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Accounting Case Studies

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By

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TABLE OF CONTENTS

ABSTRACT	3
CASE I: A Tale of Two Cities	4
CASE II: Asset Concepts	13
CASE III: Excel Course	24
CASE IV: *Taxodus – Playing the Global Tax Avoidance Game*	25
CASE V: Business Interview – Melissa Meacham	30
CASE VI: Case Competition – Overview	35
CASE VII: Case Competition – Audit	38
CASE VIII: Case Competition – Tax	43
CASE IX: Case Competition – Advisory	46
CASE X: Case Competition – Earnings, Stock Price, and Analysis	52
CASE XI: Financial Crisis of 2008	56
REFERENCES	62

ABSTRACT

This thesis is a study of financial accounting through a collection of case studies. This thesis took place over the course of two semesters in Accounting 420. Dr. Victoria Dickinson led the class and advised the students in this class for each case study. There are 11 case studies that comprise this thesis including: A Tale of Two Cities, Asset Concepts, Excel Course, *Taxodus – Playing the Global Tax Avoidance Game*, Business Interview – Melissa Meacham, Case Competition – Overview, Case Competition – Audit, Case Competition – Tax, Case Competition – Advisory, Case Competition – Earnings, Stock Price, and Analysis, and Financial Crisis of 2008. The case competition portion of thesis required students to present our findings in front of many accounting professionals from different firms. The competition was a rewarding experience as we were able to share what we had learned with accounting professionals and answer any questions they had regarding our findings.

Case I: A Tale of Two Cities

Executive Summary

The city selection case study aimed for students to compare two different cities that they were interested in pursuing their careers in. After naming the two preferred cities, students were instructed to answer a variety of questions about each city. The questions ranged from health care and education to what grocery store would you shop at. These questions led students to research and learn more information on each city. Once the questions were answered, students were required to craft an operating budget for each city. After all of this was completed, the students were asked to determine which city was their preferred destination and why. This research really challenged students to heavily consider the information found, so that they were able to determine which city is for them.

This case study was very beneficial to me because I had not researched my top two cities in depth. Charlotte, North Carolina and Dallas, Texas are the two cities I chose for this case study. I learned so much from this research. I found that these two cities have excellent health care and education. I learned how much rent typically is in these two cities. I learned that these two cities are safe for people that live in these communities. I found the industries prevalent in both cities to be very interesting to me. I even created an operating budget for each city. After completing the research on each city, I was asked which city I would prefer to live in. I was already leaning towards one city, and this research has confirmed to me that I still want to pursue my career in that city. After the research done on both cities, I know that Charlotte and Dallas are the places I would start my career in if given the opportunity.

I would like to start my career in either Charlotte, NC or Dallas, TX.

1. What is the population?

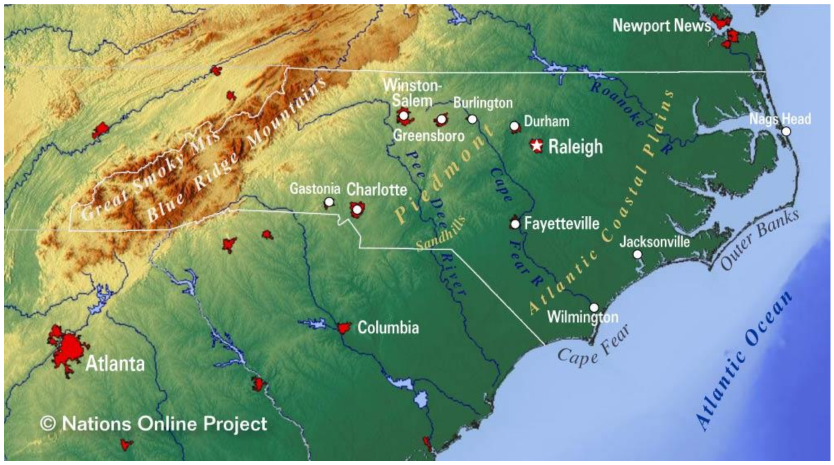
The population of Charlotte is around 872,500 people. The population of Dallas is roughly 1,345,000 people.

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

In Charlotte, the weather tends to fluctuate with each season. Winter months tend to see an average low in the thirties, and an average high is in the fifties. In the summer, the average low is in the upper sixties, and the average high is in the upper eighties. In Dallas, winter months lows can be seen in the forties, and highs in the seventies. The summer months can see lows in the upper seventies, and highs in upper nineties. I am more accustomed to living in the weather that Dallas typically sees. However, I enjoy cold weather so living in Charlotte and experiencing their winters would not bother me.

3. Describe the city's topography, scenery, and other geographic or geological features of the are in which the city is locate. Include pictures where appropriate.

Charlotte is located over 100 miles from the Atlantic Ocean and only 30 miles from the Appalachian Mountains. Charlotte has an elevation of 761 feet above sea level. Dallas is surrounded by mainly flat land, and the city has an elevation level ranging from 450 to 500 feet. There are many surrounding lakes in the Dallas-Fort Worth Metropolitan Area which provide great scenery.



Picture Above: Depicts topography surrounding Charlotte, NC

Picture Above: Map of Dallas, TX

4. What are the individual tax rates within the city (e.g., consider federal, state and local income tax, property tax and any other taxes you'd be likely to pay. Quantify what this means based on a starting salary of approximately $55,000/year)?

In Charlotte, the effective tax rates for federal, FICA, state, and local income tax are 9.59 percent, 7.65 percent, 4.30 percent, and 0 percent respectively. My total income tax in Charlotte is $11,845 leaving me $43,156 to take home. In Dallas, the effective tax rates for federal, FICA, state, and local income tax are 9.59 percent, 7.65 percent, 0 percent, and 0 percent respectively. My total income tax in Dallas is $9,482 leaving me $45,518 to take home.

5. What transportation hubs are in the city?

In Charlotte, Charlotte Station and Charlotte Douglas International Airport act as the city's main transportation hubs. In Dallas, Dallas Union Station and Dallas/Fort Worth International Airport act as the city's main transportation hubs.

6. What are the city's most prevalent industries? What are the city's five largest companies?

Charlotte's most prevalent industries are banking, manufacturing, and automotive. Charlotte and the surrounding areas are also a growing health care hub. The five largest companies headquartered in Charlotte are Bank of America, Lowe's, Nucor, Duke Energy, and Sonic Automotive. In Dallas, the most prevalent industries are telecommunications, oil, and financial services. The five largest companies headquartered in the Dallas-Fort Worth Metropolitan Area are Exxon Mobil, McKesson, AT&T, Energy Transfer Equity, and American Airlines Group.

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

Charlotte has a fabulous health care system. There are many major hospitals in the area that meet all medical needs. Carolinas Medical Center is in Charlotte and is affiliated with the University of North Carolina School of Medicine. Carolinas Medical Center is a level one trauma center. Charlotte also has a good school system. The city has a large budget and the public schools match up well with private schools. Personally, I would send my kids to public school. Dallas has an excellent health care system. Like Charlotte, there are many major hospitals in the Dallas area that meet all medical needs. Dallas has many great K-12 schooling choices for your specific child. Personally, I would send my kids to the public schools from a financial standpoint. However, there are great private schools to choose from as well.

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

city to avoid?

The most common types of crime in Charlotte are property crime which include burglary, theft, and vehicle theft. Northwest Charlotte seems to be the most dangerous area of the city. Violent crimes happen at a far lower rate than property crimes in Charlotte. The most common types of crime in Dallas are drugs, theft, and aggravated assault. The most dangerous area of Dallas is in the downtown area of the city.

9. Based on where you see yourself living for the first three years, how much rent do you expect to pay? Back up this assertion with sample properties from each location (including pictures). Describe the square footage amenities, need for a roommate, availability of parking, etc.

In Charlotte, I expect to pay $1,100 per month in rent. Lantower Garrison Park is the apartment complex that I decided on. The floor plan is one-bedroom, one-bathroom, and 819 square feet. I chose this complex because the price range was the same for most complexes I found, and the amenities stood out. Lantower Garrison park offers a fitness center, pool, outdoor lounge space, and grilling area. Parking would not be a problem at this apartment complex. It is farther away from downtown Charlotte than some complexes, but the drive is a manageable commute.

Picture Above: Lantower Garrison Park

In Dallas, I expect to pay $1,300 per month in rent. Harvest Lofts is the apartment complex I decided on. The floor plan is one-bedroom, one-bathroom, and 731 square feet. The location of the complex is perfect. Harvest Lofts offers a pool, elevator, clubhouse, and a fitness center. The complex also has a parking garage.

