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An Exploration of Accounting Topics through a Series of Case Studies

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By

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Abstract

This thesis contains 12 case studies about various accounting and financial issues. The cases follow as: A Tale of Two Cities, Conceptual Overview of Assets, Excel Course, Taxodus-Playing the Global Tax Avoidance Game, Business Interview, Case Competition-Overview, Case Competition-Audit, Case Competition-Tax, Case Competition-Advisory, Case Competition-Earnings, Stock Price, and Analysis, and Financial Crisis of 2008. Other than the cases labeled case competition, none of these cases are meant to build off each other and should be taken by themselves. The series of case competition cases are part of a larger group case where each group chose a Fortune 500 company, Intel for my group, and went through a series of analyses is the major accounting service areas. This culminated in a presentation to a group of 40 accounting professionals ranging from partners to associates and coming from many different firms. In conclusion, this thesis covers a wide ranging series of topics on accounting.

TABLE OF CONTENTS

Case I: Tale of Two Cities

Introduction

This is my first of many cases I will write for the Accounting 420 class. This class is undertaken to provide a structured way of writing my thesis for the Sally McDonnel Barksdale Honors College at the University of Mississippi. The assignment of this case was to take two cities I was interested in interning and living in post-graduation and research them as places to live. The subject will be taking the two cities and comparing across a spectrum of different factors. Some of these factors include the size of the city, what it is like living in these cities' weather and climate conditions, the expenses I might incur if I were to live in these cities, where is best to live within these cities, what parts of the city I might want to avoid, what opportunities there are for me to get involved in in these cities, and what a monthly budget might look like. The goal was to figure out where I might want to live, and what it might be like. This case has been very eye opening in terms of what life after college might look like. First, I was born and raised in Oxford, Mississippi, so I have never lived anywhere other than Oxford my entire life. Seeing the size and what these cities have to offer has been astounding and somewhat intimidating at the same time. Secondly, I have been able to operate well in the somewhat structured environment in college as far as handling my schoolwork, food preparations, cleaning, and social life. This case has brought some new issues that I will face to light such as insurance or traveling to see family. Through my research, I have seen, as best as I can, what it is like living as an adult in the world outside of college and outside of Oxford. I went into this case with two possible cities in my mind: Denver and Raleigh. I enjoyed researching both cities, and both cities have a lot to offer a fresh out of school entry level accountant. I would be excited to live in either city, but this case has helped me realize which specific city I want to live in and start my career at after college.

1. <u>Population</u>

As of 2019, the population of the city of Denver proper is 727,211 people. The metro area of Denver has 2,967,239 people as of 2019. Raleigh's city proper has 403,892 people while its metro area has 1,337,331 people based on 2019 estimates.

I am originally from Oxford, MS, so I am not used to any city of this size. That being said, there are not any Big 4 offices in cities even close to the size of Oxford, so any city I move to will be a population shock. Both of these cities are on the smaller size of cities I could move to, though.

2. <u>Weather and Seasonal Fluctuations</u>

Most people would think Denver would be a pretty cold area, but that is not the case. Winters average around 45 degrees Fahrenheit, and summers stay around 86 degrees. Denver is relatively arid only getting 8-15 inches of rain annually. For context, Oxford gets 59 inches annually. Denver receives 300 days of sunshine a year which is more than Miami and San Diego. There is little to no humidity here. Raleigh's winter temperatures hover around 59 degrees, while the summer averages 81 degrees. The humidity in Raleigh is almost identical to Oxford's humidity levels.

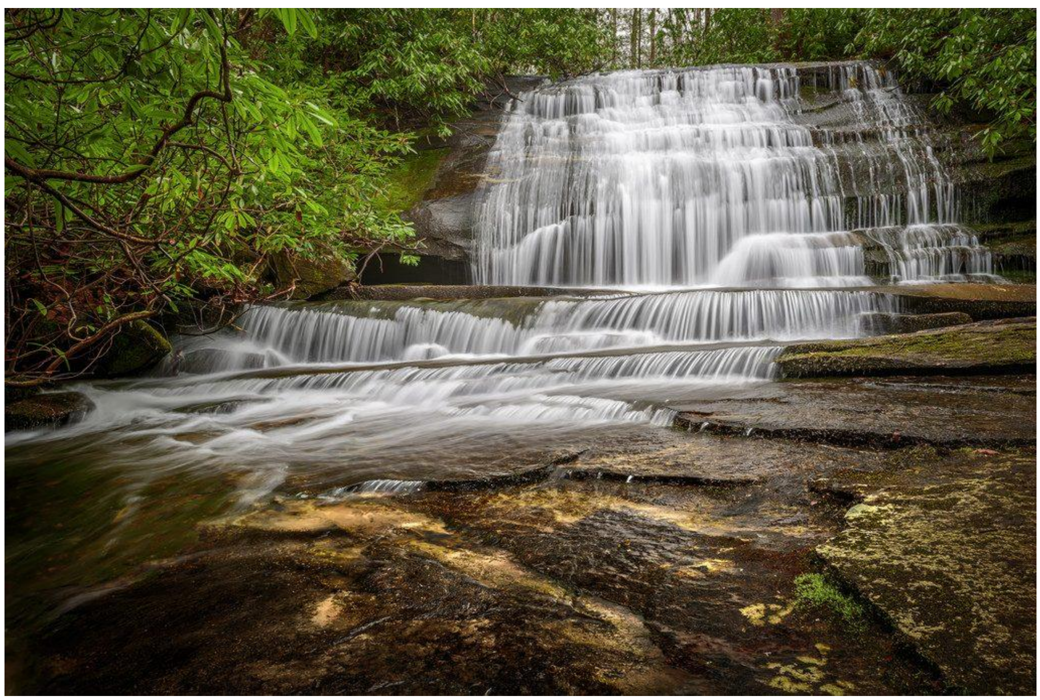
I most definitely prefer Denver's climate to Raleigh's. Growing up in Oxford, the humidity was my worst enemy, so moving somewhere with little humidity sounds like bliss. Both of these cities will allow me to move to relatively colder areas without experiencing any true northern winters. This will allow me to wear winter clothes more which I much prefer without freezing myself.

3. <u>Topography, Scenery, and Geological Features</u>

Denver gets its nickname, the Mile High City, from the fact that it is exactly 5280 feet or 1 mile above sea level. This means that the air is much thinner at this elevation. Athletes go to Denver to train because the lower oxygen levels increase their red blood cell count over time as they train making it easier to compete at lower elevations. It is in the center of the Front Range Urban Corridor which has the Rocky Mountains to the West and High Plains to the East. The

scenery is absolutely gorgeous here.

Raleigh is also a beautiful city. Its nickname is “The City of Oaks” because they have been dedicated for years to preserving their parks and trees. They are in the northeast central region of North Carolina where the Piedmont and Atlantic Coastal Plains meet. As a result, most of Raleigh and the surrounding area features gently rolling hills. It is close to the Pisgah National Forest and the famous Blueridge Parkway which is considered “America’s Favorite Drive.”



Overall, I would prefer to live in Denver because of its proximity to the Rocky Mountains. This allows me to pick up skiing or snowboarding in the winter while hiking and rock climbing in the summer. Raleigh is still a really cool place to live in regard to its outdoor spaces and the Blue Ridge Mountains. I could also climb in Raleigh, but I would not be able to do more of cold weather sports.

4. **Taxes**

Both the states that Denver and Raleigh reside in have a flat income tax. Denver has a flat tax of 4.63% while Raleigh has a flat tax rate of 5.25%. I would be paying $181.75 per month in state income taxes in Denver while I would be paying $206 in Raleigh for state income tax monthly. The total sales tax in Denver is 8.31%. Raleigh has a lower sales tax at 7.25%.

Denver takes the edge here again by having a lower state income tax. While the sales tax is higher, that is something I can control whereas I can not control paying a higher state income tax. Denver may have the edge here, but it is a slight edge seeing as both taxes are close.

5. **Transportation**

Denver has its own transportation network with Regional Transportation District Bus and Rail. It is more commonly referred to as TheRide. The monthly pass is $35, but a lot of employers in Denver take part in what is called the EcoPass. This is a partnership between the RTD and the company that allows the company to pay a lump sum to the RTD, and the company's employees get free rides on the buses. This reduces costs for employees, and companies are allowed to reduce payroll taxes because whatever the specific company pays is tax deductible due to its help in environmental protection. Unfortunately, there is no data on which companies are a part of this system, so I was unable to find if any Big 4 firms are a part of it. Raleigh has a similar system called GoRaleigh. This system links Raleigh together as well as some of the close cities. The cost is $40 for a month pass, but some companies do offer a subsidized pass. Unfortunately, that information is private as to what companies offer it.

Neither city really has an edge here because they have similar systems and costs. Denver may have a slight edge due to the $5 decrease in monthly costs, and, if the company participates in EcoPass, the employees are also able to use the buses that take you outside of Denver to more outdoor trails and features.

6. Industries

Denver's largest industries are aerospace, aviation, biosciences, broadcasting and telecommunications, energy, and financial services. Among these, energy is the biggest for Colorado as a whole employing 150,000 people and earning $11.4 billion annually. The top five companies headquartered in Denver are DaVita, DCP Midstream, Western Union, Antero Resources, and MDC Holdings. Raleigh's major industries are aerospace & defense, automotive, truck & heavy machinery, biotech & pharmaceuticals, textiles, and energy. Energy is the biggest industry for North Carolina as whole ranking 3rd in fossil fuel power generation and 5th in semiconductor manufacturing. Raleigh's largest companies headquartered there are Total, a French integrated oil and gas company, Advance Auto Parts, Socius Health Solutions, Carquest Auto Parts, and PRA Health Services.

I'm more so drawn to Raleigh based on industry and companies. Both cities have remarkably similar industry pools, but Raleigh is home to bigger companies and the healthcare industry is very interesting to me, so I could possibly work on Socius Health Solutions or PRA Health Services.

7. <u>Healthcare and Schools</u>

Both cities have great quality of healthcare with Denver having the University of Colorado Health Center and Raleigh having Duke University Hospital and North Carolina University Hospital. The differentiating factor comes down to costs here. The average monthly costs in Denver for healthcare is $173.04 for a single man. The average monthly cost in Raleigh is $186.86.

US News ranks Denver 19th in terms of best high schools among large US cities with an average teacher to student ratio of 1:15. It is also ranked number one in terms of diversity in Colorado which makes sense. Raleigh comes in at 27th in the same rankings.

Overall, no city really came out with an edge here. Denver is about $13 cheaper monthly for insurance, but a lot of that would depend on employer options and other factors. Both cities have great access to hospitals. I am a proponent of sending your kids to public schools whenever possible, so I would most likely send my kids to either of the public schools in these cities, but this does not factor into my decision much because I have no idea if I will even be in public accounting by the time I have kids or if I will have moved.

8. Crime in the City

Both cities have very similar types of crimes with the top three being larceny, motor vehicle theft, and burglary. Neighborhood scout ranks Denver safer than 6 percent of US cities while Raleigh is ranked safer than 14 percent of US cities. These both seem low, but it is important to keep in mind that this is a ranking of all US cities regardless of size, so any city with a Big 4 firm will mostly likely be on the lower end solely due to size of the city. In Denver, you should avoid the Five Points neighborhood, the Capitol Hill neighborhood, and the City Park neighborhood after dark. In Raleigh, you want to avoid Chavis Heights, the Walnut Terrace neighborhood, and South Saunders Street.

Raleigh is a definitively safer city than Denver, but neither city is so dangerous that danger can not be reasonably avoided. If correct precautions are taken, both cities would be completely safe to live in.

9. Apartments

In my research, I found a place I would like to live in both cities. I decided that I would prefer to live within the city rather than a suburb or outskirt area. I will not have any kids or family in the area of either city, so there is not any reason for me to live in an area closer to good suburban schools or other families homes.

