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## Case Studies in Accounting

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CASE STUDIES IN ACCOUNTING

By

Olivia Nicole Meyer

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

Oxford, MS

May 2022

Approved By



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Advisor: Dr. Victoria Dickinson



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## **ABSTRACT**

This thesis contains a compilation of the case studies completed under Dr. Victoria Dickinson for the University of Mississippi, Patterson School of Accountancy, and Sally McDonnell Barksdale honors college. The seven case studies and four sub-studies range from discussions of corporate accounting practices to a deep analysis of the financial statements and statistics of Intel Corporation.

## CASE STUDY I: A Tale of Two Cities

Choosing location preferences for future internships is an important process for students majoring in accounting at The University of Mississippi. Students must research and decide the possible locations in which they are willing to spend nearly an entire semester interning in during their second semester of their senior years. Often it is the case and that students are invited back to work in these locations once they complete the Master of Accountancy program or pass their CPA exam. If a student does not take their search for their idea of an optimal location requirements seriously in the first place, they may become stuck in an undesirable situation.

Case one was assigned so that students could begin brainstorming about and gaining information on two of their preferred internship locations. It asked questions relating to aspects of living in the locations chosen, such as housing, budgeting, transportation, and recreational activities. This not only narrowed the preferences I had previously written, but presented an outline of some of the questions important for one to ask before relocating. The exercise not only highlighted the more recreational questions such as what one would do for entertainment in this city, but the more serious and practical questions of finances and crime, as cannot only look at the positives when choosing where to spend their time, but must evaluate the negative aspects as well to see which conquer.

This study was incredibly helpful in validating two of my location preferences, Memphis, TN, and Birmingham, AL. The case asked questions I would have not thought to answer, such as the quality of the city's healthcare and school districts, two details I have not had to put thought into but are important for future planning. I learned that the cities I chose are considered some of

the more dangerous cities in the United States, making me lean away from these to consider looking into cities that may have lower crime rates 3 to put me at ease. While completing the study, I gained the knowledge about state and federal tax rates, specifically that Tennessee has no property or income tax based on wages and that sales taxes can be a combination of taxes from state, county, and city. Case one allowed me to assess further these locations, and made me acknowledge the importance of questions I had not thought to ask previously.

## Birmingham, AL

### **1. What is the population?**

- The Birmingham-Hoover Metropolitan area has an estimated metro population of 1.156 million residents. Birmingham is the most populous city in the state of Alabama, and the 111th most populous city in the entire United States. The average growth rate for the last ten years is about .24 percent annually. The population of Birmingham is large enough to satisfy my urge to live in a metropolitan area without being overwhelming.

### **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.**

- Birmingham is a sunny city that experiences all four distinct seasons, reaching an average annual high temperature of 74 °F and an annual average low temperature of only 53 °F. The city receives an average of 57 inches of rain a year, which is 18 inches more than the national average. Though there are about 117 precipitating days a year, the annual average snowfall is only about two inches.
- This climate fits in line with my hometown, Oxford, MS, though at home I receive fewer precipitating days a year. Though I wish it were a bit cooler year-round, I appreciate the increase in precipitation.

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

- Birmingham lies just to the north of central Alabama in the foothills of the Appalachian Mountains [1-1]. The city has coordinates 33.5186° N, 86.8104° W and an elevation of 609 feet. Birmingham boasts the beautiful forests, parks, and bodies of water in its vicinity, including but not limited to Red Mountain Park and Smith Lake [1-2].



**Figure 1-1** Foothills of the Appalachian Mountains



**Figure 1-2** Overlook of Red Mountain Park



**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 would be likely to pay? Quantify what this means based on a starting salary of approximately \$55,000/year)?**

- The total sales tax rate on goods and services for the city is ten percent, a combination of taxes for Alabama state (four percent), Jefferson County (two percent), and Birmingham itself (4 percent). Jefferson county's property average tax rate is .656 percent of home value, a rate nearly double the average property tax rate for the state of Alabama. The federal income tax system is progressive, ranging from 10 to 37 percent of income, so as income increases, so will the tax rate. The tax rate for state income over \$6,000 stays at five percent and the local at one percent. The cost of living in Metropolitan Birmingham is low, only 87 percent that of the national average.
- The federal income tax rate if I were to make \$55,000 a year would be 22 percent of my income. Federal income combined with the state and local rates of five and one percent means 28 percent of my income would go towards income tax. I would pay out \$15,400 yearly, with an after-tax income of \$39,600.

