1 in 136 ("Denver, CO Crime Rates."). The most dangerous neighborhoods in Denver are Civic Center, Sun Valley, Union Station, Five Points, and Auraria ("Denver Crimes Compare Denver Crime Rankings, 2020.").

Similarly, in Indianapolis the top three most common crimes are theft, burglary, and motor vehicle theft, in that order. Indianapolis is safer than only three percent of cities in the United States, and the chances of being a victim of a violent crime are 1 in 77 ("Indianapolis, IN Crime Rates."). It is clear from this information that Denver is a safer city than Indianapolis. Areas to avoid in Indianapolis include Haughville, Tuxedo Park, and the intersection of East 34th St. and Sutherland Ave. (Berry).

Rent and Apartment Details

I would like to budget 30 percent of my pre-tax income for housing. With an estimated income of $55,000 my housing budget would be $1,375 per month. I plan on living in an apartment while I save up to buy a home. At this time, I am not planning on having a roommate and my research reflects this. I would like to have on-site parking and in-unit laundry in whatever apartment I live in.

In Denver, I found that I could rent a one-bedroom apartment for between $1,200 and $1,300 per month. Most of the units I found were between 620 and 630 square feet. In Indianapolis the rent for a one-bedroom apartment is between $1,000 and $1,300. The square footage of these apartments ranged from 590 to 730 square feet. Indianapolis has cheaper housing options and the option for more square footage than in Denver. In both cities I was able to find apartment complexes with in-unit laundry and covered parking.

Commute

In both Denver and Indianapolis, I could use public transportation or walk for some commutes, but I would still need a car for the rest of my transportation needs. Denver has public buses and a light rail system that runs throughout the metro area. For my work commute I would most likely have to drive or take the bus, which would take 15 minutes or 20 minutes respectively. Indianapolis's only form of public transportation are buses. To get to work I would be most likely to either drive or walk. I could find an apartment within my budget that is a ten-minute drive or a 15-minute walk from the Big 4 firms in Indianapolis.

Grocery Shopping

Most of the grocery stores in Denver and Indianapolis are places that I have shopped before. I would most likely pick a grocery store that was close to where I lived or worked for convenience. In Indianapolis I would be preferential to Kroger because I am used to getting my groceries there and like their fuel rewards program. Both Denver and Indianapolis have a Trader Joe's, and I would get groceries from there occasionally.

Laundry

As I stated earlier, I would like to have access to an in-unit washer and dryer. I would make this a priority in my apartment search. Having in-unit laundry is important to me because I do not want to deal with the hassle of taking my laundry to be done at a laundromat, especially during busy seasons.

Civic, Religious, and Charitable Organizations

Finding a church is a big priority for me, regardless of which city I choose to live in. I am a Missouri-Synod Lutheran, so I would like to find an LCMS church in either city. In the Denver metro area there are around 15 LCMS churches, and the Indianapolis metro area there are over 20 (Lutheran Church Missouri Synod). I think that with these options I would easily be able to find a church to go to in either city.

I also would like to get involved with volunteering in whatever city I move to. I prefer volunteering experiences where I can work on completing a project. Volunteers for Outdoor Colorado (VOC) is an organization in that works to help preserve natural areas in and around Denver. Some of their projects include trail maintenance, planting and gardening, and habitat restoration (“Volunteers for Outdoor Colorado: Become a Natural Resource Steward.”). This organization appeals to me because I like hiking and the outdoors and I think that the work that the VOC does would be very gratifying. In Indianapolis I would like to be a part of an organization similar to VOC. I found that I could volunteer with Indiana State Parks and do similar work to the VOC. Indiana State Parks volunteers help with educational events, trail maintenance, and gardening, among other things (*DNR: Volunteering at Indiana State Parks*).

In either city I would like to be involved with the American Cancer Society (ACS) and Relay for Life. I am currently a member of ACS on Campus and I participated in Relay for Life throughout elementary school and high school. I want to continue my involvement with ACS after college because I have seen the good that they do and have enjoyed being involved with them thus far.

Sports, Entertainment, and Recreational Activities

If I moved to Denver I would take full advantage of all of the outdoor activities near the city and in the surrounding areas of Colorado. I want to go hiking a couple times a month and take outdoor yoga or Pilates classes during the summer. I also would like to go camping a couple weekends a year. Another activity I would like to try in Colorado is skiing and snowboarding. I never learned how to ski or snowboard, but I think that either activity would be a good way to stay active in the winter. The Colorado Rockies play in Denver, and while I am not a fan of the Rockies I would like to go to a few games a year because baseball is my favorite sport. I would try to go to any games between my favorite team, the Chicago Cubs, and the Colorado Rockies in Denver.

Indianapolis has less options for outdoor activities than Denver, but I would still like to keep active in similar ways if I moved to Indiana. There are several trails in and around Indianapolis where I would like to go hiking or biking in my free time. In Indianapolis, I could rent kayaks or paddleboats on the canal for a day. This would be a fun, slow paced outdoor activity for a weekend. In the summers some parks will offer outdoor movie nights. I would make a point to attend some of these as well as a local drive in multiple times each summer. Indianapolis has multiple outlet malls, and If in Indianapolis I would take advantage of these shopping centers.

Traveling Home

If I were to move to Denver, I would have to fly back to Illinois any time I want to go home. The airport I would fly into would be either Bloomington, IL or Indianapolis, IN. Currently the average price of a round trip flight from Denver to either one of these airports is $375. This price might be on the higher side now because of the Coronavirus. Including the drive to my hometown from the airport, it would take me about three to four and a half hours to get home from Denver.

My commute home from Indianapolis is considerably shorter and less expensive. It is a two-hour drive and 129 miles from my parents' house to Indianapolis. My car gets an average of twenty-six miles per gallon. At this rate I would go through roughly five gallons of gas each way, and ten gallons of gas for the round trip. The average cost of gas per gallon in Indianapolis is $2.13 and the average cost of gas in my hometown is $2.23 ("Cheapest Gas Station Finder App with Money Saving Benefits."). I then took the average of these gas prices and got $2.18 per gallon. Using ten gallons of gas per round trip It would cost me $21.80 to travel home from Indianapolis.

Budget

When calculating my budget, I first subtracted the taxes that I calculated in question four. I then added bonuses of $5,000 to get my total income after tax. I broke down my expenses into monthly and yearly categories next. I used the upper end of rents that I found in Denver and Indianapolis to estimate my rent expenses. In both cities I budgeted around $100 weekly for groceries and entertainment and $150 per month. For my insurance, phone bill, and car insurance I looked up the average monthly cost in either the state or city I was moving to. These sources will be in my works cited. Next, I budgeted $75 per week to donate to church and $300 a month to go towards retirement savings in each city. For Denver I budgeted $3,000 for travel. This amount is higher than the $2,500 for Indianapolis because I added an extra $500 for flights back home. To estimate my yearly gas expenses, I gave an estimated yearly mileage of 7,000 miles and used the average gas prices for Denver and Indianapolis. This gave me an estimated yearly gas expense of $587 in Denver and $573 in Indianapolis. After converting my total monthly expenses to yearly, I calculated my total yearly expenses. My total yearly expenses were $44,543 for Denver and $44,133 for Indianapolis. I plan on saving and investing the money I have after paying my yearly expenses. An itemized total of these figures can be seen in table one in the appendix.

Preferred City

After doing this research, I discovered that I prefer Denver to Indianapolis. The population, climate, and expenses that I would incur in each city were relatively the same. Denver had slightly better public schools and lower taxes. Indianapolis has a better, more affordable housing market and is closer to my parents. Despite these tangible differences, the main reason that I would prefer to move to Denver is that living in Denver would be a new experience. I grew up two hours away from Indianapolis and I am extremely familiar with the geography and culture of the Midwest. When I moved to Mississippi for college I learned so much more about myself and the new region I was living in. I feel that moving to Denver would be a similar transition. Denver also has more to do outdoors and Colorado has amazing areas for hiking and camping. On paper Indianapolis is less expensive and closer to home, but the new experiences I could have by moving to Denver outweigh all of those things for me.

Appendix

Image 1: Denver Topography

Image 2: Indianapolis Topography

		Denver		Indianapolis
Salary	$	55,000	$	55,000
Federal taxes		(5,275)		(5,275)
State taxes		(1,982)		(1,744)
Local taxes		-		(875)
Total taxees		(7,257)		(7,894)
Income after tax	$	47,743	$	47,106
Bounus	$	5,000.00	$	5,000.00
Total income after tax	$	52,743	$	52,106
Monthly expenses				
Rent	$	(1,300.00)	$	(1,300.00)
Groceries		(500)		(500)
Entertainment		(500)		(500)
Clothes		(150)		(150)
Insurance		(115)		(107)
Phone bill		(60)		(60)
Car insurance		(113)		(130)
Donations		(375)		(375)
Retirement savings		(300)		(300)
Total monthly expenses	$	(3,413)	$	(3,422)
Yearly expenses				
Travel	$	(3,000.00)	$	(2,500.00)
Gas (est. 7,000 mi/yr)		(587)		(573)
Converted monthly expenses		(40,956)		(41,059)
Total yearly expenses	$	(44,543)	$	(44,133)

Figure 1: Itemized Budget

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On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed: Erin Krumwiede

Assets Concept Case

Jermaine Barnes, Alec Hudson, Erin Krumwiede, and Jack McInnis

University of Mississippi

ACCY 420

Dr. Dickinson

September 30, 2020

Introduction and Summary of Case

Erin Krumwiede

This case helped me to learn about the decision making that goes into selecting new accounting standards. The exercises that we worked on made me think about what could be affected by changing any of the GAAP regulations. Creating new journal entries in question three helped to further this understanding. My group and I could see how much would have to change because of the decision we made. This question helped me to further understand all of the thought that has to go into changing the accounting regulations and taught us to be thorough in our own decision making.

Jermaine Barnes

This case was very helpful in allowing me an alternate look into the thought process that goes into formulating the accounting principles that we obey. The exercises called for us to take different approaches to common accounting viewpoints and analyze how these approaches affect the various tasks we perform and how we perform them within accounting activities. After analyzing these different viewpoints, we were able to determine the numerous journal entries that would be affected. This was the most challenging part because we had to examine aspects of journal entries that never seem to change, and it required very uncommon thinking to analyze.

Jack McInnis

This case provided a small insight into a process similar to what I imagine the FASB goes through when they decide on revising and selecting new accounting standards. The case study itself asked for us to look into two different scenarios in reimagining GAAP standards, each of which had two different viewpoints to discuss. I was able to discuss each viewpoint with my group and hear differing opinions for each scenario. This case study helped build my understanding of the kinds of decisions FASB members have to make and how they go about finalizing these decisions. Question three also had our group discuss how accounting practices would change based on the decision we came to in question two. This exercise was interesting because it made us think about how our decision in reimagining GAAP would actually affect how people practice accounting.

Alec Hudson

This case really opened my eyes to a few alternative ways that we could look and think about assets and liabilities. The two scenarios that were provided in this case really challenged our group to think outside of the box, and they required us to put ourselves in the position of the FASB to determine if these new standards were appropriate. The questions made me consider if the way we currently format and calculate assets and liabilities is the most efficient and accurate way, and having my group there to discuss and dissolve the changes that we were considering really helped expand my thoughts and opinions. Overall, this case was challenging, especially question number three, but it required us to really think and analyze these questions in a way that we would normally not consider.

