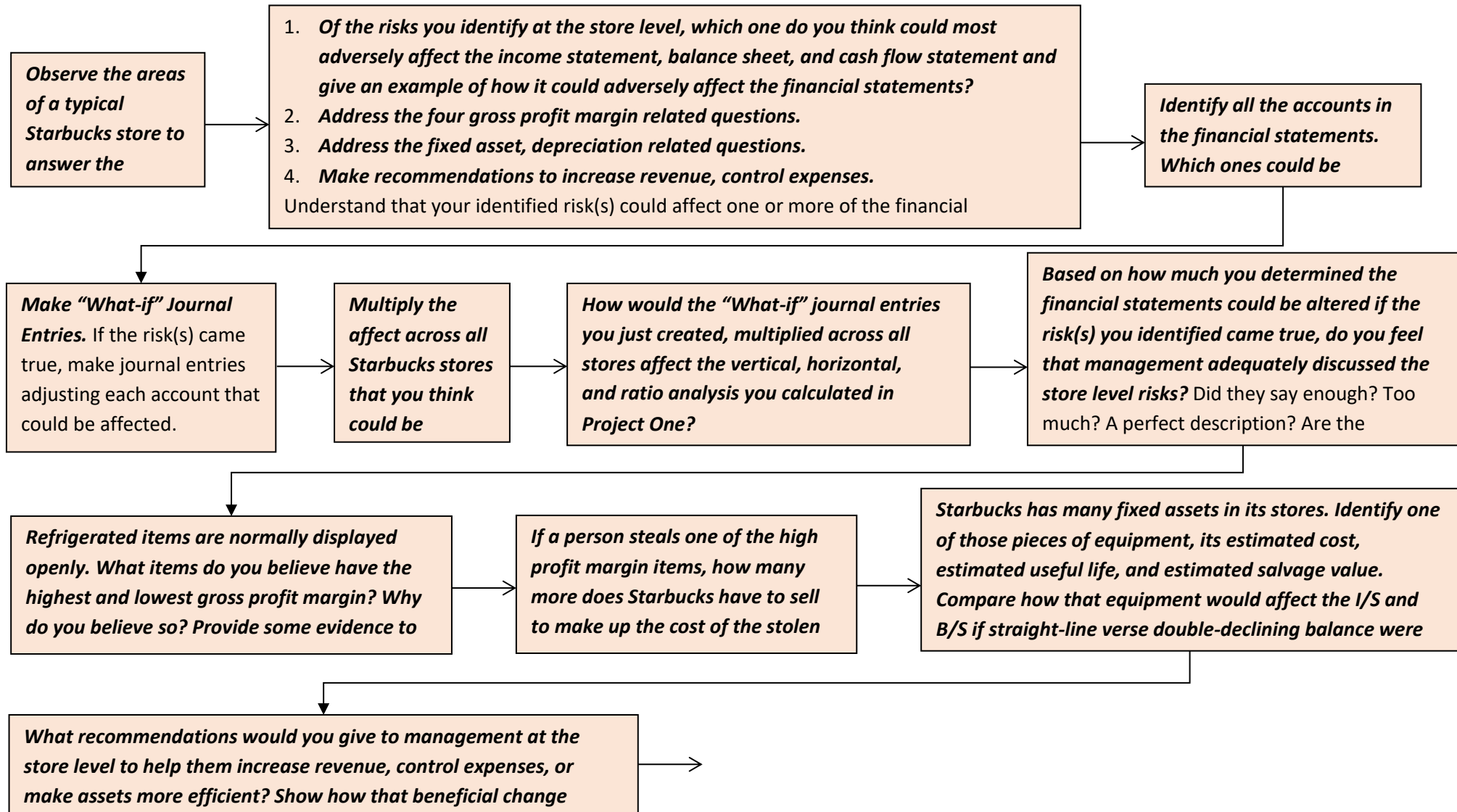


Project Three Process Flowchart of Tasks



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Project Three: Connecting Theory to Practice – Store Level Risk Analysis

The main goal of Project Three is to apply abstract accounting theory accounting information learned in the textbook to practice in a real-world (store level) setting real life concrete events. Project Three is an extension of Project Two.