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

- Taxi, cab services, and shuttle services are found throughout the city. As for public transportation, there are many routes through the Birmingham Jefferson County Transit Authority, which is a bus system. For longer trips, one can fly out of Birmingham Shuttlesworth International Airport or take a train through the Amtrak station.

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

- The top industries of the city are that of the automotive, bioscience, information technology, finance and insurance, and metals and machinery manufacturing industries.
- The top five major employers in Birmingham, AL span various industries. The University of Alabama at Birmingham (UAB) is the top employer with Regions Financial Corporation following in second. The third and fourth companies that employ the most people are St. Vincent's Health system and Children's of Alabama. In fifth comes AT&T, which deals in telecommunications.

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

- Birmingham one of the top 100 cities in the Healthgrades National Health Index, a measurement system that grades locations based on their access to and quality of medical care.
- There are 19 public schools and quite an array of private, Christian, and Montessori school options in the area. Many of the public schools have received rankings as best high schools in the United States by U.S. News, as well as placed on the list for most challenging high schools by The Washington Post. This shows that the public schools here are definitely academically competitive with the private schooling options, leading me to arrive at the conclusion that I would send my children to public school.

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

- Birmingham has a crime index of one, meaning that it is only safer than one percent of the cities in the nation, with a crime rate of about 17,800 crimes a year just from violent and property crimes. Cars in this city should be watched, as the FBI has found that Birmingham has one of the highest rates of vehicular theft in the United States.
- The city center is labeled as “most dangerous,” along with Village Creek, Norwood, Edgemont, and others. As a single young woman living in this city, I would need to keep watch of my surroundings.

**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.**

- There are a total of 99 neighborhoods in Birmingham. The costs for one bedroom, one-bathroom apartments in the Five Points South neighborhood range from an average rent of \$700-\$1,000 a month. Over three years this would total out to an estimated \$25,200-\$36,000.

- Sycamore Manor is one rental option in the Five Points South neighborhood, offering a one-bedroom, one-bathroom apartment with a private parking lot, appliances, and an on-site laundry facility [1-3]. The monthly rent is \$857 for a 643 square feet space or \$929 for a 728 square feet space [1-4]. Since it only has one bedroom, I would be living here alone.



**Figure 1-3** Exterior View of Sycamore Manor

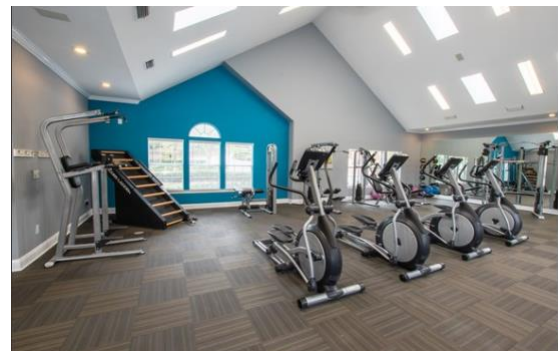


**Figure 1-4** Living Room in Sycamore Manor

- Another option would be to share a two-bedroom, two-bathroom apartment while living in Birmingham, which would lower my rent expense. 150 Summit offers this 1,084 square feet option for \$1, 151 a month. The gated complex has two pools, an on-site laundry center, and a 24-hour fitness center. There are parking spots and garage spaces available for residents' vehicles.



**Figure 1-5** Living Room in 150 Summit



**Figure 1-6** 24-Hour Fitness Center at 150 Summit

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

- The best way to commute from one area to Birmingham to another is by car. Many of the housing options have parking lots and garages available, so one does not need to rely on public transportation unless they prefer to do so. The commute from Five Points South to downtown Birmingham is only a five-minute drive, which I estimate to take ten minutes with traffic. To drive from 150 Summit to work in downtown Birmingham takes around fifteen minutes. Both of these options seem completely reasonable, and are not much further than the distance from my home to campus. Birmingham as a whole has an average commute time of 26 minutes, so I will likely need to carve out extra time in my schedule to avoid being late.

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

- In addition to traditional supermarkets, Birmingham has specialty health food stores, farmers markets, and discount options. I will likely shop as I do currently, getting the majority of my groceries in traditional supermarkets and visiting fresh markets for produce.

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

- If my housing situation does not provide an in unit or on-site laundry option, there are plenty of laundromats and laundry pick up services throughout the city.