Transcript of Question One Discussion

Viewpoint One

Jack: Comparing viewpoint one to viewpoint two, I feel that viewpoint one shows a better long-term view of the firm's performance rather than the short-term view provided by viewpoint two.

Jermaine: Yeah, I agree, viewing the primary goal of financial reporting as the proper valuation of assets and liabilities provides the firm a wider overview of their potential growth.

Erin: I think the long-term view could be seen as both a pro and a con. Yes, this viewpoint provides a great insight into the amount of assets and liabilities the firm has and its potential for growth; however, this viewpoint makes it very difficult to see the current profitability of the firm because of the difficulty in valuing some assets and liabilities.

Alec: I completely agree, I'll go ahead and write it down in both pros and cons.

Alec: Continuing to look at viewpoint one, I am not seeing too many other pros for this viewpoint other than I feel this could be beneficial for a nonprofit organization.

Jack: Yeah, I can see that too, because a nonprofit organization is not looking to maximize their profits so the valuation of their assets and liabilities is a good way to look at how the organization is performing.

Jermaine: Definitely, I agree with that too.

Erin: Me too.

Erin: I think we can all agree there are definitely more cons to this viewpoint than pros. One of which relates to what I said earlier about it being hard to put a specific dollar amount on the value of some assets and liabilities.

Alec: Yeah definitely, and it especially becomes a problem when you think about firms that value assets and liabilities differently and use different methods to assess their value.

Jermaine: Yeah, this viewpoint seems to be more for internal users within the firm because it provides that long-term view based on the valuation of assets and liabilities. This would not be a very helpful way of financial reporting when it comes to an external user such as an outside investor trying to assess the current financial position of the firm.

Jack: Another con I see for this viewpoint is that many firms don't look to hold on and store a lot of their assets. Most companies are trying to take their assets and turn them over and make a profit off of them instead of storing them and growing them.

Erin: Yeah and this viewpoint seems to put service firms at a disadvantage because they don't really need a lot of assets and assessing their financial position based only off the valuation of their assets and liabilities would make them look less profitable than other firms.

Jermaine: One last con I see in this viewpoint is that it makes it harder to show your revenues over time.

Alec: Yeah, I agree with that, this viewpoint doesn't provide a good understanding into what revenues are being brought and how much the firm spends on expenses, all it would really show is an increase or decrease in assets or liabilities.

Jack: Ok so based on everything we have said so far, I think it is fair to say we all agree that viewpoint two is better a way to look at the primary goal of financial reporting.

Viewpoint Two

Jermaine: Alright now looking at viewpoint two, this one seems to be much more geared towards outside investors.

Alec: Yeah, that is exactly the implication that I was getting when it mentioned that the main focus was revenues and expenses.

Erin: I think the best part of this viewpoint is how it seems to allow for there to be a definite value for each account instead of having some as estimates because it talks about the values being updated each time there is a change in income statement account.

Jack: This viewpoint, to me, mainly seems to support a "win now" strategy because it says firms operate as asset furnaces and that seems like they are more focused on generating profit now than accumulating assets for the future.

Jermaine: I agree, that does seem to make this viewpoint seem to be one that is pretty advantageous.

Erin: This viewpoint seems to be a better viewpoint from the standpoint of the creditors and investors and that makes it seem more relevant for financial reporting, but it doesn't seem to be very beneficial for the long term.

Jack: Yeah, really the only other negative aspect that I can think of for this viewpoint is that it does not take into consideration those firms that are better off with more assets in the long run and thus look to accumulate more assets in the future instead of "burning" them.

Alec: This viewpoint also doesn't seem like it would be favorable for the firms that pay dividends often as they would be focusing on generating more revenues and thus paying more dividends as well.

Transcript of Question Two Discussion

Viewpoint One

Jack: Viewpoint one seems to give a clear and definite value of an asset at the point of transaction.

Alec: Yeah, I think that it would be good for firms with high inventory turnover, or for firms that do not hold on to inventory for very long.

Erin: I agree, but firms do not always sell or trade assets.

Jermaine: Yeah, and it does not account for assets that you keep and do not directly use. I think this would be of better use for a retail firm like Walmart or something like that.

Alec: I could definitely see a retail firm using it, but I also think that it does not focus on measuring the abstract components of the values of the assets.

Jack: It also seems to not assess the assets contribution to the firm.

Viewpoint Two

Jermaine: Moving on to viewpoint two, it seems a lot like what we already do.

Alec: Yeah, I agree. I think that value-in-use is similar to how we record prepaid expenses.

Jack: That seems like a positive factor for this viewpoint, so I'll write that down on the pros side.

Erin: Another pro could be that using value-in-use would help the assets to give value to the firm over time.

Jermaine: That's a good idea, but we might have to use estimates to assess value. The estimates could cause us to have inaccurate numbers, or firms could be using different estimation methods.

Jack: Those are both good, I'll write them down on our list. Do you guys have anything else?

Alec: I think that this viewpoint will be better at measuring the actual contribution of assets to the firm.

Erin: I agree, if you're using value in exchange you won't be able to see the assets' contribution over time as well.

Jack: Okay, I've got that down. I'm looking at the part where it says that the value generated by assets will be incremental to the assets' value-in-exchange. I don't think that the value would always be incremental.

Jermaine: Yeah, I think there could be a chance that it isn't incremental. We could put that on the cons side?

Alec: I think that'd work. Do we all think that we like this viewpoint better than viewpoint one?

Erin: Yeah, I think we should choose this one. It seems like it'd give a better view of assets.

Jack: Yeah, I agree.

Jermaine: Me too.

Question One Brief

After discussing the pros and cons of both viewpoints, our group decided that Viewpoint one did not seem to contain many positive attributes. Our group thought that it did show a better long-term view than viewpoint two; however, we felt that the cons of this viewpoint far outweighed the pros of it. First, this viewpoint has potential for service firms to be viewed at a disadvantage because they are not focused on stockpiling assets and are instead focused on performing services for their usual, primary assets of cash or credit. This viewpoint also leaves room for discrepancies in the true financial positions of firms because of the variation in methods used to value the assets that such a high importance is placed on by this viewpoint.

Furthermore, we decided that where viewpoint one showed a good view of the future, viewpoint two was geared more towards the short term. This viewpoint is not designed to accommodate firms who hold onto assets longer or who choose to pay out dividends. Viewpoint two is more useful in giving investors the information that they need to make financial decisions. By focusing on the revenues and expenses of the firm, viewpoint two presents the company's information in a way that is more relevant to the outside investors. Where assets and liabilities can be valued in different ways by different companies, the income information provided by viewpoint two will be more consistent. This viewpoint would show firm's that reinvest or turnover their assets in a significantly better light with regards to the financial information put out. We inevitably chose viewpoint two as the superior viewpoint because it views financial reporting as firms having the primary goal of generating revenues and profits which can be more accurate in measuring the financial position of a firm, as opposed to using the current amount of assets and liabilities as a measure of the financial position because of the variances in liquidity of these various assets and liabilities.

Question Two Brief

From discussing our opinions on the two viewpoints, we found that viewpoint one gives a more clear and distinct value of an asset at the time of the transaction. We also found that viewpoint one could be more useful for companies that have high asset turnover rates such as grocery stores and other merchandising firms. However, not all assets are always sold and traded and viewpoint two provides a better understanding of how an asset actually contributed to the firm's value. Because not all assets are exchanged for cash or other assets, viewpoint one makes it more difficult to assess how an asset contributes to the firm's overall value. Viewpoint two takes into consideration the realization that an asset's entire value is not always realized right away, and it also considers the possibility of an asset's value fluctuating and changing throughout the life of that asset. Therefore, we decided that viewpoint two is the favorable option because it is more effective at measuring and presenting an asset's true contribution to the firm's-specific value.

Question Three Brief

As stated above, our group chose the value-in-use approach given in viewpoint two. We decided that because value was given to the company as assets were used, assets that were not in use would be put into reserves. The entry to record new assets would be broken up between which assets would go into use and which would go into reserves. If an asset is going to be in use, it will go into its normal account, for example inventory would be debited into inventory as normal. If an asset is going into reserves, it will go into a reserve account. To use the example of inventory a reserved asset would be debited into the new reserved inventory account. To move assets from the reserve account to the in-use account an adjusting entry would be used. Continuing with the inventory example, this entry would debit the inventory account and credit reserved inventory for the proper amount. For property, plant, and equipment accounts the full amount of the asset would be put into reserves. These assets could also be put into reserve accounts from the in-use accounts. This entry would simply be the reverse of the adjusting entry shown above.

Journals Entries

Inventory

Inventory	50,000	
Reserved Inventory	50,000	
Cash or A/P		100,000
Inventory	25,000	
Reserved Inventory		25,000

Prepaid Expenses

Misc. Prepaid Expenses in Reserve	1,000	
Cash		1,000
Misc. Expenses	100	
Misc. Prepaid Expenses in Reserve		100

Receivables

A/R	25,000	
Reserved A/R (Payment fulfillment and time difficult to estimate)	5,000	
Sales		30,000

Equipment

Equipment in Reserve	50,000	
Cash or A/P		50,000
Equipment	50,000	
Equipment in Reserve		50,000

Land

Land in Reserve	100,000	
Cash or A/P		100,000
Land	100,000	
Land in Reserve		100,000

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Jermaine Barnes, Alec Hudson, Erin Krumwiede, and Jack McInnis.

Signed: Erin Krumwiede

A Case Study on *Taxodous*

Erin Krumwiede

University of Mississippi

ACCY 420

Dr. Dickinson

October 28, 2020

Introduction

This case required us to watch Backlight's documentary, *Taxodous*. The *Taxodous* documentary showed the viewer negative aspects of companies using tax havens. This documentary detailed how companies can use certain low-tax cities as tax havens to get out of paying high American corporate tax rates. When companies do not pay their full corporate tax obligations, negative effects can trickle down to individuals and households. These effects were referenced in the articles about the Tax Cuts and Jobs Act we were given to read. The articles about the Tax Cuts and Jobs Act (TCJA) took what I had learned while watching the *Taxodous* documentary and applied it to the United States' current tax situation. Watching the documentary and reading these articles helped me to understand how companies minimize tax, and what governments can do to maximize corporate tax revenue.

What I Learned

This case taught me that corporations often push their tax obligations onto individuals and households. When corporations do not pay taxes at their full rate, countries are forced into raising the individual income tax rates (Backlight). When companies do pay corporate income tax, the workforce bears nearly 50 percent of this obligation through decreases in pay. The TCJA was enacted because corporate income tax is one of the most harmful factors to economic growth. These reasons cause governments to want to lower the corporate tax rate. When the corporate tax rate is lower, companies have lower costs overall. This is helpful for companies' investments and projects because with lower costs more projects will pass cost benefit analyses. Since corporate investment increases when the tax rate is lowered; capital, productivity, and the wage increase as well according to the neoclassical economic view (Hodge).

The documentary showed me that companies are able to use mailbox companies to lower their tax rates. This is popular in the Netherlands because they have a tax rate of zero. A mailbox company will be set up to flow money through so that it can be taxed in a low-tax area. This can significantly lower the corporate income tax paid by companies. For example, Apple paid 1.9 percent of their total income in taxes to America instead of the full 35 percent rate (Backlight).

