Accounting Case Studies

Avery Andress

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Accounting Case Studies

By
Avery Andress

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

Oxford, MS

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ABSTRACT

This thesis is a collection of accounting case studies. There are twelve cases that comprise this thesis including: A Tale of Two Cities, Asset Concepts, Presidential Debate, Excel Course, *Taxodus - Playing The Global Tax Avoidance Game*, Business Interview - Tony Huffman, Case Competition - Overview, Case Competition - Audit, Case Competition - Tax, Case Competition - Advisory, Case Competition - Earnings, Stock Price, and Analysis, and Financial Crisis of 2008. There are a variety of topics involved in these cases. I completed a case that involved watching a Presidential Debate and learned more about each candidate’s policies. Also, I completed many cases related to Intel Corporation for a group case competition. In conclusion, this thesis is a compilation of research about a variety of topics related to accounting.
CASE I: A Tale of Two Cities

EXECUTIVE SUMMARY

In this case, I was able to compare two cities that I want to work in for my first accounting job. In this case, there was a list of questions that I answered for each city, Nashville and Dallas. The questions included information about the population, climate, topography, taxes, transportation, the most prevalent industries and five largest companies, healthcare, school districts, common crimes, rent costs, commuting, grocery shopping, laundry, various organizations, entertainment and recreation, a monthly operating budget, and which city I would prefer to live in based on my full analysis. These questions helped me compare these cities well. I now have a better understanding of what my life might look like if I lived in either of these cities. I learned more about the topography of each city and about the different types of transportation that each city offers. I will be commuting to work in my car and depending on the traffic, the time I spend commuting will vary. I also learned about some of the different areas of each city, so I am more familiar with the geography of both cities. It was great to find out that there are so many great options for apartments in both cities. The apartments I researched to possibly live in all have great amenities and parking. I was glad to learn about the various places that I could visit in each of the cities; there are so many museums, restaurants, and types of entertainment like plays that are offered in each city. I am glad that there are so many restaurants in both cities. I learned more about the school systems in each city as well. The monthly operating budget is helpful in planning for the future, so I can know how much money is going to be allocated for living expenses and how I can save money for the future. Both cities have large populations. Both cities have a subtropical climate, and I am used to this type of weather because my hometown of Jackson, Mississippi, also has a humid subtropical climate. There are also many opportunities for
working in Nashville and Dallas. After my full analysis of Nashville and Dallas, I could see myself living in either of these cities, but Nashville is the place I would prefer to live.

1. **What is the population?**

   The population of Nashville is 1,249,000.

   The population of Dallas is 1,382,270.

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

   Nashville has a humid subtropical climate. The summers in Nashville are hot and humid and the winters are mild to cold. Nashville is humid and tends to have rainstorms and tornadoes. Yes, I am accustomed to living in this type of weather. My hometown is Jackson, Mississippi, and it is humid and has hot summers and mild winters. Dallas has a humid subtropical climate. The summers are hot, and the winters are mild. The weather is moderately continental. In the spring, the weather in Dallas can occasionally be volatile, but generally the temperature is warm.

3. **Describe the city’s topography, scenery, and other geographic or geological features of the area in which the city is located. Include pictures where appropriate.** Nashville is located on the Cumberland River in Central Tennessee and is surrounded on three sides by the Highland Rim. Nashville has one of the largest geographical areas of any United States city. Nashville has rolling hills and natural vegetation. There are two lakes, Old Hickory Lake and the J. Percy Priest lake which is located east of the city.

   Nashville is pictured below.
Dallas is mostly flat, and the city lies at elevations ranging from 137 meters to 168 meters. The Trinity River is the major waterway through Dallas. White Rock Lake is a reservoir in Dallas. The Dallas Arboretum and Botanical Garden is located on the lake’s eastern shore.

Dallas is pictured below.

4. What are the individual tax rates within the city (e.g., consider federal, state and local income tax, property tax, and any other taxes you’d be likely to pay. Quantify what this means based on a starting salary of approximately $55,000/year)?
Tennessee does not have state income tax, but it does have a “hall tax”, which is a six percent tax on interest and dividends. I would pay federal taxes on my income of $55,000 of $12,398. If I live in an apartment, property taxes would be included in my rent expense.

Texas does not have state income tax, but Texas has some of the highest property taxes in the country. I would also pay federal taxes on my income $55,000 of $12,398. If I live in an apartment, property taxes would be included in my rent expense.

5. **What transportation hubs are in the city?**

Nashville has many transportation hubs. WeGo Public Transit is a bus system in Nashville. The Regional Transportation Authority operates ten regional bus routes and oversees the Music City Star regional rail.

Dallas also has many transportation hubs. There is the Dallas Area Rapid Transit that has rail lines like the Trinity Railway Express and buses. The Dallas streetcar is operated by the Dallas Area Rapid Transit.

6. **What are the city’s most prevalent industries? What are this city’s five largest companies?**

Nashville is one of the nation’s top healthcare industries. Nashville is known as the nation’s healthcare center. Nashville is the largest publishing center in the Southeast. The music industry in Nashville is large and generates billions of dollars each year. The five largest companies in Nashville are Vanderbilt University Medical Center, Nissan North America, HCA Healthcare Inc., Vanderbilt University, and Saint Thomas Health. It is amazing that Nashville is one of the nation’s top healthcare industries, and there are so many companies in the Nashville area.
The most prevalent industries in the Dallas area are technology, financial services, and defense. The five largest companies in Dallas are American Airlines, Exon Mobil Corp., AT&T, Texas Health Resources Inc., and Baylor Scott & White. Dallas has so many large companies, and this is great because there are so many business opportunities.

7. Describe the quality of the city’s healthcare. Describe the quality of the city’s school districts (K-12). Would your children attend public or private school?

Nashville has a great quality of healthcare and is known for its healthcare system. The quality of Nashville’s school districts is great. My children would attend public or private school.

The quality of healthcare in Dallas is great. U.S. News & World Report has consistently ranked many of the DFW area’s hospitals among the best in the nation in its America’s Best Hospitals report. The quality of education in Dallas is also great. My children would attend public or private school.

8. What types of crime are common within the city and where are the locations within the city to avoid?

Nashville’s most common types of crime are violent offenses and property offenses. The areas to avoid are near Dickerson Road or Trinity Lane.

Dallas has had an increase in violent crimes and a decrease in property crime. The areas in Dallas to avoid are South Dallas, West Dallas, and certain parts of East Dallas.

9. Based on where you see yourself living for the first three years, how much rent do you expect to pay? Back up this assertion with sample properties from each location (including pictures). Describe the square footage, amenities, need for a roommate, availability of parking, etc.
In Nashville, I could live at the Crossroads at the Gulch Apartments. I would rent a two-bedroom apartment so I would need a roommate. The apartment would be 1,117 square feet. I would pay around $15,060 per year for rent. I would pay between $75 and $100 for an unassigned surface lot parking space. I would also pay an administration fee of $250 and an application fee of $99. In total for the first three years, I would pay $45,829. There is an outdoor pool, a washer and dryer in the unit, a dishwasher, and a fitness center.

**Pictured below is a floorplan of the Crossroads at the Gulch Apartments.**

Another apartment option in Nashville is the Element Music Row. I would live in a two-bedroom apartment, so I would need a roommate. The apartment would be around 1,230 square feet. I would pay around $19,326 per year for rent. I would pay $100 for an assigned surface parking lot space. I would also pay an administration fee of $250 and an application fee of $50. In total for the first three years, I would pay $58,578. There is a washer and dryer in the unit, a fitness center, and a pool.

**Pictured below is a floorplan of the Element Music Row Apartments.**
In Dallas, I could live at the McFarlin Place Apartments. I would live in a two-bedroom apartment, so I would need a roommate. The apartment would be 1,128 square feet. I would pay $13,200 per year for rent. I would also pay an application fee of $60. In total for the first three years, I would pay $39,660. I would have a washer and dryer, a dishwasher, and a surface parking space.

**Pictured below is a floorplan for the McFarlin Place Apartments.**

Another apartment option in Dallas would be the Mockingbird Station Apartments. I could live in a two-bedroom apartment, so I would need a roommate. The apartment would be 1,351 square feet. I would be paying $18,330 per year for rent. There is garage parking, and I would pay an administration fee of $175 and an application fee of $75. In
total for the first three years, I would pay $55,240. There is a fitness center, and I would have a washer and dryer.

**Pictured below is a floorplan for the Mockingbird Station Apartments.**

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

The typical mode of commuting in Nashville is driving. My likely commute times depending on traffic could be anywhere between 15 minutes and 45 minutes.

The typical mode of commuting in Dallas is driving. My likely commute times depending on the traffic could be anywhere between 20 minutes and 45 minutes.

11. **Where will you do your grocery shopping?**

In Nashville, I could do my grocery shopping at Kroger or a variety of other stores.

In Dallas, I could do my grocery shopping at Kroger or a variety of other stores.

12. **How will you do your laundry?**

I will be able to do my laundry in my apartment in Nashville.

I will be able to do my laundry in my apartment in Dallas.

13. **Name at least three civic, religious, or charitable organizations you would like to be active in for each city?**
In Nashville, I want to be involved in a church. Also, it would be great to be involved in The American Red Cross and The Salvation Army.

In Dallas, I want to be involved in a church. Also, it would be great to be involved in The American Red Cross and The Salvation Army.

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

In Nashville, I would be likely to go to the Grand Ole Opry, Centennial Park, the Country Music Hall of Fame and Museum, various restaurants, and the movie theater. I am excited that there are so many things to do in Nashville.

In Dallas, I would be likely to go to the George W. Bush Library and Museum, the NorthPark Center, various restaurants, the movie theater, and the Dallas Arboretum and Botanical Gardens. I am excited that there are so many options of things to do in Dallas.

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

When I travel to my hometown of Jackson, Mississippi from Nashville, I could either drive or fly. The cost to drive home would be around $40 to pay for gas. If I drive, the trip will take approximately six hours. If I fly, the flight cost would be around $400 depending on the dates of travel. The flight from Nashville has a connection in Atlanta, which makes the travel time approximately four hours.

When I travel to my hometown of Jackson, Mississippi from Dallas, I can drive or fly. The cost to drive home would be around $40 to pay for gas. If I drive, the trip will take approximately six hours and thirty minutes. If I fly, the flight cost would be around $200
depending on the dates of travel. The flight would take approximately one hour and twenty-one minutes.

16. Based on your findings, develop a model monthly operating budget for each city for Year 2, assuming that with bonuses for being a high performer, your annual salary is $60,000.

<table>
<thead>
<tr>
<th></th>
<th>Nashville, Tennessee</th>
<th>Dallas, Texas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary (net of taxes)</td>
<td>3,866</td>
<td>3,866</td>
</tr>
<tr>
<td>Rent</td>
<td>1,441</td>
<td>1,314</td>
</tr>
<tr>
<td>Food</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Gas/Transportation</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Miscellaneous Expenses</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Savings</td>
<td>1,715</td>
<td>1,842</td>
</tr>
</tbody>
</table>

17. Finally, based on your full analysis, determine which one is your preferred city and why?

Based on my full analysis, Nashville is my preferred city. I like how there are so many things occurring in Nashville. I also could see myself living in Nashville for a long time. I am excited for the opportunities and new experiences in Nashville if I get to work there.