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

- Girls Inc. is a nonprofit that supports and guides young girls in the areas of healthy living, academic achievement, and life skills. I believe my past work in tutoring and childcare would make me a helpful mentor or volunteer for this group.
- Alabama Environmental Council is an environmental advocacy organization that has educational programs that I'd like to both volunteer for and take part in.
- Civitan International is a community service organization that emphasizes helping those with developmental disabilities. Fundraisers and general volunteers are always needed for the organization, both positions I believe I could fill.

**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 have an appreciation for the performing arts, and Birmingham offers many options for this, including the Birmingham Ballet, Red Mountain Theatre company, and more.
- Birmingham has an abundance of museums I would love to visit, ranging from science to civil rights to aviation.
- Like most "big" cities, Birmingham has a growing culinary scene. I would want to explore the various restaurants and cuisine options.
- College sports are a necessity in the south, so catching a football game at one of the numerous universities in the city would be an exciting way to use a Saturday.

- I could explore the many parks, trails, and preserves Birmingham has to offer. Oak Mountain, the largest state park in the state of Alabama, is nearby and has a lake, trails, and wildlife center open to the public [1-7].



**Figure 1-7** Oak Mountain State Park

**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?**

- Since I would be able to take and use my car while in Birmingham, I could just drive home to Oxford. The distance between the two is 186.7 miles and would be about a two hour and 45-minute traveling time.
- My vehicle will travel 19 miles per gallon of gas. The current cost of a gallon of gas is an average of \$2.18 a gallon, so the trip would cost me under 50 dollars round trip.

**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.**

- Assuming an annual salary of \$55,000 with a bonus of \$5,000, I would be bringing in \$43,200 a year or a monthly \$3,600 after taxes, an amount that would support a comfortable lifestyle. An estimated \$800 of this would go towards rent and utilities, leaving me with \$2,800. My current monthly grocery budget is \$150, which I think would still be reasonable in the future. The average cost of health and car insurance totals out to an estimated monthly expense of \$576. I would set aside \$100 for gas, \$150 for entertainment and takeout, and \$500 for a contribution to my emergency fund each month. Any leftover income I will keep in a savings account.



## MEMPHIS, TN

### **1. What is the population?**

- The metro population of Memphis, TN for 2020 is 1,356,710 people. Over the last ten years, the city has had an average population growth rate of about .23 percent, which is very close to that of Birmingham. It is the second most populous city in the state of Tennessee, falling not far behind Nashville, and the 28th most populous city in the United States. On my countless number of trips to the city it has not seemed as large as the population statistic indicates.

### **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.**

- Memphis experiences four seasons, with an average annual temperature of 62 °F. It is a sunny city with warm summers and mild winters. Though there are about 233 sunny days a year in Memphis, the average annual rainfall comes to 53.7 inches. Memphis is less than one hundred miles away from my hometown of Oxford, MS, and has the same climate, except we receive slightly more rain and a bit less snow.

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

- Memphis is located in the southwestern part of Tennessee, coordinates 35.1495° N, 90.0490°W. The Mississippi River and forestland run through Memphis, creating an outdoor playground for travelers and residents alike [1-8].



**Figure 1-8** Mississippi Riverfront in Memphis, TN

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

- The state of Tennessee has no property tax or income tax on wages. That being said, Memphis residents pay both Shelby County and City of Memphis property tax rates, totaling 7.25 percent of home value. In addition to the seven percent Tennessee state sales tax for goods and services, Memphis pays an extra 2.75 percent of sales tax, making the total sales tax 9.75 percent. The federal income tax system is progressive, ranging from ten to 37 percent of federal income, so as income increases so will the tax rate.

- If I were to receive a \$55,000 salary, I would fall within the 22 percent federal income tax bracket, taking out \$12,100 each year. Since there are no state or local income taxes, I would be left with an after-tax income of \$42,900 yearly.

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

- One can easily drive from one area to Memphis to another, but there are other modes of transport to get around the city. Along with the Memphis Area Transit Authority buses, ridesharing companies like Uber and Lyft have popped up in recent years. Memphis International Airport flies to over 30 destinations and serves six million passengers yearly. Having an international airport so close is an advantage, as I will need to fly to visit my extended family.

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

- The most prevalent industries in Memphis are those of the advanced manufacturing, agribusiness and technology, and corporate and professional service industries. The other top industries are food and beverage processing, medical device and innovation, and transportation and logistics.
- FedEx, International Paper, AutoZone, ServiceMaster, and St. Jude Children's Research Hospital are the top employers in Memphis, TN.