While companies will try to minimize the amount of tax they pay each year, countries have more bargaining power than they are currently using to keep companies operating in their country. This is shown in the documentary when talking about tax-free periods in Africa. African countries have natural resources that companies come to use and profit off of. The documentary argues that the countries should incentivize companies to come to use these resources instead of incentivizing them with tax breaks. This is also seen in the documentary when the representative from Starbucks said that even though they are supposedly incurring losses in England, they need to operate in that country to be successful globally (Backlight).

I learned that the TCJA helped to lower the unemployment rate to 3.7 percent, the lowest it had been in 50 years. The TCJA created enough jobs for all unemployed Americans to go back to work (“More Jobs and Bigger Paychecks”).

Ideal Corporate Tax Rate

I think that the optimal corporate tax rate will be close to the OECD and worldwide average corporate tax rates. The article on the effect of the TCJA on economic growth stated that the TCJA moved the United States corporate tax rate closer to the OECD average rate (Hodge). In 2019 the OECD average corporate tax rate was 23.59 percent (Asen). With a corporate tax rate of 21 percent (Hodge), the United States is 2.59 percent below this average. In 2019 the average corporate income tax rate of all jurisdictions surveyed by the Tax Foundation was 22.79 percent (Asen).

The United States is currently close to both of these average rates. I think that if the corporate tax rate does not equal one of these rates it should not be above either of them. In the documentary, one of the specialists interviewed said that it was hard for countries to compete with those whose corporate tax rate was zero. They said that this could prompt a "race to the bottom", in that countries would lower their corporate tax rates to be able to "compete" with countries that have lower rates (Backlight). I think that having a tax rate at or below the OECD or worldwide average will help countries to remain competitive while not lowering their tax rate too much.

If countries get sucked into the "race to the bottom" mentioned in the documentary they risk not being able to raise enough money from corporate taxes, and will have to raise individual tax rates. If countries raise the corporate tax rate too much, corporations will use loopholes and tax havens to minimize their tax expenses. This will also cause countries to raise individual tax rates. Countries need to find the equilibrium point where companies will not avoid paying corporate income tax and the country is able to raise enough money from taxes without having to raise individual income tax rates.

As mentioned in the documentary, it is important for corporations to pay taxes to put money back into the countries they are located in. During the hearing portion of the documentary, the woman facilitating the hearing told the corporate representatives that they use services that taxpayer money pays for. While the corporations argued that they pay payroll taxes, the government officials said that these companies are still not putting an adequate amount of money back into the country's resources (Backlight).

The issue of corporate income tax is not solely about the tax rate. As I mentioned earlier, countries have bargaining power with large companies. Countries like Kenya can use their natural resources as incentives for companies to do business there. Countries like England or the United States are necessary for businesses to be successful globally, like the Starbucks executive said in the documentary (Backlight). Countries should use the fact that companies need to do business there to their advantage, and pass laws to limit loopholes available when paying corporate income tax. With the TCJA the United States added a participation exemption for companies who earn income outside of the United States. This exemption eliminates United States taxation of foreign income (Pomerleau). While the United States is lowering the amount of taxable corporate income, they are working to incentivize companies to stop using tax havens.

The Tax Foundation article on the effect of the TCJA on economic growth, the author stated that the corporate tax rate was one of the most influential factors on economic growth (Hodge). While it is true that decreasing the corporate tax rate can increase the wage and therefore increase consumption and the GDP, at some point corporations will not increase the wage anymore. Labor has diminishing marginal returns, meaning that at some point the next unit of labor becomes *less* productive than the last unit instead of more productive. At this point, the demand for labor will decrease, as well as the wage. This means that companies will only hire more workers to a certain point. When determining the corporate tax rate, I think that this needs to be taken into consideration. Lowering the corporate tax rate is not a solution to all economic growth issues. I think that this is another reason to stay close to the average OECD and worldwide rates. Keeping corporate tax rates near the average will help countries not to let the rate get too low.

Career in Public Tax Accounting

I did not feel that this documentary influenced my desire to work in public tax accounting. I have known that I wanted to work in the tax service line since my sophomore year in college after competing in a case competition. I decided to work in the tax service line because I like the work, and think that adapting to changes to tax law like the TCJA will help me grow and learn after I graduate.

Another reason that this documentary did not change my decision to pursue a career in public tax accounting is that I watched this documentary when I was in high school. I realized that I had previously seen this documentary before I watched it for the case, and I went into this viewing remembering the main themes of the documentary. My interest in public tax accounting might not have been changed because I had already accounted for the information shown in this documentary. This documentary was most likely the first time that I heard of the Big Four firms, and since I decided to pursue a career in tax after watching it in high school I do not think it changed my interest level much.

This documentary helped me to learn more about certain aspects of public accounting. While I do not think this documentary changed my interest in public accounting, it informed me about certain topics I could come across in my future career. I am glad we watched this documentary for the case because I found it interesting and educational, especially in regards to how countries will determine tax rates.

Conclusion

This case used the *Taxodus* documentary as well as supporting articles about the TCJA to show how tax havens and corporate tax avoidance affects economic growth and individuals. Through this case I was able to learn about the decisions that go into raising and lowering tax rates. The existence of tax havens hurts countries’ ability to raise the corporate tax rate because corporations can easily divert funds and avoid paying the full amount of taxes. This information is helpful to me as I pursue a career in tax accounting because it gives me a larger scope of how taxes will be calculated and determined. Although I have watched the *Taxodous* documentary before, I am glad to have watched it again after having taken accounting courses. The new information I have learned in the years since I first watched the documentary was helpful to help me understand the documentary better, and see how tax rate changes affect countries and corporations.

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On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed: Erin Krumwiede

An Interview of an Accounting Professional

Erin Krumwiede

University of Mississippi

ACCY 420

Dr. Dickinson

January 20, 2021

Introduction

For this case I interviewed Karen Rock. I have known Mrs. Rock for many years through my church back home in Illinois. She currently works as the chief auditor at First Busey Corporation. During the interview she describes her childhood, early education, college education, and career. She ties her childhood and early education and working experience into the career she has now and discusses how these events shaped her career journey. At the end of the interview, she talks about what she wishes she did differently throughout her career and gives advice she wishes she had in college.

Early Life and Education

Rock grew up in Champaign, Illinois. She was the oldest child in her family and lived in a new neighborhood that was full of other children her age. Her close friends were all very smart, and they motivated her to do well in school. Since she had no older siblings, she looked up to these friends throughout her early schooling. In middle school, Rock had a mix of good and bad teachers. She felt that there were some gaps in her education, and one of her teachers was fired three quarters through the year. Her teachers were better in high school, but she lacked guidance from her counselor. Even after she decided to go to college for business her counselor did not advise her to take classes that would be helpful for her major.

To save for her college education, Rock worked all throughout high school. She was responsible for paying for half of her college expenses, so it was important to her that she had savings built up. Her first high school job was babysitting, and she said that her babysitting jobs helped her to gain skills to interact with adults. During her junior year of high school, she got a job as a cashier at Arby’s. This job gave her experience with handling cash. The cash registers did not automatically calculate change, so she had to calculate the change in her head. After her job at Arby's, she was able to get a job at Champaign National Bank as a teller. Her experience as a cashier at Arby's helped her greatly in this job. She worked at the main branch of the bank, and was able learn a lot about banking while she worked there. She kept this job throughout all four years of college as well.

College Education

When looking at colleges, Rock's parents pushed her to go to a four-year university that was not close to home. She looked at Illinois State University, Concordia University Chicago, and Eastern Illinois University. At that time Concordia University Chicago only offered teaching degrees for women, so she chose to go to Eastern Illinois University (EIU). She decided to major in accounting because of the accounting class she took her senior year of high school. The class taught the basic principles of accounting and bookkeeping, and she loved learning about accounting. At EIU, Rock said that the accounting program was easy. Throughout her first two years she didn't feel challenged by her courses, and she didn't love the city. During her sophomore year she started to think about transferring. She got approval to transfer to the University of Illinois and transferred there her junior year.

Starting her junior year at the University of Illinois, Rock found that the accounting program was much harder than at EIU. At the time she attended, the University of Illinois had the best accounting program in the country. The first accounting class she took there was Intermediate Accounting, and while she was taking it she did not realize that it was hard for everyone. In another one of her accounting classes, she reconnected with one of her childhood friends. This friend helped mentor her and introduced her to Beta Alpha Psi. Beta Alpha Psi was important to Rock because it gave her the ability to meet a lot of people. She did not join a sorority, so Beta Alpha Psi was able to give her a network she had not had before. At the end of her senior year of college, Rock was able to sit for the CPA. She passed two parts the first time she sat for it and passed the remaining parts the next time she took the test.

Career Journey

As mentioned earlier, Rock continued working as a teller at Champaign National Bank throughout college. During a performance review her senior year, her supervisor asked her if she had thought about what she would do after college. They told her that the audit department at Champaign National was hiring, and she started working there part-time during the spring semester of her senior year. She started working there full-time after graduation. She stayed there for several years before leaving to work as a head auditor in Danville, IL. While working in Danville she helped to uncover an embezzlement. She only stayed in Danville for a year and a half before accepting a position back in Champaign in the audit department at Bank of Illinois. Bank of Illinois has since been acquired by First Busey Corporation. Rock has stayed in this position, and expects to stay at Busey until she retires. Throughout her career, Rock is most proud of the relationships she has developed with her coworkers. She said that she keeps in touch with most of her former staff, even after they have left the company she works at.

Personal Life

Outside of work, Rock is very involved with her community and her family. She is married and has two grown sons. She did not have to travel for work and was able to have a steady home life. She said that her career was very flexible and because of this she was able to go to her children's games and activities. Rock enjoys volunteering in her free time, and is able to volunteer through work in addition to what she does on her own. She also likes to run in her spare time.

The best vacation that Rock has taken was her trip to Germany in 2017. This trip was organized by our old pastor for the 500th anniversary of the Reformation. Before this trip she had never been to Europe. Rock said that she loved being able to go on this trip with her fellow church members. She was excited to visit Germany since she is 100 percent German, and she was able to see the country her family was from.

Career Advice

After spending her whole career as a private auditor, Rock regrets not starting out at a public accounting firm. If she had started in public accounting she could have gotten more exposure to the industry. At a public firm she could have found something different to specialize in than she did at a private firm. She also wishes she would have moved to a bigger city instead of staying in Champaign. She said that moving to a big city along with working at a public firm would have helped to broaden her horizons. If she could change one thing about her career, she would have maintained a mentor steadily throughout her career. She said that she never had one go-to person, but different people who she could go to for different things.

Rock wishes that she knew to be more demanding about positions and salary when she was starting her career. She told me that at performance reviews you should verbalize your worth to your employer. She regrets just taking what she was offered with raises and wishes she had known to negotiate. Her advice to me was that your best time to negotiate and improve your standing was when you start a new job. During your initial negotiation you have more leverage and the firm is not trying to control your costs in the same way as when you are an employee.

Generational Challenges

Rock believes that the biggest challenge her generation is facing is not having enough qualified people to fill their positions. She is in the end of the baby boomer generation, and said that as baby boomers are retiring there are not enough people to fill the positions. When Rock was entering the workforce, she knew people who could not be picky with what jobs they accepted because there was a surplus of workers. Now, there are not enough people looking for work to fill available positions. Despite this, she thinks that people working from home during the Coronavirus pandemic will help companies to be more comfortable hiring people who will work remotely. Rock also believes that this shortage of workers will continue to affect my generation. With the baby boomers' children retiring while my generation is in the workforce, this shortage of qualified labor will not stop. Rock said that companies could help solve this problem by hiring more workers from outside of the United States.