Picture Above: Harvest Lofts

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

The commute from my apartment to downtown Charlotte is about 15 miles. Depending on traffic, my drive would range from 15 minutes to 45 minutes. This is a long trek to work, but the complex is everything I want so I would be willing to make this drive. In Dallas, my apartment is located downtown. I have the option to walk or drive to work. I imagine the commute time for walking would range from 10-20 minutes to work. I think driving would take 5-10 minutes to get to work.

11. Where will you do your grocery shopping?

In Charlotte, I will do my grocery shopping at Trader Joe's and Walmart Neighborhood Market. These stores are very close to my apartment complex. In Dallas, I will do my grocery shopping at Walmart Neighborhood Market, Whole Foods, and Dallas Farmers Market. These stores are relatively close to my apartment complex in Dallas.

12. How will you do your laundry?

In Charlotte, the apartment complex I found includes a washer and dryer in the floor plan that I chose. In Dallas, the apartment complex I found has a community space for washing and drying needs.

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

Charlotte and Dallas both have many opportunities to get involved within their respective communities. In both cities, I would get involved with the closest Methodist Church. The Humane Society and Habitat for Humanity have always interested me, and these are two organizations I would enjoy taking part in.

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

I've never had access to major sports and entertainment in my life, and both cities bring these opportunities to the table. In Charlotte, I would become an avid fan of the Carolina Panthers and the Charlotte Hornets. I would also pay close attention to music artists tours so I could attend concerts in my free time. Also, I would look to join a men's USTA tennis team in the area. In Dallas, I would become a huge fan of the Texas Rangers and Dallas Mavericks. JMBLYA music festival is an event I would want to attend. Joining a men's USTA tennis team is another activity I would participate in.

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

Driving and flying are possible modes of traveling back to my hometown of Jackson, MS. A flight from Charlotte to Jackson would cost me $204 and take me 3 hours and 45 minutes to get home. I would have to make a connecting flight in Atlanta to arrive home. Driving from Charlotte to Jackson would cost me $60 of gas and would take me 9 hours and 30 minutes to get home. Dallas has a direct flight to Jackson. This would cost me $206 and would take me an hour and 30 minutes to get home. Driving from Dallas to Jackson would cost me $45 of gas and would take me roughly 6 hours to get home.

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

In Charlotte, my income after taxes will be $46,411. My monthly take home amount would equal about $3,867.58. My rent in Charlotte will cost me $1,100. I expect utilities to be around $100. Also, I expect to have a monthly phone bill of $50. Another expense of mine would be $500 going towards food. After expenses, I expect to have $2,117.58 to put towards a savings account and entertainment. I would like to put away $1,000 a month towards a savings account. This would leave me with $1,117.58 for entertainment, clothing, and other personal choices.

In Dallas, my income after taxes will be $49,036. My monthly take home amount would equal about $4,086.33. My rent in Dallas will cost $1,300. I expect utilities to be $100. Also, I expect to have a monthly phone bill of $50. Another expense of mine would be $500 going towards food. After expenses, I expect to have about $2,136.33. I would like to put away $1,000 a month towards a savings account and entertainment. This would leave me with $1,136.33 for entertainment, clothing, and other personal choices.

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

After my full analysis, I could see myself living in either city. However, my preferred city is Dallas, TX. I’ve visited Dallas many times and always had a good time. I also have family and friends who live in the Dallas area. Dallas has great health care and education systems. The community of Dallas is very safe. Living in Dallas is within my budget. The sports and entertainment that the city has to offer is everything I want. This research has confirmed to me that Dallas is the city I want to start my career in.

CASE II: Asset Concepts

Group Members: Avery Andress, Garland Carmicheal, Niland Fortenberry, & James McLemore

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

Question 1:

Viewpoint 1: Pros

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

Viewpoint 1: Cons

- Avery: Just focusing on assets and liabilities does not take equity into consideration.
- Garland: If you do not take the equity accounts into consideration then you wouldn't know the amount of money used to cover things like expenses.

- Niland: Failing to take equity into consideration can give the company a less accurate representation of what they have to work with. They are saying that they have a certain number of assets, and if they are just trying to grow the assets, they are not taking into consideration how much they are being financed by debt versus how much they are being financed by equity.
- Garland: The revenues and expenses are either increasing or decreasing assets, and if you just focus on the assets and liabilities, you are not going to see how the assets are decreasing or increasing due to revenues and expenses.
- James: A con to this is that you do not exactly know where your company is in the present, as you would if viewpoint two was your primary way of financial reporting.
- Garland: I agree with that because net income is one of the most important factors for representing the company to its investors; it is also easier to compare net income from period to period.
- Niland: Right, whereas assets and liabilities can be short-term or long-term and, thus, more difficult to compare from period to period.

Viewpoint 2: Pros

- Avery: A company needs to know how much money they are spending on expenses versus how much money they are making in revenue because if the expenses are greater than the revenue, the company is not financially stable.
- Niland: Yeah, net income is a reflection of the company's profit, so without knowing what you have brought in, you do not really know how well you have performed.
- Garland: You would not know how the company is doing at a particular time. A company can analyze and figure out what the most profitable time of the year is and the least profitable time of year, so you can prepare for that in the future.

- Niland: You need to know levels of sales and expenses so that you can adjust your need for assets accordingly.
- James: This is a more efficient way of financial reporting because the company is constantly acquiring assets and turning them into products, and, like Garland said, you can budget for your busy season.
- Niland: Say you were a ski business, but your focus was to grow your assets, then you may be increasing inventory unnecessarily, even if it was during an off-season. However, if your focus is net income, then you are going to see that you are bringing in less revenue in the off-season and, therefore, know that you do not need to increase your inventory in those periods.
- Garland: Yeah, because you don’t want to buy as much inventory in the slow season because it will take longer to get a return on your money and make profit.
- Niland: And, furthermore, you lose liquidity because you are using your more liquid assets to purchase less-liquid assets and still getting a slower return on your money.
- Garland: Also, if you are focusing more on your revenues and expenses, you can see how quickly the company is growing, how slowly it is growing, or if it is at a standstill.

Viewpoint 2: Cons

- James: Long-term assets get overlooked under this viewpoint because the company is so focused on the present they are not really looking into the future.
- Niland: Revenues and expenses are a current period focus, which does not make a company look at how efficiently it is using its long-term assets.
- Avery: Revenues and expenses are closed into net income each period.

- Niland: Since it is a current focus, you may lose sight of long-term effects of this method of financial reporting. Therefore, later, a company could face the effects of primarily focusing on making a profit.
- Garland: Profit doesn't take into account the company's liabilities, so it's not a true representation of the company's net worth. It only shows how much money the company brought in during that period. Cash was already used, assets were involved in the process to get to the point to find net income, but the liabilities were not accounted for.
- Avery: When you look at the revenues and expenses, you have already taken the assets and other transactions into account for the period.

Group Consensus:

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

Question 2:

Viewpoint 1: Pros

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

Viewpoint 1: Cons

- Niland: Viewpoint 1 is so focused on book value that it does not give a very good representation of how valuable the asset is to the company.

- Garland: It does not account for the potential future growth.
- Niland: If you are measuring available-for-sale securities at cost, you will not recognize the gains earned and losses incurred with a change in its price.
- Avery: This viewpoint does not consider that assets used in combination can generate firm-specific value.

Viewpoint 2: Pros

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

- Garland: Like you said, when the building is in use, it is aiding in the production process due to it housing the machinery needed to produce the product.
- Garland: Another example is marketing. The company has to pay for commercials, ads, billboards, etc., to hopefully bring in revenue beyond the cost.
- Niland: You cannot have prepaid advertising and expect to add value to your company without combining that prepaid asset with other assets. Assets + assets = more assets.

Viewpoint 2: Cons

- Avery: Land for future use would not have value for the company under this viewpoint because it is not in use.
- James: Using assets in combination could end up hurting certain assets and failing to benefit the company.
- Niland: It is hard to measure how much of your asset contributed to the final product or service, so this could cause a lot of differences among companies in valuing their assets.
- Avery: A prepaid expense has value before it is used, and this viewpoint does not take that into consideration.