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

- Memphis is a hub of healthcare, in part because it houses the University of Tennessee Health Science Center, which offers medical training and degrees. St. Jude Children's Research Hospital and Le Bonheur Children's Hospital, two of the country's prominent children's hospitals, are located here.
- There are 18 public schools and more than 100 private schools in the metro area. The Shelby County District is a public school district with 200 schools. Some of the top schools on the list are Campus School and Whitestation, two of the public schools I would consider sending my children to if I were to live in Memphis.

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

- Memphis shares Birmingham's high rate of crime with a crime index score of one out of 100, meaning the city is only safer than one percent of all U.S. Cities. Property crimes like burglary and vandalism are most common followed by violent crimes. The city is on the list for top 100 most dangerous cities in the U.S.A. with a one in 51 chance of becoming a victim of a violent crime. The most crimes are committed in either downtown Memphis or the neighborhoods of Oakhaven and Frayser, areas I would likely avoid if possible.

**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.**

- The average rent for Memphis, TN is \$825 a month with an average apartment size of 910 square feet.
- Riverset Apartments in the Mud Island Community is a newly renovated complex complete with in-suite washer and dryers, full appliances, and ample parking spots [1-9]. The grounds have four swimming pools, a fitness center, and even a putting green. The price of a two-bedroom, two-bathroom unit with a connected sunroom starts at \$1,285 a month, an expense I would be splitting with a roommate.



**Figure 1-9** Exterior View of Riverset Apartments



**Figure 1-10** One of the Four Pools at Riverset Apartments

- Another housing option would be to rent a studio at Fielder Square, a community overlooking AutoZone Ballpark where the Memphis Redbirds baseball team plays. The price for this 502 square feet Studio Apartment is \$826 and since it only has room for one person, I would live alone. Fielder Square focuses on keeping its residents engaged in their community by having monthly socials, an on-site movie theater, and a game room. As for common amenities, guests can use the gated parking garage, laundry facilities, and more.

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

- Though the MATA citywide bus system and ridesharing options are available, the typical mode of traveling in Memphis is by car.
- Assuming that the accounting firm I would be working for would be located downtown, Fielder Square would only be a few minutes away from work. Riverset apartments are also close, taking less than a ten-minute drive to get downtown.

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

- I usually visit Memphis every three weeks or so to shop at the various natural and organic upscale grocery stores there such as Trader Joe's and Whole Foods. It would be convenient to have these, as well as the usual options of chain supermarkets, fresh markets, and specialty food stores nearby.

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

- I would prefer having my own laundry room or at least one that is within the complex if I were to live in an apartment. If this is not an option, there are laundry pickup services or laundromats nearby that I could utilize.

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

- I have volunteered in different roles at my local animal shelter for the majority of my life and plan to continue this service. There are several animal shelters in Memphis where I could do so, including Memphis Animal Service and the Human Society of Memphis.
- OUT Memphis is an organization that gives support to LGBTQ+ community members through events, educational efforts, and engagement.
- Mid-South Food Bank has volunteers that collect, package, and distribute foodstuffs to community members in need.

**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.**

- Memphis played a vital role in the Civil Rights Movement and continues to be a hub of culture and history in the Southern United States. History museums and civil rights tours educate and inform visitors of the events and impacts of the movement that happened less than 100 years ago.

- Concerts, music events, and festivals are commonplace in the city and occur year-round with no genre being left behind. Memphis in May is Beale Street’s annual music festival and brings notable musicians from across the country [1-11].
- Memphis Rox is a rock-climbing gym with both top rope and bouldering walls. The facility also offers technique classes for those wanting to learn or increase their climbing abilities.
- Art museums and galleries within the city showcase the diverse artistic works and styles of both local and international artists. These spaces hold events and workshops where visitors can engage with and learn more about the art presented.
- Memphis is on the Mississippi River, creating opportunities for activities like boating, wildlife watching, and river walking [1-12].



**Figure 1-11** Beale Street



**Figure 1-12** Mississippi River Boat at Mud Island



**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?**

- Memphis is only 81.9 miles and less than an hour and twenty minutes away from my hometown, Oxford, MS.
- The current cost of a gallon of gas is an average of \$2.18 a gallon, so the total cost for the trip would come out to less than twenty dollars. Being this close to home is one of the top reasons as to why the city is on my location preference list for internships.