What I Learned

Through this interview, I learned that it is important to strive for your goals. Rock showed me that it is not demanding to vocalize your worth to your employer. I also learned about the work and life balance you can have at a private company. I have always known Rock through church as my Sunday School teacher and fellow member of the congregation. She would come to the basketball games at my high school even after her children had graduated. Having seen her my whole life being involved in the community and volunteering at church, this interview taught me about the career she had during this team. Seeing how she was able to balance her career and personal life gives me hope for the life I hope to have one day.

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed:

Group Case Study: An Overview of GAP, Inc.

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University of Mississippi

ACCY 420

Dr. Dickinson

January 27, 2021

This was the first week of our case competition, and we were tasked with deciding upon which company to study for the case. Our group decided upon Gap, Inc. We decided Gap would be a particularly interesting choice due to the COVID-19 pandemic and its hapless effect on the retail industry. Gap owns several other specific brands, such as Old Navy, Athleta, Banana Republic, and Janie and Jack (Equities News). Gap, Inc. serves a wide variety of retail needs, including casual men and women's apparel, children's apparel, as well as more upscale professional apparel within the Banana Republic brand. We researched Gap's annual reports, per the Securities and Exchange Commission, as well as various news articles from the Business Press and IBIS, to summarize the state of the business itself.

During our research, we discovered many of the challenges facing Gap and their subsidiaries. Gap has been struggling, not only due to the impact of COVID-19, but because of business challenges facing brands such as Banana Republic and Gap. Their most successful subsidiary is currently Old Navy, who brought in 56 percent of Gap's sales in the last quarter ("Gap Looks Set to Continue Disappointing Investors"). In the 39 weeks ending on October 31, 2020, the only brands under the Gap umbrella that had positive net store growth were Old Navy and Athleta. They opened 30 and 10 new stores, respectively. However, as a whole, Gap saw a (3.9) percent decrease in net store growth and closed 248 stores out of 3,919 during this period ("The Gap, Inc. 10Q"). Over the last year, they have sought rent abatement and renegotiation with landlords (Barkho). They were forced to draw down their entire $500 million revolving line of credit in order to make payments in early 2020. In May of 2020, they were then forced to issue $2.25 billion in new notes after having their credit ratings reduced from all major ratings agencies, including S&P's reduction from BB to BB- one month prior ("The Gap, Inc. 10Q"). For shareholders, the company also suspended their dividend payments through the first quarter of fiscal 2020 and suspended share repurchases throughout at least 2020 (“The Gap, Inc. 10Q”). Despite hitting a low of $5.27 in the previous year, Gap’s share price now sits at $19.54, over a 350 percent increase from their previous low (Equities News).

The Gap flagship brand hit its peak in 2001 with over 1,800 stores; however, this can be contrasted with the 1,170 open after the initial COVID-19 lockdowns in March of 2020 (“Gap CEO Confronts Years of Decline – WSJ”). Despite their closing of stores, Gap continued to open more franchise stores across their main brands (“The Gap, Inc. 10Q”). With this wide variety of stores, it has been difficult for the brand hone in on a singular target audience. Gap itself sways from year to year; one year they are focused on young budget-minded professionals and the next they are selling $600 leather jackets to high-income shoppers (“Gap CEO Confronts Years of Decline – WSJ”).

During June of 2020 Gap closed their brand, Hill City. Hill City launched in the fall of 2018 and added premium male athleticwear to Gap’s offerings. Gap created Hill City to provide male athleticwear while keeping Athleta focused on girls and women’s activewear. After the pandemic hit, Gap had to close its in-person stores. The company had to prioritize its spending and could not justify keeping Hill City open. The closure of the Hill City brand shows how the COVID-19 pandemic can affect businesses who weren’t particularly struggling before (Salpini).

At the end of its third fiscal quarter in 2020, Gap had only earned approximately $0.25 per share, or $95 million, compared to their $0.37 cents per share, or nearly $140 million, in the previous year. This was down from their projections for the third quarter of 32 cents per share. In contrast, revenue hit $3.99 billion, which is comparable to the $3.82 billion projected for the third fiscal quarter. This unexpectedly high revenue could be attributed to two potential sources: one being Gap’s brand for women’s athletic wear, Athleta, seeing an increase in net sales of 35 percent, and the other being an increase in online sales due to the COVID-19 pandemic. The increase in net sales at Athleta is the highest surge recorded in its history, which is most likely attributable to Athleta's mask line launch to cater to the needs of its customer base during the pandemic. The increase in the e-commerce business allowed for the attraction of new customers to Gap, in turn sparking the unexpected increase in the revenue for the third fiscal quarter (Thomas).

Gap, Inc. is classified under the Family Clothing Stores industry. While it is the parent company of Banana Republic, Old Navy, and Athleta, the brand itself is classified as family inclusive under IBIS World. IBIS World expects that industry revenue will, "grow at an annualized rate of 2.1% to $115.9 billion over the five years to 2025" (O'Connor). This is primarily due to the expected steady growth in the amount of American disposable income over the next five-year period. Due to the decrease in consumer spending over the period of the pandemic, it is expected that the customers of this industry will make more "lavish spending" decisions following the return to normalcy in the world. The problems facing the family clothing industry as described by IBIS World include expected increased costs. The price of cotton is expected to increase by one percent over the next five years, which will ultimately cause an increase in prices. In addition, their wage expense is expected to increase as a large amount of company employees are based on minimum wage, and minimum wage is expected to increase in the coming years. While the family clothing industry experienced a widespread decline due to the pandemic, it is expected to experience some changes that could have great effects on the future of the industry (O'Connor).

Our research showed us that while Gap has struggled throughout 2020, there are opportunities for future growth. While Gap closed stores this year, they have continued to open new franchises. This year Gap expanded its e-commerce business as well. Gap's industry is projected to grow over the next five years, and Gap has seen growth this past year in its own brand, Athleta. Although the pandemic has hurt Gap, these effects do not seem permanent. Our research on Gap has indicated that Gap will be able to come back from their losses in 2020 and grow as the economy recovers.

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On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed:

Group Case Study: Audit Overview of Gap, Inc.

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ACCY 420

Dr. Dickinson

February 10, 2021

Introduction

This was the second week of the case competition, and we were tasked with analyzing the most recent 10-K and the individual accounts of our company, GAP Inc., in order to develop a strategy to properly audit the accounts. Going through the individual accounts and identifying the relevant audit risks to that particular account allowed our group to value the intricacies of the 10-K as well as develop a plan to best engage with and improve upon our company. After evaluating both Balance Sheet and Income Statement accounts, we narrowed down six accounts that we deemed riskiest: Cash and Cash Equivalents, Merchandise Inventory, Other Current Assets, Accounts Payable, Operating Expenses, and Sales Revenue. For each of these accounts, we developed possible internal controls, tests, and data analytics that could be implemented or improved upon to enhance the value of GAP Inc. We worked to detail the contents of each account chosen in order to strategize the best course of action for Gap Inc.

Assets

The cash and cash equivalents account had risk in the valuation category. We found risk in the valuation category because cash is easy for employees to manipulate and can be overstated. The following internal controls will help Gap Inc. mitigate risks in the cash and cash equivalents account. Gap Inc. should have multiple positions assigned to verify deposits and require multiple signatures in store when checking balances. These controls will help ensure that no one person can control and sign off on cash balances. Another internal control to help decrease risks is to ensure timely and standard deposits across brands. This will lower chances that cash, and cash equivalents, will be exposed to theft or loss. To test the cash and cash equivalents account we recommend using bank reconciliations and proof of cash reports. Data analytics would improve the treatment of this account by testing and analyzing trends across Gap

Inc.'s brands. It is important to analyze how each individual brand is performing to have a full understanding of Gap Inc. as a whole ("Internal Controls for Cash Receipts and Revenue").

In the merchandise inventory account, our group found risk in the completeness, valuation, and presentation categories. Any material misstatement of inventory would be detrimental to investors and creditors. Including a breakdown of how old inventory is could help to ensure net realizable value is correct. The internal controls that should be used for the merchandise inventory account are cycle counts and standardized inventory tracking. Periodic cycle counts will help to validate inventory levels. Standardized inventory tracking across Gap Inc.'s brands will ensure that inventory is being treated the same by each brand. This is important because Gap Inc. does not include inventory breakdowns by brand in their 10-K. To test the merchandise inventory account, we recommend physical counts and valuation verifications. Physical counts would confirm the reported inventory amounts, and valuation verifications would confirm that inventory is being recorded at the proper amount. Data analytics could be used to have more accurate inventory aging reports. We also recommend using data analytics with RFID to help track inventory location and trends (Putra).

Our group found risk in the other current assets account under the categories of existence, valuation, and presentation. Particular to this account, the accounts receivable was not posted on the face of the balance sheet, and rather disclosed in the notes. Considering this is a large retail brand, our group found it interesting that the accounts receivable wasn't presented granted the amount of credit purchases the company receives. The internal controls of the accounts receivable account involve reviewing large receivable amounts and developing an aged receivable report. The tests related to this include reviewing collectability and adequacy of the allowance for doubtful accounts, as well as verifying the disclosure of restrictions involved with the accounts receivable balance. There was no disclosure of the allowance for doubtful accounts, which is critical to the valuation of the accounts receivable and other current assets account as a whole. When determining the impact data analytics could have on this process, we found data analytics related to aging of accounts and three-way matching to be important to extract from big data.

Liabilities

When examining the accounts payable account on the 10-K, we found that there appeared to be risk to this account in regards to completeness and presentation. There was no breakdown of the accounts payable, which raised some concern in our group. We initially expected there to be detail under this account, especially regarding wages as this is a large retail company with many employees. The internal controls that we found to be important in this account related to the invoice and purchase approval process and the record matching between Gap, Inc. and the payable party. As far as substantive tests in the audit, it seemed that the most likely tests would involve three-way matching of payables and the tracking of trends. In a merchandising company for apparel such as Gap, Inc, it is likely that there will be trends revolving around the influx of demand for certain seasons. Matching these trends through data analytics would allow for clarity in the details of accounts payable across brands and regions. This would provide a focus on brand and verify that each sector is accurate and uniform in process. With uniformity in payments through a system, it provides an accurate representation of the company as a whole at the given point of time.

Expenses

As we focused on the operating expenses on the income statement, we determined that there was some risk of misstatement involved with the account as well as some presentation issues that could help users of the financial statements. The first risk for this account is completeness. It would be beneficial for the company to lower the amount of operating expenses in order to inflate earnings. They could also use this account to smooth earnings in different periods in order to reflect a better outcome. This also leads into our feeling that the expenses need to be broken down either on the face or in the notes to the financial statements. The users of financial statements have the right to understand what the company is spending this money on, particularly because it makes up about a third of sales. We feel like this would better equip the users to compare the company with others in the industry. The critical internal controls for this account include matching expenses to the items received and separating the duties of people purchasing, receiving, and recording these expenses. Without these controls in place, it would be easy for a single person to falsify a transaction and misrepresent the expenses incurred in the period. The tests that we can have in the audit is the verification of invoice receipts and using numbering of transactions in order to match the invoices to the expenses paid. The data analytics that we could use to help the process is analyzing a supplier and company interaction database to see all of the transactions between the two parties. Also, we could use data to analyze the trends over time and with each of the individual brands to make the recommendation on whether or not the expenses are accurately represented.