CASE II: Asset Concepts

Group Members: Garland Carmichael, Niland Fortenberry, & James McLemore

Executive Summary

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In this case, we were charged with reimagining GAAP on the following dimensions. We were given two questions with two viewpoints to evaluate. We discussed the pros and cons of each viewpoint to decide which viewpoint the FASB’s focus should be when promulgating new standards. The first question and first viewpoint place the primary focus on the proper valuation of assets and liabilities. Under the first viewpoint, the firms are considered “asset greenhouses”, where the goal of the firm is to earn money by acquiring assets and growing them. The second viewpoint says that the primary goal of financial reporting should focus on the determination of revenues, expenses, and earnings. Under the second viewpoint, firms are viewed as “asset furnaces”, where acquired assets are continually transformed for the goal of producing revenues and earnings. The second question also offered two different viewpoints. The first viewpoint recognizes assets as being measured as “value-in-exchange”. Assets add value to the firm on a standalone basis in exchange for cash. This viewpoint recognizes that assets used in combination with other assets generate little incremental value for the firm. The second viewpoint recognizes assets as “value-in-use”. Under this viewpoint, assets have value when they are consumed or used with other assets. The use of assets is supposed to generate firm-specific value that is incremental to the sum of the assets’ individual values-in-exchange. Through discussing the pros and cons of each question and viewpoint, we learned how to process the effects of changing the way assets are valued. We also learned that the value of the company largely depends on how a company recognizes its assets. We discussed how the journal entries would change based on our evaluation that assets should be measured as “value-in-use”. We specifically discussed that, under the method we chose to promulgate for GAAP, the journal entries for prepaid expenses would be different because they would not have value until they were used. The prepaid expenses would be debited into an account called unrecognized assets to account for the prepaid expense while not giving the prepaid expense any value at that point in time. Throughout this case, we gained
insight into the process that the FASB encounters each time new viewpoints and rules are discussed. This case gave us the opportunity to gain a deeper understanding of the implications and impacts of promulgating new standards.

**Question 1**

**Viewpoint 1: Pros**

- Garland: How much it is really worth; assets and liabilities are long-time.
- Niland: Focusing on valuing assets and liabilities is a more accurate description of whether a company will be able to pay off debts.
- Niland: When it comes to valuing a company, it goes beyond net income. If you are focusing only on assets and liabilities, it gives a look into how you will do in the future; are you going to be able to use your assets to pay off liabilities?
- Avery: A company wants to focus on growing assets because cash is a major part of the liquidity of a company.
- James: The company is focused on assets and liabilities which would make it easier to tell how each asset and liability are affecting the company’s financial reports.

**Viewpoint 1: Cons**

- Avery: Just focusing on assets and liabilities does not take equity into consideration.
- Garland: If you do not take the equity accounts into consideration then you wouldn’t know the amount of money used to cover things like expenses.
Niland: Failing to take equity into consideration can give the company a less accurate representation of what they have to work with. They are saying that they have a certain number of assets, and if they are just trying to grow the assets, they are not taking into consideration how much they are being financed by debt versus how much they are being financed by equity.

Garland: The revenues and expenses are either increasing or decreasing assets, and if you just focus on the assets and liabilities, you are not going to see how the assets are decreasing or increasing due to revenues and expenses.

James: A con to this is that you do not exactly know where your company is in the present, as you would if viewpoint two was your primary way of financial reporting.

Garland: I agree with that because net income is one of the most important factors for representing the company to its investors; it is also easier to compare net income from period to period.

Niland: Right, whereas assets and liabilities can be short-term or long-term and, thus, more difficult to compare from period to period.

**Viewpoint 2: Pros**

Avery: A company needs to know how much money they are spending on expenses versus how much money they are making in revenue because if the expenses are greater than the revenue, the company is not financially stable.

Niland: Yeah, net income is a reflection of the company’s profit, so without knowing what you have brought in, you do not really know how well you have performed.
• Garland: You would not know how the company is doing at a particular time. A company can analyze and figure out what the most profitable time of the year is and the least profitable time of year, so you can prepare for that in the future.

• Niland: You need to know levels of sales and expenses so that you can adjust your need for assets accordingly.

• James: This is a more efficient way of financial reporting because the company is constantly acquiring assets and turning them into products, and, like Garland said, you can budget for your busy season.

• Niland: Say you were a ski business, but your focus was to grow your assets, then you may be increasing inventory unnecessarily, even if it was during an off-season. However, if your focus is net income, then you are going to see that you are bringing in less revenue in the off-season and, therefore, know that you do not need to increase your inventory in those periods.

• Garland: Yeah, because you don’t want to buy as much inventory in the slow season because it will take longer to get a return on your money and make profit.

• Niland: And, furthermore, you lose liquidity because you are using your more liquid assets to purchase less-liquid assets and still getting a slower return on your money.

• Garland: Also, if you are focusing more on your revenues and expenses, you can see how quickly the company is growing, how slowly it is growing, or if it is at a standstill.

**Viewpoint 2: Cons**

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• James: Long-term assets get overlooked under this viewpoint because the company is so focused on the present they are not really looking into the future.

Niland: Revenues and expenses are a current period focus, which does not make a company look at how efficiently it is using its long-term assets.

• Avery: Revenues and expenses are closed into net income each period.

• Niland: Since it is a current focus, you may lose sight of long-term effects of this method of financial reporting. Therefore, later, a company could face the effects of primarily focusing on making a profit.

• Garland: Profit doesn’t take into account the company’s liabilities, so it’s not a true representation of the company’s net worth. It only shows how much money the company brought in during that period. Cash was already used, assets were involved in the process to get to the point to find net income, but the liabilities were not accounted for.

• Avery: When you look at the revenues and expenses, you have already taken the assets and other transactions into account for the period.

Group Consensus

When considering the two viewpoints, there are many pros and cons to both. The first viewpoint focuses on the proper valuation of assets and liabilities. The second viewpoint focuses on determining revenues, expenses, and earnings. After a group discussion, we agreed that the FASB should choose viewpoint two because it adopts a more holistic approach to financial reporting. Though viewpoint one gives a better representation of a firm’s ability to pay off its debts, it does not help the firm gauge its financial standing as it relates to equity. This can potentially cause a firm to fail to take into consideration how much it is being financed by debt.
and how much it is being financed by equity. If a firm does this, it can be detrimental to the firm’s longevity and profitability. Viewpoint one is strong in that it focuses on growing assets; it increases liquidity in the company, especially when a firm is focused on increasing assets such as
cash. However, it is difficult to discern how and why the assets and liabilities are decreasing and increasing when simply focusing on their values and asset growth. Viewpoint two is strong in that net income is easily compared among periods. Assets and liabilities can be either short-term or long-term, while revenues and expenses are current and give an accurate depiction of how a company has performed in that specific period. When the focus is on revenues and expenses, it gives a company a better understanding of its financial stability. If a firm sees a sudden increase in net income, it can use its determination of revenues and expenses to assess whether this is a result of an increase in efficiency or an increase in sales. Therefore, unlike viewpoint one, viewpoint two does not increase assets for the sake of growth; rather, it analyzes earnings to discern whether an increase or decrease in assets is necessary. For these reasons, as well as others discussed in our dialogue, we believe that viewpoint two is the more viable option for the FASB to promulgate.

**Question 2**

**Viewpoint 1: Pros**

- James: When valuing each individual asset and liability, you know exactly how much they are to your company.
- Garland: You can recognize the value of that asset at that moment, when you are in possession of it, so it adds value to your company.
- Avery: Land for future use has value to the company, even though the company is not currently using it.
- Niland: If a company only cares about what is in use, any kind of long-term investment might not seem valuable since it is not being readily used. Furthermore, you can measure
growth more accurately because you are seeing the cost at which you acquired the asset, so you can see the differences in acquisition costs over time.

**Viewpoint 1: Cons**

- Niland: Viewpoint 1 is so focused on book value that it does not give a very good representation of how valuable the asset is to the company.
- Garland: It does not account for the potential future growth.
- Niland: If you are measuring available-for-sale securities at cost, you will not recognize the gains earned and losses incurred with a change in its price.
- Avery: This viewpoint does not consider that assets used in combination can generate firm-specific value.

**Viewpoint 2: Pros**

- James: You are getting more out of your assets with the ability to use them together and still generate firm-specific value.
- Niland: You know your cost of services or cost of goods sold, so you can price things more accurately.
- Garland: And the fluctuation in prices of supplies to make the end product takes into account that you have to decrease an asset(s) during the production process in order to increase assets in the future.
- Avery: Most of the time your assets will be used together to generate value.
- Niland: If you only focus on the value of a specific asset, it cannot contribute to growth alone.
• Garland: For example, a machine being used during the production process can’t contribute to the growth; it’s the combination of the supplies and the machine using the supplies to make the end product.

• Avery: Also, a building has value, but the use of equipment in the building makes both of those assets more valuable.

• Niland: It is the combination of assets that brings in revenue and adds value to the company.

• Garland: Like you said, when the building is in use, it is aiding in the production process due to it housing the machinery needed to produce the product.

• Garland: Another example is marketing. The company has to pay for commercials, ads, billboards, etc., to hopefully bring in revenue beyond the cost.

• Niland: You cannot have prepaid advertising and expect to add value to your company without combining that prepaid asset with other assets. Assets + assets = more assets.

Viewpoint 2: Cons

• Avery: Land for future use would not have value for the company under this viewpoint because it is not in use.

• James: Using assets in combination could end up hurting certain assets and failing to benefit the company.

• Niland: It is hard to measure how much of your asset contributed to the final product or service, so this could cause a lot of differences among companies in valuing their assets.

• Avery: A prepaid expense has value before it is used, and this viewpoint does not take that into consideration.

Group Consensus
The first viewpoint realizes assets’ values on a standalone basis in exchange for cash or other assets. The use of assets in combination with other assets does not generate substantial firm-specific value. The second viewpoint realizes an asset’s value when it is being consumed or combined with other assets. After a group discussion, we agreed that viewpoint two should be the FASB’s focus when promulgating new standards because assets are usually used together to generate value for a company. Thus, it is a better depiction of how assets function for a business.

Viewpoint one is strong in that a company can recognize the value of assets as “value-in-exchange”. The value is an objective value, and it is easy to measure. Furthermore, under this viewpoint, land for future use has value even though the land is not in use. However, viewpoint one does not consider an important aspect of all companies: the key to growth in assets is through the combined use of other assets. Viewpoint two offers a better representation of how valuable assets are to a company. Our discussion included that viewpoint two shows that assets are generally used together. It gives a better idea of how a company should price its goods and services, as a company is able to see the amount of assets that were used to produce the good or service. It is when assets are combined that a firm generates revenue. If a company focuses on the value of one specific asset, it is difficult for a company to see how that asset contributed to growth. A weakness of the second viewpoint is that it does not take into account the value of long-term investments, and it does not account for the potential future growth that a company may possess when it has long-term investments. More specifically, it does not give value to land for future use since it is not currently in use. This is a con, as land for future use is a valuable asset for a company. While this does undermine the viewpoint, valuing assets on the basis of use is a more prudent option and more accurately depicts how valuable a company’s assets are to the business and its growth.
Question 3

The adjusting entries will change with the adoption of the second viewpoint because this viewpoint only recognizes an assets’ value when it is in use. We debited acquired assets to show that we had an asset, but we had not used it yet. Then, we made adjusting entries after the asset had been used.