**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.**

- With a combined salary of \$55,000 and bonus of \$5,000, I would fall into the 22 percent federal tax income tax bracket, leaving me with \$46,800 yearly or \$3,900 monthly in after tax income. An estimated \$850 of this would go towards my rent and utilities expense. I currently budget \$150 monthly for groceries, which I believe should continue to be appropriate. The average combined cost of health and car insurance in the United States costs is estimated to be around \$576 monthly. Other budgeted items include \$100 for gas, \$150 for entertainment and takeout, and a \$500 monthly contribution to my emergency fund. Any income left after expenses will be kept in a savings account.

## CASE STUDY II: Asset Concepts

For case two, we were assigned to work as a group to discuss a preselected set of dimensions regarding certain aspects of asset accounting. For the sake of the case, our group had to assume that we were members of the Financial Accounting Standards Board (FASB) and decide between the evaluation standards presented. In the beginning, we found it difficult to reimagine the fundamental accounting concepts that we have studied in order to accommodate these new viewpoints. However, this case allowed us to advance our understanding of asset accounting.

The first question asked us to decide whether the valuation of assets and liabilities or the determination of expenses and revenues was the primary goal of financial reporting. It seemed like both were integral parts of the accounting process; however, when forced to choose just one to be the main focus of determining new accounting standards for the FASB, viewpoint two made the most sense. As you will read, our thought process centered around the idea that revenues and expenses best display a company's success. Making sure that a company's profitability is completely transparent seemed the most important because of the fact that financial reporting is for external users.

The second question asked us to consider whether assets should be measured as "value in exchange" or "value in use." As a group we struggled more with this question conceptually. Ultimately, we decided that assets realize their contribution to a firm by being consumed in combination with other assets. This creates firm specific value proportionally to the assets' exchange value. Recognizing firm specific value over the life of the asset rather than just

the market value at the time of sale seemed more relevant in our opinion.

Finally, the third question asked us how accounting for assets would change based on the viewpoint we favored in the previous question. Our group designed journal entries around the concept of a “Firm Specific Value” account that would show up on the balance sheet. This “asset” would be created at the time of purchase and depreciate the same way any asset would. This idea is very far-fetched and maybe not implementable, but we tried to think creatively about this assignment.

Ultimately our understanding of asset accounting was challenged throughout the duration of this case. Not everything we discussed always made sense, but we think we were successful at thoughtfully finding pros and cons for each viewpoint presented. We are excited to see how the future of accounting continues to advance as financial reporting for assets and liabilities changes.

**Question 1: Read and consider the following two viewpoints. Discuss which viewpoint should be the FASB's focus when promulgating new standards. Take excellent notes of your group's discussion and write a fully developed brief highlighting the pros and cons of each viewpoint culminating with a final decision based on the consensus of your group. Explain why that viewpoint won the debate.**

Olivia: "Okay, so let's start with viewpoint one. What did everyone take from it?"

Kate: "I don't necessarily agree with viewpoint one more than viewpoint two, however, I think that viewpoint one is more useful to internal users instead of external users."

Olivia: "I agree, since evaluating the assets and liabilities of the company is not going to be as beneficial for financial reporting as it would for managerial purposes."

Kate: "I also think that unrealized gains and losses are subject to change and do not necessarily reflect the success of a firm or company."

Laine: "I think it could reflect the success of some companies who focus on bringing in a large number of assets like a bank or an investment firm."

Olivia: "Those are really the only type of institutions I can see this working for."

Mary Grace: “Going off that, viewpoint one might offer some false promises because assets may be profitable, but if there are large amounts of liabilities the company is not actually doing as well as the assets imply.”

Laine: “I think that could work the same for revenues and expenses though. A company may show a lot of revenues but be weighed down by expenses.”

Kate: “However, a good part of option one is when it comes to a company acquiring another by buying assets directly rather than stock companies are able to enter different markets and increase revenues.”

Laine: “ That’s true, I think you could see a company's liquid value better using viewpoint one.”

Olivia: “I think this is better suited for companies that are already established, since yes, entering different markets is a positive, but new businesses first need to get started before they start taking on other ventures.”

Mary Grace: “An issue that could occur due to viewpoint one is stockpiling. Companies might take this viewpoint and run with it, growing their production to greatly exceed the demand for their product.”

---

Laine: “Let’s move on to viewpoint two. Any ideas?”