Revenues

One of the accounts that we also found to be risky due to the obvious benefits of misstatement was sales revenue. We also felt like the company should present the sales figures for each of the major brands on the face of their financial statements or at least the outlet by which consumers purchased the items (physical stores, e-commerce, etc.) to help users determine the medium of purchases. It would be in the interest of the company to overstate the sales for the company, particularly for the brands that do not have as positive of an outlook. The internal controls that need to be in place to ensure the proper management of sales include numbered transactions to be able to better match when and where the product was sold, separation of duties between those who input sales and handle cash, and having RFID on clothing that records when inventory has been purchased. The tests associated with sales revenue include analyzing the sales and returns transactions in the general ledger. Data analytics will allow us to take a much deeper look into this than before, as it allows us to review more data at once. The other thing that we can do is analyze the historical returns probabilities of specific items from the different brands. From there, we can try to estimate what the allowance for sales returns and allowances should be. This process can be aided by data analytics and should be critical in determining if the sales figures are accurate for the period ("Internal Controls for Cash Receipts and Revenue").

Conclusion

Our research showed us the value of reviewing a company's 10-K in order to highlight places for growth and overall improvement. Cash and Cash Equivalents, Merchandise Inventory, Other Current Assets, Accounts Payable, Operating Expenses, and Sales Revenue are the accounts that we used to develop possible internal controls, tests, and data analytics that could be implemented or improved upon to enhance the value of GAP Inc. Each account requires a unique approach to strategizing improvements that will benefit the company as a whole. While this audit required much research and further investigation into each account, it has proven to enhance our understanding of GAP, Inc. and, we believe, will provide growth for the company 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 -Erin Krumwiede.

Signed:

Group Case Study: Tax Overview of Gap, Inc.

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University of Mississippi

ACCY 420

Dr. Dickinson

February 18, 2021

Introduction

In the third week of preparing for the case competition, we were tasked with advising GAP, Inc. on ways to minimize its legal cash tax payments. With the recent change of presidency, as well as a global pandemic, there are several new tax credits companies may take advantage of to lower tax payments. The recent additions of the GILTI tax, CARES Act, and inauguration of President Biden are just a few of the credits, acts, and events that have changed taxes for businesses in the United States. The tax credits we recommend GAP, Inc. adopt include moving manufacturing to the United States to take advantage of a new tax credit enacted by President Biden, carrying back net operating losses through a provision in the CARES Act, and commencing research activities to take advantage of the R&D Tax credit available for all businesses in the United States.

Tax Changes Under the Biden Administration

With a new administration in the White House, tax laws are expected to change. The Biden Administration has proposed a 10 percent tax penalty to businesses who use labor overseas when jobs could be supplied in the United States. The Biden Administration is also offering a 10 percent tax credit to businesses who create jobs in America. Companies can go about creating these jobs in a number of ways and doing so will cause significant savings on taxes (Amadeo, 2021, para. 20). Currently, GAP, Inc. is outsourcing all its manufacturing to companies overseas ("Supplier Partnerships", 2021). If GAP, Inc. shifts some of its manufacturing to the United States, they will be able to avoid the 10 percent tax penalty while receiving the new 10 percent tax credit. One way that GAP, Inc. could do this is by opening a manufacturing plant of their own in America. Another way would be to use a supplier who is based in the United States. This manufacturing shift would not only give GAP Inc. a tax credit but would also give Gap Inc. a competitive advantage. GAP, Inc. could manufacture a special line of clothes for their flagship brand, GAP. This brand has always had a classic, American style. Adding a line of clothes manufactured in America would build on this facet of their brand. Products from GAP's classic Logo Shop or their jeans would both be good product lines for this marketing strategy. Both product lines are well known within the brand, and manufacturing them in America could make them more attractive to customers. Adding a "made in America" product line to GAP would also help to add a distinction in quality between GAP and Old Navy.

In potentially transferring the manufacturing of a GAP, Inc. brand to the United States, GAP could take advantage of the creation of American jobs. With jobs in the U.S., the company could create jobs and benefit from the Work Opportunity Tax Credits. In addition to the effects under the Biden plan, the creation of more manufacturing jobs could create more positions to qualify for the Work Opportunity plan outside of retail and distribution locations. GAP, Inc. currently runs a program called "This Way ONward", which benefits youth by creating jobs for people aged 16 to 24. This program could be merged with the Work Opportunity Tax credit program under the youth summer program detail (IRS, Section 2). This provides a tax benefit for a youth summer employee/intern. Under this, when a worker qualifies for the Work Opportunity program, the company can receive a tax credit equal to 25 percent of the employee's wages if the employee works at least 120 hours (Murray, 2020, para. 9). Based on the current minimum wage in the U.S., this could provide for a credit of at least $870 per worker. This could allow for substantial savings given the likely rise in minimum wage, as well as the number of workers that could potentially be hired under this program.

The CARES Act and Net Operating Loss Carrybacks

The CARES Act created a substantial economic benefit for businesses with the allowance of the carryback of net operating losses and the allowance of 100 percent deductibility of those losses (Arnold & Porter, 2020, para. 2). In the case of GAP, Inc., this benefit will allow the company to be eligible for approximately a $94 million tax refund using their 2019 taxable income, their net operating loss of $288 million from the 39 weeks ended October 31, 2020, and their effective tax rate from 2019. We would only be able to use the 2019 tax rate instead of the pre-TJCA years because carrybacks are typically only allowed to offset income from the earliest taxable year to which the loss may be offset (BDO, 2020, para. 12). In this case, the company could fully offset their losses in 2019. The calculations can be found below:

Income before Income Taxes (2019)	$528,000,000
NOL Carryback	(280,000,000)
Net Income before Income Taxes	$248,000,000
2019 Effective Tax Rate	33.52%
Total Tax Liability	$83,136,364
Taxes Paid in 2019	$177,000,000
Calculated Tax Liability	83,136,364
Total Tax Refund	$93,863,636

Figure 2: Tax Refund Calculation

Another major impact of the CARES Act for GAP, Inc. is that it cleared up what is commonly referred to as the "retail glitch", which did not allow for qualified improvement property to be eligible for bonus depreciation (Brown, Smith, and Wallace, 2020, para. 1). Now, retailers' qualified improvement property will be eligible for that bonus depreciation. On top of that, the amount of allowable bonus depreciation has been increased from 50 percent to 100 percent of the property's value in the year in which it was acquired if it was acquired and placed into service after September 27, 2017 and before January 1, 2023. These improvements to the property include anything done to the inside of the store, except for expansion, internal structural framework, or adding elevators or escalators. This new provision in the CARES act should have a significant impact on GAP, Inc. as they have exclusively company-owned stores and have significant leasehold improvements. This number is very difficult to estimate using only the information available in the financial statements and notes because one must assume what portion of the expense can be attributed to interior improvements. However, if we conservatively assume that only furniture and equipment were eligible for this bonus depreciation, and GAP, Inc. used the MACRS depreciation method for a 10-year period. The calculations for the tax benefit and the refund available because of this bonus depreciation can be found below:

	2020	**2019**	**2018**
Furniture and Equipment	2,802	2,732	2,623
Change in Furniture and Equipment	70	109	115
Eligible Bonus Depreciation (100%)	70	109	115
MACRS YR 1 Depreciation (10%)	7	11	12
MACRS YR 2 Depreciation (18%)	20	21	0

MACRS YR 3 Depreciation (14.4%)	17	0	0
Increased amount of allowable depreciation	**27**	**77**	**104**
Actual Income before Income Taxes	(1,179)	528	1,332
New Income Before Income Taxes	(1,206)	501	1,255
Effective Tax Rate	23.75%	33.52%	24.13%
Old Tax Liability	($280.01)	$177.00	$321.41
New Tax Liability	($286.38)	$168.01	$302.74
Tax Refund	**$6.37**	**$8.99**	**$18.68**

Amounts listed in millions of dollars

Figure 3: Bonus Depreciation Tax Refund Calculation

Research and Development Tax Credit

Another tax credit that GAP, Inc can take advantage of is the Research and Development (R&D) tax credit. This tax credit is for companies that are increasing their research activities to improve product development or quality, enhance business operations, or perform scientific research. This research must be for developing a new or improved aspect of the business. To qualify for this tax credit, companies must be able to show a connection between the research activity and the expenses claimed. The R&D tax credit is for up to 20 percent of the expenses, or $250,000 annually, and a company can apply for the tax credit by simply spending money on qualifying research and development activities and filing the corresponding tax form (Murray, 2020, para. 4). With GAP being such a large firm, their operating expenses alone totaled $5,559 million for the year 2019. Thus, 20 percent of operating expenses is much larger than the maximum Research and Development tax credit of $250,000.

To be considered for the Research and Development credit, a company does not have to be performing traditional scientific research. Research and Development can be many different activities: product development, surveys, studies, improving product quality, increasing reliability or products, or even increasing business performance. One of the research and development activities we recommend GAP, Inc. perform to receive the R&D tax credit concerns production of its retail products; this includes doing product research on up-and-coming trends across all of their brands. More specifically, research into sustainability for their athleisure brand Athleta would create an increase in consumer-relations as well as qualify for the R&D tax credit. On a larger scale, engineering products and new types of fabric would benefit the overall GAP brand and increase the quality of their products. Thus, we recommend GAP investigate Research and Development ventures, especially in product development and improvement, for the use of a Research and Development tax credit.

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On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed:

Group Case Study: Advisory Overview of Gap, Inc.

Amanda Arnold, Lele Goldsmith, Blake Hydeman, Erin Krumwiede, and Madison Todd

University of Mississippi

ACCY 420

Dr. Dickinson

February 26, 2021

Introduction

This week we were tasked with going through our company's core business operations to create a plan to combat the company's weaknesses. Through researching GAP Inc.'s financial statements and business plans, we were able to identify two factors that could harm the company if left unchecked. These factors are the decline in the Gap and Banana Republic brands along with the shift from shopping in physical stores to shopping online and the Biden administration's proposed tax penalties. We believe that both of these areas could cause GAP Inc. to struggle, and in this paper, we will outline strategies that we believe will help GAP Inc. to improve in these areas and adapt to the changes in their market.

Part One

GAP, Inc. is a leading global apparel retail company headquartered in San Francisco, California. They have four core businesses: GAP, Old Navy, Athleta, and Banana Republic. While these core businesses generate the majority of GAP, Inc.'s revenue, they also have smaller brands, such as Janie and Jack and Intermix. Most of their storefronts are located in the United States; however, they do have a few additional stores in 42 other countries. Although much of their sales and revenues are generated in the United States, their suppliers and manufacturers are all located in foreign countries.

As such a large competitor in the retail industry, GAP, Inc. is challenged to continue to adapt and grow with this ever-changing world. Their goals of working to adapt to this increasingly online and sustainable market while still staying true to their original mission statement, "to create emotional connections with customers around the world through inspiring product design, unique store experiences, and competitive marketing," are contained in their power plan (Farfan). Some of their biggest plans involve growing Athleta, their athletic apparel brand, and Old Navy, their more affordable brand, as they have seen demands in the retail market for athleisure and affordable options. In addition, they plan to move out of indoor shopping malls to adapt to the movement of online shopping as well as franchise many of their European storefront locations. This will generate a large amount of initial revenue to help to minimize the current debt load that they are bearing. Overall, these current plans and strategies will work in the best interest of GAP, Inc. as a whole to stabilize the company and provide room for growth.