1. Under the second viewpoint, equipment would not have value until it is in use.

   1/1/20: Equipment bought but not yet used.

   \[
   \begin{array}{lcr}
   \text{1/1/20 Acquired Assets} & 30,000 \\
   \text{Cash} & 30,000 \\
   \end{array}
   \]

   2/1/20: Equipment starts to be used on this date.

   \[
   \begin{array}{lcr}
   \text{2/1/20 Equipment} & 30,000 \\
   \text{Acquired Assets} & 30,000 \\
   \end{array}
   \]

   3/1/20: Equipment has been used for a month.

   \[
   \begin{array}{lcr}
   \text{3/1/20 Assets Contributing to Growth} & 20,000 \\
   \text{Equipment} & 20,000 \\
   \end{array}
   \]

2. Under the second viewpoint, the prepaid expense would not have value until it is used.

   3/1/20: Prepaid supplies purchased.

   \[
   \begin{array}{lcr}
   \text{3/1/20 Prepaid Supplies Expense} & 2,000 \\
   \text{Cash} & 2,000 \\
   \end{array}
   \]

   4/1/20: Value is recognized when part of the prepaid expense is used.

   \[
   \begin{array}{lcr}
   \text{4/1/20 Supplies Receivable} & 200 \\
   \text{Supplies} & 200 \\
   \end{array}
   \]
4/31/20: Supplies are used.

\[
\begin{align*}
\text{4/31/20 Supplies} & \quad 1,800 \\
\text{Supplies Receivable} & \quad 1,800
\end{align*}
\]

3. Under this viewpoint, prepaid insurance would not have value until it is used.

1/1/20: Prepaid insurance is purchased.

\[
\begin{align*}
\text{1/1/20 Unrecognized Asset} & \quad 24,000 \\
\text{Unused Insurance} & \quad 24,000
\end{align*}
\]

1/31/20: A portion of prepaid insurance is used.

\[
\begin{align*}
\text{1/31/20 Prepaid Insurance Expense} & \quad 24,000 \\
\text{Cash} & \quad 24,000
\end{align*}
\]

3/31/20: All of the prepaid insurance has been used.

\[
\begin{align*}
\text{3/31/20 Insurance Expense} & \quad 4,000 \\
\text{Prepaid Insurance} & \quad 4,000
\end{align*}
\]

4. Under this viewpoint, equipment would not depreciate when the equipment was not in use.

1/3/20: Equipment has been used for the past three years.

\[
\begin{align*}
\text{1/3/20 Depreciation Expense} & \quad 3,000 \\
\text{Accumulated Depreciation} & \quad 3,000
\end{align*}
\]

1/3/25: Equipment is not used for 5 years.

\[
\begin{align*}
\text{1/3/25 Depreciation Expense} & \quad 0 \\
\text{Accumulated Depreciation} & \quad 0
\end{align*}
\]

5. Under this viewpoint, the supplies do not have value until they are in use.
1/1/20: Supplies are purchased.

1/1/20 Unrecognized Asset 15,000

Unused Supplies 15,000

2/1/20: Supplies are used.

2/1/20 Supplies Expense 15,000

Supplies 15,000

CASE III: Presidential Debate

Executive Summary
This Presidential Debate Case has taught me so much about the upcoming presidential election. Before I watched the first presidential debate, I wrote about what unites the United States of America, and what “unites” us to warrant naming our country the United States of America. When I thought about what unites the United States of America, there were so many things that unite America. People value their individual rights and freedoms, and through these individual rights and freedoms, people unite. Also, people unite in the United States of America over the protection and success of our country. On Tuesday, September 29, 2020, I watched the first presidential debate live on CNN. I enjoyed getting to hear the two candidates share their views and opinions on various topics. While I watched the debate, I took notes about the various goals and opinions each candidate had on certain policies. In this case, I also predicted what the job market will be like depending on if Trump or Biden is elected to be president. I also discuss Trump’s views and Biden’s views on taxes, regulations, employment, wages, outsourcing and manufacturing, and overall financial health for individuals and companies. Trump and Biden differ on many policies. In the third requirement of this case, I discuss how the two sides of the country will come together harmoniously once the election is over. I discussed how there have been presidents from both political parties before this election that have governed our country, and regardless of who is elected president, our country will still be united under common goals of individual freedoms. Both sides of the country will be able to come together after this election, and both sides will be able to express their opinions and goals. One of the many great things about America is that people have individual rights. I have learned so much about the upcoming presidential election and how Trump’s administration and Biden’s administration differ on various policies. I am excited to find out who wins this presidential election. I have a better understanding of the different ways our country’s policies might change, depending on who is
elected to be president. I also know more about the various goals that each president has for the United States of America in the upcoming four years.

Requirement 1: You live in the United States of America. What is it about our country that “unites” us to warrant naming our country that? Do not just provide a legalistic explanation but answer in terms of common and shared values, goals, etc.

The United States of America is united, not just because of the geography of our country, but also because of our shared values and goals. People in the United States of America value their individual freedoms. People value the right to worship freely, the right to have freedom of speech, and the right to freedom of the press among many other rights. These rights allow people to individually express themselves, but also provide opportunities for people to unite under their shared values. Even though everyone can form their own opinions, everyone in the United States values the protection and success of our country overall. One of the many great things about the United States is that we have rights that allow people to have individual freedoms. Regardless of which political party is in office or who becomes President of the United States, people will still have their individual rights. While certain policies may change, depending on who is elected to be the President of the United States, the overall values and goals of our country will remain the same. People in the United States of America unite over shared goals and values and over the protection and success of the entire country. Individual rights and freedoms are important to people in the United States of America. While people have differing opinions about which rights and freedoms are the most important, people value that they can form their own opinions. People in the United States also value the protection of our country. The United States of America is united, even though, individuals value different freedoms and rights.
Requirement 2: For each of the candidates, forge a prediction about how their presidency will affect the job market when you graduate and the general business economy for the companies that will either be your clients or your employers. How will taxes, regulations, employment, wages, outsourcing / manufacturing, and overall financial health (for individuals and companies) differ under each administration?

If Trump is elected president again, the job market when I graduate will hopefully have only gotten better. The general business economy for companies that will be my clients or employers will be relatively strong and many companies will have production outside of America.

If Biden is elected president, the job market when I graduate will also hopefully have only gotten better. Biden is in favor of bigger corporate taxes, so the company I am employed by might have more taxes. Biden also wants to keep manufacturing of products inside America, so America will not be outsourcing as much as it is currently.

If either candidate gets elected, the job market will hopefully have recovered even more from the pandemic. The job market will look different depending on who is elected president.

**Taxes:**

**Trump:** Trump wants to keep his tax cuts. He is in favor of less taxes and a free market.

**Biden:** Biden wants to eliminate Trump tax cuts. Biden wants to focus on a big government and big spending. Biden wants the corporate tax rate to be 28 percent.

**Regulations:**
Trump: Trump is in favor of opening businesses in the country even in the pandemic. Trump claimed that limiting travel at the beginning of the pandemic saved millions of lives.

Biden: Biden is more hesitant about opening businesses during the pandemic. Biden says that people need to be provided with various sanitation equipment to safely open their businesses.

Employment:

Trump: Trump claims that our economy right now is in a recovery. He claims that the country is coming back well, and there are 10.4 million people who have been added to the workforce.

Biden: Biden claims that our economy right now is in a recovery. Biden says that an analysis completed by Wall Street firms shows that he could create seven million more jobs in four years and an additional 1 trillion dollars in growth.

Wages:

Trump: Trump seems to think that the minimum wages that businesses have now are fine.

Biden: Biden wants to increase minimum wage.

Outsourcing/Manufacturing:

Trump: Trump is in favor of using other countries for manufacturing.

Biden: Biden wants to limit outsourcing.

Overall financial health individuals:

Trump: Trump wants to get rid of the Affordable Care Act. Trump thinks that the Affordable Care Act is too expensive and wants to get rid of it and replace it with something cheaper.
Biden: Biden wants to expand the Affordable Care Act and increase it. Biden also wants to allow people to have private insurance. According to Biden, there are 20 million people who get health care from the Affordable Care Act.

Overall financial health of companies:

Trump: Trump’s tax cuts increase the financial health of companies. The less taxes the companies pay, the more money these companies can use to make more sales or expand their businesses.

Biden: Biden wants more taxes which will decrease the overall financial health of companies. These companies will still be able to expand, though.

How will the two sides come together harmoniously after the election is over? Frame your answer in terms of how individuals, like yourself, will achieve peace with the other side and they, with you. You do not have to discuss which side of the debate you personally fall on, but rather imagine going to class and eventually work with the people around you knowing half of those people share a different viewpoint. Both sides believe this is the most important election in American history, so emotions and tensions will be running high. How do you personally intend to function in the aftermath? Discuss coping strategies for yourself and suggestions for reminding family, friends, and colleagues about the values you outlined in Requirement 1. Formulate a plan to be an agent of positivity and discuss the content of that plan:

The two sides will come together harmoniously after the election is over, by uniting over our shared goals and beliefs. Regardless of who is elected president, I will achieve peace with the other side, and the other side will achieve peace with me because of our common beliefs.
Americans value freedom of speech and with this individual right, both sides will be able to share their opinions and beliefs with the other side. I intend to function in the aftermath of the election by knowing that whoever is president will lead our strong country. Americans need to focus on the positives that will result from either candidate being in office. Both Trump and Biden are going to strive to make changes that they feel will benefit all people. There will be certain things that will change depending on who is elected president, but the values that Americans share will remain the same. Whoever is elected president will value our country and the protection of our country, so everyone should find great peace knowing that America will still be strong, regardless of who is in the presidential office. People need to focus on the greatness of America and that either candidate, if elected to be the President of the United States for the next four years, will do their best to make our country stronger economically. America is a united country, and whoever is president will strive to make our country stronger.
CASE IV: Excel Course

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

Avery Andress

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

Excel Crash Course

with all the rights and privileges pertaining to this certificate.

Certificate number 24398906
Chair of the Board
Director
Director

Scott Powell
Lisa Dalian

Oct 18, 2020
CASE V: Taxodus - Playing The Global Tax Avoidance Game

Executive Summary

In this case, we learned about global taxes and the Tax Cuts and Jobs Act. Included in this case, were two articles for us to read and a documentary to watch called, Taxodus - Playing The Global Tax Avoidance Game. There was an article from the United States Department of the Treasury website called, “More Jobs and Bigger Paychecks”. The other article was a testimony from the Tax Foundation called, “Testimony: The Positive Growth Effects of the Tax Cuts and Jobs Act”, by Scott A. Hodge. I read both of these articles before I watched the documentary, Taxodus - Playing The Global Tax Avoidance Game. These articles gave me insight and a better understanding of the effects of the Tax Cuts and Jobs Act. Taxodus was a documentary that discussed how multinational corporations can lower their tax liabilities by using offshore accounts which can create a tax haven. It was interesting to learn how different multinational corporations operate and how they can lower their tax liabilities. In this case, we were asked what we thought the optimal corporate tax rate should be and based on the articles and documentary, the corporate tax rate should be 21 percent which is now close to the average corporate tax rate among other countries. This tax rate was created by the Tax Cuts and Jobs Act. Since the Tax Cuts and Jobs Act lowered the corporate income tax rate, it eliminates some of the need of multinational corporations to try to employ strategies to reduce their tax liabilities. Also, prior to the Tax Cuts and Jobs Act, the United States’ combined corporate tax rate was the highest among countries in the Organization for Economic Co-Operation and Development. After the Tax Cuts and Jobs Act, the United States’ corporate tax rate is now close to the average corporate tax rate among other countries. We were also asked if this case increased or decreased our interest in pursuing a career in the tax service line of public accounting. This case increased
my interest in pursuing a career in the tax service line of public accounting because I want to be able to help people and companies understand the tax laws. Also, after watching the documentary and reading the videos, I want to learn more about the tax service line of public accounting and the different aspects it entails.

1. What do you think the optimal corporate tax rate should be and why? Explain your answer including information gleaned from the two links and the documentary.