My choice for Denver is Archer Towers. The rent here is about $1200 for a single which could go down if I found someone I would like to live with there, but I would prefer to pay more rather than live with someone I do not want to live with. The amenities include a full fitness center, a rooftop deck, laundry facilities, and an underground covered parking structure. I also liked Archer Towers because it was a smoking free community.

Here, you can see the mountain view if the side of the building your apartment overlooks is on the correct side.

This is the rooftop deck with a great view of the entire city as well as the surround countryside.

This is a picture of the sample single unit kitchen.

My apartment for Raleigh is the Allister North Hills Complex. It costs a good bit more at $1474. It is within walking distance to most downtown areas of Raleigh. The amenities include two resort style pools, a fitness center, covered parking, a laundry center, and a sauna.

This is the layout of the apartment. There is an open kitchen/living room area.

This is a picture of one of the pools at the hotel and you can also see the outside of the complex.

This is a picture of the sample kitchen for a one person unit.

Both apartments have everything I am looking for. Both feature plenty of amenities. I would prefer to pay less for rent, but I am willing to pay that much if I cannot find anyone I would want to live with to lower the rent. Both apartments have everything I consider as prerequisite: parking, laundry, and fitness center. Both have some additional perks. I would prefer Archer Towers because it is cheaper, but I would be comfortable living in either of these apartments.

10. <u>Commuting to Work</u>

I am able to have my car in both cities, so I could drive to work if I wanted to. I would most likely use the bus system in both cities to get to work, though. It is two miles to the KPMG office from the bus station nearest to my apartment in Denver. This is about a fifteen minute commute if I am able to time when I get to the bus station close to when a bus arrives. The KPMG office is very close to my apartment in Raleigh. I would be 0.6 miles from the Raleigh KPMG office. The commute would be around ten minutes, but if the weather was good, I could walk to the office.

Raleigh takes a slight edge here because it is so close to the office, and I also have the option to walk if the weather is nice.

11. <u>Grocery Shopping</u>

In Denver, there is a Trader Joe's within a ten minute walk and a Capitol Market within a ten minute walk in the other direction. In Raleigh, there is a Midtown Farmers Market that is open most every day about twelve minutes of walking away and a Harris Teeter eight minutes away by walking. There are plenty more grocery options that the one mentioned because both of my possible apartments are near the downtown of their respective cities. Neither city really gains an edge in regards to grocery shopping.

12. <u>Laundry</u>

Both of my possible apartment complexes include laundry centers within the complex. This was definitely one of my top criterions when searching for possible apartments. The only odd part will be that this will be the first time I have not done laundry at my house or inside of my apartment. This category does not really persuade me to either city as both have the same options.

13. <u>Religious, Civic, and Volunteer Opportunities</u>

When I got to either city, I would start searching for a church to get involved in. I grew up Southern Baptist, but I do not know if I would stay in that denomination, though it is likely it would not even be possible to find a good Southern Baptist church in either of these cities. I cannot say which church I would choose in either city until I have visited the church, but I would find one. In Denver, I would want to get involved in the Volunteers for Outdoor Colorado which focuses on cleaning the surrounding areas around Denver of trash and keeping them beautiful.

The Dumb Friends League also intrigued me. It is a program that helps abandoned and abused animals become comfortable around people again and then find them homes. In Raleigh, I would like to volunteer with the Triangle Land Conservancy, specifically as a Hike and Outings Leader which is in line with my experience working with Ole Miss Outdoors here on campus. I also want to take part in Relay for Life of Raleigh which would probably look like getting involved with the relay team that is already affiliated with whatever Big 4 office I ended up in. Most of these offices would most likely already have a team, but I would want to really push the team.

Both cities have great opportunities to volunteer in different fields I feel passionate about, so neither city really takes an edge here.

14. <u>Recreational Activity</u>

In Denver, I would have plenty of opportunities to continue my passion for communities or activities that I am already interested in. My favorite NBA team is the Denver Nuggets, so I would probably try to catch as many of their games as my work schedule allows me. I am also a big fan of the NFL, so I might try to catch one or two Bronco games. Denver has a gorgeous surrounding area, so I would have plenty of opportunities to hike in the summertime and see it. I am already really into rock climbing and the area outside of Denver has tons of outdoor rock climbing that I could try which really interests me. I have also always wanted to try skiing or snowboarding. I have plans to go over Christmas break and Spring break, so I should know before I go to Denver if that is something that interests me. In Raleigh, there are a lot of the same options. Charlotte is about 2 and half hours away from Raleigh, and I could catch some NBA Charlotte Hornets games and some NFL Charlotte Panthers games. The main reason I chose Raleigh over Charlotte is the outdoor aspects closer to Raleigh. Raleigh has tons of outdoor climbing and hiking that I would love to explore. Raleigh is also super close to Duke and the

University of North Carolina, so I could catch some college basketball games. Both of these schools are college basketball powerhouses, so I could watch some of the best basketball prospects from the United States.

Both of these cities have very similar options for recreation, The differentiating factors are great college basketball versus the option to enjoy winter sports. Right now, I would lean towards Denver, but I will know more after I go skiing over winter and spring break.

15. <u>Returning Home</u>

Both cities would be hard to drive home from. Denver is a seventeen hour drive, so that would not really be feasible. Raleigh is an eleven and a half hour drive. I might choose to drive if I wanted to go through Tennessee and see some of their state parks. In most cases, I would fly to Memphis from both cities, and then have my parents pick me up. Right now, flights from Denver to Memphis are $262, and the flight takes about 4 and half hours. Raleigh is a four hour flight and costs $212.

Raleigh takes the advantage here because the cost is lower, and I have more of an option to drive if I chose to. My older sister also lives in Georgia right now, so my parents could visit both of us on one trip if they wanted to.

16. <u>Budget</u>

	Denver	Raleigh
Income	5000	5000
Taxes		
Federal	-657.5	-657.5
State	-181.75	-206
Take Home Pay	4160.75	4136.5
Fixed Expenses		
Rent	-1200	-1474
Transportation	-35	-40
Insurance	-173.04	-186.86
Retirement	-200	-200
Income after Fixed Expenses	2552.71	2235.64
Estimated Expenses		
Groceries and Eating Out	-600	-600
Clothes	-200	-200
Trips Home (3 Yearly)	-65.5	-65.5
Utilites	-150	-150
Income after Necessary Expenses	1537.21	1220.14
Entertainment	-500	-500
Amount Going to Savings	1037.21	720.14

17. <u>Preference</u>

Denver is my preferred city. There were about three major categories of consideration: Weather and Recreation, Work Life, Overall Quality of Life. The first category, weather and recreation, went to Denver fairly easily. Denver's weather is so much better for me based mostly off the incredibly low humidity which is something I have always struggled with in Mississippi. Denver has better recreational opportunities for me and would allow me to try more new activities than Raleigh. The Rocky Mountains in Denver are a prettier and cooler mountain range than the Blue Ridge Mountains in my research. Overall, Denver seems to have a much better outdoor and recreational scene. The second category, work life, went to Raleigh by a small margin. The two major factors were Raleigh having the largest companies and the smaller commute time. I still like the industries and opportunities in Denver, and my commute time is also very small in Denver, but Raleigh takes a narrow edge here. The third category, overall quality of life, went to Denver. The two largest factors in Denver coming out on top here is the lowered cost of my chosen apartment with a better view and the lower state income tax. Both cities have very similar transportation, quality of healthcare, and opportunities for involvement. Raleigh did take the edge in safety and ease of seeing my family. After research, Denver seems like the city I would like to go to especially for my twenties where I will not have kids and have more time for other activities. If I had a family, I would probably have chosen Raleigh, but I would also feel comfortable raising a family in Denver.

Case II: A Conceptual Overview of Assets

Group Members: deYampert Garner, Caitlyn Henry, Matthew Stersic

Summary:

Case study two placed four classmates together to discuss accounting standards that have been debated for years. Dr. Dickinson asked us to place ourselves on the Financial Accounting Standards Board and consider several different prompts. The first question was about a wholistic, more broad view of how financial reporting should be performed. The exact debate pertained to whether firms should be viewed as “asset greenhouses” or “asset furnaces.” This topic was something that the members of our group had not considered before. These two ways to view a business have both their strengths and weaknesses, but we finally decided that viewpoint two offers a better perspective on a firm’s worth to present and potential investors, lenders, and creditors who are deciding whether to provide financial means to a company. Since we are reporting on primarily for-profit entities, our group felt that accountants should be most concerned with providing adequate information about revenues, expenses, and the resulting earnings that arise.

The second question was acutely focused on the evaluation of assets and their worth to a firm. “Value-in-exchange” and “value-in-use” were the two juxtaposed positions that we were tasked with considering. This question caused more debate than the initial question which came to a consensus decision fairly quickly. This debate was intellectually straining because we had to stretch our understandings and beliefs about how accounting currently operates under the FASB. Question two ended up in an even split of the vote to decide which of the two asset valuation methods more appropriately assessed a company’s assets which eventually creates equity. Our group finally decided on viewpoint one resulting in a more effective and legitimate accounting standard for the future.

The most challenging part of the assignment was producing accounting entries that would change either in amounts or accounts with this new understanding of asset evaluation. Our group worked cohesively to discuss several possible entries ranging from patents and their worth to inventory and changes in market value. This part of the assignment allowed us to see that with any viewpoint, vast amounts of research and experimenting would be necessary when presenting this method to the FASB because so many common practices would be changed. We did not previously understand the extreme complexity involved in changing an accounting standard because of all the unique scenarios that a business enters.

QUESTION 1:

Josh: "Viewpoint two focuses on the most concise and appealing reporting to investors, who influence our primary goals as a financial entity, so viewing the financial statements through the lens of "asset furnaces" allows us to present the financial information that is most important to investors—revenues, expenses, and earnings. Though, viewpoint one better establishes the value of growing firms because earnings often come years after an initial offering like Tesla, and we can better evaluate growing companies based off their amounts of assets and liabilities."

Caitlyn: "Viewpoint two better measures the viability of a stable, well-established business. A constant inflow of revenues more appropriately measures the success of a business. The "asset furnace" approach focuses on the long-term view of the company that aligns with the going concern assumption. If a company were considering liquidation, the "asset greenhouse" method would be more helpful in evaluating the wealth of a company based solely on its number of assets rather than turning a profit."

deYampert: "Viewpoint two is helpful for growing companies as well, because it allows reasonably prudent investors and creditors to see what exactly causes those revenues to be less than expenses. For example, if an investor realized interest was high early on in the company's livelihood because of initial funding, the investor needs to know that it will be paid off soon. This would cause a drastic swing in net income and expenses if large amounts of debt are soon to be paid off, or if expansion is incredibly large, costs will be larger than can be expected to continue. Therefore, viewpoint two can fit the growing company just as well as the stable company for the reasonably prudent investor."

Matthew: "The 'asset greenhouse' analogy for viewpoint one is not prudent for the consideration of how a company might run. This would better fit an investment account, but this is not how a company should be viewed. The risk that you are taking isn't properly conveyed by the term 'asset greenhouse.'"

Caitlyn: "Using the 'asset greenhouse' approach, a company who aims to acquire as many assets as possible runs the risk of bankruptcy if their primary focus is acquiring assets rather than turning a profit. Assets are useless until they are used to generate revenue. In contrast, an 'asset furnace' is an excellent view because it appropriately determines the financial goals of a company and shows how a company should value their assets. Even though cash and accounts receivable are considered assets to store in the 'asset greenhouse' method, the financial reporting style is not as clear of an approach because it does not offer the bottom line of what a company's net income and retained earnings are.

deYampert: “The focus on earnings is especially important to this viewpoint because that is what creditors and investors are most concerned about. They are looking to have consistent revenues to sustain their interest expense or dividends, respectively. Focusing on what keeps a company moving forward and attempting to reduce costs and raise revenues which are the end-goals of all for-profit entities although social activism is increasingly expected among large corporations.”