GAP, Inc. has a large group of suppliers to provide for their vast customer base. The demand for the company's products is large-scale and worldwide; however, some of their brands have been more successful than others. Old Navy and Athleta are definitely the most successful of GAP, Inc. brands as they have proven to be able to sustain their demand even through periods of decreased disposable income. With the vast majority of their stores being located in the United States, that is also where there is the largest demand for their products. In order to provide for these demands, GAP, Inc. has over 800 merchandise vendors in 30 countries. Their top two vendors account for seven and six percent of purchases, respectively. In addition, 16 percent of purchases are made from China. Being such a large retail company with such a large demand market requires GAP, Inc. to maintain a large group of suppliers.

GAP, Inc. is a very large company with many diversified brands; thus, their competitors include almost all middle market retailers in the United States. Banana Republic's competitors include the business wear brands such as Ann Taylor and Loft. GAP and Old Navy compete with more everyday brands such as H&M, Abercrombie, and TJMaxx. Athleta's biggest competitor is Lululemon with their high-end activewear. Janie and Jack's biggest competitor is Gymboree. With such a large range of brands, GAP, Inc. ends up competing with most major retailers.

Part Two

Upon reviewing GAP, Inc.'s financial statements from the previous five fiscal years, we learned some surprising things from the company's operations. We have consolidated this information into a set of graphs, shown below. As evidenced by these graphs, GAP, Inc. has experienced several increases or decreases in numerous components of their financial statements due to both the COVID-19 pandemic and the acquisition of select assets from Janie and Jack, a Gymboree Group, Inc. premium children's clothing brand (Gap, Inc. Filing Data). The slight decrease in revenues for the year ending 2020, is due to the COVID-19 pandemic and the unexpected temporary and permanent closures of storefront locations. The slight increase in cost of goods sold, increase in SG&A expenses, and decrease in operating income are all due to the related tax effects of these store closures, with a little over 60 percent allocated to SG&A expenses and the rest allocated to cost of goods sold. An increase in assets and liabilities for the year ended February 2020 was caused by the acquisition of select assets and liabilities from Janie and Jack, which also explains the lower levels of return on assets, profit margin, and asset turnover. Because of this, GAP, Inc. has failed in their mission to provide top-tier return to their shareholders, a goal they strived for since 2019 (Gap, Inc. Investor Meeting 70).

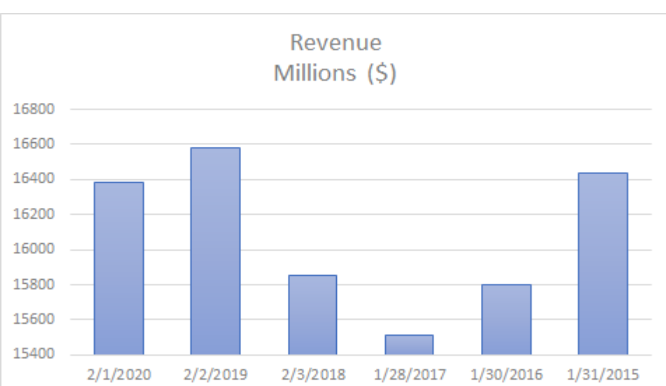

Figure 4: Revenue by Year

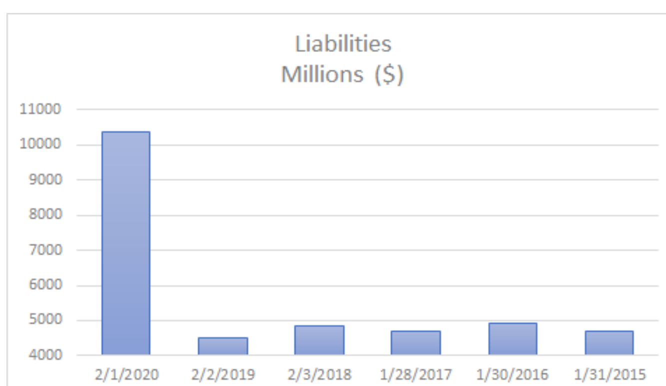

Figure 5: Liabilities by Year

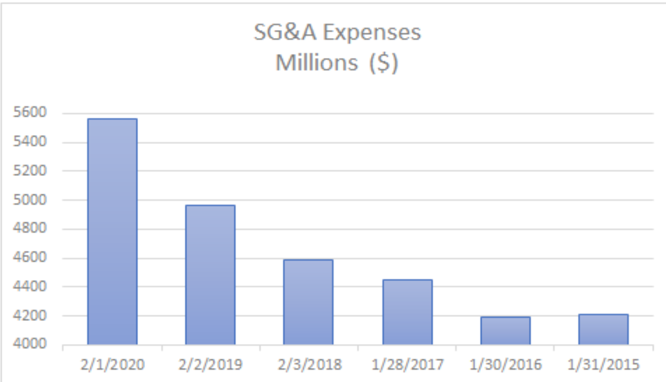

Figure 6: Selling, General, and Administrative Expenses by Year

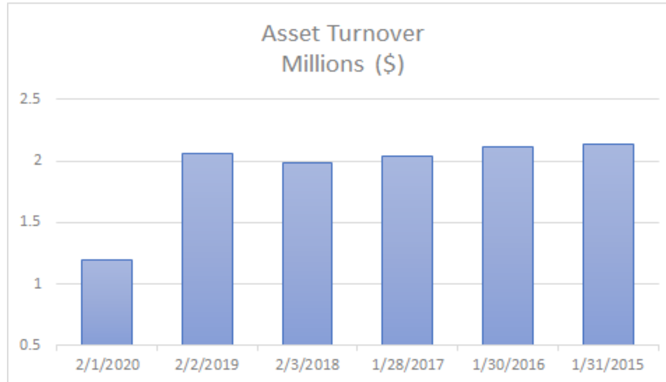

Figure 7: Asset Turnover by Year

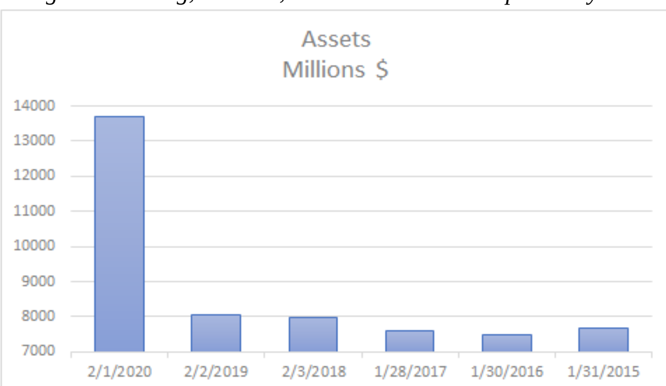

Figure 8: Assets by Year

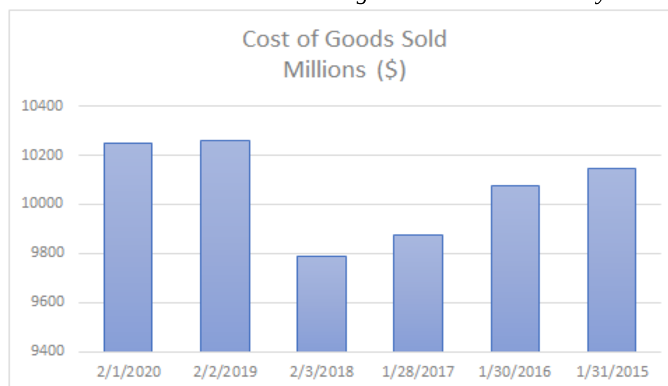

Figure 9: Cost of Goods Sold by Year

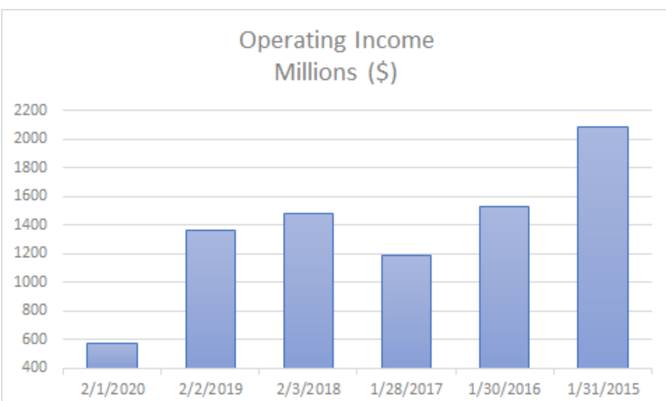

Figure 10: Operating Income by year

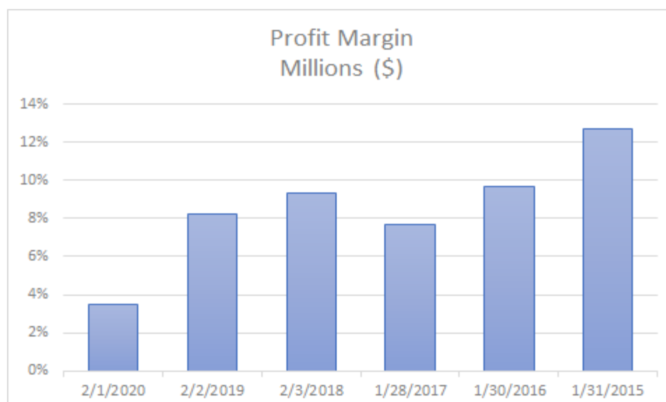

Figure 11: Profit Margin by year

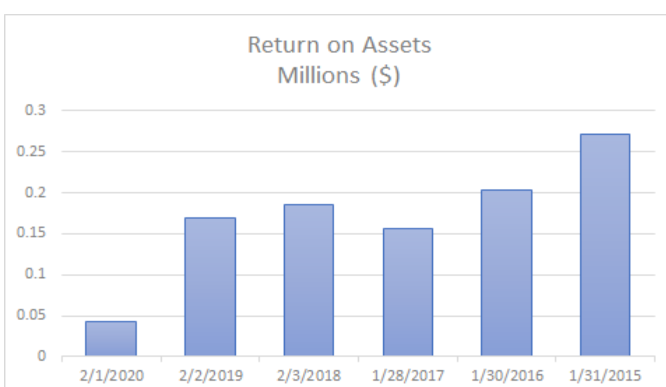

Figure 12: Return on Assets by Year

Part Three

One of the biggest threats to GAP, Inc's success is the declining performance of GAP and Banana Republic. Over the last few years, GAP, Inc. has had significant net negative unit growth for the GAP and Banana Republic brands. Our group decided to develop a plan to allow GAP, Inc. to refranchise some of these units to fight off total store closures and still generate recurring revenue for the firm. The plan also creates significant cash flows from the franchising of GAP and Banana Republic stores that can be used to pay down long-term debt or pay for capital expenditures. While franchising in retail is not very prevalent in the United States, we believe that refranchising to larger multi-unit operators on a location-by-location basis could help boost sales in those regions, and help the image of the company. The input from franchisees about what consumers desire can provide critical feedback to help the brands succeed in the future. While this shift to a partially franchised structure may cause revenues to drop, operating income should actually be higher for most years. COGS and occupancy expenses will decline as the corporate level will not have to buy the inventory or pay for the rent of the stores they are obtaining royalties from. Assets will decrease after the refranchising revenue is obtained as the company would carry less inventory and operating lease assets on the balance sheet. However, their assets will be far more liquid, and they should receive an influx of cash. Their quick ratio should improve to be above one after the refranchising effort as well, helping improve their liquidity position. The increases in cash should allow the company to pay down their debt obligations, reducing their liabilities. The majority of the new assets should come from reinvestment in the company after increases in retained earnings. We think this strategy is also congruent with the company's current mission as they are able to make the transition to a more ecommerce-centric platform, while still maintaining a similar store base to what they are known for. They may actually be able to expand the store base in future years as the concept is so asset-light and only requires franchisees to be willing to pay the fees and costs associated with opening a new unit.