The optimal corporate tax rate should be the current tax rate of 21 percent because this tax rate reduces the need to employ some of the tax rate avoidance strategies. The article from the Tax Foundation, “Testimony: The Positive Economic Growth Effects of the Tax Cuts and Jobs Act”, discussed that prior to the Tax Cuts and Jobs Act, the United States’ high statutory corporate tax rate stood out among nations worldwide; among countries in the Organization for Economic Co-Operation and Development, the United States combined corporate income tax rate was the highest. After the Tax Cuts and Jobs Act, the corporate income tax rate was close to the average corporate income tax rate.

In the documentary, *Taxodus - Playing The Global Tax Avoidance Game*, it discussed that Apple paid 1.9 percent in corporate income taxes from their non-United States profits. Apple utilizes offshore accounts which are part of tax havens to create a lower amount of corporate income taxes. According to the documentary, the amount of capital parked in offshore industries that was owned by private individuals was between $21-$32 trillion at the end of 2010. Many multinational corporations have their global capital flow through other countries, for example, the Netherlands. The Netherlands has the most tax treaties in the world and has an extremely low tax rate on intellectual property, which makes the Netherlands a global hub for reducing the tax
The documentary discussed that .14 percent of the population control 95 percent of the offshore private wealth. Also, the documentary discussed the effects of any country cutting corporate income tax rates. For example, it discussed that if the United Kingdom cut corporate income taxes to 20 percent, then Canada might cut their corporate income taxes to 15 percent; European countries will respond to the tax cuts that the United Kingdom and Canada have employed. The corporate income tax rates of other countries affect every country.

The documentary, *Taxodus*, discussed how multinational corporations can try to avoid paying a high amount of taxes. If a multinational company reports as little profits as possible and transfers their intellectual property to a Dutch mailbox company, then the subsidiary abroad pays the royalties on the intellectual property. This results in lower profits of the parent company, and only a small amount of royalties is subject to taxes.

The article from the United States Department of the Treasury, “More Jobs and Bigger Paychecks”, discusses some of the effects of the Tax Cuts and Jobs Act. The article discusses how in March 2018, there were 7.3 million jobs available, which was enough jobs for every unemployed American to be employed. Another effect of the Tax Cuts and Jobs Act is that the unemployment rate reached a 50-year low of 3.7 percent. The National Federation of Independent Businesses claims that the tax reform is working and that the relief is driving record optimism about the economy among small and independent business owners. Since 2017, more than 500,000 new manufacturing jobs have been created. According to this article, the American
The economy is in a historic period of economic success. Unemployment is low, and wages are rising.

The article from the Tax Foundation, “Testimony: The Positive Economic Growth Effects of the Tax Cuts and Jobs Act”, discusses some of the other effects of the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act resulted in a higher level of Gross Domestic Product, higher wages for workers, and more full-time equivalent jobs. There is evidence that the corporate income tax is the most harmful for economic growth, so if the corporate income tax rate is high, then growth is inhibited. A higher corporate income tax reduces the long-term capital stock and reduces the long-term size of the economy. On the other hand, lowering the corporate income tax incentivizes new investment, as previously unprofitable projects are now worthwhile, leading to an increase of the capital stock. More capital for workers boosts productivity, and productivity is a large determinant of wages.

The results of the Taxes and Growth Macroeconomic Tax Model indicate that the Tax Cuts and Jobs Act is pro-growth. The Tax Cuts and Jobs Act reduced tax rates for both businesses and individuals, limited major deductions, and created new rules for companies that earn income overseas. In the short-term, the tax changes will result in a small, demand-side response as individuals’ after-tax income increases. The Tax Cuts and Jobs Act lowered taxes on capital and is expected to boost productivity, wages, and the size of the economy. The Tax Foundation Taxes and Growth model estimates that the total effect of the Tax Cuts and Jobs Act will be a 1.7 percent larger economy, which will lead to 1.5 percent higher wages, a 4.8 percent larger capital stock, and 339,000 additional full-time equivalent jobs in the future. These benefits are anticipated to occur because the Tax Cuts and Jobs Act improved major incentives in the economy. The increase in long-term economic growth is driven by the lower corporate income
tax rate of 21 percent which prior to the Tax Cuts and Jobs Act was a corporate income tax rate of 35 percent.

The Tax Cuts and Jobs Act was created through reconciliation, which required that the law may not impact the deficit after the first ten years. Since the Tax Cuts and Jobs Act was created through reconciliation, major portions of the Tax Cuts and Jobs Act will phase out or expire.

The Tax Cuts and Jobs Act included a provision called the 100 percent bonus depreciation provision, which allows businesses to immediately deduct the full cost of shortlived assets such as machinery and equipment. This provision will be in effect for five years before it begins to be phased out, and eventually it will expire at the end of 2026. Since this provision is temporary, it will incentivize businesses to make their investments sooner, while they can deduct the full cost, rather than later, when they must take depreciation deductions over longer periods. If the 100 percent bonus depreciation provision were permanent, it would generate long-term economic growth.

The Tax Cuts and Jobs Act lowered individual income tax rates. The top income tax bracket rate went from 39.6 percent to 37 percent, and the rates for the other brackets were lowered too. The standard deduction was doubled, and there were many other tax provisions. These tax cuts do not result in long-term growth because they expire, but they do result in shortterm dynamic growth and revenue by increasing the incentives to work. If the Tax Cuts and Jobs Act’s individual tax code provisions were permanent, this would result in a larger economy in the long-term by permanently increasing the incentives to work and invest.
The Tax Cuts and Jobs Act also created a deduction called the pass-through deduction that allows taxpayers to exclude up to 20 percent of their pass-through business income from federal income tax. The pass-through deduction is subject to several limitations, which are based on the economic sector of each business, the amount of business wages paid, and the original cost of business property. These limitations only apply to high-income taxpayers.

The Tax Cuts and Jobs Act will have economic impacts that will take years to fully materialize. Also, one challenge with any economic analysis is separating out any economic changes that are occurring simultaneously; for example, since the passage of the Tax Cuts and Jobs Act, the Trump administration has accelerated the position of tariffs on imported goods from China and other countries. The Tax Foundation and Growth Model can also estimate the impact of the tariffs proposed by the United States and its trading partners. If all the tariffs proposed by the United States and its trading partners were enacted, the jobs impact to the United States economy would outweigh that of the Tax Cuts and Jobs Act.

Overall, the Tax Cuts and Jobs Act improved incentives to work and to invest, which are the factors that drive economic growth. The factors that drive economic growth are the reasons why this new law is expected to have a positive, long-term effect on the economy.

The articles and the documentary support that the optimal corporate tax rate is 21 percent. The Tax Cuts and Jobs Act which enacted this tax rate has caused a decrease in the unemployment rate and has provided growth in the economy.

2. Did this case increase or decrease your interest in pursuing a career in the tax service line of public accounting? Explain your position.
This case increased my interest in pursuing a career in the tax service line of public accounting. The documentary, *Taxodus - Playing The Global Tax Avoidance Game*, was intriguing, and I learned a lot from watching it. I am interested in pursuing a career in the tax service line of public accounting because I want to be able to help people and companies understand the tax laws. I also learned so much about how multinational corporations operate and how their tax liabilities can change depending on how they structure their company. The articles I read, “More Jobs and Bigger Paychecks”, from the United States Department of the Treasury and, “Testimony: The Positive Economic Growth Effects of the Tax Cuts and Jobs Act”, from the Tax Foundation were also interesting, and I learned more about the effects of the Tax Cuts and Jobs Act. The combination of these articles and the documentary gave me a better understanding of the global tax system and how it operates.
CASE VI: Business Interview - Tony Huffman

Executive Summary

In this case, I interviewed Mr. Tony Huffman, a CPA in Jackson, Mississippi. I asked him many questions about his life and career. It was interesting to hear from someone who has started their own CPA firm, Huffman and Company, CPA. Tony grew up on various Navy bases and graduated high school in Pensacola, Florida. Tony went to college at Mississippi College, where he majored in Accountancy and ran track and cross country all while completing a work study. He graduated from Mississippi College with distinction, and he is in the Mississippi College Sports Hall of Fame. He started work for Ernst & Whinney after he graduated college and worked there for 7.5 years. He met his future wife, Laurie, at Ernst & Whinney. In January of 1991, the local accounting firm that Tony was working for closed, and Tony used this as an opportunity to start his own accounting practice, Huffman and Company, CPA. His accounting practice has been extremely successful and has over 1,400 clients and 10 employees. Tony has three children: David, Rob, and Sarah Avery. All his children have majored in Accountancy as well. Tony has been super involved and active in their lives, coaching them on various sports teams and supporting them throughout their lives. Tony enjoys running and ran post-collegiately. Tony almost qualified for the Olympic Trials, but he missed the qualifying time by 10 minutes. He has run four marathons in his life, and he was the overall winner of the Mississippi Marathon
in 1996. He is a co-founder of the Mississippi Blues Marathon. Tony’s favorite vacations are his annual family beach vacations. Tony has had a successful career in public accounting, and he helps his clients achieve their goals. He wishes he would have studied harder and earlier for the CPA exam, and he wishes he would have trained harder as a runner the first few years out of college, so he would have qualified for the Olympic Trials. One piece of advice he had was, “Always be open to opportunities”. He thinks that the biggest challenge for my generation is going to be finding a job that is not overtaken by technology. He said the biggest challenge for his generation is going to be taking care of their predecessor generation. One of the biggest influences in his life is Dr. Bo Roberts who was one of his professors at Mississippi College. Tony remains involved at Mississippi College and continues to promote running to people. I learned a lot about perseverance and making the most of every opportunity through hearing Tony Huffman’s life story.

1. **Tell me about your life growing up before you started college or your career.** Tony Huffman was born in Sanford, Florida which is just outside of Orlando, Florida. His dad was in the Navy for 20 years, and his family was stationed there when he was born. Tony lived in Illinois, Virginia, Guam, and many other places traveling to various Navy bases with his family. When he was 13 years old, his dad was stationed in Pensacola, Florida, as his final base station. Even when Tony was young, he was an entrepreneur; he mowed yards and performed various other jobs.

   Tony started his running career when he was a senior in high school and ran track. Tony graduated high school in Pensacola, Florida, from Tate High School in 1980. Then, he continued his running career at Mississippi College on a track scholarship where he majored in Accountancy and completed a work study.
2. **What were your college years like?**

   Tony enjoyed his college years at Mississippi College. He was disciplined and dedicated in his running and schoolwork. He would run 100 miles a week and train as well, and he studied four or five hours a night. He completed a work study and would work four or five hours a day. Tony also ran indoor and outdoor track and cross country. Tony is a hard worker and knows how to manage his time well. He said his college career was fun, but it went by too fast. Tony won several track conference awards. Tony’s senior year of college, May of 1984, he went to the Division Two Track and Field National Championship. ESPN covered the Track and Field National Championship that year, and Tony has a tape of his running in the National Championships. The fall of Tony’s senior year, he had a job secured with one of the big eight accounting firms at that time, Ernst & Whinney in the Jackson, Mississippi, office. Tony graduated Mississippi College with distinction and was an eight-time letterman.

3. **Did you know you wanted to do this when you went to college? If not, how did you decide to pursue this field of study?**

   Tony knew he wanted to major in Accountancy before he got to Mississippi College. When Tony was growing up, he always liked numbers and knew that he wanted to be an accountant.