Project Three Objectives:

1. Examine the risk factors that may be present at the Store Level from an accounting perspective (as opposed to Marketing or Management). Choose one and explain its adverse affect on the financial statements using vertical, horizontal, ratio, and chart analysis developed in Project One.
2. Gain an understanding how store level operations apply to accounting and making business decisions.
3. Understand the impacts on financial statements should a store level risk come to fruition using a “what-if” analysis applied to vertical, horizontal, ratio, and chart analysis on excel spreadsheets developed in Project One.
4. Understand how assets at the store level affects the financial statements.
5. Understand how noncash expenses at the store level affects the financial statements.
6. Identify and recommend changes in revenue/cost structures and how it would impact any ratio developed in Project One.
7. Demonstrate good grammar, formatting, and organization.

Project Three Requirements:

1. Familiarize yourself with how a typical Starbucks store operates and identify a store level risk.
2. Conduct a “what-if” analysis to determine the affect a store level risk may have on the financials.
3. Answer three short essay questions.

Requirement #2: Familiarize yourself with how a typical Starbucks store operates and identify a store level risk.

A store level analysis requires one to observe store level operations.

Starbucks store level observation

There have been an number of consumer feedback portals expanding on the web. These sites offer the ability for consumers to research business locations before making a visit. What is relevant to our project is that businesses have utilized the information gathered on these sites to make operational changes, which affect accounting business decisions.

A virtual field visit has its weaknesses by not allowing one to actually be inside a location and experiencing the action, but it has its strengths in that it allows for essential data to be collected. By analyzing feedback portals, data can reach beyond what could be retrieved from a limited physical field visit. For instance, reviews made that highlight the store's procedures during a time of a heightened visitor rate could provide information that a physical field visit during a time with a slow visitor rate would not.

Look for consistencies and inconsistencies between different locations. Observe store level operations and compare them to Starbuck's management assertions. Compare your observations against the information in the spreadsheets and risk analysis in project one and project two.

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Yelp allows consumers to post check-ins, photos, reviews and tips pertaining to businesses they have visited. Other notable platforms include Google, Facebook, Urban spoon and Glassdoor. Each of these options offers valuable information that could be used in this Project. For example, employees can post reviews on their work environment and suggestions to management on the Glassdoor platform. Consumers are encouraged to post photos of the atmosphere and provide feedback on accommodations, pricing and how these aspects of the business compare to local competitors.

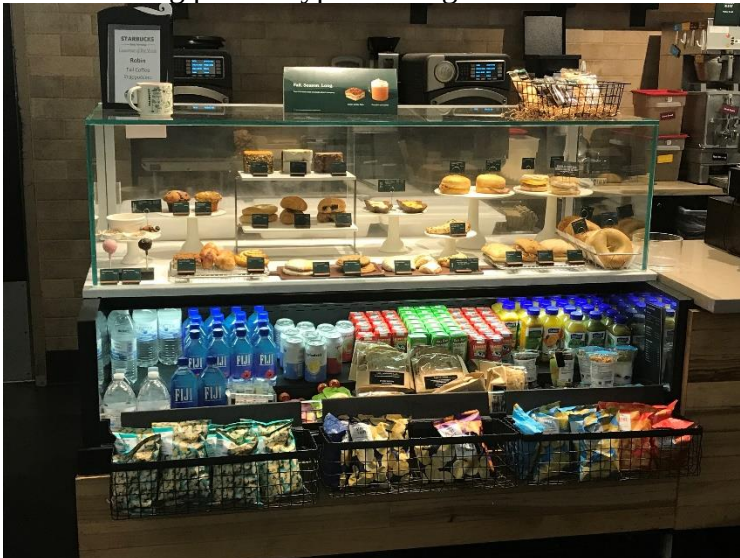
In this virtual visitation, choose one (or more) consumer and employee feedback platforms and compare how customers perceive operations in comparison to management assertions made by in the "Starbucks 10-K 2019 report" PDF. Note both the positive and negative reviews, the photos of the location and products, and the possible responses from Starbucks employees.

Helpful videos to understand Starbucks store level operations.

- [A Behind the Scenes Look at Starbucks Retail Operations](#)
- [Day in a Life: Nick Lister, Starbucks Barista](#)
- [Beverage Sequencing](#)
- [The Starbucks Beverage Routine : Increasing labour efficiency thru' LEAN principles](#)
- [The World's Biggest Starbucks Just Opened In Chicago | Line Around The Block](#)
- [Five Design Tricks Starbucks Uses to Seduce You](#)
- [Starbucks Vlog!! *Behind The Bar👁️* Closing Shift👋](#)
- An accounting student interviewing a Starbucks store manager in Illinios:

[Go See It! Inventory at Starbucks](#)

The following pic is a typical refrigerator found next to most cash registers in Starbucks stores.