With the diminishing success of GAP and Banana Republic, it is important for the company to turn its focus on its more successful brands, especially the niche brand Athleta. We felt like the second threat facing GAP, Inc. was not modernizing their brands to be more in line with consumers demands. Therefore, our group decided that it would be in the company's best interest to expand the Athleta brand as both an American-made and sustainable brand. While GAP, Inc. currently has a goal of building the Athleta brand and improving its sustainability, we see it to be very beneficial for the company to move an amount of Athleta manufacturing operations to the U.S. This would involve the creation of an inventory collection from U.S. suppliers. Furthermore, the improvement of the Athleta brand would correspond with the current events of the global marketplace. As the COVID-19 pandemic continues and the idea of working from home may become a more common activity, our group saw the growth of an athleisure company to be beneficial, as compared to the Banana Republic brand, which includes work attire as its main staple product. While the COVID-19 pandemic caused negative effects in the retail marketplace, Athleta saw sales increase by 35 percent in the third quarter of 2020, as well as a large success on the e-commerce front (Garcia). Sustainable athleisure is a growing concept during the current times, and we see advantages in the GAP, Inc. company over competitors such as Lululemon. While transferring manufacturing of Athleta to the U.S. would affect costs and change the supply chain, we believe the company will benefit from the ambition of consumers to support the American supply chain as a result of the pandemic (Ayers).

In addition, this transformation would potentially create tax benefits with the creation of American jobs and the avoidance of penalties that could potentially arise with the new presidency. The new Biden administration is expected to create a push in their “Made in America” tax policy, which would result in an offshoring tax policy, as well as related tax credits. Under the offshoring tax penalty, the opportunity for penalty is described as, “profits of any production by a United States company overseas for sales back to the United States” (Buy America 2). This penalty would raise GAP, Inc.’s tax rate from Biden’s proposed rate of 28 percent to 30.8 percent. While our group recommendation is to change operations involving suppliers and bring a collection of American-made goods to Athleta stores, this does not involve GAP, Inc. developing manufacturing. However, the offshoring tax penalty specifies that the criteria for this penalty is based on sales brought back to the United States. Therefore, we see this to be a proper step for GAP, Inc. to take given the likely changes and implementation of this penalty. Along with this tax penalty, the Biden administration has put forward the ideas of a 10 percent tax credit revolving around the “Made in America” policy (Buy America 2). This would specifically affect GAP, Inc. and its relocation of suppliers as the details of this credit involve reshoring job-creating production and expanding U.S. facilities to grow employment. The new Athleta strategy would potentially avoid a tax penalty and also further the chance of a tax credit.

Part Four

The implementation of our action plans involving the franchising of the GAP and Banana Republic brands are expected to provide beneficial impacts to GAP, Inc. in the future. As a result of these action plans, the company’s return on assets (ROA) is expected to jump to 9.26 percent in 2022 as a result of the refranchising revenue in that year. It is expected to be 7.11 percent in 2023, 7.29 in 2024, and 7.94 percent in 2025. This is a drastic improvement from the 2020 ROA of -5.99 percent. It's also similar to non-COVID impacted years such as 2018 and 2019 when the ROA was 8.32 percent (adjusted for the change in accounting for operating lease assets) and 2.57 percent (roughly 6.07 percent without impairment charges) respectively. In a period of time when retail sales are decreasing, the mixture of the higher conversion of royalty revenues into operating income and the decrease in interest expense associated with paying down debt obligations results in good returns on assets. In addition, the profit margin is expected to increase from 2.21 percent in 2021 to 5.89 percent in 2025, with an expected jump to seven percent in 2022 as a result of refranchising in that year. The consistent increase in profit margins demonstrates the slow recovery from COVID-19, increased efficiency of ecommerce sales, and the higher conversion rate of royalty revenue to net income. The asset turnover is expected to stay in the same relative range of 1.28-1.35x from 2021 to 2025. This is an increase from the 1.2-1.25x levels seen in 2018 and 2019. This can primarily be associated with reduced asset levels as the company carries lower inventory and operating lease assets on the balance sheet. Overall, the refranchising of GAP and Banana Republic is expected to generate cash flows that positively impact these ratios. The liquidity and solvency of the company should be much improved, and that should result in lower systematic risk for the firm. Our group expects the rebranding of Athleta and the implementation of an American-made collection would further contribute to the current growths seen in the Athleta brand. For this reason, we believe that the brand will prove to be one of the key drivers of growth for GAP, Inc. over the next five years. Utilizing the concepts, we listed above, we believe that the Athleta brand could achieve their goal of $2 billion in annual sales by 2023 and continue to exceed that number in the following years. It would also prevent the possibility of negative tax effects that could hinder the stability in the building of the brand. Overall, we see these action plans to be impactful to the future of the GAP, Inc. brand.

The research our group did this week showed us that GAP Inc. should start franchising stores within the Gap and Banana Republic brands. We also concluded that GAP Inc. should focus efforts on Athleta to help grow the brand and reshore manufacturing for Athleta to help avoid tax penalties and receive tax credits proposed by the Biden administration. We think that these action plans would help GAP Inc. to stabilize the decline in Gap and Banana Republic and set GAP Inc. up to be successful in growing Athleta.

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On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed:

Group Case Study: Final Overview of Gap, Inc.

Amanda Arnold, Lele Goldsmith, Blake Hydeman, Erin Krumwiede, and Madison Todd

University of Mississippi

ACCY 420

Dr. Dickinson

March 3, 2021

Introduction

This week we were tasked with calculating and evaluating key financial indicators for our company, GAP Inc., such as the price-to-earnings ratio, earnings per share, and return on assets. Given these ratios, we are able to get a better understanding of the overall financial health of the company as well as learn more from the insights of the many analysts who follow GAP, Inc. Using these current ratios and our tax and audit research along with advisory recommendations, we are able to create predictive values of these same ratios. These new predictions work to defend our advisory recommendations as being beneficial to the growth and profitability of GAP, Inc.

Part One

The fiscal year for GAP, Inc. ends on January 31st. At this point, GAP, Inc. has not released their financial statements for the 2020 fiscal year. We will be using numbers from 2019 because of this. On the last day of the 2019 fiscal year, January 31, 2020, GAP Inc.'s closing stock price was $17.41 ("Stock Information"). At that time their price-to-earnings ratio (P/E ratio) was 18.72. We calculated this ratio by using the above stock price and the earnings per share of $0.93 (*GAP, Inc. 10-K* 23) listed on GAP, Inc.'s 10-K. We researched this week's case on February 24, 2021. The closing stock price for GAP, Inc. was $25.95 ("Stock Information") on this date, which shows the stock price has increased by over $8 since the end of the 2019 fiscal year.

Part Two

Upon review of GAP, Inc.'s stock financial information, we discovered that the beta for GAP, Inc. is 1.59. A beta determines the risk and volatility of a company's stock, and any number over one shows that a stock's price fluctuates throughout the year compared to the market price. Therefore, GAP, Inc.'s stock price is highly volatile and will fluctuate throughout the year, making it a riskier stock to invest in compared to other stock in the market. GAP, Inc. has 25 analysts that provide estimates or forecasts of stock investment data for the company. The forecasted growth rate for GAP, Inc. is close to a 7.51 percent decrease from the previous stock price of $25.95, as estimated by the 25 analysts aforementioned. GAP, Inc.'s stock was also deemed a cautious hold by the 25 analysts, who recommended stockholders neither sell nor buy the company's stock, but rather patiently observe the stock as the year progresses ("Analyst Coverage").

Part Three

Given the effects of our changes, our group expects the net income to steadily increase over the course of the years. Under the assumptions in our model, we expect the net income to increase from $358,683,521 in 2021 to $1,059,588,432 in 2025, as shown in the graph below. In this model, we assume the growth of the Athleta brand, the benefits of refranchising, as well as a tax effect in 2023 that allows for a 3 percent credit. This credit shows a baseline potential effect of our tax strategies, specifically the potential credit as a result of the remodeling of manufacturing. As GAP, Inc. has shown a steady trend in the re-acquisition of shares, our model assumes that the common shares outstanding will continually decrease by 2 million each year. Using our model and earnings multiplier valuation, our group expects a change in the expected stock price from year to year. The expected stock price is $14.46, $46.17, $38.53, $40.02, and $43.66 in 2021 through 2025, respectively. The decrease from years 2022 and 2023 is expected as a result of the refranchising and its effects on operating expenses. These projections are shown in the graph below. According to our model and predictions of the future of the GAP, Inc. brand, our strategies forecast positive impacts to the net income and stock price of the company.