Group Consensus:

The first viewpoint realizes assets' values on a standalone basis in exchange for cash or other assets. The use of assets in combination with other assets does not generate substantial firm-specific value. The second viewpoint realizes an asset's value when it is being consumed or combined with other assets. After a group discussion, we agreed that viewpoint two should be the FASB's focus when promulgating new standards because assets are usually used together to generate value for a company. Thus, it is a better depiction of how assets function for a business. Viewpoint one is strong in that a company can recognize the value of assets as "value-in-exchange." The value is an objective value, and it is easy to measure. Furthermore, under this viewpoint, land for future use has value even though the land is not in use. However, viewpoint one does not consider an important aspect of all companies: the key to growth in assets is through the combined use of other assets. Viewpoint two offers a better representation of how valuable assets are to a company. Our discussion included that viewpoint two shows that assets are generally used together. It gives a better idea of how a company should price its goods and services, as a company is able to see the amount of assets that were used to produce the good or service. It is when assets are combined that a firm generates revenue. If a company focuses on the value of one specific asset, it is difficult for a company to see how that asset contributed to growth. A weakness of the second viewpoint is that it does not take into account the value of long-term investments, and it does not account for the potential future growth that a company may possess when it has long-term investments. More specifically, it does not give value to land for future use since it is not currently in use. This is a con, as land for future use is a valuable asset for a company. While this does undermine the viewpoint, valuing assets on the basis of use is a more prudent option and more accurately depicts how valuable a company's assets are to the business and its growth.

Question 3:

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

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

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

1/1/20	Acquired Assets	30,000	
	Cash		30,000

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

2/1/20 Equipment	30,000	
Acquired Assets		30,000

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

3/1/20 Assets Contributing to Growth		20,000
Equipment		20,000

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

3/1/20: Prepaid supplies purchased.

3/1/20 Prepaid Supplies Expense	2,000	
Cash		2,000

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

4/1/20 Supplies Receivable	200	
Supplies		200

4/31/20: Supplies are used.

4/31/20 Supplies	1,800	
Supplies Receivable		1,800

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

1/1/20: Prepaid insurance is purchased.

1/1/20 Unrecognized Asset	24,000	
Unused Insurance		24,000

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

1/31/20 Prepaid Insurance Expense	24,000	
Cash		24,000

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

3/31/20 Insurance Expense 4,000

Prepaid Insurance 4,000

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

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

1/3/20 Depreciation Expense 3,000

Accumulated Depreciation 3,000

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

1/3/25 Depreciation Expense 0

Accumulated Depreciation 0

5. Under this viewpoint, the supplies do not have value until they are in use.

1/1/20: Supplies are purchased.

1/1/20 Unrecognized Asset 15,000

Unused Supplies 15,000

2/1/20: Supplies are used.

2/1/20 Supplies Expense 15,000

Supplies 15,000

Case III: Excel Course

Corporate Finance Institute®

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

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

James McLemore

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

Excel Crash Course - Spreadsheet Formulas for Finance

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

VERIFIED CFI™ CERTIFICATE

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

Certificate number
95929486

Chair of the Board

Director

Director

Oct 15, 2020

Case IV: *Taxodus – Playing the Global Tax Avoidance Game*

Executive Summary

This case focused on the corporate tax rate. Each student was required to watch the documentary *Taxodus* and read two articles. One article focused on the corporate tax rate and how it affects the economy. The other article focused on the Tax Cuts and Job Acts (TCJA) which was signed into law by Donald Trump. This article focused on the benefits of the TCJA and how the economy responded after the Act was signed. After conducting research, students answered two questions. The first question asked students to explain what they think that the corporate tax rate should be and why. This question was to be supported with the research done from the videos and articles. The second question asked students whether this research increased or decreased their interest in pursuing the tax service line of public accounting.

This case opened my eyes to taxes in ways that I had never been exposed to before. I was provided with a lot of information to conduct research with. However, that information was genuinely interesting and sparked a lot of thoughts that I had never considered before. I learned so much about companies avoiding certain tax responsibilities by parking money into offshore accounts to save money. I also learned a lot of information about the corporate tax rate. The articles provided really pushed me to critically think about the affects the tax rate would have on the economy if it were higher or lower. Finally, I learned how laws and regulations regarding tax rates affect the economy as well. This case study was rewarding as I was required to critically think about the challenges that tax accounting professionals face every day. It opened my eyes to information I had never seen before, and I learned a lot from this case.

The corporate tax rate is an issue that is always being debated by corporate America and the people who make the decisions in setting the tax rate. Discourse regarding the tax rates is always occurring in America because of the vast opinions the people in this country hold on this issue. The Tax Cuts and Jobs Act recently lowered the corporate income tax rate from 35 percent to 21 percent. I believe that the corporate tax rate should fall into this range that TCJA set. After watching the documentary *Taxodus* and reading the articles provided, my beliefs that the corporate income tax rate should align with TCJA was confirmed.

Taxes play a huge role in affecting economic growth. A lower corporate tax rates reduces the cost of capital which leads to new investments that were not possible if there was a higher corporate tax rate. These new investments grow capital stock which results in higher productivity. The benefits of lower corporate tax rates also benefit workers. Business investments created from a lower corporate tax rate boosts worker productivity which led to a higher demand in labor and wages increase.

One issue often seen with a higher corporate tax rate is from corporations. Corporations will look to find any loophole possible from having to pay these larger tax rates. Often, corporations will park money into offshore accounts, also known as tax havens, in order to not have to pay these large fees in taxes. Companies are looking for neutral tax which means no taxes when taking part in these offshore tax havens. Apple is one company that is known for using these tax havens to reduce the amount they must pay in taxes. This process is often referred to as the double Irish with a Dutch sandwich. Apple and other companies are taking advantage of other countries tax rates when taking part in these tax havens. Apple was paying 1.9 percent on profits outside of the U.S. compared to the 35 percent the company would face in the U.S. Lowering corporate tax rate should bring back this money to the parent country which would benefit the country’s economic growth and workers for these companies.

The Tax Cuts and Jobs Act has benefited corporations and workers across America providing new opportunities. TCJA lowered the corporate tax rate from 35 percent to 21 percent and the country has seen the economic output and other benefits grow since this act was signed into law. The country has reaped the benefits from TCJA. In March of 2018, the job market saw 7.3 million jobs which would be enough to employ ever unemployed American. In November of 2018, the unemployment rate reached a record low of 3.7 percent. Combining that with another 224,000 added jobs to the United States in 2019. The was widely regarded as the largest economic expansion in the country's long history. These benefits from the TCJA saw Americans spending power increase in every area of the country. These tax cuts have proven that they are working, and the results speak for themselves. Companies have been able to invest and expand capital for their workers. Manufacturing jobs have seen great results from the TCJA as 500,000 new jobs have been created under this act. The American economy has improved at historic rates under the TCJA.

In early 2020, COVID-19, a national pandemic, entered the United States and caused an economic shutdown as many businesses and industries were forced to shut down to slow the spread of the virus. This was a huge cause of concern for many Americans as the economy was bound to suffer under these new government orders. However, these measures taken by the government were necessary to slow the spread of the virus. It is still unsure when Americans and the economy will be able to return to normalcy. However, TCJA has created a much optimism for corporations, small businesses, and workers across the country. Whenever the life returns to some normalcy, the economy will continue to thrive under the Tax Cuts and Jobs Act.

I continue to believe that the corporate tax rate should reflect where it is under the Tax Cuts and Jobs Act. A lower corporate tax rates benefits the economy. Big businesses, small businesses and workers are all thriving under the TCJA and I see no reason to make any changes to this law.

The information provided to do this case study really confirmed my interest in pursuing a career in the tax service line of public accounting. I was already leaning into the tax service line before this paper. I found the information provided in the documentary *Taxodus* to be peak my interest from the very beginning. I was completely unaware that companies would park money offshore into tax havens to keep from paying the rates back in the United States. This really hurts the economy back in our country because this money is parked in these accounts. The documentary provided information regarding tax havens, companies that take part in these havens, and which countries provide the service of parking money. I was enthralled by the topic of tax havens. Learning about companies that I interact with daily such as Apple, Walmart, and Starbucks and seeing how they take advantages of tax rates in the United States by using tax havens was interesting. I believe that tax havens do play a big part in the tax service line of public accounting and I would love to get a chance to work with these issues.

Another thing that I found interesting was all the intricacies of the corporate tax rate. I was not fully aware of all the all the benefits that come from lowering the corporate tax rates. I was quite intrigued at how a lowered corporate tax would affect the prices of capital, leading to more investment opportunities. Thus, growing capital stock and boosting working productivity. Finally leading to higher working productivity producing higher wages. This chain of events was new to me and allowed me to grasp a better knowledge and understanding of how the corporate tax rate affects big businesses, small businesses, and workers. I know that if I were to have the chance to work in the tax service line of public accounting I would want to dive even deeper into this chain of events and learn more. Dealing with ever changing tax rates must keep tax accountants on their toes and always be ready for something new. I would enjoy with changing tax rates as it would be a new challenge giving me something new every few years to help solve for clients.