VIEWPOINT ONE PROS & CONS:

PROS:

- Assets sometimes give better context than revenues.
- It is a better evaluation of a firm’s assets at a particular point in time.
- Non-profit companies can be more appropriately valued.
- It better evaluates growing companies that have not reached profitability for any number different reasons.
- It serves as a long-term viewpoint since assets and liabilities do not close out at the end of the year like revenues and expenses.
- This method puts heavy emphasis on the ratios that result from assets and liabilities, which can be helpful in comparing firms with their competitors.

CONS:

- It may be difficult to appropriately value all assets in a company when considering depreciation or intangible assets.
- Many fair value evaluations can lead to manipulation of profit and of a stock price.
- Properly valuing assets can be expensive and serves as a cost restraint.

- This type of evaluation leads to debt that is constantly shifted through different tax breaks and policies; mergers can hide many downfalls in companies that can report high assets but have overwhelming amounts of debt.

VIEWPOINT TWO PROS & CONS:

PROS:

- Revenues are the best measure of a company's success to an investor.
- Assets are used to create revenue; therefore, revenues are the main objective.
- It focuses on what value is created rather than what increases asset balance.
- This viewpoint measures the success of established companies better.
- It allows external users to sooner see established companies' downfalls than by solely viewing a company's asset evaluation.
- Viewpoint two is helpful for creditors and lenders since they are looking for low-risk opportunities.

CONS:

- Viewpoint two does not accurately measure growing companies' intrinsic values.
- It is a short-term viewpoint, since revenues and expenses are nominal accounts.
- Revenues do not always translate directly into assets. For example, receivables are rarely collected in full.
- This view might not offer as much detailed information on changes in assets and liabilities.
- Revenues and expenses can lead to "window-dressing" or manipulating a firm's financial statements to appear better on the outside than it truly is internally.

FINAL DECISION:

As a group, we decided that viewpoint two is the most appropriate view of financial statements. Since earnings are what keep companies as a going concern, they should be the primary focus of our financial reporting. This view helps both investors see current prospects and allows creditors/lenders to determine whether companies should be allowed more debt. Viewpoint two is also just as advantageous for internal users to judge their success as a company because many managers and subordinates receive bonuses or commission based off the revenue of their company. Because viewpoint focuses on the short-term goal of a company's revenue for a single fiscal period, internal users as well as external users will both want the company's decisions to be driven by the primary concept of revenue. We feel that revenue and expenses are a better evaluation of a company's viability rather than reporting a firm's assets and liabilities that should simply stay on a balance sheet.

QUESTION 2:

Josh: "Viewpoint one seems to be talking about a more fair-value approach since it is 'value-in-exchange.' It would help with assets like stocks or trademarks, while it may not fare as well with property plant and equipment."

Matthew: "Viewpoint two focuses on 'firm-specific' value, which more appropriately values raw materials that are worth more in combination with other assets such as raw materials, equipment, or labor. For example, glue or steel by itself may be a very low value item; however, when combining it with other raw materials during the production process, its firm specific value increases tremendously."

deYampert: “Valuing things by their worth to a specific company in viewpoint two seems redundant, since the net operating income encapsulates the difference between raw materials and the processes needed to convert them to goods and is already calculated in total. This difference is important because it can provide gross margin, but it is already built into the income statement. Viewpoint one keeps companies from inflating the cost of their inventory to make their ratios appear better than they are. If raw materials, unfinished goods, and finished goods are valued only at what they are worth through direct and indirect costs, then inventories are more appropriately assessed.”

Caitlyn: “Viewpoint one is closer to the historical-cost principle that GAAP currently aligns itself with when evaluating assets at its dollar amount. This is a fair and objective way to report assets because it allows for little interpretation or manipulation of asset categories and their resulting expenses.”

Josh: “No, I would argue that viewpoint one is more fair value based because it is concerned with what we could sell our assets at. This is intrinsically what it is worth.”

Caitlyn: “I think it is possible that viewpoint one accounts for both fair value and historical cost because it uses the specific dollar amount as its unit of measurement. Here is a crazy thought. What if we did not value our assets using the current US dollar and totally disregarded the monetary unit assumption? This would offer an entirely different perspective of viewpoint two. If we focus on evaluating assets based on their usage throughout the daily operating activities of a company, then we could value these assets a firm specific worth that compares usage as the value point rather than cost. We could create a rating system of one through ten to assess how often an asset is used within a week, with ten being daily and one being not at all. We would then report the assets on the balance sheet in a graded amount based on how useful it is to our specific firm. For example, the extra conveyor belts that sit in the warehouse for most of the year would not be very valuable to a company because it is rarely used. In contrast, the equipment or raw materials that are used every day during the manufacturing cycle are extremely valuable to that particular firm despite what it originally cost the company. I feel that this a very feasible yet creative alternative to viewpoint two."

Matthew: "I see what you are saying, Caitlyn. What if we used a multiplier to assess how much an item in inventory was used, and then multiplied the ranking by the dollar amount to transfer it back to monetary units? I think that could potentially capture 'value-in-use' the most effectively."

VIEWPOINT ONE PROS & CONS:

PROS:

- Viewpoint one more accurately presents values that are expected to be sold.
- We can evaluate the individual pieces of a product better when going through the manufacturing process.
- The evaluations of assets are less complicated because of market-price availability.
- It has the ability to capture asset value through gains-and-losses, both literally and fiscally.
- Transaction history of an exchange of goods or services makes it easier to determine the value of assets because the standard for evaluation is very clear.

CONS:

- It is costly to measure things at fair value.
- It is also time-consuming to measure things at fair value.

- Value-in-exchange does not always accurately convey non-monetary unit value.
- Fair value has the ability to be manipulated very easily.
- Value-in-exchange requires constants adjustments based on market/interest rate changes.

VIEWPOINT TWO PROS AND CONS:

PROS:

- Viewpoint two allows firms to show external users the value that their firm specific processes create.
- Value-in-use offers a better perspective on different stages of the inventory conversion cycle.
- Viewpoint two better evaluates companies on the forefront of innovation.
- It is advantageous for established companies because they have been operating for numerous periods and have a solid understanding of what individual items are worth to their company.
- Viewpoint two better accounts for value of assets that may not be reflected in its dollar amount alone.
- It offers firms more flexibility and freedom when evaluating assets as they value it within their own operating activities.

CONS:

- Value-in-use can be manipulated to create better ratios for assets and increase equity.
- The SEC would need to develop a complete and thorough sub-entity that understands each industry as an expert would to confirm that firms are honestly valuing assets at their worth.

- It would require a years-long rollover from current accounting standards to make such a vast change to our current methods of evaluating assets.
- Value-in-use moves managerial accounting into regulation by the FASB.
- Value-in-use jeopardizes comparability with a firm's competitors.
- A company would have to create an account to hold differences for liquidation of assets when they are sold at market value instead of firm value.

FINAL DECISION:

Our group contemplated our decision for several hours because we truthfully felt that both ways of valuation were total extremes. Ideally, we would like a happy medium like the system we currently use. We would not be happy if either of these evaluation methods came into practice in the future. We ultimately decided that viewpoint one is a better way to value assets. Measuring assets at their "value-in-exchange" counts for the cost assigned when a transaction is made, and it allows for less fraudulent activities or "cooking the books." Value-in-exchange fixes the issue of property, plant, and equipment being valued incorrectly due to inflation or market changes. This viewpoint is easily adoptable because of the widespread availability of market prices. Adjusting assets for both gains and losses can be an indicator of where a company's future lies.

Value-in-use simply leaves too much power in the hands of the firm when preparing financial statements. It would be difficult for auditors to evaluate assets based on the firm's interpretation of its specific value. Value-in-use has too much fluidity throughout the valuation process, making it very difficult to have regulations and standards for all companies to follow.

We feel that it could put the integrity and accuracy of financial reporting as a whole at risk if this were to become the new standards.

ENTRIES FOR VIEWPOINT ONE THAT WOULD CHANGE:

This transaction shows how the appreciation of a building through market swings might be adjusted at the end of a year.

12/31 BUILDING	1000000	
BUILDING APPRECIATION		1000000

This transaction is an example of raw materials being adjusted after gaining value through a marketplace change in price.

12/31 RAW MATERIALS	50000	
MARKETPLACE GAIN ON RAW MATERIALS		50000

This example shows an adjusting entry for land that is held for speculation that has a decrease in expected value.

12/31 LOSS ON LAND HELD FOR SPECULATION	500000	
LAND HELD FOR SPECULATION		500000

The following example shows how a company might account for a loss of value in equipment at year's end.

12/31 LOSS ON EQUIPMENT VALUE	75000	
EQUIPMENT		75000

This example shows how an increase in the market cost of inventory for a merchandiser would represent a value change at the end of a fiscal year for currently held inventory.

12/31 INVENTORY	125000	
GAIN ON INVENTORY		125000

This example shows how a company might account for a gain on a patent through the growth of the company or its increased value after comparing to other competitors in the marketplace.

12/31 PATENT	3000000	
GAIN ON PATENT		3000000

The following example shows the way a company might account for the loss of their trademark if they did not protect it or if they suffer a substantial market share loss for various reasons.

12/31 LOSS ON TRADEMARK	750000	
TRADEMARK		750000

Case III:

Introduction

This case asked us to take a step back and look at the United States as a whole. Our goal was to figure out what unites us as a people and how we can become more united. We, also, looked at each candidate's platform and what it meant for the general business world as well as the job market after we graduate. This case led to a lot of self-reflection about what it meant to be an American to me as well as what it might mean to other Americans. Being an American is not about blindly supporting the United States regardless of what might happen. It is about caring what the United States does and disagreeing with it if it was wrong. Blind support will never lead to a better country. The United States needs people to care enough about it to change it. This case taught me a lot about what each candidate believes in and supports. Each candidate generally supports what their party supports, but there are some policies each candidate supports that are different or have changed the party's stance. This case mostly focused on economic policy issues such as taxes, regulations, outsourcing, and the job market. In almost every case, each candidate brings some good idea to the table about whatever issue. One of the biggest issues facing the economy right now is the Corona virus. Our economy can never truly come back until the virus has been stopped. How each candidate will respond to corona virus after they are elected is the most important issue in this election in terms of the economy but, more so, in terms of the overall health and safety of the nation. While each of these issues will affect my vote, economic issues are not the only important issue facing the election. An important idea realize is that life will go on regardless of who wins this election. Becoming more divided as a nation will only hurt the nation. The last part of this case focuses on how to cope after the election whether your side wins or not.

What Unites Us?

The best comparison I can think of for how the citizens of the United States view the United States is as a sibling. I can insult and talk bad about one of my siblings as much as I want because they are my sibling. When someone else starts to insult or talk bad about one of my siblings, I quickly rise to their defense. This is how most people view the United States, I believe. People are quick to talk about how the United States can improve or how it is not living up to the values it should stand for, but when people from other countries attempt to criticize or insult the United States, the patriotism and exceptionalism of the people of the United States comes out. The criticism and pride people have about the United States seem contradictory, but they both show how people are united here. People criticize the United States because they want it to be better. People's harshest critiques go towards what they care about most because they believe the object of their criticism has the ability to be great. This is one reason the current election is so tense. Both sides genuinely believe their vision for the United States is what will bring about the best for everyone in the United States. Both sides believe that their ideas best hold the ideals of equality, fairness, democracy, and others that the United States was founded on. What is lost within the United States, right now, is the understanding that people might disagree on what is best, but these same people have the same common goal. The pride is apparent when our viewpoint switches from inside the US to the world stage. You see people wholeheartedly defending the US to people from other nations or supporting the US in the Olympics or World Cup as a sign of national pride. We will always share a common land area, common language, even common support for US teams, but what really unites people here in the

United States is the belief that the US is already exceptional and can become even more exceptional.