Mary Grace: “Viewpoint one had some good ideas, but some companies do not revolve around asset growth, especially when you take into account small businesses.”

Kate: “I completely agree with Mary Grace. Growth is important, but not as important as profitability especially considering that the purpose of financial reporting is for external users. Profitability is more telling, in my opinion, of how a company is performing.”

Laine: “Yeah, I think this is especially true with small service companies where you may not need a lot of assets to bring in revenue.”

Olivia: “Like Kate said, this choice shows profitability, and profits are needed to purchase those assets discussed in viewpoint one. You cannot just acquire assets without capital. I guess you could say they could borrow in order to purchase the assets, but lenders would not want to assume the risk of lending to companies for which they cannot see how much profit they are making.”

Olivia: “Viewpoint two is very cyclical. While both are looking at asset change, two is not just acquiring and, like Mary Grace said, “stockpiling” them. The assets are being used in order to create more assets, leading to earnings being brought in and retained. This process would make much more sense for manufacturing companies since they buy materials, which are used as assets, to create more product and profit off of the difference in cost and selling price. These earnings then go back into the bank to be used for future production, with an addition to the amount each time more product is made.”

Kate: “I was thinking the same thing Olivia. Viewpoint two immediately made me think of manufacturing companies. Since most examples we look at in class are manufacturing companies I think that’s why it makes more sense to me that focusing on revenue and expenses are more important and useful to financial reporting. Like I said earlier, financial reporting is supposed to be for external users.”

Laine “Because of that, I think this viewpoint is easier to see how well the company is currently operating and bringing in revenues. You’re not just looking at assets that could have been acquired years or even decades ago; you can see what they brought in within the last operating cycle.”

Mary Grace: “This viewpoint is more beneficial for external users, as it focuses on revenues and expenses which are found in the income statement and because external users are very concerned about profitability. This is the biggest reason that leads me to agree with viewpoint two more than viewpoint one.”

Laine: “Going off of what Mary Grace just said, this could also be a little dangerous. You could have one period that shows a high profit, but you can’t tell as much if the liabilities aren’t displayed.”

Mary Grace: “So we all agree on viewpoint two? Should we move on?”

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**Question 2: Read and consider the following two viewpoints. Discuss which viewpoint should be the FASB's focus when promulgating new standards. Take excellent notes of your group's discussion and write a fully developed brief highlighting the pros and cons of each viewpoint culminating with a final decision based on the consensus of your group. Explain why that viewpoint won the debate.**

Mary Grace: "In viewpoint one, companies realize value on assets once they are exchanged or sold. This is problematic because the assets would have no value on the financial statements until the assets are sold."

Kate: "Well, they would have value as assets on the balance sheet, just not on the income statement until after being sold (revenues). I think the key is 'firm specific' value but I'm a little confused about what that means exactly."

Laine: "The way I understand it is value added to a company from using their specific assets. It's something that another company probably wouldn't value as highly."

Olivia: "Right, this viewpoint leaves out work in progress, so we could not see how each input is affecting the good as a whole. This may simplify the accounting process when looking at how much a product is costing the company compared to the benefits it brings since rather than having each individual input into the product, it is condensed into just the product itself. "



Mary Grace: “Going off of Olivia’s thought, this viewpoint is dependent on the market price of the good or service a firm is providing rather than the value of the materials it required to make the product.”

Laine: “Yeah, that’s true, it would make the value of all of the assets a lot less subjective.”

Olivia: “If we do not standardize value, who is to say what something is worth? There is no firm specific value with this option since the company is only receiving that monetary gain from the exchange or sale of the asset.”

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Kate: “I feel like viewpoint two would better show expenses allocated/traced evenly across each period as well as better matched with revenues. It takes into account future cash flows and assigns its value based on that, rather than just the market price at the time of sale.”

Mary Grace: “That generated firm specific value is more valuable to an internal user because firm specific value is subjective. However, it does create more value in the firm other than cash.”

Olivia: “Exactly, it is not very useful in external reporting because companies are going to be uninterested in what other companies have for firm specific value since that value cannot be monetized.”

Kate: “I think that viewpoint two is more relevant to a company that uses an asset over time. Especially something nonrenewable like a paper company that chops down trees. The trees are consumed over time and in turn add value to the company when the paper made from it is sold.”

Mary Grace: “Kate, I like that example because it shows how the in-use asset is adding value to the firm. In the example, the value of the trees is depleting while the value of the paper increases, creating firm specific value.”