I also found the article about TCJA to be interesting. I was not aware that TCJA was a law until reading that article. The article basically confirmed my beliefs of an economy thriving under a lowered corporate tax rate. The Tax Cuts and Jobs Act (TCJA) was a law that was signed to lower the corporate tax rate. The American economy reaped immense benefits from this law. The country saw job openings increase at historic rates and the unemployment rate reach record lows. This law turned beliefs into reality. The law helped big businesses, small business and workers across the country. TCJA being signed into law strengthened my position of wanting to pursue a career in the tax service line of public accounting. I was interested in how the president signing a law into action could impact a profession, and an economy. I think it would be rewarding to work in the tax service line as you must prepare for changes in laws and how that could affect your work.

This case confirmed my interest in pursuing a career in the tax service line of public accounting. The information I was provided with for this case sparked my interest and I know that there is so much more information out there that I have not even been exposed to yet. Tax havens, corporate income tax, and laws and regulations regarding the economy and tax accounting professions provide everyday challenges that must be addressed as a tax professional and makes me want to be a part of the profession today.

CASE V: Business Interview – Melissa Meacham

Executive Summary

This case focused on interviewing someone you know who is in the business community who is either fairly established in their career or retired from the profession. The interviewee could have also been a relative or family friend. Each student was instructed to ask the interviewee 11 questions that were given to us. Students were advised to take detailed notes on the interview or record the conversation with permission from the interviewee. There was also an option for students to add questions of their own to ask during the interview. Once the interview concluded, students were to write a nice biography of the person interviewed and what life lessons you may have learned throughout this interview. Students were then asked to share the biography with the interviewee as a courtesy.

This case was very enjoyable for me as I gained a lot of insight on my aunt, Melissa Meacham, and her journey through her professional career. My aunt and I have an extremely close relationship and I felt it was an awesome experience to learn about the path she took to get to where she is today. I learned many new things about her through this interview. I thought that this case was beneficial for all students as we got to hold an interview and gain knowledge about the life and profession of the person we chose to interview. This case also allowed me to be a better listener as I was able to learn from my aunt and pay close attention to her answers throughout the interview. I personally received a lot of life advice throughout this paper when we began talking about her profession. The life lessons that my aunt shared with me are especially important to me and I hope to carry the knowledge she shared with me throughout my professional career.

Melissa Meacham grew up in Greenwood, MS, which is a small delta town with a population of 17,000. She grew up in a family with two older sisters and a younger brother. Meacham graduated high school from Pillow Academy. After graduating high school, Meacham moved to Oxford, Mississippi where she would attend the University of Mississippi majoring in Psychology. Meacham went off to college rooming with someone she did not know. She claims this was beneficial as she was able to meet new people through her roommate and hopefully grow as a person. She was a member of a sorority at Ole Miss which helped her branch out and meet new people outside the state of Mississippi.

One thing that drives Meacham crazy to this day is that she never sat down and planned out with her parents or advisors on what she wanted to major in. She started her college career majoring in Liberal Arts, switched to a Business major, and then finished back majoring in Liberal Arts, earning her degree in Psychology. She believes that you should have a plan before you go to college. However, she knows that her Psychology degree has helped her as she began her career working in sales and this degree gave her a good base in getting out into the real world.

After graduating from college, Meacham knew that she wanted to move to Nashville, Tn. She got an apartment and a roommate in Nashville, and then started the process of looking for a job. She had an interview for a job, and they informed her that she had gotten it. Unfortunately, they came back to her and said that they had budget cuts and her position was eliminated. After hearing this news, she got her resume back together and started another job search process. She interviewed with a company called Lucent Technologies, she did not get that job, but this interview built a lot of connections through their interview process that would help her in the future. Meacham got a job with CommuniGroup selling phone lines and did this for about a year. She left this job because the person who interviewed her for the Lucent Technologies job called her back asking to work for a startup company they had going. At this job, she managed a staffing agency in Nashville, working at this job for four years. Meacham says that networking and moving up in her career were big factors in what motivates her. Then she got to a point in her life where she faced a decision of staying in Nashville or moving back home closer to her family. Meacham decided that it was best for her to move back closer to her family. She began working at the American Heart Association raising money for the Heart Walk and brought the "Go Red for Women" to the state of Mississippi. While working at the American Heart Association she networked with every CEO of the healthcare industries and within large businesses, because those were the major donors. The reason she left this job is because one of the donors she had gotten to know asked her to work for their institution, Millsaps College. Meacham was the director of graduate admissions at Millsaps working at the college for almost 14 years. She started this job in a new industry, the job consisted of sales, but she was selling people on bringing more value to individuals lives or careers through gaining a graduate degree.

Meacham's life outside of work has been happy. She is married and has 3 boys with her husband. Her hobbies include playing tennis, reading books, and chauffeuring her children to their busy activities. This had led to her recent retirement as she wanted to spend more time with her kids and being with them to do the things they love. Her most recent vacation to Scottsdale, Arizona with her family has been her favorite. They were able to go watch Major League baseball spring training games and go visit the Grand Canyon. She says the Grand Canyon was an amazing site and everyone should get the chance to see it. One thing she would change about her life would be sticking with the business major at the University of Mississippi. The other change would be to make more time available for herself. One thing she wishes she would have known when she was 21 years old was how important it is to fill your professional toolbox with as many tools as possible. Whether it is continuing education, master's degrees, volunteering in the community, she says that all of these go hand in hand in being as successful as possible. A piece of advice she would share with my classmates and I is that if you do not think that you have time do something you need to make time because it will benefit you in the long run. Meacham is most proud of her three children. She says that the biggest challenge for her generation will always be technology, and the biggest challenge for my generation will be interpersonal skills.

Having the opportunity to sit down with my aunt and interview her about her career path was extremely eye opening. It was a great opportunity to learn from someone who has these real-life experiences working in the business world. There were also so many lessons to take away from this interview that will be valuable to know heading towards graduation and starting my career. One lesson that stuck out to me was just how important networking can be. The opportunities she was able to benefit through her networking skills were amazing. Every opportunity she had after her first job was due to her networking skills, and she made it clear to me just how important that is to being successful. Networking rings true to me even more as I am going through the internship recruiting process for accounting. Her advice and experiences have motivated me to reach out to recruiters and participate in every opportunity that is offered to me through The Patterson School of Accounting. Another life lesson that I took away from our interview was making time to set out goals and achieve them. My aunt stressed to me that I need to fill my professional toolbox with as many tools and resources that I can. This advice is important because I have never really considered the benefits of expanding my professional toolbox. Her advice has inspired me to plan for my future and continue to work hard while I am in school to prepare myself for life after college. Finally, the last piece of advice that I took away was something that everyone my age can take away from this interview, which is the need for interpersonal skills. It is so important for our generation to work on personal relationships as we live in technology consumed world. Often, I find myself buried in technology and I need to break the bad habits I have with technology. Technology offers so much good to our generation, but it can also be a hindrance as we can lose our touch with personal relationships by spending too much time on devices. I am extremely thankful to be able to learn so much from my aunt through this interview. She offered so much life advice that I will be able to take from this interview. Networking, expanding your professional toolbox, and interpersonal relationships all played a part in her successful career and I hope that I can learn from these skills and use them to my advantage.

CASE VI: Case Competition – Overview

Pfizer Inc. Group Members: deYampert Garner, Laine Keel, James McLemore, Jamison Russ, & Christina Trefry

This week our group was tasked with picking out a company to study and research. The company chosen would then be the subject of a deep investigation to the ends of a group presentation in the coming weeks. The research and subsequent presentation are taking the place of the case competition traditionally completed in this course. Our group chose Pfizer to present for our case study and began researching using the suggested websites.

Pfizer is one of the world's leading pharmaceutical companies. Based in Manhattan, they annually report sales of over $50 billion dollars and spend close to 20 percent of their sales on new research and development costs. Their products span across healthcare fields from immunotherapy drugs, to cancer treatments, to generic, over-the-counter medications.

Pfizer has grown largely through acquisitions. They have grown organically, of course, through their own generation of medical products. Worldwide Research Development Medical (WRDM) is their research and development branch, and they have over 90 new products and improvements currently in the works. Mergers do, however, account for a large portion of their increasing size, especially in the 2000's. The largest of these combinations occurred in 2015 when Pfizer acquired Hospira for over $15 billion; the synthesis of the two companies made Pfizer the largest producer of injectable pharmaceuticals in the world. Although not all of their proposed mergers have been successful, as demonstrated by their Allergan acquisition attempt, they have had recent success through one of their subsidiaries, Upjohn. Upjohn has recently begun managing Pfizer's Meridian subsidiary which specializes in auto-injectors, the most well-known of which would be EpiPen. Shortly after the change in management, Upjohn combined with Mylan to form a new company, Viatris, which will continue to operate both

Mylan and Upjohn business under new ownership. While Viatris is their most recent development, the acquisition of Array for over $11 billion in June of 2019 marks another milestone in their growth.