Job Market and Economy

Taxes

Both candidates touted their tax records and claimed to have the better plan for the American people. Trump said he would continue with his current plan. In 2017, Trump and the GOP passed a massive tax overhaul that lowered corporate income tax to 21 percent and created some one time savings for families across the US. Biden has been critical of the 2017 overhaul and supports raising the corporate tax rate to 28 percent which would still be down from the prior graduated tax rate of 35 percent on earnings over $10,000,000. Biden, additionally, has promised to not raise taxes on anyone who earns less than $400,000 annually. Neither candidates tax proposals will affect most Americans directly, but rather indirectly through taxing corporations and people making over $400,000. The question is how corporations would pass the increased tax if Biden were to win. They could increase prices, decrease salaries or expenses, or just accept the lowered after tax income.

Manufacturing and Outsourcing

Both candidates talked about their records concerning manufacturing jobs and outsourcing, specifically in the Rust Belt which was crucial to Donald Trump’s victory in 2016. Trump led with his big win of creating 700,000 new manufacturing jobs in the Rust Belt. Federal data suggests that this was more like 500,000 new jobs before Covid-19 hit which has predictably lowered these jobs by 200,000. Biden denied Trump’s allegation that the Obama administration did nothing for manufacturing jobs citing his efforts in the Chrysler and General

Motors bailouts which would have crippled Michigan's economy. Trump attacked Biden's role in the creation of NAFTA and the TPP, both of which led to increased outsourcing. Since both of these trade deals' passage, Biden has said he would not support them again in their current form. Both candidates have supported domestic manufacturing in some ways. Trump recently signed an executive order mandating that the federal government can only buy certain drugs and masks that were made in the United States. Biden has supported two proposals to combat outsourcing. The first would make a 10 percent surtax on goods made by American companies in other countries that would be sold in the US. The second would be a 10 percent tax credit on companies that invest in domestic job creation. In theory, Biden's plan would work better at keeping American companies' jobs in the US.

Regulations

There were two large regulatory issues talked about in the debates. The first was senate rules, specifically the filibuster and packing the court. In the past, Biden has said he would not add any justices to the court, but during the debate, he refused to answer the question leading me to believe the worst. For Biden's career, he has always been a staunch supporter of the filibuster. Recently, he said he might consider removing the filibuster if Congress obstructed his work. If either of these two issues came to fruition, it would be catastrophic. The GOP would just add more justices to the Supreme Court after they got a Republican President and Senate making the Supreme Court huge. Ending the filibuster would make changing US laws much easier which could lead to rapidly changing policies which would make it hard for US companies to make long term plans. The second issue was on climate change regulations. Biden would increase the penalties for emission of harmful gasses. Some have claimed Biden would end fracking, but he has said he would only stop giving out new permits. Biden's increased environmental regulations could make it harder for some companies to do business, but that is not necessarily a bad thing.

Trade Deals

Trump has long been a critic of NAFTA and the TPP, both of which Biden supports or helped negotiate. Trump recently renegotiated NAFTA creating the United States-Mexico-Canada Agreement (USMCA). Biden was somewhat lukewarm in his support of USMCA but did support some of the wins that labor unions had in it and would keep it. Trump pulled the US out of the Trans-Pacific Partnership, but Biden has said he would reenter us in this agreement with some renegotiations. Reentering the TPP could increase outsourcing with the lowering of tariffs among Pacific nations but would be worth, in my opinion.

Wages

Biden has long supported a federal $15 minimum wage. Trump has shown zero interest in changing the current federal minimum wage. While I personally support increasing the federal minimum wage from $7.25, I do not support an increase to $15 an hour. This would be an outlandishly large number in states similar to Mississippi where the cost of living is low. Businesses would not be able to support this high of a wage. A state based approach is a better way of determining minimum wage as the US is so large and diverse in many regards.

Corona Virus Response

Covid-19 has lowered some of the good economic numbers Trump's economy was posting before the pandemic, but this was mostly out of his control. In the debate, Trump claimed Biden would have led to more American deaths because Biden would not have closed off access to China as quickly as Trump did. Biden was critical of Trump's travel ban of China, but there is not much proof that this would have led to more deaths. Biden attacked Trump's Covid-19 response saying it was weak. Trump is not in favor of a national mask mandate and made fun of Biden for wearing masks frequently. Biden is in favor of a national mask mandate and attacked Trump for holding such large rallies with no social distancing. Biden has repeatedly said he wants to increase funding to schools and businesses to reopen safely. Trump has said he would like to block federal funding from schools who do not reopen. Trump, also, recently contracted the Corona virus.

Job Market

The biggest factor in the job market, right now, is the Corona virus. Companies are having lower earnings leading to decreased hiring and some layoffs. I noted earlier the 200,000 lost jobs in the manufacturing sector due to Covid-19. The best way to increase the amount of jobs open is to beat the Corona virus. Biden does seem to have a stronger plan that will stop more deaths and contractions of the disease, but this does not mean that the virus will go away. Both candidates have similar views on fast tracking a vaccine. Biden has voiced concerns that any vaccine Trump releases might not be safe because Trump would put politics before the safety of the American people. The job market will be affected by plenty of other factors. Can Trump or Biden bring back more manufacturing jobs? How will higher taxes proposed by Biden affect the amount and earnings of new jobs?

Aftermath

The side of whoever loses will be incredibly angry after the election. Both candidates took turns calling each other names during the debate with Biden calling Trump a clown and Trump calling Biden a socialist among other names. The most important factor to remember will be that both sides truly want what they believe is best for the United States. The candidates have not made it easy to understand this. Donald Trump attacked Joe Biden's son during the debate for his former cocaine addiction. That was not just a lack of presidential decorum; it was a lack of common human decency. Whoever wins will need to take steps to assure the other side that they are a President for everyone in the United States. Biden has recently tweeted that he wants to be that type of President. People, also, need to understand that the President does not hold unlimited power. There are two other branches along with checks and balances. We all need to remember that everyone else is trying to make theirs and their family's lives as good as possible. We share plenty of common denominators as Americans and people. After the election, the American people need to come together to fix issues rather than trying to tear the other administration down. When a bipartisan act is passed, both sides should be happy and not sad that the other side had something good happen to them. Everyone needs to remember that we are all Americans who want what is best for us and the United States. If we can do this, unity can follow.

Case IV: Excel Course

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Case V: Taxodus- The Global Tax Avoidance Game

Introduction:

This case asked us to consider what the implications of the corporate tax rate are and the best rate for the US government to charge corporations in the US. There are a lot of factors to consider when looking at any tax policy discussion. The corporate tax rate is obviously one of the most important, but other factors do matter. These factors include how much the government spends, tariffs on foreign goods, other nations policies and rates on taxes, the overarching business environment, and individual tax rates. The corporate tax rate is not the only tax burden that a corporation faces. There are payroll taxes which include social security and Medicaid or state tax rates. The difference between the two is that all businesses pay payroll taxes or others while only corporations pay the corporate tax rate, so this case specifically focuses on large multinational corporations. The US tax system faced an overhaul at the end of 2017 with the passage of the Tax Cut and Jobs Act (TCJA). There were plenty of changes. The corporate tax rate fell from 35 percent to 21 percent. The US switched from a worldwide system of taxation to a territorial system. This means that the US pre-TCJA charge corporate taxes on all earnings of US companies. These taxes were only assessed when the money was brought into the US, though. After the passage of the TCJA, the US only charged corporate taxes on earnings from US operations. This was in an attempt to incentivize companies to bring in foreign earnings instead of having massive balances of cash internationally or reinvesting in international operations. This case taught me a lot about the corporate world and how they maneuver around paying taxes. This case was very interesting to see the game that is played among governments and companies in trying to force companies to pay what they owe to their home nation. This case most definitely made me reconsider my views on a career in tax, specifically tax policy which now seems much more interesting.

Framework:

The amount of taxes and government spending are two sides of the same coin. Taxes are collected to be spent, ideally to make the lives of the American people better. In a perfect world, we would be able to lower taxes on businesses creating a better business landscape while equally decreasing spending while maintaining the same benefits for the American people. This is not possible. If we lower taxes and decrease spending, the amount of good done by the government for the American people would have to go down. All this to say, if we lower taxes on one entity, a different entity must pay the difference. For the purposes of this discussion, I will assume that the amount of spending will remain constant regardless of the corporate tax rate. This makes sense for the purposes of isolating corporate tax as the independent variable as well as empirically. The US federal budget has increased at a rate of 4.58 percent per year since 2016 while inflation has only been 2.05 percent per year. Therefore, it is safe to assume that if we were to decrease the federal corporate tax rate, spending would not fall to compensate. This means that a different tax entity in the US would have to pick up the difference.

Impact on People:

A key argument made by the Scott Hodge from the Tax Foundation is that we should lower the corporate tax rate because the American people actually bear about half of the burden of that tax through different factors such as pricing and wages. I will not question the statistics, but I do question if this is an argument for a lower corporate tax rate. The same amount of taxes must be paid regardless of where they come from. If we lower the corporate rate, instead of paying 50% of whatever amount is cut, the American people would now pay 100%. As a micro example, not many Oxford residents will oppose or are too unhappy when property tax increases are brought up. This is because Oxford residents get more bang for your buck when it comes to property taxes. Many people own second houses in Oxford for gamedays or just because they like Oxford. These non-residents who own property in Oxford will pay the same rate as an Oxford resident. These non-residents do not use Oxford's public amenities as often as Oxford residents do. The biggest example of this is the Oxford School District which is primarily funded through property taxes. For every dollar an Oxford resident pays, a non-resident also pays a dollar that the non-resident will most likely not get to see the benefit of. This is similar to the idea of a corporate tax rate. For every dollar that must be paid to the federal government, 50 percent of that dollar is subsidized if it goes through the corporate tax. If it does not go through the corporate rate, the American people have to pay the entire dollar. I am not saying that the US should have an incredibly high corporate rate to subsidize the tax rate for the general American people. Obviously, there are other contextual issues. Hodge from the Tax Foundation later makes a good point that corporations and their capital is highly mobile while families are not. Corporations can choose to plan their next venture in a low tax area or move their headquarters to a low tax area, though there are higher costs for that. Families face a much higher cost to attempt to move somewhere else for a job if a corporation moves or chooses to put a new branch in a low tax area. Mississippi has been a prime example of attempting to lower the tax rate and offer tax incentives to try to bring manufacturing jobs here. The Winchester plant in Oxford came to Mississippi largely because of advantageous conditions. That provided families in Oxford jobs that they might have had to move to get if Winchester had not come.

Impact on Business Environment:

A major problem before the passage of the Tax Cuts and Jobs Act (TCJA) was the prominence of tax havens. A tax haven is an area with a very low effective rate of taxation for foreign companies and will generally have some sort of secrecy for financial matters. Some examples of tax havens are the Bahamas, the Cayman Islands, or Hong Kong. In the film Taxodus, Amazon told a member of Parliament during a hearing that the tax authority in the Netherlands asked Amazon to keep its negotiated tax rate a secret. This is an example of a loophole design as opposed to just low corporate rates. The Netherlands allows foreign multinational companies to directly negotiate with the Dutch Tax Authority what their rates will be and what income is considered taxable. Mailbox companies are also incredibly popular in the Netherlands. These are shell companies that are set up to reduce the tax burden on companies' operations in other countries. An example is Starbucks. They pay licensing fees for the names of their drinks. This is an expense they incur every year that lowers their net income which lowers their taxes payable. This led to Starbucks paying a total of 1.7 million dollars in taxes to the British government for their 15 years in operations there up to the year 2013. Another tax evasion system is econ zones in African nations. These nations will offer a 10 year tax holiday where companies pay zero taxes while they set up operations. After 10 years, they would start paying taxes. The problem is that these companies will just shut down after 10 years or change owners which restarts the tax holiday meaning that taxes are never paid. These are just a few examples of the multitude of ways companies find to evade paying taxes.