Here are helpful observation suggestions. You are trying to understand risks that you can observe at the store level that may or may not be discussed in the 10-K that could affect the financial statements. The follow is not an exhaustive list, but just some things you can look for to help answer the required essay questions for this Project. Be creative in your own observations for risks.

1. How employees perform their tasks (a cashier taking orders and how the process is done, or is inventory appear to be wasted or unaccounted for in some manner).
2. Do cashiers appear to be able to make an unrecorded sale? This could happen by someone placing a small tip in the tip bucket and given an item without paying full price for it.
3. Could baristas pass beverages over the counter for free? Does there appear to be an accounting for courtesy beverages?
4. Does the manager appear to be onsite, responsible, and engaged with its employees?
5. Can inventory be stolen? Is there a specific category or single item more susceptible than others?
6. Are security cameras strategically placed and what are their purpose?
7. How is garbage disposed of? How does garbage connect to accounting?
8. Can employees/family members/friends consume inventory?
9. Quality of signage, lighting, seating arrangements, age and quality of fixed assets, parking issues, drive up issues, etc.
10. To what extent could employees engage in collusion? Which employees are most likely to be successful to collude? Which employees would be least successful?

Requirement #4: Short Essay Questions

As you become more familiar how Starbucks operates its stores and as you continue to read through the information in the 10-K, you will get a sense of how Starbucks portrays its stores. Test those management assertions against your observations and submit an individual two to three page report (keep in mind to connect accounting theory to practice, not a marketing/management theory to practice):

1. Starbucks is required to disclose material risks in its 2019 10-K report, but they may not be so obvious to identify when you are inside a Starbucks store. Material risks that are not disclosed in the 2019 10-K report may possibly be identified when you closely observe store operations.
 - a. *Of the risks that you identify at the store level, which one do you think could most adversely affect the income statement, balance sheet, and cash flow statement and give an example of how it could adversely affect the financial statements?*
2. In the question, the goal is to help you understand inventory. Starbucks's normally displays its refrigerated inventory openly.
 - a. *What items do you believe have the highest and lowest gross profit margin?*

- b. *If a person steals one of the high gross profit margin inventory items, how many more of these items does Starbucks have to sell to make up the cost of the stolen item? How many for the lowest gross profit margin inventory items? Demonstrate your understanding by provide calculations to support your claim. For example, if you believe a certain drink is the highest (or lowest) gross profit margin item, and one bottle is stolen that normally sells for \$1.89 and cost \$1.59 per bottle, 5.3 bottles have to be sold to make up the loss ($\$1.89 - \$1.59 = \$0.30$). Then, ($\$1.59/\$0.30 = 5.3$ items).*
 - c. *To see a practical effect on Starbuck's financial statements, imagine one of the lowest profit margin refigirated items is stolen once per day in every Starbucks store worldwide for an entire year. How much would that affect Cost of Sales? How many more of those items would Starbucks have to sell to make up the loss? (You need to know approximately how many Starbuck's owned company stores there are worldwide. If you do not know, estimate it).*
 - d. *Would it make a difference if LIFO, FIFO or average inventory cost flow systems are used? If you believe so, briefly explain how.*
4. Starbucks has many fixed assets in its stores. For example, they have various machines to make drinks or cook food. Identify one of those pieces of equipment, conduct internet research to estimate a replacement cost if the equipment were to be destroyed today, assuming it is January 1st (cost).
 - a. *How many years do you estimate it will be functional and useful to help Starbucks produce revenue (estimated usefule life)? In that time period in the future, how much do you think Starbucks can sell it for (salvage value)?*
 - b. *Once you have the cost of a machine, an estimated useful life and a salvage value, calculate the item's depreciation expense for its first year. Extrapolate your results over all Starbucks stores and determine the affect on the balance sheet and income statements by comparing if the item were to be depreciated using the straightline verse double-declining balance methods, over the estimated cost, estimated useful life and estimated salvage values you choose. You must show calculations. To answer this question, you may have to conduct research to determine the make/model machines they use. If you cannot figure it out, use a close substitute.*
5. At this point, you have read, analyzed, and understand company and store level operation about Starbucks.
 - a. *What would you change that would help it increase revenue, control its expenses, or make its assets more efficient? Show how that beneficial change would affect at least one ratio in the next year that financial statements would be produced.*

Requirement #5: You should target approximately one to two paragraphs for each required item. Grammar, Formatting and Organization is a skill which should be demonstrated by accountants for all work.