Pfizer is using many of these mergers to help to expand to new markets. They are putting forth a concerted effort to develop market share in emerging markets such as Asia (excluding Japan and South Korea), Latin America, Eastern Europe, Africa, the Middle East, Central Europe, and Turkey. This diversity in markets does expose Pfizer to risk from the fluctuations in foreign exchange rates, but they hold a number of securities contracts to hedge this risk. The SEC has taken notice of Pfizer's growth in many of these markets and has fined them for bribing foreign officials to pass their drugs through inspections.

Alongside the SECs watchful eye, Pfizer is under several minor investigations, although none of them seem to be crippling in nature. Investigations include subpoenas and inquiries from the United States government surrounding operations in India, China, and Russia. Pfizer is also handling several class action or multi-district lawsuits surrounding their products; pricing of their EpiPen and other products constitute most of these civil suits. Some malignant effects of Viagra and Docetaxel, a cancer drug, are also on trial in several states. They have entered settlements on all environmental related issues, which have been ongoing for decades. In March 2020, another long-lasting suit was settled surrounding hormone therapy drugs sold under a subsidiary, Wyeth.

Beginning in 2018, Pfizer had a five-year plan to invest approximately $5.0 billion dollars back into the United States. As part of this plan, the company announced in mid-2018 that they would be investing $465 million into a state-of-the-art injectable pharmaceutical production facility in Portage, Michigan. This boost to the facility has been instrumental in the production effort for the Covid-19 vaccination. Additionally, the company stated plans to invest close to half a billion dollars to construct a new gene therapy production facility to boost their research and development capabilities. To give back to their employees, Pfizer voluntarily contributed $500 million to their pension plan and gave out one-time bonuses to their employees totaling $119 million in early 2018.

Pfizer's 2020 plan was interrupted due to the worldwide pandemic. The coronavirus has caused Pfizer to shift gears to developing a vaccine. The vaccine was declared to be 90 percent effective nearly a week after Election Day. This caused a spike for Pfizer's stock price. Since millions of vaccines would be needed by the US Government, as well as others, focus has shifted to producing those vaccines in a timely manner since the main competition, Moderna, produces a vaccine with similar efficacy rates (within one percent) that is easier to store and lasts longer. Availability is the key to making this pandemic as profitable as possible for Pfizer since they are fighting with a more agile competitor. Pfizer's chairman and CEO, Dr. Albert Bourla, was looking to continue regular research and development processes throughout 2020 according to his letter included in Pfizer's proxy statement. To be one of the companies developing a vaccine for the COVID-19 pandemic was not expected, but they have adapted to the situation and have been able to turn in a profitable and productive year.

In this case, our group gained an understanding of how Pfizer operates and the way it has developed in the last five years. A particular focus was on the mergers of Pfizer and the coronavirus vaccine they developed. This baseline of knowledge will allow our group to provide a more insightful analysis of Pfizer as we continue in this case study.

CASE VII: Case Competition – Audit

Pfizer Inc. Group Members: deYampert Garner, Laine Keel, James McLemore, Jamison Russ, & Christina Trefry

Executive Summary

For the second week in preparation of the case presentation, our group has been given a brief introduction to the process and goals of auditing since none of our members have taken the audit-specific class at this time. With this new information, we are searching through the income statement and balance sheet of Pfizer looking for potential signs of a material misstatement of six accounts. In addition to searching for risk of misstatement, we are assessing the risk associated with the misstatement and providing suggestions for internal controls to prevent inaccurate reporting. These solutions should be applied using data analytics to test balances and transactions.

Revenue marks the beginning of the income statement. Misstating revenue then, has the potential to distort earnings reports, and, depending on the magnitude and direction of the error, a misstatement could drastically under or over state Pfizer's performance for the year. Revenue is an audit risk because of the magnitude of transactions that are aggregated in the account, and revenue's significant size makes it especially important to accurately report the account. Pfizer is one of the forerunners in pharmaceuticals in terms of digital supply chain management and cloud-based information controls. The massive scale of their selling process, however, means that simply looking at a log of transactions would not rectify the risk of misstatement. A randomized sample of transactions from each geographic region should be taken, and the money in the account should be traced from the purchaser of the inventory to the deposit in Pfizer's balance.

A significant concern when looking at the revenue accounts is contra-revenue accounts that are not are not on the face of the income statement. Gross sales would have been 40 percent higher than reported revenue if these deductions were included in the initial report. One-quarter of this 40 percent comes largely from chargebacks from U.S. wholesalers who make up over 35 percent of Pfizer's global, annual revenue as reported in the income statement. While there may not be a data analytics solution to these numbers, a closer look at the contracts would be insightful.

Another risky account our group chose was long-term debt. Long-term debt makes up approximately 35 percent of Pfizer's total liabilities. Misstatement of long-term debt could have major effects on a company's balance sheet. There are great risks valuing long-term debt, and it is important to conduct internal controls when doing so. Two internal controls that could be especially useful in creating an accurate representation on long-term debt are segregation of duties and routine market tests. Segregation of duties allows for more than one person to evaluate portions of long-term debt. For example, one person should be responsible for authorizing the borrowing and another person should be responsible for the recordkeeping of the debt. Another internal control that could be useful for long-term debt would be conducting routine market tests. Recomputing the present values used to record the initial cash proceeds from the debt would be a very useful internal control.

Goodwill represents 35 percent, or one-third, of Pfizer's total assets, which is considered a significant amount. Pfizer continually seeks to acquire other companies to capture new markets, ideas, and products, and these actions lead to significant goodwill balances. This consistent behavior will inevitably lead to a large balance in goodwill. Acquirers often overpay for the target and the acquisition premium increases goodwill balances. This is written off through tax deductions while keeping overall book values higher than if the cash were taxed.

Behaviors like this keep taxes lower while expanding revenues which keeps stock prices soaring. As well as stockpiling goodwill, Pfizer also writes off very little goodwill due to impairment. In fact, during 2019, no goodwill was written off as impaired during their goodwill impairment review and none was determined at risk of being impaired soon. A regression analysis could be used to better estimate future cash flows used as an unput to the impairment test process. An official audit would surely check into the processes and notes of these meetings to ensure that honest appraisals were given of all material acquisitions. Testing these transactions would require an analysis of the companies that were acquired and the book values at which they were acquired. Streamlining this process would require impairment tests to be automated. Keeping separate records of the acquired companies would allow for their book values to be tested regularly, and the resulting impairments (or nonexistent impairments) would be entirely automated. This would be a great use of data analytics because of the large number of mergers and acquisitions that Pfizer engages in.

Accumulated other comprehensive loss represents over $11 billion in losses on the balance sheet, which is always a cause for concern. One reason that this is concerning is because over half of this balance comes from a loss on foreign currency adjustments which is a loss that is hard to control due to the volatile nature of some foreign currencies. Another cause for concern is that these losses on foreign currency adjustments are carried over year-to-year, and the statement gives no indication if the values are adjusted for inflation or even the current value of the other currency. Finally, the report shows that there has recently been a change in the accounting practices related to this account. This calls into question whether carried over amounts from the previous years are accurate and whether more research should be conducted to verify that these numbers are in fact correct. Another large portion of the loss from this account is attributable to actuarial losses from the company's benefit plan. This amount should also be verified because it isn't clear if this financial risk is adjusted either. There are certainly ways that technology could help with certifying these numbers. One way is making sure the most up-to-date valuation of currency is used and keeping track of currency values to help reduce the risk of these losses in the future. Another is using processes to ensure that the people responsible for assessing the risk of the benefit plan have all of the relevant and current data to make their decisions. The good news is that the company is reclassifying some of both of these values, meaning that it at least acknowledges the importance of verifying and adjusting these values.