Most corporations will attempt to evade taxes. An interesting question brought up in Taxodus was whether companies were successful because of innovation that led to a better product or innovation in evading paying taxes. In most cases, it is most likely a combination of the two. An argument for a lower corporate tax is that it decreases incentives to evade taxes because you pay less. The problem here is that we are engaging in a competition to lower taxes to incentivize companies to pay taxes in the US. We will never be able to compete with the zero percent taxes in certain nations or the secret tax agreements in others. That is why I do not believe it makes sense to tax foreign earnings from US corporations. In the past, the US taxed all earnings a US company made, but the government only collected the money when it came into the country. This led to many companies not bringing any money back and instead continually reinvesting in foreign markets. After the passage of the TCJA, the US switched to a territorial system which only taxes US earnings. After the US switched, only five developed nations tax worldwide income on their domestic companies. Taxing worldwide income does not make sense for the US because it leads to companies not bringing back foreign earnings to the US. On a conceptual basis, the idea behind a corporate tax is that the company uses benefits provided by the nation such as roads, public schools, postal systems, and law enforcement and should pay for those. Income earned in foreign countries does not use many of those same benefits. US companies do still receive some benefits such as trade agreements the US has negotiated as well as the weight of the US government behind them if necessary. Still, foreign operations do not use nearly as many benefits from the US government as US operations, so they should not be subject to a normal tax rate that US operations would be.

Within the US, companies should pay for the benefits they passively receive from operating here. Hodge from the Tax Foundation makes another good conceptual point when he points out the increased barrier for investment caused by taxes. When a company is considering a new project, they will look at the expected costs versus the expected revenues. A higher tax rate causes these costs to go up which would cause less investment by companies in the US.

Outside of just tax rates, there are other benefits that can be offered that can spur investment or expansion. One offered in the TCJA is 100 percent bonus depreciation. This allows a company to record the full cost of depreciation on certain long-lived assets in the first year to decrease their net income to decrease their tax burden. This is set to phase out over the 10 years the bill is implemented on this part. The first five years are full 100 percent years. After then, each successive year decreases the amount by 20 percent. Another option is lowering the capital gains tax to increase the incentive to invest creating more capital for companies and better savings for families.

Conclusion:

Many factors other than just the corporate tax rate affect how companies choose to operate, but the corporate rate is one of the most important. I would first argue that the US should not tax foreign earnings of US corporations. This disincentives companies to bring in foreign earnings for US investment or dividends. No matter how low our corporate tax rate falls, we cannot compete with the zero or tiny rates offered by other nations. Instead, we should increase our corporate rate in the US further than the 21 percent that TCJA created. I would argue that Biden's proposal of 28 percent seems to be a good number. The average corporate tax in a EU country is 21.77 percent. The US offers a much larger consumer base and benefits than any EU country therefore we can charge a higher premium to operate. A higher corporate tax allows US citizens to shoulder less of the tax burden. Benefits can be offered to corporations to operate in certain areas that need more investment. 100 percent bonus depreciation could be offered for any investment in lower income areas or areas that have a high rate of unemployment to spur investment.

A Career in Tax:

Prior to this case, I had very little interest in a career in tax. I do not believe this case has changed my opinion too much in that area. I do believe that tax policy is an interesting area, but I would most likely not be working in that area for a Big Four company without some initial work in the tax field. When I have talked to professionals in the industry, I have heard the classic argument of tax is more work at your desk while audit is more meeting and talking to people and working at the client site. While I am sure this is not as black and white as that sounds, professionals I have talked to have said there is some truth to it. I believe I would enjoy audit because it would truly allow me to dig into a specific industry or company and learn the ins and outs of that industry. While tax does seem to be a little more interesting now, I do not believe that I would want to pursue a career in tax.

Case VI:

Introduction

This case asked us to find someone established in their career and interview them. I chose to interview my uncle, Keith Pearson. He is an attorney in Oxford who was been in law for the past 29 years. The case asked us to write a biography on this person while trying to find life lessons in the interview that we could use going into accounting recruitment and life after that. The case had questions we were supposed to ask, but the interview flowed more just like a life conversation rather than an interview. I thought this case was one of the best in terms of mentorship and preparing for life after college that is not necessarily directly related to the workspace. I think my Uncle had a lot to tell me and a lot of lessons I could learn. One of the biggest points he hit on is to focus on enjoying life rather than only grinding in your career for the early part of your life. He says that when you are young, you have time to do a ton of cool adventures or learn tons of hobbies or skills. When you are older, you have a lot more commitments. You will probably have a family that you need to take care of. He says that once you have kids, your life revolves mostly around them. I think I am going to wait to have kids for a while after I graduate college. One of the other biggest takeaways I got is to not live your life with regret. One piece of advice he told me that I particularly liked is to not stress about something if you are not actively changing it. I sometimes will sit in bed and think about work I need to do tomorrow, and that just leads to me feeling stressed in bed. He said, “If you’re not going to do it right now, don’t stress about it until you do it.” The biggest takeaway I got for accounting recruitment is to focus on the company and how they treat their employees as opposed to how big they are. He told me that working for a company that you like and enjoy working for is more important than how much they pay you or how prestigious it looks on a resume. In the end, I really enjoyed this case.

1. **<u>Tell me about your life growing up before you started college or your career.</u>**

Keith Pearson's parents moved to Greenville, MS when they were 18 years old. Greenville used to be a thriving town in the delta of Mississippi but has since gone downhill. His dad got a job at the US Gypsum Company the day they got to Greenville where he would work for the next 42 years before retiring. Later that same year, his mom would get a job at the local library where she would work for 11 years before switching to being a clerk for a judge in town. Keith was born in 1965 as the youngest of four boys. Growing up, he describes his family as middle middle class. Beginning in the summer after his ninth grade year, he would work at a local farm chopping cotton, meaning killing weeds around the cotton, every summer. One summer after his tenth grade year, he would briefly switch to working in a steam ship shoveling coal, but his mom eventually made him switch back to the farm due to working conditions in the belly of a steamship in the Mississippi Delta. He attended public school up to eighth grade before switching to a private school in Greenville for high school.

2. **<u>What were your college years (if applicable) like?</u>**

Keith went to Ole Miss on a full academic scholarship majoring in accounting at first. He would later switch to economics which he would graduate with. He describes his college years as "having a good time while making decent grades." He enjoyed his time at Ole Miss, but he did not know if economics was what he wanted to work in post-graduation. He chose to go to Ole Miss for an MBA. Then, he went to the Ole Miss law school following that. Overall, he was in school for about ten years. He describes himself as lucky that his parents were able to help him pay for his MBA and part of law school leaving himself without too much student debt after he graduated.

3. **<u>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?</u>**

Keith did not know that he wanted to go into law when he first got to college. It was always on his mind during his undergraduate years at Ole Miss but was never his first priority. He switched from accounting to economics during his undergraduate and then got his MBA post-grad. After his MBA, he said he had a choice to make. He knew he did not want to work in the field that an MBA would lend itself to but did not know what he wanted to do. He said that going to law school was fifty percent wanting to go to law school and fifty percent not knowing what else to do. In the end, he said that it ended up being a good choice, and he enjoys the work he does.

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

After completing law school, Keith went to work at a small firm in Vicksburg, MS for a year before working for a small firm in Greenville, MS for three years. At these two firms, he said he mostly learned how to be a good attorney. He said he did not learn many life lessons at these two firms. The firms were good employers, but they were mostly focused on developing him as an attorney. After these four years, he moved to Oxford to work for a satellite office of a larger insurance defense firm for 11 years. Here, he says he learned a lot about how being a successful firm does not translate into being a good firm to work for. He says he learned that ability is not the only factor in success at larger firms. He says that sometimes firms are not always interested in what is best for their employees as opposed to what is best for their bottom line. He also learned that it is better to work for clients that you believe are in the right as opposed to just making the most money. After those 11 years, he went out on his own to start his own law practice in Oxford where he stills works to this day. He says that working for yourself is both more challenging but also more rewarding at the end of the day.

5. **<u>What has your life been like outside of your work?</u>**

Keith has been married for 26 years and has four children, three daughters and one son. He said his early years of marriage were consumed with running around after his kids for soccer practices or other events. He says that when your kids are in school, your life revolves around them and their events. He has had a tent in the grove and tent in the outfield of the Ole Miss baseball stadium for the last 20 years where he has attended most games. He told one of his daughters that they could not have their wedding on the weekend of an Ole Miss Baseball regionals when they were planning their wedding, so the wedding was the weekend before. He says that between work, his kids, and going to games, there was not much other free time. Now that all of his kids are in or out of college, his life is less hectic, but still busy.

6. **<u>What has been the best vacation you've ever taken?</u>**

He says that his favorite family vacation was to Disney World about 14 years ago. He says he enjoyed it immensely when his kids were not arguing. His favorite trip overall was his 25th year anniversary trip with his wife. It was a four day cruise around the Bahamas followed by four days in Key West. He says that he had always wanted to visit Key West. He says it lived up to his expectations when he was there.

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

His first comment on this question was that hindsight is 20/20. People can tear themselves up thinking about what could have been and what they could have done. He says it is not worth it in most cases to try to rethink or change the past. He says he does wish he had taken some time to travel Europe when he was younger just getting out of school. He says that you never have more time than when you are young. He, also, wishes that he had started his own law practice immediately out of school as well as started preparing for his own law practice in law school.

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?**

His biggest advice he says is to not be scared of failing. He says that when you are young, you have so much time ahead of you that it is okay to make mistakes. He says that too many people are scared of doing something that they may not be successful with or might fail with out of school. People will first try to establish themselves in their career and in life before trying something where they may not succeed. He says at that point, it is almost too late to try to start something because you usually have a family and more commitments than when you are young. He closed this question with saying that fortune favors the bold.

9. **What are you most proud of?**

He says that he is most proud of his family and children. He believes that he raised them well. He is also proud of starting his own law firm from scratch in Oxford. He believes it was one of the most challenging ventures he has ever undertaken but also one of the most rewarding at the end of the day. Over the course of his life, he says he is most proud of mostly living by the Golden Rule. He says that he thinks fortune follows those who are good people to those around themselves regardless of who those other people are and where those other people are at in their life.

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

He started by saying that this is a tough question to answer on a generational scale. He believes that medical, technological, and societal advancements have made standard of living insanely high in the United States. He believes that more people should be grateful for these advancement as they generally make life much easier than it used to be. In the end, he says that the biggest challenge for his generation is to try to lead the next generation into a more united next stage in this country. He says that polarization has only increased during his lifetime, and that his generation needs to try to stop what is happening with how divisive the people in the United States are.

11. **<u>What will be the biggest challenge for my generation?</u>**

He believes that the biggest challenge facing my generation is the same challenge facing his generation on a bigger level. He says that people in my generation need to stop listening to politicians and pundits on the fringes of the political spectrum, because they will never be happy regardless of what policy is passed. The people on the fringes are just there to sew discord. He says that too often, people of my generation look at someone who does not agree with you as an enemy rather than just another person with a different opinion.

12. <u>Takeaways</u>

This case has left me with a lot of life tips. On a personal note, it has reaffirmed that I want to travel the summer between graduation and my master's year. Hopefully, I will have saved enough money from my hopeful internship that I will be able to travel to Europe. Both Keith Pearson and other people I have talked to in the accounting profession have told me to not over value money and value experiences. They say that you can always make more money, but you can not buy time back to experience new adventures. I, also, want to stop thinking about what could have been if I had done something differently in the past. Whatever it is, it is done, and I need to look towards the future. I want to focus on trying to achieve what I want to do when I am young and not worry if I fail.