4. **Walk me through your first jobs until where you are now. What important things did you learn at each position along the way?**

   Tony started his accounting career with Ernst & Whinney in Jackson, Mississippi, right after graduating from Mississippi College. Ernst & Whinney later became Ernst & Young.
Tony started in the tax department. During his time at Ernst & Young, he became an expert in expatriate taxation. He wrote an article for the *Tax Planning International Review* entitled, “State Planning for U.S. Expatriates”, which included information about how each state dealt with their U.S. taxpayers who lived overseas. After Tony wrote this article, he was offered a position with Ernst & Young in London to work on United States’ clients based out of London and Brussels. Tony left Ernst & Young in January of 1991, as a Tax Manager. He worked for a small office environment company in Jackson, Mississippi, for nine months. Then, he worked for a local accounting firm, and three months later this local firm closed.

In January of 1991, Tony had been laid off, so he decided to start his own accounting practice, Huffman and Company, CPA. While he was starting his firm, he would travel three days a week during the first year to Lexington, Mississippi, and work for a CPA there. Then, during the second year, he traveled to Lexington, Mississippi, one day a week for work. After his second year of starting his own practice, he had many clients.

Huffman and Company, CPA, now has over 1,400 clients and 10 employees. Tony said when he looks back to January of 1991, that, “The best thing that ever happened to me was being laid off in January of 1991 and opening up my own firm because I would never have probably done that on my own”. He never had any thoughts to open his own practice, but when he saw he had an opportunity to start his own firm, he did and succeeded.

After Tony opened his accounting practice, he realized that he enjoyed the practice of public accounting, and owning his own practice allowed him to have close relationships with his clients. He said, “I really enjoyed the practice of accounting, and I liked helping my clients”. Also, Tony said, “Sincerely, I’m more than just a CPA, I’m a counselor, I’m an
advisor, I’m a partner in people’s businesses”. He says his career has been fulfilling because he is so involved with his clients and helps them make critical life decisions.

Throughout his career in accounting, he says that the biggest change has been technology and the use of computers. When he started at Ernst & Whinney, they did not have computers; all his work was done by hand. Ernst & Whinney got computers about a year after he started working. He has seen the technology of a career in accounting change for the better; he said, “The advent of computers has made accounting more about knowledge of practice and application of laws”.

5. What has your life been like outside of work?

Tony met his future wife, Laurie, who graduated from Mississippi State in 1984, when she started working at Ernst & Whinney. Tony married Laurie on May 4, 1991. Tony has three children: David, Rob, and Sarah Avery. He coached all three of his children’s baseball and soccer teams. He has been actively involved in his children’s lives and continues to support them. He says that one of the biggest benefits of owning his own practice is that he never missed a game or an event, but he would sometimes have to work late to catch up on the work he needed to accomplish. Owning his own accounting practice gave him the flexibility to be an active parent, coach, and the ability to support his children in all their activities.

Tony was a competitive, sponsored runner outside of college. He was sponsored by what is now AT&T. He traveled all over the south to compete in races, and he represented the state of Mississippi in a couple of events. He is in the Mississippi College Sports Hall of Fame for track and field.
Tony was the overall winner of the Mississippi Marathon in 1996; he ran four marathons in his life, and this was his second marathon to run. He is one of the co-founders of the Mississippi Blues Marathon. Tony helped facilitate and manage the marathon for 10 years; he was able to get the Mississippi Blues Marathon sponsored by BlueCross BlueShield of Mississippi. He was also involved in the Mississippi Track Club, and he enjoys promoting running whenever he can.

6. **What has been the best vacation you’ve ever taken?**

The best vacation Tony ever took before he had children was the four months he lived in London, even though he was working. Laurie, his future wife, flew to London to visit him, and they got to spend time in London and Paris.

The best vacations Tony has taken since he had children have been his family’s annual trips to the beach. He will always enjoy the time they spend at the beach together. His family has also taken many ski vacations. One of his other favorite vacations was when he ran a marathon in Disney World.

7. **If you could change two things about your life, what would they be?**

Tony said that professionally, he would have studied harder and earlier for the CPA exam. Post-collegiately, he would have worked harder to be a better runner. He wanted to qualify for the marathon in the Olympic trials, but he missed the qualifying time by 10 minutes. If he could change anything, knowing what he knows today, he would have spent more time training to qualify for the Olympic trials.

8. **What do you wish you would have known when you were 21 years old about life and your career? What piece of advice would you share with me and my classmates?**
At 21 years old, he wished he would have known that passing the CPA exam was going to be much harder than he expected it to be. He would have liked to have been more prepared for the CPA exam. He also wished that he had really committed to his running, postcollegiately, to achieve some of his goals.

One piece of advice Tony shared was, “Always be open to what opportunities are out there; don’t assume that you’re not going to do something because life always has a different answer for you”. He never had any desire or thought that he would open his own accounting practice, but in January of 1991, it was the best opportunity for him. He said, “Be open to opportunities, even when you don’t know that they’re opportunities, and you don’t know what is going to become of it”. Tony is a great example of someone who used being laid off from his job in the best possible way he could by starting his own successful accounting practice.

9. What are you most proud of?

Tony is most proud of his three children. He is also proud of having an accounting practice that has been successful and thriving for 35 years.

10. What do you think will be the biggest challenge for your generation?

Tony said that the biggest challenge for his generation will be taking care of their predecessor generation.

11. What do you think will be the biggest challenge for my generation?

Tony said that the biggest challenge for my generation will be finding a career that is not overtaken by technology. There are jobs right now that might not exist in 15 or 20 years. The biggest challenge for my generation will be finding a career that will exist 30 years from now.
12. Who has been one of the biggest influences in your life?

Tony discussed how Dr. Bo Roberts has been one of the biggest influences in his life. Dr. Roberts was Tony’s management professor at Mississippi College, and he had a significant impression on Tony. They have remained friends, and Tony values his opinion. Dr. Roberts had a significant influence on Tony’s career.
CASE VII: Case Competition - Overview

Intel Corporation Group Members: Shivani Chaudhary, Davis Judd, Olivia Meyer, & Josh Pearson

Executive Summary

Our task for the week was to choose a company to research and summarize the state of the company. We chose Intel Corporation and discovered a lot of information about the financial state of Intel. Founded in 1968, Intel has grown into the world’s largest semiconductor chipmaker; they develop advanced integrated digital technology platforms for the computing and communications sectors. Their major investments in U.S. plants include their facilities in Chandler, Arizona, and Hillsboro, Oregon. Currently, Intel has over 100,000 workers with over half of the workers located in the United States.

As a designer and manufacturer of microprocessors, motherboard chipsets, integrated circuits, flash memory, graphic chips, and embedded processors, Intel plays a substantial role in the semiconductor and circuit manufacturing industry in the U.S. This U.S. industry has revenue of $47.5 billion. The industry's annual growth from 2015-2020 was around -1.3 percent and expected growth of 2.4 percent from the years 2020-2025 includes $2.4 billion in profits at a 5.1 percent profit margin. The industry includes 688 businesses and employs 89,642 people.

The United States remains a leading exporter of semiconductor products with semiconductors being the nation's third-largest export. These exports are the largest segment for the industry's revenue in the United States due to companies like Intel that have major manufacturing operations in the United States. This is expected to decline as major tech companies continue to move their production facilities overseas. As technology continues to
advance, semiconductors are becoming more and more vital in a variety of products. This will increase the demand for semiconductors, and Intel has derived an increasing share of the revenue from this innovation. Although there are high barriers to entry in this industry, globalization and competition continue to climb.

The revenue for the year, 2020, set company records by rising 8 percent from 2019, reaching $77.9 billion. Also, a record for the company, in 2020 they generated a combined $56 billion from operations and free cash flow. The residual net income for the company was $149 million less than the previous year. During the year, they invested $13.6 billion in research and development.

On July 23, 2020, Intel stock took a massive drop from a share price of $60.40 to $50.59. The stock fluctuated around $50 a share for the rest of the year. Overall, Intel stock dropped 18 percent during 2020. These drops led to the decision to bring in new management, so they replaced Bob Swan with Pat Gelsinger as the new CEO. Gelsinger worked for Intel as the CTO before leaving Intel in 2009. He is currently the CEO of VMWare, but will rejoin Intel on February 16, 2021, as the new CEO. They also appointed Sunil Shenoy as Senior Vice President and General Manager of the Design Engineering Group, effective February 1, 2021. The stock price has risen in January of 2021 due to these new management decisions as well as the CES conference earlier this week where Intel announced the launch of over 50 new processors.

Intel is hoping its new processors, as well as new management, will bring the company back into the forefront of the industry. They expect two of their new 50 processors to lead the way. The first processor is the 11th Gen Intel Core vPro which has no rivals as a business platform because of the increased efficiency versus its competitors. The two big draws of this chip are its inclusion of the first silicon-enabled Artificial Intelligence threat detection unit as
well as Intel Control Flow Enforcement Tech. These two pieces, in unison, can shut down an entire class of cyber-attacks that are unable to be stopped by software-based securities. Their other new flagship processor is the 11th Gen Intel Core H-Series Mobile Processor, which is expected to revolutionize gaming laptops. Playing video games on a PC is usually better than playing on a gaming laptop, but this new processor aims to close the gap. It will allow gaming laptops to have much better graphics as well as lessen any lag or crashes. More than 40 new laptop designs have been announced to be released in 2021 with this new processor from top gaming laptop companies.

Intel recently announced a $475 million investment in Intel Products Vietnam (IPV), the largest assembly and test manufacturing facility in Saigon Hi-Tech Park (SHTP). This is also the largest U.S. high tech investment in Vietnam. Furthermore, Intel is also involved in the manufacturing of silicon photonics used in the development of lidar system-on-chip for Mobileye use in Automated Vehicles (AV). Mobileye is set to manufacture AV beginning in 2025. Industry experts think that Mobileye could be a competitor for big Electric Vehicle (EV) companies like Tesla.

We learned that Intel is more than just a technology company. Intel is the only United States’ based manufacturer of semiconductors with involvement in a wide range of sectors from financial markets to vaccine development. Intel is focused on using its processors and hardware to impact every sector of life. The recent innovations and management changes are promising for success in the upcoming years.
CASE VIII: Case Competition - Audit

Intel Corporation Group Members: Shivani Chaudhary, Davis Judd, Olivia Meyer, & Josh Pearson

Executive Summary

This week we analyzed Intel Corporation’s 10-K, which gives a comprehensive report of the financial condition of the company for the year 2020. We checked the balance sheet and income statement account’s balances, read the footnotes, and compared recent and present year records. We entered our conclusions of the accounts into a grid, checking for and describing the risks of existence, completeness, valuation, and presentation we found relevant for the account.

Based on our analysis of Intel Corporation’s 10-K, we decided the six riskiest accounts on Intel’s 2020 10-K are Other Accrued Liabilities, Debt, Assets Held for Sale, Trading Assets, Short-Term Investments, and Net Equity Investments. With these accounts, we described the risks associated with possible misstatements, which ranged from unexplained values to tax discrepancies. Once the risks were identified, we listed two forms of internal controls that could be used to mitigate the risk of misstatement, such as having high-level employees check over information. To ensure an account is not misstated, we suggested tests the auditor could use to validate information. We also gave recommendations for how Intel Corporation could make the process of auditing the specific accounts we listed more efficient by using data analytics, such as data filtering and automatic processes.

After completing this week’s objectives, we learned more about the 10-K form and how it presents information about a company’s financial situation. By comparing the current year’s values for each account to the values of last year’s account, we were able to observe trends and
changes, such as how Intel Corporation’s short-term investments doubled between the periods. We found that much of the information we deemed important was located within the footnotes, rather than in the consolidated financial statements, which would create challenges for potential investors and current investors who are trying to understand the overall financial position of Intel Corporation. After completing our audit of Intel Corporation’s 2020 10-K, we have a better understanding of the entire company.