Pfizer’s research and development expenses mainly come from collaborations or licenses with other companies. Pfizer collaborates with both partners and third parties, but only lists partners in the notes of the income statement. Research and Development (R&D) is also funded by licensing agreements, with Pfizer currently in three major license deals. Most of Pfizer’s R&D comes from collaborations and licenses with other companies, and these partnerships come in the form of multi-million-dollar deals. An unfavorable deal runs the risk of large portions of funding that are in R&D being forcefully retired or removed. The other main issue with R&D is regulatory. Pfizer can allocate a large fund of money to a product and have the product rejected based on regulations. This recently happened to Pfizer with their autoimmune disease drug Xeljanz which failed regulatory FDA drug tests earlier this week. As stated earlier, Pfizer only releases a list of funding they get from large partners, which makes up a small portion of their R&D expense. Creating a list that includes the funding from third party transactions will allow for Pfizer to run less of a risk. The use of data analytics would allow auditors to possibly see the greater breakdown of the R&D account. Data analytics could allow for the possibility to see where the funding for R&D is coming from and how R&D is expensed over the company. Data analytics would add an extra layer of protection over R&D and allow transparency.

This case was a learning experience for our entire group. We were able to learn a basic understanding of what auditors do and apply that to our company. While the process took time and patience from our group to gain these basic understandings of audit, our group managed to successfully find what we believe to be the six riskiest accounts under Pfizer. This case helped our group gain both an overall understanding of audit and of Pfizer's financial transactions that will hopefully be useful as we transition to tax.

CASE VIII: Case Competition – Tax

Pfizer Inc. Group Members: deYampert Garner, Laine Keel, James McLemore, Jamison Russ, & Christina Trefry

Executive Summary

For the third week of case competition preparation, our group's assignment was to formulate strategies to elicit tax savings for Pfizer. With minimal experience, the group was given a set of recently-implemented tax regimes as a starting point for our analysis. The plans for savings can come from restructuring, expansion, or divestiture, but should be accompanied by supporting figures that specify the magnitude of the savings and an outline of the process by which Pfizer will change its current strategy. Because of the confidential nature of taxes in general, a degree of uncertainty regarding what Pfizer's current strategies are, and so our suggestions may reflect strategies already being considered or implemented by Pfizer. They may also differ by as much as the assumptions we make about their current position may be separate from reality. As a pharmaceutical company, Pfizer has two potential areas within which to improve their already impressive 7.8 percent tax rate from 2019: intellectual property and research and development.

The GILTI tax updated in the Tax Cuts and Jobs Act may pose a hurdle for Pfizer, who has substantial positions in pharmaceutical patents which produce royalty income from allied sales. Although not disclosed in their financial statements, it is common practice for large companies with significant intellectual property to house their revenues generated from these assets in foreign subsidiaries. Since Pfizer has considered moving its entire operation to be headquartered in Ireland through the purchase of Allegan, and Ireland has friendly, globally renowned tax practices, we will assume that they house a significant amount of their intellectual property there. The amount of GILTI tax is dependent on the amount of depreciable, tangible assets the foreign subsidiary holds. Any income over a 10 percent return on these tangible assets is considered to be taxable under GILTI. So, increasing tangible assets decreases the amount of GILTI tax by 10 cents on the dollars. The pharmaceutical industry is facing changes in the near future because of their current dependence on patents to be able to control the distribution of new medicines. In having to implement more service-oriented infrastructure, this reduction in GILTI tax would provide an incentive to move forward with investment in tangible infrastructure in the health service industry. Pfizer has consistently received $500 million in royalty revenues. Assuming that $400 million is taxable under GILTI at a rate of 10.5 percent, investment of the full amount in new infrastructure would provide a tax saving of $42 million. Of course, Pfizer would not spend $400 million to decrease their taxes by $42 million, so the project in question would need to be profitable in itself to validate the spending.

Our second strategy would be to reduce research and development conducted in Sandwich, U.K. by half and then relocate that portion of research and development (R&D) to facilities inside of the U.S. This move would allow Pfizer to take advantage of the 10 percent tax credit proposed by President Joe Biden that is given to corporations that bring foreign jobs back to the United States. Pfizer spends $374,544,000 on R&D at their U.K. facility, so half of this amount, $187,272,000, would be rehomed to the seven U.S. research facilities in order to create jobs and qualify for the tax credit. Based on the tax rates of the two countries and the new tax credit, Pfizer could save nearly $200,000 on this move alone and create large amounts of goodwill with the American public and the current administration. On the other hand, the value added by this facility – owed to its connection with the U.K. government and important Asian partners -- means that it is unwise to move all of this production back to the U.S. Additionally, this strategy relies heavily on the tax credit being implemented, so Pfizer should monitor the political climate to make sure this is being enacted.

Pursuing the expansion in the amount of depreciable, tangible assets is a method that will simultaneously increase the amount of future revenues while decreasing the GILTI taxes that accompany such increases. This is a strategy that will allow for Pfizer to continue to take advantage of Ireland's favorable tax policies even with the stricter GILTI tax. The second tax strategy of moving half of the Sandwich, U.K. research and development operations to the United States to take advantage of President Biden's recent 10 percent tax credit for creating new U.S. jobs will allow Pfizer to decrease taxes while maintaining the same level of research and development. Moving half of the R&D operations will enable Pfizer to take advantage of the tax credit while also maintaining their multinational relationships. While tax savings of the move are not substantial, they would provide considerable amounts of goodwill that will be worth significantly more than the tax savings. Overall, Pfizer already has an impeccable track record for reducing taxes, but they would be able to further improve upon their taxes by taking advantage of new tax laws that have been put in place by the Biden administration.

CASE IX: Case Competition – Advisory

Pfizer Inc. Group Members: deYampert Garner, Laine Keel, James McLemore, Jamison Russ, & Christina Trefry

Executive Summary

The fourth week of the case competition asked the group to analyze Pfizer's current weaknesses and strengths. From there, we were to brainstorm new, innovative ideas to address areas of weakness and/or threats that would positively impact the financial statements and their respective ratios for the years to come. Pfizer is an extremely agile company that is constantly growing in new areas and broadening their horizons, which made this difficult. Because of this, new ideas were sparse, but when we began to discuss the different threats more in-depth, we were able to find areas that they had not expanded to. They have not begun to explore the holistic wellness and healing fad that is becoming increasingly popular, threatening to last beyond a fad. Since holistic healing is gaining steam, we believe that Pfizer could acquire a small company that has done significant research in this area that Pfizer could easily expand upon.

Secondly, we suggested that Pfizer take advantage of the delivery system that is sweeping the nation. This was to address the cheaper generic over-the-counter competition that beats Pfizer out when price is compared within a retail store. To avoid this loss of sales, Pfizer could set up a delivery system in large cities across the United States to avoid the cost comparison shopping that hurts their sales.

As a group, we were able to learn to think analytically about a company and their strengths and weaknesses in a prospective manner. This was a unique challenge that allowed our group to collaborate in order to find effective solutions that can be profitable for a multi-national company with billions of dollars in revenue. Overall, the advisory portion of our case study required our group to have more in-depth discussions than we had previously had to find a solution that works for Pfizer.

During the third week of preparation for the case competition, our group acted as an advisory team. Our task was to identify and develop two strategies that Pfizer could undertake to improve its performance. In building these plans, our group investigated Pfizer's current practices to avoid repetition, but searched across industries to potentially find a suitable application to Pfizer. Of our two strategies, one models itself after the success that delivery services bring by increasing revenues, and the other offers a suggestion for an acquisition that would allow Pfizer to capitalize on a fresh market opportunity.

Pfizer faces competition from its generic competitors that undercut them on prices of their over-the-counter medicines such as Aleve and Robitussin, among others. This low-cost competition takes away from Pfizer's ability to raise prices as the normal costs of doing business increase due to contractual increases over time. This is a problem that Pfizer has combated with online marketing and two-day shipping guarantees for many products, but this is not enough in today's fast-paced world. Every industry, from restaurants to grocery stores to car dealerships, is moving towards same day delivery, and in many industries, even hourly guarantees. It is time for Pfizer to pursue same day delivery in big cities. Companies such as Walmart and Amazon have made great headway into creating an infrastructure for this next step in customer innovation. Walmart has the ability to have a warehouse attached to each store that provides the inventory to meet the same day delivery needs. Amazon has distribution centers in several large cities around the United States including Seattle, Washington; New York City, New York; and Dallas, Texas. Totaling 27 cities that offer same day delivery, Amazon has built an excellent model to evaluate. Pfizer does not offer nearly as many products as Amazon and Walmart do, but Pfizer can lease warehouse space that is unused to house their more limited products. Creating an efficient delivery structure is obviously the biggest challenge to this issue, but there is a model to follow. A now defunct company called HomeGrocer (later bought out by Webvan, also defunct) maintained a warehouse that contained many more items than Pfizer would be storing that required different temperature storage units and a delivery system that handled up to $1 million dollars in sales each day at its peak.