Case VII: Case Competition- Overview

Group Members: Avery Andress, Shivani Chaudhary, Davis Judd, Olivia Meyer

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 a revenue of $47.5 billion. The industry's annual growth from 2015-2020 was around -1.3% and expected growth of 2.4% from the years 2020-2025 includes $2.4 billion in profits at a 5.1% 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% 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, returning $19.8 to shareholders. 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 for the use of growth acceleration.

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% during 2020. They lost market share to AMD, another processor company. These drops led to the decision to bring in new management, so they replaced Bob Swan as the CEO with Pat Gelsinger. 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 superior to 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 EV companies like Nio and Tesla.

We learned that Intel is more than just a technology company. Intel is the only U.S.-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. Recently, Intel has changed their management and a new CEO will take over in February. The recent innovations and management changes are promising for success in the upcoming years.

Case VIII: Case Competition-Audit

Group Members: Avery Andress, Shivani Chaudhary, Davis Judd, Olivia Meyer

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 mistating 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 zero dollars to over five billion dollars 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. We also recommend having a third party firm do a random check of some of the trading assets to ensure that they are accurately carried as a level two on the fair value measurement scale. 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 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. Intel Corporation may intentionally embed expenses into their losses below the operating line to avoid paying taxes while showing a high operating income to investors. Intel Corporation should ensure that any changes on the market value of these equity investments are checked by two different managers to establish that there is no attempt to increase or decrease earnings in order to increase compensation. 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.

Account	Existence	Completeness	Valuation	Presentation	Risk Notes
Cash and cash equivalents					They have their statement of cash flows directly under listing where their cash came from and went to. We expect no problems here.
Short-term investments			✓		All values are listed under level 2, but not as perfect as looking onto the stock market. We could check the markets they used or the derivative models they used in creating these values.
Trading assets	✓		✓	✓	Because the trading assets for 2020 increased dramatically, we would want to look closer at how the increase occurred. Was this increase due to a valuation change or was it due to an increase in trading assets?
Accounts receivable				✓	Allowance for doubtful accounts evaluation should be shown.
Inventories		✓			We cannot physically

					determine inventory. Inventory is valued at LCNRV. Look at the variation in market pricing, fluctuation of market conditions.
Assets held for sale			✓		We might look at the valuation here because they say they stop recording depreciation on assets held for sale which isn't abnormal, but we would want to make sure that they aren't being overstated for what they could be sold for.
Other current assets	✓			✓	Since the 10k is not telling us exactly what the 'other current assets' account is comprised of, we are unable to see what exactly exists.
PPE			✓		Judgments applied regarding the valuation of PPE are estimates rather than exact amounts. Impairments are only evaluated when there are changes in use and significant issues rather than on a

					regular basis.
Equity investments			✓		Non-marketable equity securities and equity method investments are two of the three categories included here. These are measured at cost minus impairment. We would want to check if they are measuring their own impairment or having a third party do it. We might also look at the formulas and methods used to find impairment.
Other long-term investments				✓	We are not given many details about the investments or their maturities.
Goodwill			✓		Note 2 states that fair value substantially exceeds carrying value, the acquisition of 6 companies contributes to this and is outlined in Note 11.
Identified intangible assets			✓		For valuation, intangibles are difficult to value.
Other long- term	✓		✓		-Volatility and

assets					price changes -Is the value of PPE being inflated? -What valuation method is being used?
Short-term debt					There are no issues, the amount of short-term debt is clear.
Accounts payable		✓		✓	There is no further information about accounts payable other than gross amounts.
Accrued compensation and benefits		✓		✓	There is no further information about accrued compensation and benefits other than gross amounts. We need more information about the accrued compensation and benefits.
Other accrued liabilities				✓	Information is scattered, so it is difficult to pinpoint specifics.
Debt				✓	There is a significant dip between years of debt amounts but no explanation
Contract liabilities		✓	✓		There is an open case on a contract

					that leaves an undetermined balance
Income taxes payable					It is clear how much Intel Corporation owes in income taxes payable.
Deferred income taxes					It is clear how much Intel Corporation owes in deferred income taxes.
Other long-term liabilities		✓		✓	The long-term liabilities are not described. With this, there could be an understatement of the account.
Commitments and contingencies				✓	
Common stock					
Accumulated other comprehensive income					
Retained earnings					

Case IX: Case Competition-Tax

Group Members: Avery Andress, Shivani Chaudhary, Davis Judd, Olivia Meyer

In this case, 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 low-taxed income). GILTI creates a minimum of a ten and a half 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.

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 ten 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 the one hundred dollar 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 forty-six million dollars 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 dollars 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 ten 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 ten percent tax comes along with the proposed minimum fifteen percent tax, "on all corporations with book profits of $100 million or higher," making the potential consequences of moving overseas more advantageous than the positive tax rate decrease.

State Income Taxes in Delaware for 2020	$46 Million
Potential State Income Taxes in Wyoming for 2020	$0

President Joe Biden has proposed a ten 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 ten-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, so they have better factories. 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 ten 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 forty percent refundable federal tax credit for semiconductor manufacturing facilities and equipment.

Current Federal Income Taxes in 2020	$2,489 Million
Federal Income Taxes after retooling the Hillsdale, Oregon plant	$943 Million

Case X: Case Competition-Advisory

Group Members: Avery Andress, Shivani Chaudhary, Davis Judd, Olivia Meyer

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, 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 of 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 position of Intel Corporation in the previous five years and gave us information to forecast the financial situation 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 is to play a larger role in our customers' success by delivering a predictable cadence of leadership products." The entity exists "to create world-changing technology that enriches the lives of every person on earth," through computing systems in efforts to "unleash" the potentials of data. 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 ASML, DISCO Corporation, and Fujimi Corporation. They have ten trusted distributors in the United 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, consisting of 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 ten percent of their revenue.

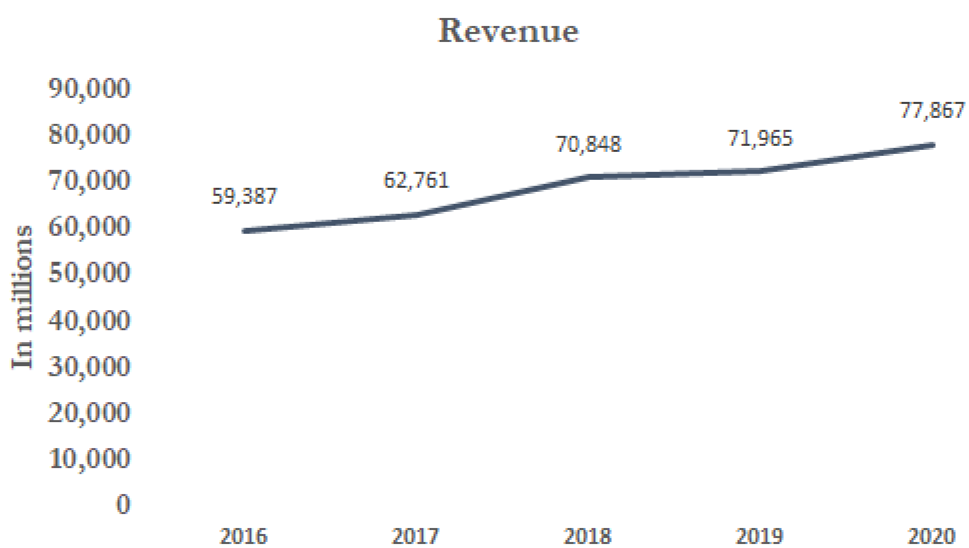
Intel Corporation has two major competitors in the two fields they occupy. Intel Corporation is the largest integrated semiconductor manufacturer, so they design and manufacture their microprocessors. Their biggest design competitor is AMD, Advanced Micro Devices, which solely focuses on chip design. 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 household 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 has always been an integrated semiconductor manufacturer, but integration is leaving them behind due to their manufacturing team's inability to keep up with their design team. Intel Corporation also does not have enough machines to produce all of the technology they are promising. Production delays in their ten nanometer CPU chips have led to delays in all of 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 8 percent. To combat this, Intel should invest in buying new state of the art ASML's TWINSCAN NXE:3400B. These machines are able to produce chips at the seven and five nanometer level, which would allow Intel Corporation to produce their current designs, as well as produce the next generation of chips.

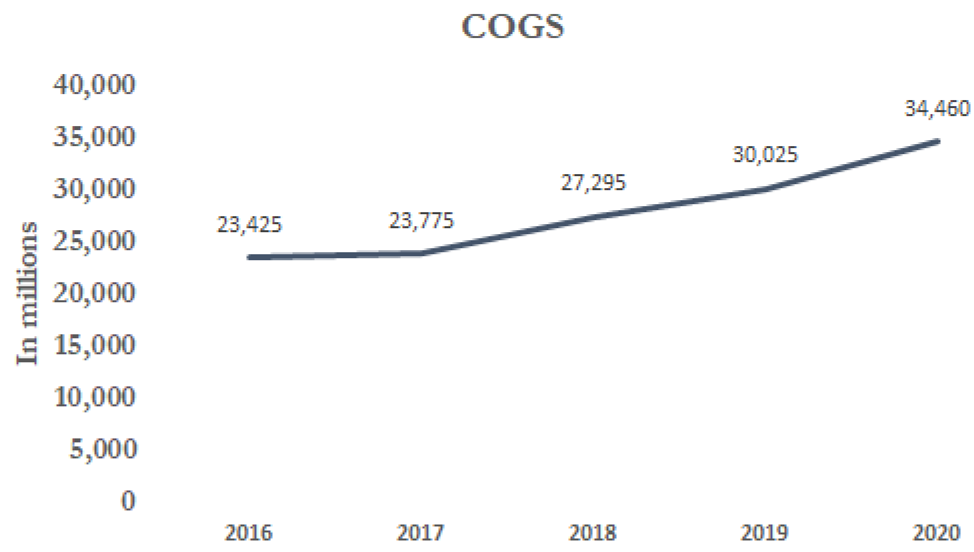
TSMC is currently planning to build a factory in Arizona under a wholly owned subsidiary that will be ready to start production in 2024 and will have the capacity to create both seven and five nanometer chips. This new subsidiary could allow them to bid on government and military contracts, presenting security concerns with the company not being founded in the United States. If Intel Corporation has the same capabilities as the new TSMC, they will easily beat out TSMC for government contracts, but this advantage only exists if they operate at the same caliber. Intel Corporation's acquisition of these machines will allow them to be able to produce their smaller chip designs as well as free up older machines to produce CPU chips at the ten nanometer level. This will solve their inability to manufacture their own chips, as well as the supply chain issue.