Other accrued liabilities are risky because information is scattered, so there is a presentation issue. The presentation did not give specific details of what is included in other accrued liabilities. The short-term portion of contract liabilities ($508 million as of December 26, 2020, and $673 million as of December 28, 2019) is reported on the consolidated balance sheets within other accrued liabilities. We recommend having an external firm assess the fair value of other accrued liabilities to validate that it is the same fair value as a control measure. We would also segregate the duties of how we analyze these liabilities. Intel Corporation should make one department handle the negotiations, while one department should handle the payments. The tests of transactions to audit include confirming liabilities with lenders and comparing other accrued liabilities with the contracts of lenders or suppliers from previous years. We recommend using data filtering to streamline the account’s audit process.

Risk is associated with debt because of the presentation of debt. Many investors and creditors look at financial ratios to determine whether to lend or invest as well as terms for lending, so misstating debt, which is important, could be a way to get better loan terms or wider access to capital. We recommend having senior or other high-level employees check if the bank account or address that money is being sent to is the correct account or address and is not fictitious. Another important measure is to check if new recipients are being added to the lists of
bond holders or check other debt instruments where money is being dispersed to a large number of people. They should review new leases to determine if debt should be recorded, confirm debt with lenders, and summarize and test debt covenants. We recommend using data filtering to streamline the audit process for debt, so the company could filter specific information about their debt including dates, amounts, and companies.

Assets held for sale went from $0 to over $5 billion in a year. There is potential of a valuation issue because of this rapid increase in assets held for sale. We recommend having third party firms periodically value some of the assets held for sale to ensure they are listed at the correct value. In addition, they should test for impairment annually to see if the market price of the assets held for sale has changed materially. They should also test to ensure the asset is no longer in use. We recommend a data process that would simplify the process of evaluating assets held for sale that would include comparing the asset to its book value, fair value, and the value of similar assets that have been sold recently.

Trading assets are risky, and we discovered existence, valuation, and presentation issues. With the sharp increase of trading assets, many investors may be led to believe that Intel Corporation has more capital than it actually possesses. Intel Corporation needs to make sure that no employee can purchase trading assets for Intel from companies that they have a significant stake in to avoid conflicting interests. Intel should check to see that each company that it has stock in or other forms of trading assets in is a real company. We recommend using data analytics to obtain better valuation measures (level one) for trading assets.

Short-term investments are one of the riskier assets for Intel Corporation because of valuation issues. The short-term investments more than doubled from 2019 to 2020. All the values for short-term investments are listed under level two. Any withdrawal of funds or sale of
short-term investments should go through two different senior level employees who authorize and ensure that the money is the correct amount going to the correct account as a control measure. Intel Corporation also should have a set standard of what classifies an investment as short-term and have continual checks to verify the investments are classified correctly. We recommend that Intel Corporation checks on the models and the methods used to arrive at level two valuations. Data analytics can provide better and more accurate valuations and predictions for short-term investments by analyzing past data which allows a better fundamental and technical analysis of these short-term investments.

Net gains and losses on liquidated equity investments are also risky for Intel Corporation because of their presentation and completeness issues. Intel Corporation might be hiding extra expenses as losses on equity investments which would show a misstatement of gains or losses on investments and would lower the net income. Any sale of an asset should be approved by two different managers to make sure that ratios are not changed ahead of reporting data. Intel Corporation should test for impairments on any long-term investment. We recommend using algorithms and automation to check the amounts of gains or losses on equity investments. Intel Corporation should also use predictive analytics techniques to calculate losses or gains resulting from equity investments, since equity investments are highly volatile.
CASE IX: Case Competition - Tax

Intel Corporation Group Members: Shivani Chaudhary, Davis Judd, Olivia Meyer, 
& Josh Pearson

Executive Summary

For week three of the case competition, we were assigned to read descriptions of tax provisions and credits that would affect the tax liability of corporations across the United States, including our company, Intel Corporation. We read about the Tax Cuts and Jobs Act, with provisions such as BEAT. BEAT was created so multinational corporations will keep profits within the nation and pay the taxes they owe to the United States’ government. Another provision to make sure corporations pay their fair share of taxes is GILTI (global intangible lowtaxed income). GILTI creates a minimum of 10.5 percent tax on the income made from foreign corporations that is brought back into the United States. These tax provisions make sure corporations will still be paying high minimum payments even with the lower tax rates the corporations have found outside of the United States.

We also read an article about the CARES Act, which is expected to be beneficial to most businesses. The CARES Act allows businesses to carry back any net operating losses (NOL) generated in 2018, 2019, or 2020 for a maximum of five years and obtain refunds of taxes paid in prior years.

After our readings, we researched corporate tax credits that were specific to Intel Corporation, including tax credits for the semiconductor industry as a whole. One article stated how corporate taxes are likely to change under the Biden administration and how these changes would impact Intel Corporation. After reading and researching, we gained knowledge about the
current tax status and possible changes that could occur under Biden’s administration. This research helped us understand how to provide tax strategy advice to Intel Corporation.

We looked at strategies to minimize the tax liability and increase savings for Intel Corporation, which gave us a deeper understanding of what we might do to help our future clients. We recommended that Intel Corporation reincorporate in Wyoming for advantageous tax purposes. We also recommended that Intel Corporation invest in retooling as part of their tax plan. This investment would allow Intel Corporation to become more competitive in the manufacturing chip industry and would allow Intel Corporation to take advantage of the 10 percent tax credit proposed by Biden for creating jobs in America.

One of our recommendations for Intel Corporation is to reincorporate Intel Corporation in the state of Wyoming which would be advantageous for tax purposes. Intel Corporation is currently incorporated in Delaware which has a corporate income tax rate of 8.7 percent, whereas Wyoming has no corporate income tax or gross receipts tax. We suggest an “F Reorganization”, which is tax-free under IRS Section 368(a)(1)(F), which would entail starting a new corporation under the same name in Wyoming. An “F Reorganization”, is considered a formality and allows the new company to retain the same employer identification number and tax attributes, which will keep Intel Corporation from any tax difficulties after reincorporation. The outside fee Intel would incur is $100 incorporation fee the state charges to start the new Intel Corporation. While other states change the cost of incorporation based on the volume of issued shares, Wyoming does not.

After the “F Reorganization”, we would merge the current Intel Corporation that was incorporated in Delaware with the newly incorporated Wyoming Intel Corporation. Intel would need to file a certificate of merger stating that both Intel Corporations will merge and state that
the Intel Corporation incorporated in Wyoming will be the surviving Intel Corporation. After
calculations, we found that this move would save Intel Corporation $46 million in 2020, which
would be greater than the incorporation and merging costs Intel Corporation incurred. Delaware
has an 8.7 percent state income tax, but Intel Corporation in previous years has paid just under
one percent. The state income taxes for Intel Corporation in Delaware have risen in the last three
years due to one-time benefits expiring. If Intel Corporation moves to Wyoming, it would save
them roughly $50 million in the early years, but could also save the company time attempting to
receive benefits and credits for state income taxes in years to come. Although much of the
semiconductor industry has moved manufacturing plants overseas, proposed plans by President
Joe Biden include an added 10 percent surtax on any profits of goods manufactured overseas and
sold to United States’ markets, making it more advantageous to just move states. This additional
10 percent tax comes along with the proposed minimum 15 percent tax making the potential
consequences of moving overseas more advantageous than the positive tax rate decrease.

The table below shows the difference between state income taxes for Intel Corporation in
Delaware and Wyoming.

<table>
<thead>
<tr>
<th>State Income Taxes in Delaware for 2020</th>
<th>$46 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential State Income Taxes in Wyoming for 2020</td>
<td>$0</td>
</tr>
</tbody>
</table>

President Joe Biden has proposed a 10 percent tax credit to companies who create jobs
for Americans. The retooling of plants for more efficient production, which is an important step
in increasing American competitiveness, is included in the requirements for the tax credit.
Intel Corporation is the leading American company in designing and manufacturing microprocessors, recently releasing 10-nanometer chips. While it was announced that these chips would be released in 2017, they are currently being mass produced. Intel Corporation is trying to make their chips even smaller, shrinking them to seven nanometers. The issue with creating such small chips is that a minuscule error can cause the chip to no longer be viable. Defects in microchips are always going to be an issue, but Intel Corporation’s factory in Hillsdale, Oregon, is encountering defects too often to mass produce them. This has allowed the Taiwanese Semiconductor Manufacturing Company to overtake Intel as the leading chip producer. The Taiwanese Semiconductor Manufacturing Company only focuses on production and not design of chips. If Intel Corporation invested in retooling their factory in Hillsdale, Oregon, they could remain competitive in manufacturing their chips, as well as take advantage of the 10 percent tax credit that the Biden administration has proposed. The Creating Helpful Incentives to Produce Semiconductors for America Act was created with the intention of increasing United States’ semiconductor manufacturing by giving a 40 percent refundable federal tax credit for semiconductor manufacturing facilities and equipment.

The table below shows the difference in the federal income taxes for Intel Corporation with retooling.

<table>
<thead>
<tr>
<th>Current Federal Income Taxes in 2020</th>
<th>$2,489 Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Income Taxes after retooling the Hillsdale, Oregon plant</td>
<td>$943 Million</td>
</tr>
</tbody>
</table>
Executive Summary

This week we were charged with answering questions about Intel Corporation’s operations. We discussed Intel Corporation’s core business, where they conduct business, generate revenue, and have manufacturing facilities and corporate headquarters. We learned Intel Corporation’s stated business mission and strategy. We researched Intel Corporation’s customers, suppliers, and strongest competitors.

We used Excel to display charts for the past five years for Intel Corporation’s revenue, cost of goods sold, selling, general, and administrative expenses, operating income, assets, liabilities, return on assets, profit margin, and asset turnover. We identified two threats to Intel Corporation’s success and gave two suggestions on how to combat these threats. We fully developed a plan and discovered the effects on revenue, cost of goods sold, selling, general, and administrative expenses, operating income, assets, and liabilities. We recomputed the return on assets, profit margin, and asset turnover for the next five years and found that our solutions positively impacted all of these ratios.

After our research this week, we learned how to positively impact Intel Corporation by making suggestions that would impact their return on assets, profit margin, and asset turnover for the upcoming five years. This week taught us more about the financial state of Intel Corporation in the previous five years and gave us information to forecast the financial state for the upcoming five years.
We suggested that Intel Corporation invest in retooling to remain competitive in the market. We also suggested that Intel Corporation start a program that would allow the company to hire the best new talent from master’s programs. If Intel Corporation incorporates our suggestions into their business model, Intel Corporation will be more financially successful and more successful in their market.

Intel Corporation is a global entity whose core operation is designing and producing semiconductors. Intel Corporation’s strategy is to manufacture products that will increase the success of their customers. To build their semiconductors, Intel Corporation has thousands of suppliers and many distributors that sell their finished products. Their three largest customers, making up 39 percent of their net revenue in 2020, include Dell Inc., Lenovo Group Limited, and HP Inc. Intel Corporation has many competitors. Their biggest design competitor is American Micro Devices (AMD), and their biggest competitor in the actual manufacturing of chips is Taiwanese Semiconductor Manufacturing Company (TSMC).

Intel Corporation’s headquarters are in Santa Clara, California, and they are incorporated in Delaware. In North America, they have factories in Hillsboro, Oregon; Rio Rancho, New Mexico; and Chandler, Arizona. Their international manufacturing locations are in Israel, China, and Ireland. Intel Corporation’s strategy focuses on customer success. By investing in themselves, they believe they can strengthen the corporation through other investments and acquisitions, providing returns to stockholders and increasing net revenue.