Operating a same day delivery system would come with costs, from warehouse space to dispatchers to web-hosting to delivery drivers to vehicles. At first, this may seem to accomplish the exact opposite of what it was meant to do since prices would have to be raised to afford these new expenditures, or less would be made, defeats the purpose (unless volume picked up unexpectedly).People are more than willing to pay a premium to receive things as soon as humanly possible. DoorDash delivery can cost as much as 30-40 percent more than an in-person pickup in many cases. HomeGrocer charged a hefty fee to have things delivered on the same day, and though it reached its peak in 2001, it was the largest grocery delivery service in terms of daily sales revenue until the British firm Ocado surpassed them in 2010. Amazon and Walmart's approach to the system is low-cost leadership which would not be the angle at which Pfizer needs to approach venture. Medicines, such as Advil and Robitussin, are items that consumers would pay greater fees to obtain if they were able to continue resting in the comfort of their homes. As Pfizer understands, when people are not feeling at their best, they are willing to pay to jumpstart the road to recovery. The entire premise of this idea is that customers are willing to stay at home and pay more instead of going to the local convenience store to guarantee lower prices. This concept has been proven time and time again by different industries branching out into delivery that at first were skeptical. Pfizer can realize great potential that its competitors have not seized upon yet. In fact, a similar venture by CVS correlated to a three percent increase in revenues. Applied to Pfizer's over-the-counter drugs, which account for around six percent of their $51.75 billion in revenue, this could represent an increase in revenue of over $93 million in the first year alone. This increase along with the three percent growth rate that the firm has been realizing, means they stand to increase revenues by approximately $495 million over the next five years from this deal.

Mental health is not new. The attention that the public has given mental health in recent years, however, has increased significantly. Pfizer has already capitalized on the pharmaceutical side of medication for depression and anxiety through Zoloft, Xanax, and Effexor. A new market surrounding mental health is in its early inception: psychedelics. There are several companies in the process of developing potentially valuable intellectual property related to psychedelic pharmaceuticals. Many of these companies, however, do not have the infrastructure to maximize their market share in the pharmaceutical world.

An example of one such company is MindMed (MMEDF). They have clinical trials for several drugs using LSD and MDMA, two psychedelic compounds. Their drugs are marketed for anxiety, historically untreatable depression, and, potentially most importantly, addiction. The addiction drugs related to the opioid crisis in the United States alone had a market value of over $3 billion in 2020. MindMed also recently acquired a leading AI telehealth company, HealthMode, which would allow them to administer the accompanied mental health counseling. MindMed's total assets and debts, however, are only $28 million. Pfizer should buy MindMed. Pfizer could easily purchase MMEDF with cash. MindMed currently has no revenues; they are purely research and development. They do have a high market capitalization since their stock price has rocketed in the last six months; it went from a penny stock to over the $4 dollar mark, so the market capitalization is a fickle metric. Even a generous multiple of five would only cost $140 million; Pfizer had over $1 billion in cash on hand in 2019 that they could use to finance the acquisition.

Once they acquire MindMed, they're projected to have drugs ready for market by the end of 2023 with both of their top developments finished by the middle of 2024. Operating MindMed has historically cost $20 million a year. So, over three years, the project would cost $200 million in total. Pfizer sold over $800 million in anxiety and depression medications in 2019 alone from just three drugs. According to predictions based on the current market for depression, anxiety, and medications, and Pfizer's manufacturing and marketing capabilities, Pfizer can make a return on its investment within the first couple of years with hundreds of millions in revenue being added to their books. The chart below shows potential revenues resulting from the MindMed acquisition in millions of dollars.

Revenues $ in millions	2024	2025	2026	2027	2028
LSD Theapy	75	82.5	90.75	99.83	109.81
18-MC	0	300	300	300	300
Total	75	382.5	390.75	399.83	409.81
Expenses	71.75	283.925	289.6175	295.8793	302.7672
Profits	3.25	98.575	101.1325	103.9507	107.0428

Assuming that each LSD therapy costs $250 dollars and 300,000 people try it the first year (0.1%) of America and that it grows 10% each year.

The 18-MC is much more scalable as an addiction pharmacetuical. At 10% of the market for opiod addisction alone, that would be $300 million with room to grow in the $3 billion market.

Expenses will be $20 million to operate MindMed in addition to an operational perecentage of 69% of revenues; their operating income for 2019 was 31%

Pfizer has long been one of the largest pharmaceutical companies in the world, but every company must continue to expand their horizons to be able to compete long-term. Pursuing an acquisition of MindMed and same day delivery infrastructure in large US cities can be the ideas that keep them at the top for years to come. These two potential paths have the ability to positively impact Pfizer's balance sheet and income statement. Risks are a given, but these two areas of expansion are looking to the future based upon what direction consumer trends are going. Holistic healing is becoming increasingly popular while delivery is seeping into every industry in the world, so Pfizer has a chance to lead their competitors into the future of pharmaceuticals.

CASE X: Case Competition – Earnings, Stock Price, and Analysis

Pfizer Inc. Group Members: deYampert Garner, Laine Keel, James McLemore, Jamison Russ, & Christina Trefry

Executive Summary

For the fifth week of preparing for the case competition, our group worked through a financial analysis of Pfizer. Stock pricing, while not always a perfect indicator of the value of a company, is generally considered to be a fair method of valuation, especially when considered over a number of fiscal periods. Our analysis involved working with the stock price and outstanding share numbers to find the price-to-earnings ratio. In a bit of a circular problem, we then used this ratio to predict Pfizer's growth given an increase in earnings per share. These increases in earnings come from the enactment of the advisory portion of the case competition. Week four represents a more thorough quantitative, financial analysis of Pfizer and how our suggestions will improve the company.

Pfizer's stock's closing price on the last day of the fiscal year was $36.41. Pfizer's EPS was $1.73. Pfizer's Price-to-Earnings ratio on the last day of the fiscal year was $21.05. This was computed by dividing $36.41 by $1.73. On February 24, 2021, Pfizer's stock's closing price was $33.75.

Beta allows for a company to compare how their stock moves in relation to all other stocks in the market. Beta can be interpreted in three ways: one, below one, and above one. A beta of one means that the stock's price moves with the market, and generally only the market has a beta of one. A beta of below one means a stock is less volatile and more stable than the markets, and a beta above one means that stock is more volatile than the market. Many say that beta is an indicator of short-term risk rather than long-term risk. Pfizer's beta is 0.63 which means that Pfizer’s stock is more stable and less volatile than the market. Pfizer has a total of 16 analysts who watch their company on a daily basis. The forecasted growth rate for Pfizer in the current year is 49.10% with the following year having a growth rate of -7.6%. Pfizer’s five year growth rate is 3.6%. Pfizer’s buy and sell recommendation consists largely of the recommendation to hold and occasionally the recommendation of buying.

To model the growth of Pfizer’s stock, our group implemented a basic earnings multiplier valuation approach. Using the basic earnings per share and the actual stock price from 2020 gave our group insight into a realistic price-to-earnings ratio for Pfizer. Holding this valuation constant then, our stock price was exclusively contingent on our projected earnings. Earnings are a function of net income and outstanding shares; we assumed shares outstanding would remain constant, so earnings are only dependent on net income. Pfizer recently discontinued a large part of their operations in a joint venture with Japanese, pharmaceutical company Mylan. The discontinuation makes historical data less relatable, but our group had enough information to make defendable assumptions about the ratio of revenues to income. From these assumptions, an increase in revenue would increase net income. To increase revenue, we modeled both dynamic efficiency increases, as well as new sales to reach a projected stock price increase of over fifteen percent in five years as seen in Figure 1 - Week 5 Case Competition. Additionally, we modeled the cost of goods sold and other expenses that decrease the net income in a similar manner by taking into account both the companies expected growth and the costs associated with our recommendations. Taking our expected strategies into account we project the company to experience a 14.6 percent increase in net income over the next five years with no expected growth in common shares outstanding.

Based on the calculations done in the preceding, we believe that our recommendations for Pfizer’s business and tax strategy are both valid and profitable. First, we see a modest but respectable two percent increase in our expected return on assets over the next five years. This means that the company will become stronger and more profitable based on our suggested action. Also, we expect Pfizer to experience a 15.7 percent increase in stock price over the same time horizon. This is greater than the 12.2 percent increase they have realized over the past five years, and we believe this is attributable to the large increase in net income related to our suggested actions. Consequently, Pfizer will encounter some risks associated with our suggestion, but these risks should be minimal. Since Pfizer is such a large and diversified company, the beta is not expected to increase in any significant way meaning Pfier’s stock will remain less volatile than the market as a whole.