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

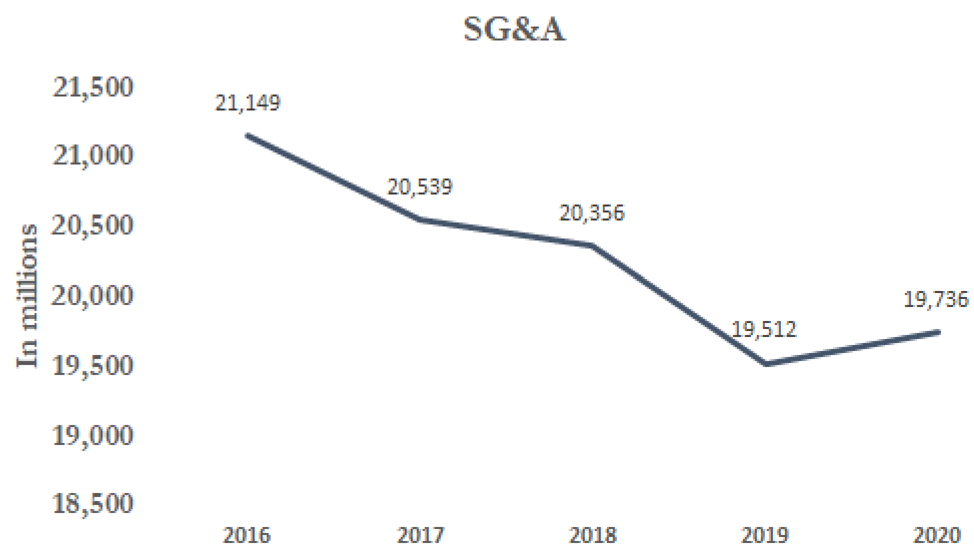
a. Revenue



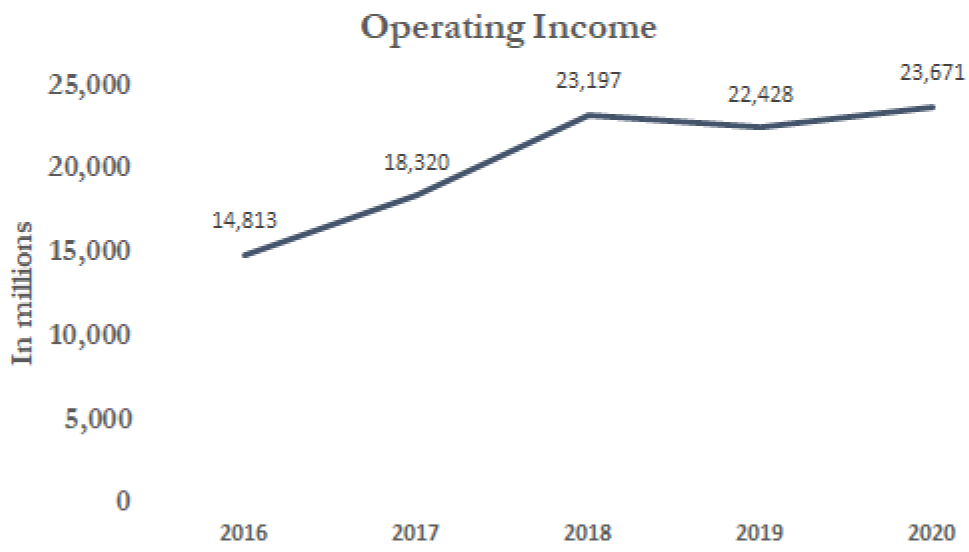
b. COGS



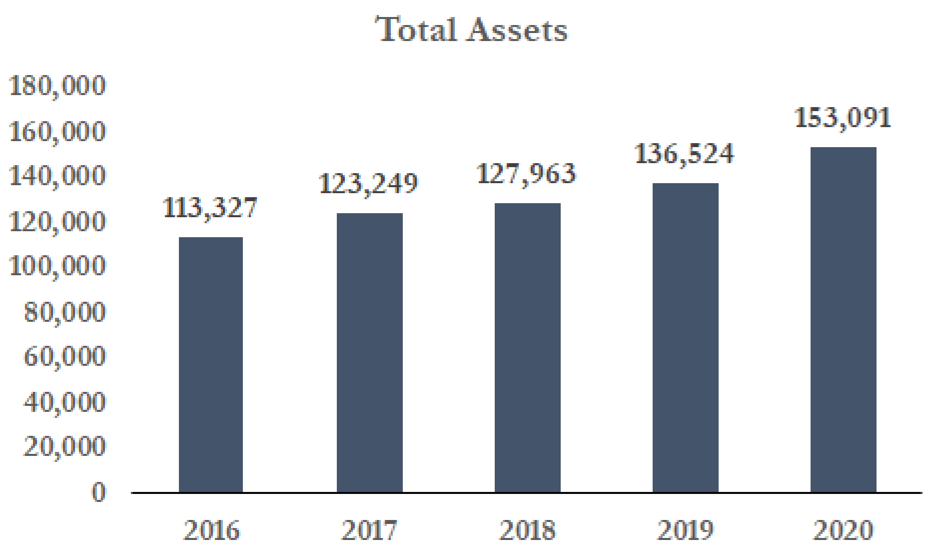
c. Selling, General and Administrative (SG&A) Expense



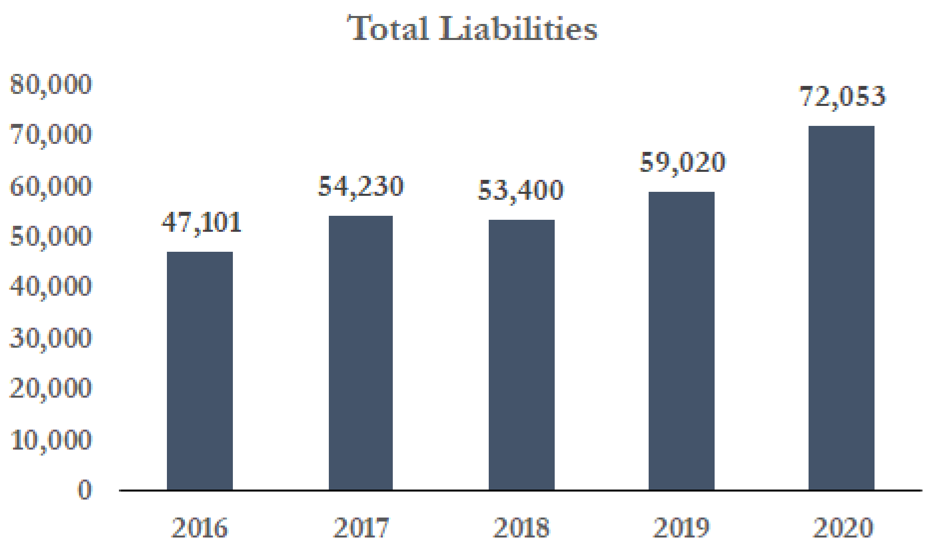
d. Operating Income



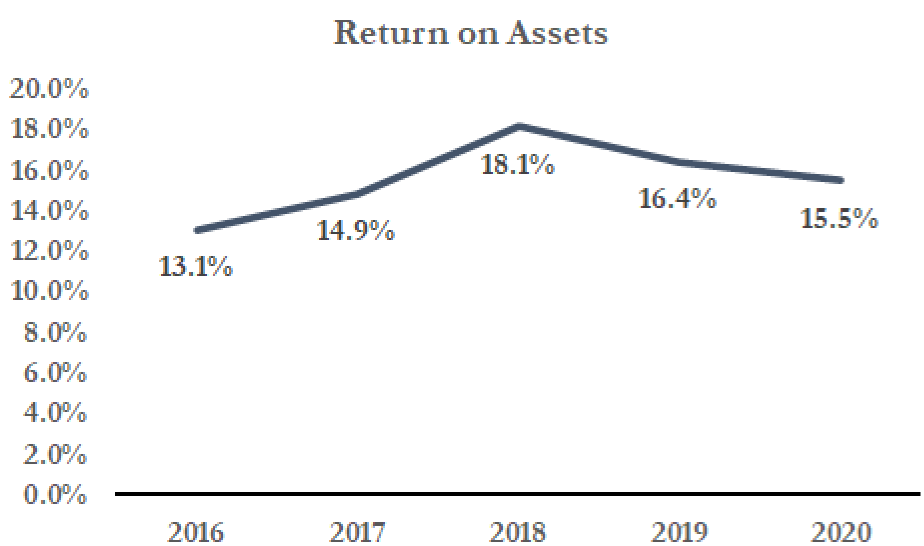
e. Assets



f. Liabilities



g. Return on Assets – computed as Operating Income / Assets



h. Dupont Decomposition

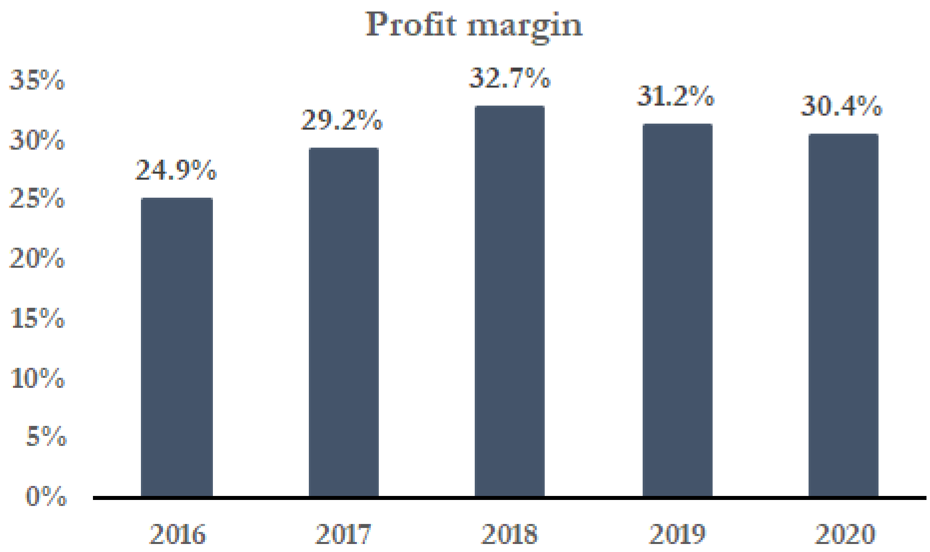
i. Profit Margin = Operating Income / Revenues

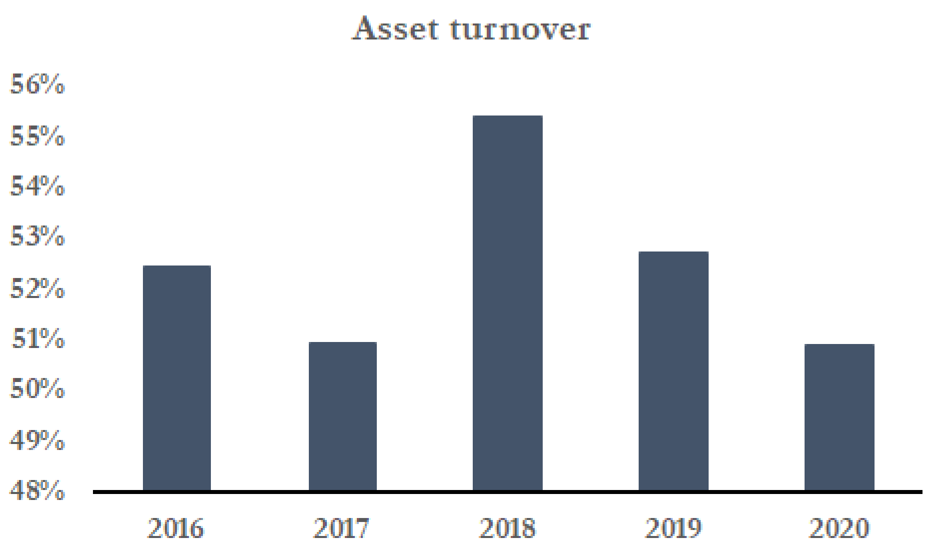
1. This ratio measures how much the company is able to differentiate its products

(i.e., charge a premium for its goods)

ii. Asset Turnover = Revenues / Assets

1. This ratio measures how efficiently a company is operating





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

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 5 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, which was $2.4 billion of Intel Corporation's revenue in 2020. To combat this issue, the best solution would be to purchase ASML's TWINSCAN 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, but production will be increased, so we expect an increase in revenue.

In 2020 Intel Corporation held 15.6% of the market share for the semiconductor market worldwide. The worldwide semiconductor sales for 2020 were $1036.3 billion. The chip manufacturing machine we intend to purchase costs $120 million per machine. We plan on purchasing the machines on a 2.42% long-term debt agreement. The three machines would cost a total of $360 million. Assuming each machine produces 125 chips per hour and works constantly, each machine would produce 1.095 million semiconductors.