Intel Corporation needs both suppliers of components and distributors to deliver the completed products to customers. Intel Corporation has thousands of suppliers including Advanced Semiconductor Materials Lithography. They have 10 trusted distributors in the United States and abroad.
States that sell processors, server products, and other components from Intel Corporation to their customers. Intel Corporation has two primary operating segments. One operating segment targets a Data Center Group, and one operating segment targets a Client Computing Group. Intel Corporation’s three largest customers, accounting for 39 percent of their net revenue in the year 2020, were Dell Inc., accounting for 17 percent of their revenue, Lenovo Group Limited, accounting for 12 percent of their revenue, and HP Inc., accounting for 10 percent of their revenue.

Intel Corporation has two major competitors in the two fields they occupy. Intel Corporation is the largest integrated semiconductor manufacturer, so they design and manufacture their microprocessors. Their biggest design competitor is AMD, American Micro Devices, which solely focuses on chip design. In the last six months, AMD has started gaining some of Intel Corporation’s market share. Intel Corporation’s largest manufacturing competitor is the Taiwanese Semiconductor Manufacturing Company (TSMC), a company that focuses on manufacturing semiconductors and microprocessors. Most design companies, including AMD, use TSMC to manufacture their products. Intel Corporation produces chips that are used in larger devices, but AMD produces chips for computers.

Intel Corporation is unable to create their own chips at the seven-nanometer level and is currently designing chips to be produced at the five-nanometer level. On the other hand, TSMC, their biggest competitor in the manufacturing sector, is currently creating chips at the seven-nanometer level and is trying to make their chips even smaller. Intel Corporation does not have enough machines to produce all their technology. Production delays in their 10-nanometer CPU chips have led to delays in all their CPU products being shipped. This supply chain issue led to
AMD signing a new deal to provide their chips to Lenovo Group Limited, Intel Corporation’s second largest customer in 2019. AMD stock increased by 83 percent in 2020, while Intel Corporation’s stock only increased by eight percent. To combat this, Intel should invest in buying new state-of-the-art ASML’s TWINSCAN NXE:3400B. These machines can produce chips at the seven-nanometer and five-nanometer level, which would allow Intel Corporation to produce their current designs, as well as produce the next generation of chips.

TSMC is currently planning to build a factory in Arizona under a wholly owned subsidiary that will be ready to start production in 2024 and will have the capacity to create both seven-nanometer and five-nanometer chips. This new subsidiary could allow them to bid on government and military contracts. If Intel Corporation has the same capabilities as the new TSMC, Intel should be able to get government contracts. Intel Corporation’s acquisition of these machines will allow them to produce their smaller chip designs as well as use older machines to produce CPU chips at the 10-nanometer level. This will solve their inability to manufacture their own chips, as well as the supply chain issue.
This graph shows Revenue for the previous five years.

![Revenue Graph](image)

This graph shows COGS for the previous five years.

![COGS Graph](image)
This graph shows SG&A Expenses for the previous five years.

This graph shows Operating Income for the previous five years.
This graph shows Total Assets for the previous five years.

![Total Assets Graph]

This graph shows Total Liabilities for the previous five years.

![Total Liabilities Graph]

This graph shows Profit margin for the previous five years.
This graph shows Return on Assets for the previous five years.

This graph shows Asset turnover for the previous five years.
One of the strategies of Intel Corporation is to provide consistent returns to stockholders and increase net revenue on a yearly basis. From the analysis of Intel Corporation’s revenue over
the past five years, we see that Intel’s revenue has an increasing trend. However, its cost of goods sold and other expenses have been increasing at a faster rate than the increase in revenue, which is shown by their declining profit margin since 2018.

If Intel Corporation does not retool, there is a risk of losing Lenovo Group Limited, a company that contributed 12 percent, or $2.4 billion, of Intel Corporation’s revenue in 2020. To combat this issue, the best solution would be to purchase ASML’s TWINSAN NXE:3400B machines, which cost $120 million per machine, but these machines would be able to produce the new generation of chips at a rate of 125 chips per hour. Intel Corporation does not need to retire old machines, as they will still be producing other chips. Production will be increased, so we expect an increase in revenue.

In 2020 Intel Corporation held 15.6 percent of the market share for the semiconductor market worldwide. The worldwide semiconductor sales for 2020 were $1,036.3 billion. The chip manufacturing machine costs $120 million per machine. The machines will be purchased on a 2.42 percent long-term debt agreement. The three machines would cost a total of $360 million. If each machine produces 125 chips per hour and works constantly, each machine would produce 1.095 million semiconductors.

This table shows the projected changes based on retooling for Revenue, COGS, SG&A Expenses, Operating Income, Assets, Liabilities, Return on Assets, Profit Margin, and Asset Turnover.
<table>
<thead>
<tr>
<th></th>
<th>Revenue (in millions)</th>
<th>COGS (in millions)</th>
<th>SG&amp;A Expenses</th>
<th>Operating Income (in millions)</th>
<th>Assets (in millions)</th>
<th>Liabilities (in millions)</th>
<th>ROA</th>
<th>PM</th>
<th>Asset TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>645,000</td>
<td>300,000</td>
<td>0</td>
<td>345,000</td>
<td>360</td>
<td>360</td>
<td>0.0009</td>
<td>53.5%</td>
<td>0.00179</td>
</tr>
<tr>
<td>2023</td>
<td>661,125</td>
<td>307,500</td>
<td>0</td>
<td>353,625</td>
<td>144</td>
<td>368.712</td>
<td>0.0024</td>
<td>53.5%</td>
<td>0.000459</td>
</tr>
<tr>
<td>2024</td>
<td>677,653</td>
<td>315,187</td>
<td>0</td>
<td>362,466</td>
<td>57.6</td>
<td>368.712</td>
<td>0.0062</td>
<td>53.5%</td>
<td>0.0118</td>
</tr>
<tr>
<td>2025</td>
<td>711,535</td>
<td>330,946</td>
<td>0</td>
<td>380,589</td>
<td>23.040</td>
<td>368.712</td>
<td>0.016</td>
<td>53.5%</td>
<td>1.870</td>
</tr>
<tr>
<td>2026</td>
<td>747,111</td>
<td>347,494</td>
<td>0</td>
<td>399,617</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>53.5%</td>
<td>0</td>
</tr>
</tbody>
</table>

Intel Corporation is a leader in the semiconductor industry, and to continue being a leader, Intel Corporation needs to continue hiring the best talent. If Intel Corporation hires the best talent, Intel’s innovation will grow at a faster rate, which would allow Intel Corporation to have a competitive advantage in the industry. We suggest the company offer programs and scholarships to top electrical and computer engineering students in the United States working towards their master’s degrees. The goal of this program is to have the top students from various universities working at Intel Corporation after graduation. Though it would create the financial liability of sponsoring the students, the intended effect of growth from innovations they would
provide in the future would far outweigh the costs. These effects would not be immediate, but are predicted to be seen in three years, after the students have graduated and started working fulltime. The only condition of the scholarship is that students will be required to work for Intel for at least three years after graduation. Intel Corporation would pay full tuition for each student for the two years they will be enrolled in their master’s programs.

At an expected tuition of $55,000 per year per student, the company would choose 50 students a year. The costs would be around $5.5 million, which would cover the tuition costs for these students for two years. These costs would be worth the new innovations Intel Corporation would receive from these new employees with their knowledge of semiconductors. $5,250 of each scholarship can be written off each year, making the final estimated cost per student $99,500. Beginning in the third year, we expect the first group of students to begin working, which will increase yearly revenues by an additional one percent, with half the revenues being kept as assets.

This table shows the projected changes based on the master’s students for Revenue, COGS, SG&A Expenses, Operating Income, Assets, Liabilities, Return on Assets, Profit Margin, and Asset Turnover.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (in millions)</th>
<th>COGS (in millions)</th>
<th>SG&amp;A Expenses (in millions)</th>
<th>Operating Income</th>
<th>Assets (in millions)</th>
<th>Liabilities (in millions)</th>
<th>ROA</th>
<th>PM</th>
<th>Asset TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022</td>
<td>0</td>
<td>0</td>
<td>2.487</td>
<td>-2,487,500</td>
<td>0</td>
<td>2.487</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Case XI: Case Competition - Earnings, Stock Price, and Analysis

Intel Corporation Group Members: Shivani Chaudhary, Davis Judd, Olivia Meyer, & Josh Pearson

Executive Summary

This week we were asked to look at historical, current, and prospective stock trends for Intel Corporation. We learned the stock’s closing price on the last day of the fiscal year, the Price-to-Earnings ratio as of the last day of the fiscal year, and the stock’s closing price from today. We learned about ratio analysis and how to convert the raw data from a company into
usable trend numbers. We learned how to compute future stock prices using the earnings multiplier valuation approach. We looked at the risk of each of our ventures as well as Intel Corporation’s overall risk with regards to their beta. This week included the research we had completed in previous weeks, and we used financial analysis to show how our previous tax and advisory solutions brought measurable changes to Intel Corporation’s net income.

Using Yahoo Finance, we found information such as beta, analyst information, forecasted growth rates, and recommendations about the stock. With a beta of .67, Intel Corporation’s stock is less risky than other stocks on the stock market. This year Intel Corporation has 36 analysts, and next year Intel Corporation is projected to have 34 analysts. For the current quarter, next quarter, and current year, the forecasted growth rates are negative, but the growth rates are projected to become positive next year. Professionals recommend buying Intel Corporation stocks, which is attributed to the fact that current growth is negative but becomes positive, making prices lower now, but with the expectation of higher prices in the future.

The net income will change during the next five years, but the common shares outstanding will remain the same. We collected forecasted Return on Assets (ROA) from previous weeks’ tax and advisory strategies which had a positive trend. This data combined with other recent positive news about Intel Corporation lead to a buy recommendation for our clients. We finally assessed the impact of our investment recommendation on our client’s portfolio risk and return. This week allowed us to have a better understanding of Intel Corporation’s stock.

Intel Corporation’s stock closing price on the last day of the fiscal year, December 26, 2020, was $47.07. The Price-to-Earnings ratio as of the last day of the fiscal year was 9.45, indicating that our current stock price may be low relative to the earnings it provides. The stock’s closing price was much higher today, February 24, 2021, at $63.19.
Intel Corporation’s beta is 0.67. Beta shows the volatility of stock related to the market. Since the beta is less than one, the stock is not very risky. Intel Corporation has 33 analysts in this quarter, 32 analysts next quarter, 36 analysts in the current year, and 34 analysts next year. The growth rate is -23.40 percent for the current quarter, -8.90 percent for the next quarter, 10.60 percent for the current year, 2.30 percent for the next year, and 5.43 percent for the next five years. The recommendation for investors in Intel Corporation is to buy the stock.

The earnings report for 2020 showed unchanging numbers compared to previous years. Intel Corporation stock increased in January after they announced a new CEO, Pat Gelsinger, an engineer who had worked for Intel Corporation for over 30 years. The stock fell again with the announcement of additional delays in their seven-nanometer chips. With Intel Corporation outsourcing part of their semiconductor production to Taiwanese Semiconductor Manufacturing Company (TSMC), companies like Apple and Microsoft have begun to make their own chips or outsource directly to TSMC, which has lowered Intel Corporation’s stock. The incoming CEO, Gelsinger, has reassured everyone that Intel Corporation will continue to manufacture the majority of their chips.