Additional Questions Concerning Project Three: Starbucks Visitation and Store Level Risk

Q28: *Can I discuss the same risk that I identified in Project Two for Project Three?*

A28: You can, but you have to discuss it more directly related to the store level, pointing out what do you see in the store that connects back to what management discusses in the 10-K. In the past, some students have just provided a general discussion about risks and some duplicated Project Two and did not get into store level risks, thinking that they are discussing store level risks.

Also in the past, many students have pointed out fraud, food safety and customer care type issues. Many have expressed that they struggled to identify store level risks. I always thought this was the easiest part of the project. When I look at inventory, I automatically link it to an inventory turnover ratio and wonder what the effects on it are. I also look at inventory and wonder if the store is using LIFO or FIFO and how that would affect the financials. Surprisingly, few mentioned LIFO/FIFO in their discussions. When I look at a cashier at a register, I think about all the ways the recording of a sale could go wrong and ultimately affect a number of ratios that have revenue in the equation. When I look at their fixed assets, such as equipment and their furniture and think about how they are recording depreciation expense every period and whether their assumptions for the estimated useful life or salvage value could be in error. There are so many simple items to visualize in a Starbucks.

Not to suggest that this is one should think 24/7, but when you need to think through a business situation, try to break it down to its least common denominator and in small parts, just like we all did when learning basic math and language skills.

In the past, some students identified restructuring costs in a store level analysis. I have to admit, that is a tough one to tie back to the store level. Management would have to be very explicit in their discussion to tell you exactly why they restructured. Normally, it has little to do with what you actually see in the store. It is usually a behind the scenes issue. If you understand what goes on behind the scenes, you may be able to connect restructuring in a well-informed conversation. For example, let's say that production costs are increasing cost of sales. The business decides to shut down the production site and move operations to a more cost effective site. That could increase restructuring costs in an effort to lower cost of sales, but you won't see that in the store. You can connect it to the store if you understand how it potentially affects the cost of sales in each store. Lowering production costs may lower cost of sales which may increase profit margins.

Grading Rubric for Project Three

Criteria (Each Equally Weighted at 16.67%)	Levels of Achievement		
	Unacceptable, Needs Way Too Much Work	Passable, But Still Needs Work	Good to Very Good
Of the risks that you identify at the store level, which one do you think could most adversely affect the income statement, balance sheet, and cash flow statement and give an example of how it could adversely affect the financial statements? ¹	0.00 %	70.00 %	100.00 %
Demonstrate your understanding of the profitability of refrigerated inventory on the gross profit margin and how that is connected at the Store Level to the financial statements. ²	0.00 %	70.00 %	100.00 %
Demonstrate your understanding of theft of inventory on the gross profit margin and how that is connected at the Store and Firm Level to the financial statements. ³	0.00 %	70.00 %	100.00 %
Identify and analyze at least one piece of equipment used in Starbucks and discuss its depreciation accounting effects at the Store and Firm Level. ⁴	0.00 %	70.00 %	100.00 %
Identify and recommend changes in revenue/cost structures and how it would impact any ratio. ⁵	0.00 %	70.00 %	100.00 %
Exhibit proper grammar, formatting, and organization. ⁶	0.00 %	70.00 %	100.00 %

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¹ Of the risks Starbucks discloses, you must identify at least one risk in a Starbucks store and connect it to a financial statement, explaining its adverse financial statement outcomes if it were to materialize. Apply your understanding financial reporting concepts that you did in Project Two, but take it a step further to incorporate your understanding of various assets and liabilities. Our past experience has shown that at the company level, students often identify risks and then explain it as a marketing or management concept, not an accounting concept. Students in the past have discussed the length of lines, lack of signage on the menus, etc. You have to analyze risks talking like an accountant, not a marketer or strategic manager.

² From the spreadsheet horizontal, vertical, ratio and charting analysis, you will see trends and patterns of how accounts behave and interact. You have to connect the risk(s) that you observe at the store level with these trends and patterns in inventory in the financial statements with respect to the gross profit margin.

³ Similar to footnote 2, you have to connect the risk(s) that you observe at the store level with these trends and patterns in the financial statements with respect to the gross profit margin if inventory is stolen.

⁴ What risks do you see in the store that could affect the financial statements of the company that management does not discuss in its financial statement disclosures with respect to depreciating equipment.

⁵ Using any ratio, demonstrate how your recommended beneficial change will affect the financial statements.

⁶ The analysis should be free of grammatical errors, formatted well and organized. That is, the discussion flows well and does not appear disorganized.