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. To combat this, 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 we would expect to see the effects in three years, after the students have graduated and started working full-time. The only condition with the scholarship is students will work for Intel 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 take 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. We are expecting full retention of the students. Beginning in the third year, we expect our first group of students to begin working, which will increase revenues by an additional yearly one percent increase, with half of revenues being kept as assets.

Intel Corporation’s Program for Master’s Students

	Revenue	COGS	SG&A	OP Inc	Assets	Liabilities	ROA	Profit Margin	Asset Turnover
2022	-	0	2,487,500	-2,487,500	-	2,487,500	-	-	-
2023	-	0	4,975,000	-4,975,000	-	4,975,000	-	-	-
2024	240,000,000	0	4,975,000	235,025,000	120,000,000	4,975,000	1.959	.97927	2
2025	480,000,000	0	4,975,000	475,025,000	240,000,000	4,975,000	1.979	.98964	2
2026	720,000,000	0	4,975,000	715,025,000	360,000,000	4,975,000	1.986	.99309	2

Retooling

70,024,000,0000

	Revenue (0.43)	COGS (0.20 per unit)	SG&A	Operating Income	Assets	Liab.	ROA	Profit Margin	Asset Turnover
2022	645,000	300,000	0	345,000	360,000,000	360,000,000	0.0009	53.5%	0.00179
2023	661,125	307,500	0	353625	144,000,000	368,712,000	0.0024	53.5%	00.00459
2024	677,653	315,187	0	362466	57,600,000	368,712,000	0.0062	53.5%	0.0118
2025	711,535	330,946	0	380589	23,040,000	368,712,000	0.016	53.5%	1.870

2026	747,111	347,494	0	399,617	0	0	-	53.5%	-

Case XI: Case Competition- Earnings, Stock Price, and Analysis

Group Members: Avery Andress, Shivani Chaudhary, Davis Judd, Olivia Meyer

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 bottom line.

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 ROAs from previous weeks' tax and advisory strategies which had a positive trend. This data combined with other recent positive news about Intel Corporation helped us arrive at 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 and how risky it is in comparison to other stocks on the stock market.

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.

Changes in the stock price over the last few months related to some big news headlines. The earnings report for 2020 showed unchanging numbers compared to previous years. Intel Corporation rebounded in January after they announced a new CEO, Pat Gelsinger, an engineer that had worked for Intel Corporation for over 30 years. The stock fell once again with the announcement of additional delays in their seven-nanometer chips. With Intel Corporation outsourcing part of their semiconductor production to Taiwan Semiconductor Production, companies like Apple and Microsoft have begun to make chips in-house or outsource directly to TSMC, dropping Intel Corporation's stock. The incoming CEO Gelsinger has reassured everyone that Intel Corporation will continue to manufacture the majority of their chips, and Intel Corporation intends to return as the “unquestioned leader in process technology”.

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 to increase our 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 our stock price to increase 24.07 percent from the closing price at the end of 2020. Our recommendation to create a recruiting program expects a 19 percent return on assets 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 is losing ground on competitors with Lenovo Group Limited recently giving a contract to AMD, a competitor to Intel Corporation, for a new line of laptops. 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, their competitors will overtake them.

Overall, our increase in stock price and overall ROA will have a positive trend and 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 our 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 in Taiwan 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 ROA figures 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 his/her risk averseness and the level of return they expect to earn 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 holds 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. As for the risk profile, 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 a 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: 2008 Financial Crisis

This case asked us to investigate the 2008 Financial Crisis, the causes, the effects, and our opinions after it. We first watched a few videos giving us a general idea of crony capitalism and the crisis. We then watched a movie, "Inside Job," about the years leading up to the crisis, the crisis, and the aftermath. We then read two articles about two of the more complicated topics surrounding the causes of the crisis. The 2008 Financial Crisis was the biggest recession the US has undergone since the Great Depression. Its effects were felt worldwide as no economy was safe with the economies of each country becoming more interdependent. The harbinger of the crisis was the collapse of the US housing market. The housing market had seen unprecedented growth in the 15 years leading up to the crisis, and most of the general populous saw housing as one of the safest investments. The largest financial firms such as Morgan Stanley, Bear Stearns, AIG, Lehman Brothers, and Merrill Lynch took advantage of this and started offering loans to people who should not have received loans and creating new financial instruments to drive investments up. The average amount people borrowed on the subprime loans were 99.3 percent of the value of the house. When they could not pay or had other issues, they just defaulted on the loan because they had very little equity in the house. This along with plenty of other issues caused the 2008 financial crisis. In doing this case, I learned a lot. I had never really researched what happened in one of the biggest financial moments of my lifetime. I was only eight when the housing market crashed. I did not know what happened, but I could tell there was something up in those years following due to my parents. This case changed my opinions on how the government should operate in the financial sector. I, also, believe people need to better vet the morality of people they vote into power. At the end of the day, you have to have people in power who want to do what is best for the American people. The 2008 Financial Crisis could have been averted, but people chose to act in their own interest.

2008 Financial Crisis

In 2008, the US entered the worst recession the country has seen since the Great Depression. 5.5 million jobs were lost in the US due to the recession. The US lost 7.4 trillion dollars in lost stock value over 2008-2009. Foreclosures skyrocketed meaning many lost their homes. This was due to a few different issues. Thomas Sowell argues that it was a problem in the real economy, specifically the housing market, that then spilled over into the financial markets which caused the recession. He argues that politicians changed the rules to allow for people to get mortgages easier than before which caused the housing market to crash. I agree more closely with the film, “The Inside Job,” makes. They argue that the investment banks, ratings agencies, and insurance brokers caused the crisis by focusing on short term profits rather than long term sustainability. There is plenty of blame to go around, though. Politicians were told of the problem but chose to not intervene.

Deregulation of financial markets were the main cause leading to the crisis. There were plenty over the 30 years leading up to 2008, but the Gramm Leach Bliley Act stands out as one of the most important. This act allowed banks to speculate using depositor’s money. In the past, investment firms were typically investing only the partner’s money or other people who chose to invest in that firm. Following the passage of the Gramm Leach Bliley Act, banks could now invest any money that was put into them.

The vehicle that started the bursting of the bubble was the Collateralized Debt Obligation (CDOs) and credit default swaps. CDOs were packages of mortgages or other debt instruments that were put together, and people were allowed to invest into them. The demand for CDOs was massive. To keep up with demand and to make more money, banks took two actions. The first was to increase the amount of subprime loans they gave. Subprime loans are loans at a higher than normal interest rate that go to people who would not typically be able to get loans. Now that banks had more mortgages, they could create more CDOs which, in turn, meant more people could invest in the CDOs. They other way banks created more CDOs and investment opportunities was credit default swaps. Credit default swaps were essentially just insurance on a mortgage or a bond. The leading company giving out these credit default swaps was AIG. Someone could pay AIG a quarterly premium, and AIG would pay them their losses if the investment that the credit default swap insured went bad. The larger issue with credit default swaps was that there was no limit on how many could be created. If I insure my house, I am the only one who can insure it. Anybody could buy a credit default swap on anyone else's debt instrument. Banks would go give subprime loan to someone, package it with many other subprime loans, and then buy a credit default swap on the loan they just gave out. There was no morality on Wall Street. All of the major firms just wanted to turn a quick buck. It got to the point that firms were making synthetic CDOs which were just credit default swaps packaged together. The underlying asset was so far removed from the investment at this point that it should have been impossible to rate this investment.

Fortunately for the major financial firms, ratings agencies also just cared about making a quick buck. They were giving almost every CDO an AAA rating which is the highest (safest) rating an investment can receive. This meant that organizations such as retirement funds could invest in them because many retirement funds have bylaws that require them to be incredibly safe. When the bubble burst, many people lost their retirement. Ratings agencies had no liability in giving out bad ratings. They sat in front of Congress and continually claimed that these ratings were just their opinions. They say this as if their ratings are not used by millions to make decisions or as if they did not know their ratings were wrong.

All of these issues created the perfect storm for a massive bubble to be built only to burst causing the largest financial recession in the US since the Great Depression. This had worldwide impacts, as well. The world saw a two trillion dollar loss in global economic growth. Employment dropped in every country around the world. 13 years later, the effects of the 2008 Financial Crisis are still being felt.

Trust in Financial Institutions and Government

I have never been one to have a lot of trust in the US government. I have always been of the opinion that most situations are better without government intervention. This case has changed my opinion on this matter somewhat. On one hand, Dr. Sowell points out that government intervention that promoted giving out loans to people who normally would not qualify lead to the creation of the bubble. On the other hand, the lack of government regulation allowed these firms to operate however they chose to with no checks. They did the opposite in deregulating the actions of these firms. The Gramm Leach Bliley Act allowed banks to start investing with depositor's money which was one of the major causes that so many people lost money. The Security and Exchanges Commission did not conduct one audit of the major financial firms during the years that the bubble was being created. The Commodity Futures Trading Commission tried to start regulation of financial derivatives, and the Treasury stopped them. I think the institutions are hard to ever trust. Institutions are made up of people who do the work of that institution. The leaders of the financial firms and government agencies that created or enabled the financial crisis knew that something was wrong or willfully ignored it. Banks were giving out subprime loans and then turning around and betting against them with credit default swaps. I do not know if this changed my views on trusting institutions, but it may have changed my views on how much intervention is necessary to keep institutions and people in power at these institutions in check.

Role in Society

I do not believe that most individuals could have stopped what was happening in the 2008 Financial Crisis even if they knew it was going to happen. Most people just do not have the power to handle that sort of issue. I think members of society need to focus more on their ability to vote people into office who will fight for them as well as keep an eye out as to what they do in office. Most Americans may care a lot about federal politicians during election seasons, but they rarely know what these politicians are doing on a regular basis after they are elected. I am guilty of this as a person. I need to start being more vigilant about what goes on for the President of the US as well as what goes on in Congress. I believe people also need to factor in morality more when choosing a presidential or other high level candidate. These candidates can have views you agree with on plenty of issues, but I doubt most people had well thought out, nuanced views on CDOs or credit default swaps in 2008. This was something that was new and facing the federal government and many politicians in power made the immoral choice to focus on helping their own pocket books or the pocket books of their friends. A more moral government could have stopped the crisis, but they chose not to.

As a professional in the industry, I believe this heightens my sense of professional skepticism. I think that I could be blinded by how nice someone seems. CEOs or other high level executives in major firms are there in some part to their charisma and general likability. I want to focus on not being drawn in by that. I do not want to not like an executive or employee, but I want to separate the person from the job.

Solutions

I always have caution with wide ranging regulation as a solution to stopping people from helping themselves or friends over their constituents. For example, the University of Mississippi has to take the lowest bid on projects as a part of state law. I work for Ole Miss Outdoors on campus, and we had to accept a bid on our new climbing wall in 2018 that was not the one we wanted to choose solely because the bid came in lower. The issue is that the company who put in the lower bid put in a lower quality wall. We have had to fix some of the bolts for putting in climbing holds as well as other issues. In the end, I believe the best solution is to put people in power who you can trust to do what is in the best interest of their constituents. That sounds easy but is harder in practice. People need to look at candidates more closely when they are voting and consider their character more than people do right now. We could also stop the practice of allowing companies or high level executives of large companies to contribute to campaigns. This would stop people from being indebted to corporate interest as well as stop any sort of incentive to help a company because you want future donations. We could also implement term limits. This will stop politicians from being entrenched in the system and allowing one or two politicians to control what goes on due solely to their seniority. In the end, the only way to stop institutions from screwing over the general public is to put good, moral people in government institutions and to regulate financial institutions.

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