Common shares outstanding will not change if outstanding shares are bought from other shareholders. However, if the shares are bought from Intel Corporation’s issued shares directly, then it will impact the company’s shares outstanding. Intel Corporation will have more cash available for investments which will eventually turn into increased profits for the company. Over the recommendation horizon, the net income will change, but the common shares outstanding will remain the same. For 2022, the expected stock price is $56.32, for 2023 the expected stock price is $51.60, for 2024 the expected stock price is $53.36, for 2025 the expected stock price is $55.66, and for 2026 the expected stock price is $58.40.
For 2022, we expect an increase in the stock price with our recommendations by 19.65 percent from the closing price at the end of the fiscal year for 2020. Over five years, we expect the stock price to increase 24.07 percent from the closing price at the end of 2020. Our recommendation to recruit master’s students expects a 19 percent ROA over the next five years. This is higher than Intel Corporation’s ROA in 2020. For the retooling project, the ROA does not look favorable. This is due to not being able to encapsulate the full opportunity cost of the project. As we have discussed in previous weeks, Intel Corporation has been losing to their competitors. Lenovo Group Limited recently gave a contract for a new line of laptops to AMD, a competitor to Intel Corporation. Lenovo Group Limited accounted for 12 percent of Intel Corporation’s revenue in 2020. If Intel Corporation is not able to fix their supply chain issues as well as manufacture smaller chips, they will lose more to their competitors.

Overall, our increase in stock price and overall ROA will have a positive trend. This will give Intel Corporation a better position financially and in the industry. Intel Corporation will become slightly riskier due to an increase in debt for the purchase of the new lithography machines. This increase in debt should be offset by the new Biden administration’s focus on helping domestic chip manufacturing. Today, President Biden signed an executive order for a team from the White House to look at the supply chain of domestic chip manufacturing for the next 100 days. During those days, their task is to provide recommendations for how the United States’ government can help with these supply chain issues and keep the United States’ domestic chip manufacturing viable. With Intel Corporation being the predominant microprocessor manufacturer in the United States, it should benefit from this executive order making Intel Corporation stronger domestically and internationally.
AMD has outsourced all of its seven-nanometer chip production to TSMC and has little domestic chip production. If Intel Corporation can become competitive in making these smaller microprocessors using our recommendations, they will be in a strong position to capitalize on the growing demand for these microprocessors.

The expected ROA for the retooling strategy is 0.0009 for 2022, 0.0024 for 2023, 0.0062 for 2024, and 0.016 for 2025. Similarly, the expected ROA for the master’s program is 1.95 for 2024, 1.97 for 2025, and 1.99 for 2026. Although ROAs are not as high as expected, ROAs from both strategies have a positive trend. Retooling will help Intel Corporation stay competitive and increase the market share in the semiconductor industry. The client’s investment decision will depend upon risk averseness and the level of return expected over time. Our investment strategy to buy the stock will help our client attain a consistent capital stock geometric mean appreciation of 3.7 percent annually.

To fully evaluate the cost of capital and beta of the client’s portfolio, we would need additional details of the client’s overall portfolio. We can calculate the weighted average of the betas of the portfolio of stocks the client has to calculate the new beta. The beta of Intel Corporation is less than 1, so we also expect the weighted average of the beta of our client’s portfolio to decline. In addition, the client will be faced with systematic risk and unsystematic risk throughout the investment period. With our proposal of granting scholarships for master’s degrees and retooling, the client will be faced with a medium to high degree of firm-specific risk. However, the commensurate gains from the investment are positive and grow consistently which makes Intel Corporation a better investment than other companies.
Case XII: Financial Crisis of 2008

Executive Summary

In this case, we learned more details about the financial crisis of 2008. I watched two YouTube videos, a documentary, and read two articles. All these materials had insights about the government and the economy. The first YouTube video was about crony capitalism and the effects of crony capitalism on society. The second YouTube video was an interview with Dr. Thomas Sowell who discussed his opinions on the housing crisis. The third material was a documentary called Inside Job which was split into five parts and provided a history of the
housing crisis. The first article I read was, “Recipe for Disaster: The Formula that Killed Wall Street”, which discussed the Gaussian copula function that resulted in a large number of collateralized debt obligations being sold with high credit ratings of AAA. The last article I read was, “The Great American Bubble Machine: From tech stocks to high gas prices, Goldman Sachs has engineered every major market manipulation since the Great Depression-- and they’re about to do it again”. This article discussed five different bubbles in which Goldman Sachs played a role.

My beliefs about my role in society both professionally and personally have been affected. I might work for an accounting firm that has large corporations as clients. I want the information that we provide to be accurate for all the investors in the companies.Personally, I know that I will always be held accountable for my work.

There also are parallels between the political landscape that brought on the financial crisis and our current political environment. People then and now have strong opinions on how much regulation the government should have. We can also learn many lessons from this financial crisis to help us avert future financial crises and other crises. Everyone saw that the stock market can rapidly decline, and we all saw this recently when the coronavirus pandemic started last year. It is important know that there can be rapid changes in the stock market. Also, this financial crisis taught people that mortgage-backed securities and other collateralized debt obligations can be very risky. I learned more about credit default swaps, collateralized debt obligations, and other types of securities after this case.

I learned more about the financial crisis of 2008 after watching and reading all the materials. The first YouTube video was about crony capitalism. Crony capitalism is when the government buys from industries which support them by lobbying. Crony capitalism, according
to Jake Cost from Prager University, is immoral. He thinks the three problems with crony capitalism are that it is unfair, wasteful, and tempts politicians to break the law. Jake Cost also gave examples of how crony capitalism costs society tens of billions of dollars. This video discussed how an entire industry could essentially be a client of the government which effects the economy. If the government chooses to buy from a company that is more costly because that company lobbied the committee or gave funds for campaigns, according to Jake Cost, this distorts the broader economy and wastes taxpayers’ money.

The next YouTube video was an interview with Dr. Thomas Sowell who provided his opinions on the cause of the 2008 financial crisis. Dr. Thomas Sowell discussed how the economic problem of people not paying their mortgages started a problem in the financial sector. Dr. Thomas Sowell expressed his opinion that mortgages were a safe investment before the government got involved in mortgages.

The documentary Inside Job narrated by Matt Damon provided a history of the economy. Following the Great Depression, the United States had about 40 years of economic growth, and in the 1980s the financial industry greatly increased because investment banks went public. This started 30 years of financial deregulation. In the late 1990s, the financial sector consolidated into a few massive firms. This consolidation allowed the investment banks to gain power over the entire financial industry.

One financial instrument that was particularly important during this time was derivatives. Derivatives made the markets unstable, and banks heavily relied on derivatives. In May of 1998, there was a proposal to regulate derivatives which would have helped stop the sale of derivatives. Brooksley Born, who was the head of the Commodity Futures Trading Commission in 1998, advocated for more regulation of derivatives trading, but many investment banks were not in
favor of more regulation. Then in 2000, the Commodity Futures Modernization Act was passed that allowed banks to trade default swaps freely.

There were people who recognized the risks and knew that these collateralized debt obligations were risky. In 1998, Paul Wilmott wrote how the correlations made in the Gaussian copula function were unstable, and the parameters were unpredictable.

The financial crisis could have been avoided if lenders did not lend to people who did not pay them back. In previous years, a person had to make a down payment on their home and have a good credit rating to get a mortgage. Mortgages used to be safe investments because the borrower made payments directly to the lender. Now, the lender would sell bundles of mortgages to investment banks which would then sell the mortgage that was collateralized to investors. From 2000-2003, loans made each year nearly quadrupled because of the ability to sell the mortgages to investors. The amount of loans that were made was concerning for the entire economy, and it was even more concerning considering that a large amount of these loans would eventually default.

Investment banks preferred subprime loans because they had higher interest rates. These higher interest rates made the investment banks more money. Subprime loans increased to over $600 billion in six years. These subprime loans still received AAA ratings because they were bundled with so many other things. The buyers of the bundled mortgages were not aware that their loans were actually risky because they relied on the AAA rating of the investment. Investment banks were borrowing a lot of money to create more loans and collateralized debt obligations. Part II of Inside Job discusses the creation of the housing bubble. During this time, lots of people were getting mortgages. On April 28, 2004, the Securities and Exchange Commission allowed the limits on leverage for investment banks to increase.
One article that we were assigned to read, “Recipe for Disaster: The Formula that Killed Wall Street”, discussed the Gaussian copula function. David X. Li made the Gaussian copula function. In this formula, the correlation was a constant. David X. Li created this formula looking at market data from credit default swaps, not looking at historical data. With this formula, many AAA securities were introduced into the market. In 2007, there were over $62 trillion worth of credit default swaps on the market. David X. Li’s formula priced hundreds of billions of dollars of mortgages that were built into collateralized debt obligations. This was a problem when the housing market crashed because there were so many collateralized debt obligations based on this formula.

One of the problems with the Gaussian copula function was that there was no room for error because the formula gave a single correlation number. Because an unlimited amount of credit default swaps could be sold, the volume of sales increased greatly. This formula, adopted by so many, simplified a complex equation into one number that was not always accurate. This one correlation number allowed rating agencies to look at the number and immediately give the securities a rating. This allowed bundles of many securities that were rated AAA.

This formula convinced people that they did not have much risk, but in reality, they still had significant risk. Investment banks continued to make collateralized debt obligations. The documentary explains how large financial institutions were involved in selling collateralized debt obligations. Goldman Sachs sold collateralized debt obligations to customers and bet against them, which meant the more money their customers lost, the more money Goldman Sachs made. Morgan Stanley also bet against collateralized debt obligations that had a rating of AAA. These companies were betting against the supposedly safe investments which they were selling to their customers. The rating organizations that included Moody’s, Standard and
Poor’s, and Fitch quadrupled their profits during the housing boom, and they made more money when they rated a bond AAA.

Another article we read was, “The Great American Bubble Machine: From tech stocks to high gas prices, Goldman Sachs has engineered every major market manipulation since the Great Depression-- and they’re about to do it again”. This article discussed how various people who have worked at Goldman Sachs have also worked for the government. Also, Goldman Sachs bundled bad mortgages into collateralized debt obligations and sold them to investors. The investors bought these investments with AAA credit ratings. Goldman Sachs also bet against these collateralized debt obligations by getting groups like American Insurance Group to provide credit default swaps on the collateralized debt obligations. Following the housing crash, Goldman Sachs had to pay $60 million to resolve all its lawsuits.

Some interest rates are variable, and there is no clear method to determine how many people are going to default. One of the biggest issues with the creation of all these AAA rated bonds was the belief that there would not be widespread default on mortgages at the same time.

In October of 2007, one-third of mortgages defaulted. Bear Stearns was bought by J.P. Morgan Chase and Company for $2 per share. Lehman Brothers filed bankruptcy and had losses of $3.2 billion with investment ratings that were all in the range of AA. The ramifications of the financial crisis were global with unemployment in Europe and the United States rising to 10 percent. In December of 2008, General Motors and Chrysler declared bankruptcy. In 2009, unemployment reached the highest it had been in 17 years. In 2010, there were 6 million foreclosures.

The materials I read and watched changed my beliefs about my role in society, both professionally and personally. I understand that professionally I always need to do everything I can to provide accurate information to clients. I know that decisions made by large corporations
and the government affect the global environment. Personally, I know that it is important to do research about investments.

There are parallels between the political landscape that brought on the financial crisis and our current political environment. People right now have very strong opinions about the government and its regulation policies. One issue with the housing crisis was that there was a lack of regulation on the sales of derivatives, which allowed investment banks to sell massive amounts of investments that were not actually worth the credit rating they received. Everyone can learn valuable lessons from the financial crisis to help us avert future financial crises and other crises. People know that the stock market can rapidly change, and this was also seen during the coronavirus pandemic. People also know that large financial institutions can go bankrupt.

The housing crisis had a global effect on the economies of countries. People lost their jobs and had an increase in their debt. Everyone can learn from this financial crisis to try to prevent future financial crises and other crises.
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