This case allowed for our group to gain an overall better understanding of Pfizer’s place in the market and we were pleased, but not surprised to find that Pfizer has a solid place in the market. Our group faced challenges in trying to project future stock with only data from 2019. We were able to find a consistent growing stock, when Pfizer’s 2020 10k was published last week. This allowed for our group to find a stronger prediction for the next five years and one that grew as well. Many of us just finished learning EPS in intermediate, so the experience of learning how to apply EPS in a more real-life setting has been beneficial. This portion of the case also allowed to us to gain another layer of understanding of how our strategies we will be presenting will possibly affect Pfizer. This case allowed for our group to gain a better understanding of the market, Pfizer’s said place in market, and how our solutions will turn into a positive for Pfizer’s stock.

2020		1.73	21.046		36.41
2021	$	1.75	21.046	$	36.74
2022	$	1.80	21.046	$	37.92
2023	$	1.86	21.046	$	39.14
2024	$	1.92	21.046	$	40.47
2025	$	2.00	21.046	$	42.11

Picture Above: 1-5 Year Projected Stock for Pfizer

Case XI: Financial Crisis of 2008

Executive Summary

This case was focused on the financial crisis of 2008. Students were instructed to watch three videos and read two articles regarding issues that led to the financial crisis of 2008. The main source for this case was a movie entitled *Inside Job (2010)*, students were required to rent the movie and watch it in its entirety. This movie highlighted specific problems going on in the financial world that led to the crisis of 2008. After watching the videos and reading the two articles, students were then instructed to answer three questions that centered around our reactions to institutions and government regarding the financial world.

I learned so much from this case study regarding the financial crisis of 2008, but I also learned a lot about how much this crisis would personally open my eyes up to certain issues that we faced within financial institutions and the government. Throughout this case study, I was able to learn about what led up to the financial crisis of 2008, and what the implications were after the fact. However, in my opinion, the more valuable learning experience from this case was answering the tough questions that applied directly to me. I was able to assess the situation and determine how this crisis affected my trust in financial institutions and the government. I was also able to learn about my role in society from a professional and personal approach. The materials we were provided with really allowed me to dive deep into this question and learn more about myself on these professional and personal levels. Finally, I was able to compare the political landscape that brought on the financial crisis of 2008 and the political landscape of today. It was important to really digest all the information that we had learned from the financial crisis of 2008 so we would not make the same mistakes again in the future. This case proved to be greatly beneficial for myself as I was able to assess how this crisis personally affected me.

Whenever we were first assigned this case, my initial reaction was one of excitement as I did not have much knowledge existing on the financial crisis of 2008. I had always heard about how bad this financial crisis was, and the burdens it had caused many Americans. However, I did not know exactly how we had gotten to this point and how it was a global reaction *Inside Job (2010)* really put into perspective what went wrong in the financial world to get to this point. The materials we were provided with really made me take a step back and question our leaders in big financial institutions and government. My trust was completely wiped out. These materials also forced me to look at myself as well and not be so naïve to think that people in positions of power will automatically be looking out for the wellbeing of the general population.

Financial institutions and the government both played big roles in the financial crisis of 2008. *Inside Job (2010)* would go on to highlight several examples of actions that institutions and the government would go on to do that would aid in the financial collapse. The United States had experienced 40 years of economic growth following the Great Depression. However, the Reagan administration would start 30 years of financial deregulation. This action would prove to be costly for the United States and the rest of the world. Wall Street would begin to capture political parties and be very influential in decisions. The next crisis came in the late 1990's when Citicorp and Travelers Group would merge to form Citigroup. This was in complete violation of the Glass-Steagall Act. The Securities and Exchange Committee did nothing to stop this merge. Continuous deregulation of financial institutions and the advancement of technology aided the financial crisis of 2008. There were also increases in risky loans that received AAA rating in the early 2000's. These ratings confused many economists as they were left wondering why these institutions would give these risky loans such good investment ratings. However, the people running these financial institutions were only worried about the profits their companies would be receiving and had a lack of empathy for the general population.

It is easy to say after the fact that these practices conducted by institutions and the government were dishonest. However, when leaders of these financial corporations were questioned by Congress and the media, they often showed a lack of respect and sympathy for the people who were hurt by their practices. My trust in these institutions was completely lost after watching and reading these materials. There were times when people called for regulations for financial institutions and the leaders of these companies voiced their opinions against regulations. This allowed them to continue to carry out their dishonest practices to expand their personal wealth. There were also times when the government could have stepped in and overruled merges with the Glass-Steagall Act already in place, but government officials failed to do so. The blatant dishonesty from institutions and the government opened my eyes towards staying engaged with these entities and taking a proactive approach when it comes to making decisions. Being able to trust leaders in financial institutions and government is an important component to a growing economy.

After watching and reading these materials, it was apparent to me that my role in society matters professionally and personally. When we were first assigned this case study, along with the materials provided, I would not have thought much about my role having much to do with what goes on with these institutions and the government. However, the materials opened my eyes up to how much of a role every-day citizens can play in society.

My beliefs changed greatly throughout reading and watching these materials, and I will start by discussing how my personal beliefs about my role in society changed. Throughout this research it became apparent to me how much more I needed to be engaged with decisions that are being made in the financial world. There are decisions being made by big leaders of institutions that affect my life. I think it is especially important for me to become educated on certain decisions that revolve around my life when dealing with investment banking. It is important to be educated so that I can make the best decisions for myself. Another example about how these materials affected me personally was through trust. It is important to be able to trust our leaders in these positions of power who make decisions that affect the livelihoods of every citizen. The last thing that I learned from watching this documentary was how these poor decisions made by trusted leaders in positions of power could have such negative impacts on everyday citizens. The unemployment rate skyrocketed, and many people lost their life savings because of the greedy leaders of financial corporations profiting off clients. These decisions affect everyone personally, and it is important to have trusted officials in these positions.

My beliefs about my role professionally in society also changed from watching and reading the materials we were given. I realized just how valuable our work as accountants and work of other professionals in the business world truly is. It is crucial to have well respected and trusted people in these positions of power to make decisions. We saw just how bad the financial crisis of 2008 was because we failed to call out the corrupt leaders whose main goal was focused on their personal wealth. These materials really opened my eyes to how important it is to be thorough and ethical in your professional career. The implications of your personal work can have consequences on the whole country, so it is important to take my career seriously and serve with passion and integrity. I also found just how important it is to stand up and voice your opinion if you know something dishonest is taking place. I find it important to serve with integrity as your work can make differences in the world.

These materials opened my eyes to just how important my role in society is both professionally and personally. It showed me how important it is to stay educated on financial decisions and taught me how important it is to serve with integrity. Going forward I will be more aware of these aspects of life as I have realized just how important they can be.

I believe that you could draw some parallels between the political landscape that brought on the financial crisis and our current political environment. I think that the parallels stem from the desire to have power. I think every political environment in any era is a power-driven environment. Financial institutions play a heavy role in political environments. Political parties are always looking for campaign donations from these companies, and financial institutions are looking for political parties to push their agendas. However, I think we as a nation have learned from the financial crisis of 2008. I think we have learned enough to not make the same mistakes again.

As we learned from the materials given to us, the financial crisis of 2008 could have possibly been avoided if we had listened to people calling for regulations on financial institutions and practices. Instead, the leaders of these companies continued to call for deregulation of financial institutions and they continued to get their way. It also may have been avoided if we had followed specific acts that were already in place like the Glass-Steagall Act. However, a merger between two companies that would have been prevented under this act was allowed, creating another issue aiding the financial crisis of 2008.

There is a lot to be learned from the financial crisis of 2008 to avoid another financial crisis, and it mainly deals with not repeating our own mistakes. We must listen and trust our well-respected public officials when they call for action to be taken. If we had listened to these officials when they called for regulation of financial institutions, this crisis could have been averted. As a country, we must call out corruption when it is right in front of our faces. These big financial institutions were lying to the public about risky loans, and nothing was done to stop them from doing so. Power hungry individuals driven by wealth can be dangerous and there were plenty of opportunities of people in positions of power to stop them from taking part in these dishonest actions. We must be willing to stop corruption with corporations if it is able to be done. If these actions were taken leading up to the financial crisis of 2008, then the crisis may have been avoidable. It is so important to learn from out mistakes and never allow this to happen. The financial crisis of 2008 affected the whole world we live in and if there are steps to be taken to avoid this from happening again, we must take them. Nobody should have to go through that again because of a handful of individuals and corporations caring about their personal wealth. We have the ability personally and professionally to make sure that this will never happen again, and we must do everything we can to stand against these actions.

There was a lot to learn from the financial crisis of 2008. I believe that we have learned from the events that led to this crisis. I think we can take a positive outlook on this crisis and believe that we have become stronger because of the crisis.

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

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