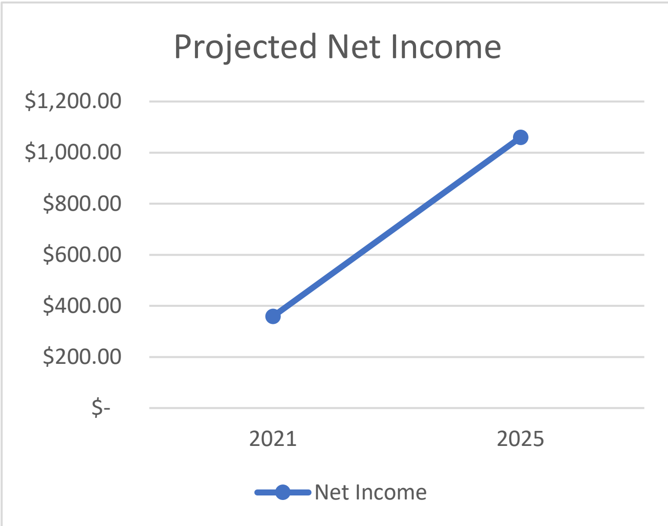

Figure 13: Projected Net Income

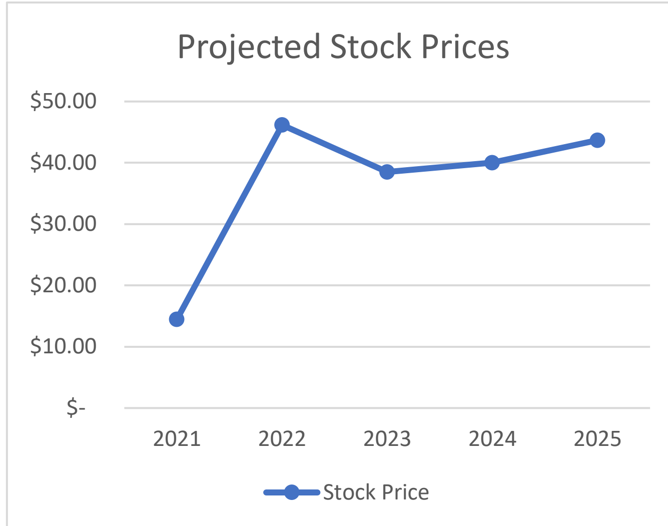

Figure 14: Projected Stock Prices

Part Four

Using a return on total asset (ROA) analysis, we can conclude that we will see positive trends as a result of our strategies. With the impact of COVID-19, GAP, Inc. is projected to have a ROA of -5.99 percent for fiscal year 2020. This is coming off of a down year in 2019, culminated by several expenses related to their spin-off of Old Navy that they stopped pursuing. GAP, Inc. posted a ROA of 2.57 percent in that year. With the most recent closures of stores and increased debt loads to survive the COVID pandemic, it will be difficult for them to return to a ROA close to the 8.32 percent (adjusted for operating lease adjustments) that they posted in 2018. However, with strategy, they can eliminate some of their excess debt and liabilities on the balance sheet and reduce their assets. Therefore, their ROA is projected to rise each year during the next five years, including peaking at 9.26 percent and settling in at 7.92 percent in 2025, a level that should continue to rise. As their franchising begins to take off, they should have an extremely steady stream of cash flows arising from that area of their business. Currently, we have a conservative royalty of 6.5 percent in our model in order to set a scenario that would be advantageous for potential franchisees when evaluating the cash flows of the business. At that level, we are projecting operating income from just their franchisees to be approximately $42 million for 2025. That number could very easily be increased to closer to $50 million, particularly if sales jump as a result of local operators taking over the stores. In past years, GAP, Inc. has had interest expenses in the mid $70 million-dollar range. As a result of their most recent bond issuances to get through COVID, they will see interest expenses between $170 million and $200 million until they pay down their debt. Our suggestion allows them an opportunity to do just that and have a recurring cash flow to pay down interest expenses in future years. We believe that this should help de-risk the firm and reduce both their beta and cost of capital. The reduction in cost of capital is particularly relevant given that their debt rating was downgraded to Ba1 from Baa2 with a negative outlook from stable. As a result, their interest rate increased from 5.95 percent on their last bonds to a weighted-average of 8.68 percent on those most recently issued. The most recent bonds are collateralized and face significant debt covenants, including not being able to issue any more debt. This is a major issue for a company that is going to need capital to invest in new capital expenditures, such as distribution centers, as the shift to ecommerce becomes more prevalent. Our solution provides them with an obvious path out of indebtedness, and should allow them flexibility to pay off debt, invest in new projects, or repurchase shares.

Conclusion

This week, we learned the value and importance of the price-to-earnings, earnings per share, and return on assets ratios in evaluating the current financial position as well as predicting growth and financial health in future years and quarters. These ratios especially work as indicators of a company’s overall performance in a given year. After using current ratios and our tax and audit research along with advisory recommendations to create predictive values of these same ratios, we found that our advisory stances prove to be beneficial to GAP, Inc. both in the near future and in the long-run.

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On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed:

Financial Crisis Case

Erin Krumwiede

University of Mississippi

ACCY 420

Dr. Dickinson

April 21, 2021

Introduction

In this case, we were tasked with watching several videos and a documentary and reading several articles. These videos and articles were all on the 2008 financial crisis. They helped me to understand what caused the crisis as well as what could have been done to prevent it. In this case, I will explain how viewing the material for this case has changed my perspective on financial institutions, the government, and my role in society. I will then describe how I think these issues still affect America's political landscape and how to avoid future crises like the one in 2008.

What I Learned

This case helped me to learn about the causes of the 2008 financial crisis. Having been a child during the recession, I had only briefly heard about the causes of the crisis. Before the case, I knew that the housing bubble had burst and the economy experienced its largest decline since the Great Depression. Through watching the documentary, "Inside Job"; I learned that the decisions made in regulating financial institutions and the decisions of financial institutions themselves since the 1980's helped to lay the groundwork for the financial crisis in 2008.

Starting in the Reagan administration, the government pursued financial deregulation. Continuing this path of deregulation, congress passed the Commodity Futures Modernization Act in December of 2000 (Ferguson 26:36-26:50). This Act banned the regulation of derivatives and was written in part by financial industry lobbyists. After this, the use of derivatives increased. Derivatives were used as a part of what the documentary called the securitization food chain. The securitization food chain is made up of homeowners, lenders, investment banks, and investors. Lenders would sell their home loans to investment banks who would then create collateralized debt obligations (CDOs). These CDOs were complex derivatives made up of different types of debt. Investment banks would sell these CDOs to investors to finish out the securitization food chain. The problem with this system is that lenders were no longer waiting to be paid back for loans, so they could now make loans to people who they would not have in the past (Ferguson 28:00-29:19). This knowledge, provided by the documentary, helped me to understand the foundation for the 2008 financial crisis, and what could have been done to prevent it.

Trust in the Government and Institutions

I do not think that the case materials greatly affected my trust in institutions and the government. Before this case, I did not have a lot of faith or trust in either. This case has validated my existing opinions and has only lowered my trust slightly. Financial institutions are for-profit businesses, and operating as such they will focus on what is best for their shareholders and not society as a whole. While leading up to and during the financial crisis financial institutions were working against their clients, they were trying to increase profits for their company. This is unethical but was not illegal. However, the government is tasked with advocating for and protecting its citizens. The government is swayed from this objective by lobbyists and other promises from outside sources. Due to this, the politicians will not make the sweeping changes and reforms promised on campaign trails. An example of this is Barack Obama promising more stringent regulations and passing weak ones (Ferguson 1:38:20) and that most of Obama's economic and Treasury Department appointees were in power during the lead up to the financial crisis or former employees of large investment banks (Ferguson 1:38:50-1:40:35). This movie showed me that while the government says they are going to make changes they were not committed enough to find new people to bring about real change.

This assignment also showed me that the government is not always equipped to protect its citizens. This begins with the selection process for the Treasury Department, the Federal

Reserve, and economic advisors. The government often chooses industry experts who have formerly worked in high positions in financial institutions. These experts are chosen because they know the industry inside and out. They understand all of the processes that happen within the industry and can make informed decisions relating to their industry. However, industry experts are used to doing what is best for the company, not the citizen. Instead of making decisions in favor of the American citizen, these experts will make decisions that will treat large financial institutions favorably. In the case of the 2008 financial crisis, this led to a $700 billion bailout of financial institutions (Ferguson 1:12:13-1:12:20). The government also selects academics, like Frederic Mishkin, for these positions. Academics are well versed on the subjects and have studied them for years, which makes them great sources of information. When not serving in the government, academics can make money on the side by doing consulting work for financial institutions. Larry Summers, the former Treasury Department official, made $10 million annually doing consulting for financial institutions while he was the president of Harvard University (Ferguson 1:30:26-1:30:31). The government is put in a catch-22 when using these two selection pools, as both of them have connections to the financial institutions and want to make decisions that will benefit them.

Another issue facing the government is lobbying by financial institutions. Lobbying uses incentives to take the government’s focus off of the citizen and onto companies. When financial institutions lobby the government, the government becomes less lenient in regulating them. This is seen in the previously mentioned issue of the Commodity Futures Modernization Act of 2000. Financial institution lobbyists helped to write this Act (Ferguson 26:36-26:50), and its existence was instrumental in the collapse of the CDO market. With issues of corporate biases and lobbying, it is clear that the government can be easily swayed from advocating for its citizens.

After seeing this shown throughout the case materials, my previous level of trust for financial institutions and the government was validated.

My Role in Society

Seeing the aftermath of the 2008 financial crisis laid out in the case materials showed me that as a professional my duty is not just to my employer but to my clients and society as well. The financial institutions were making decisions that benefited themselves and their shareholders only at times. Matt Taibbi explains this in his article "The Great American Bubble Machine" by saying, "[…] the banks had changed the rules of the game, making the deals look better than they actually were." In the "Inside Job" documentary, there were multiple times where investment banks would be pushing so-called great investments to their customers while talking about how horrible they were to one another behind the scenes (Ferguson 51:50-52:20). In doing this, companies were not acting in the best interests of their clients. And, as the world later found out, the companies were not acting in society's best interest either. After seeing companies behave in this way, I hope that as a professional I will be able to look out for my clients and anyone who could be impacted by my actions at work. I hope to think about the long-term actions of my work, and not just what will make my employer the most money in the short run.

Throughout the "Inside Job" documentary, government officials and regulators were warned of the dangers of CDOs and derivatives. These warnings were ignored every time. I hope that in my professional career if I see a warning sign of something, or if someone else shows me a sign, I will look into it further. If the government or regulatory authorities looked into CDOs and were able to pass regulations on them, the financial crisis could have been prevented or mitigated. I am a naturally cautious person and hope to keep this attitude throughout my career.

From a personal perspective, this case has made me realize how vigilant one needs to be with their finances. As described in the "Trust in the Government and Institutions" section of this case, the government will not always put the necessary protections into place. Citizens cannot assume that every loan or investment is safe. The case material has shown me that I need to research and vet the things that I am investing my money in. In the early 2000's the CDO market contained subprime loans with AAA ratings. This fueled the purchase of risky CDOs by retirement funds, and made the general public believe CDOs were safe investments (Ferguson 54:42-55:25). This shows that even the rating companies could be working against the consumer, and further emphasizes the need for me to vet investments on my own.

The Current and Future Political Landscape

During the 2000's, financial institutions made $5 billion in political contributions within the United States (Ferguson 1:23:33-1:23:40). In the two-year election cycle leading up to 2018, financial institutions spent nearly $2 billion on campaign contributions and lobbying. In comparison, the same spending for the election cycled leading up to 2008 did not even total $1.4 billion (Rodriguez Valladares). This shows that current lobbying costs do not only parallel that of the 2000's, but have increased since the financial crisis. Another parallel is that former employees of investment banks are still getting appointed to positions in the Treasury Department and other governmental agencies. During the Trump administration, multiple former Goldman Sachs employees were appointed, including former Treasury Secretary Steven Mnuchin (Floyd). Despite any change promised by the government, the overall environment remains the same. Today, the government accepts money from financial institutions, just as it did in the time leading up to the financial crisis. Presidential administrations still hire former employees of investment banks, just as they did in the time leading up to and during the financial crisis.

The financial crisis of 2008 has taught me that unless the government steps in to regulate financial institutions, they will do whatever they can inside the law to generate a profit. It is not up to the government to appease these companies, but to protect their citizens. While regulation is not popular and many argue for free markets, regulation is needed to protect those who cannot protect themselves. In 2008, the system failed. Lack of regulation on derivatives caused the financial institutions to sell CDOs at the rate they did. Lack of accountability from the rating agencies allowed them to rate risky investments as investment grade up until the time companies went under (Ferguson 1:04:20-1:04:59). Starting in the early 2000's when derivatives became popular, financial institutions were able to operate the securitization food chain with little to no accountability. When the chain fell apart, working class citizens were hurt and rich Wall Street executives were able to keep their fortunes (Ferguson 1:17:26-1:17:55). Although unpopular, increased government regulation is the only way to prevent crises like this from happening in the future, in any industry.

Conclusion

While preparing for this case, I studied the events and aftermath of the 2008 financial crisis. Writing this case, I analyzed what impact these events have had on myself and what similarities there are between today's political climate and that of the 2000's. Through this I have learned the importance of due diligence as both a professional and investor. Financial institutions will continue to do what is best for their bottom line and their shareholders. While this mentality laid waste to our economy in 2008, a company's duty is to its shareholders. The government continues to take money from financial institutions and appoint former employees. The government is not able to fulfill their duty of protecting its citizens while they are in essence working with financial institutions. Because, at the end of the day, a government's obligation is to its citizens, not an industry.

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On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this -Erin Krumwiede.

Signed: Erin Krumwiede