Olivia: “From what I understand, you would be decreasing one account as an asset is being used while at the same time increasing another account for that same example. For example, like how equipment is depreciated, and an amount is credited from the equipment’s asset account but debited into depreciation expense for that equipment. Is this how you guys see this?”

Kate: “Yes, as the equipment is being used the company would depreciate it by debiting depreciation expense and crediting accumulated depreciation. So not the equipment directly but through the accumulated depreciation account. Accumulated depreciation would show up on the balance sheet and the value of the asset as a net amount.”

Laine: “I agree, but what would the account the account credited be in this case? Some sort of contra-asset, right?”

Olivia: “I have not found a contra-asset that would work for this, so I think there would have to be a new one made. We seem to have found more advantages for viewpoint two, does everyone agree?”

Mary Grace: “I agree, viewpoint two definitely makes more sense to me.”

Kate: “Definitely.”

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**Question 3: Based on your answer in Question 2, how will current accounting have to change to accommodate this value definition? Provide examples of specific transactions and how their journal entries (either accounts or amounts) would change under this new definition.**

When buying machinery with cash, not only will we receive that machinery as an asset, but we will also be acquiring the asset of firm specific value.

BUY:

Fixed Asset	20,000	
Firm Specific Value	5,000	
Cash		25,000

DEPRECIATION:

Depreciation Expense	6,000	
Firm Specific Value (asset)		1,000
Accumulated Depreciation (contra asset)		5,000

SELL:

Cash	25,000	
Accumulated Depreciation	5,000	
Fixed Asset		20,000
Firm Specific Value		4,000
Gain On Sale		6,000

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As a health food store owner, you buy a plot of land next to a gym on which to build another store. Because you will have many customers who are members of the gym next door, this plot of land has more firm specific value than a plot of land across town.

BUY:

Land	100,000	
Firm Specific Value	10,000	
Cash		110,000

SELL:

Cash	110,000	
Land		100,000
Firm Specific Value		10,000

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Your company has a factory designed to unique specifications that allow you to carry out your operations more efficiently. Because of this specificity, other companies would not be able to operate as well so they value the factory less since they do not operate exactly as you do.

BUY:

Factory	100,000	
Firm Specific Value	20,000	
Notes Payable		120,000

SELL:

Cash	120,000	
Firm Specific Value		20,000
Factory		100,000

### CASE STUDY III: Presidential Debate

The Presidential Debate occurring on September 29<sup>th</sup>, 2020 was the first of a series of 2020 presidential debates between candidates President Donald Trump and former Vice President Joe Biden. The debate was difficult to watch, as the candidates were unable to focus on the topics on hand, constantly speaking over and ridiculing one another. As a voter, I was irritated by the lack of professionalism of the men, one of which will go on to lead our country. Questions asking about the stances of the candidates on important topics, such as how one will deal with the COVID-19 pandemic as president, were left unanswered because of a lack of time or an interruption. These debates occur so that voters can gain insight into the candidate's stances so that an undecided voter may be swayed, yet I do not believe this round would have been of any assistance to those individuals.

There was not much relevant information provided within the debate to cover the requirements listed in the case study, but I was able to draw points from a few topics that were covered, such as the effects and stances of each presidential candidate on the Paris Climate Agreement, tax cuts, environmental issues, and was even able to make conclusions based on the behaviors of the parties. During the debate there were a number of similarities between the overall goals stated by the debaters, though each wanted to reach their goals through different means. Rather than dividing ourselves by the political opinions we hold, we should come together so that the important decisions can be made that result in the best for all citizens. There will always be differences, but listening to others and working at those differences will be what brings us back together.

*Requirement 1: You live in the United States of America. What is it about our country that “unites” us to warrant naming our country that?*

As a nation, we are united by the ideas and ideals of the founding fathers which are reflected in our structural and founding documents such as The Declaration of Independence and the Constitution. At the core of this unity is the legal system that binds us by similar laws and forms our society’s general moral and ethical belief system. Beyond that are common factors that most, yet not all, Americans seem to share. The most important of these unifying ideals is an emphasis on individualism.

Although ironic, I believe our praise of individualism is the strongest ideological uniting force in America. Since our founding, the belief that America is innately different (and perceived to be better) than the rest of the world has been ingrained in American society and is reflected by the emphasis on individualism in our culture. At the core of our belief in individualism is what we call the “American Dream.” This is the belief that any person can become successful through their own hard work and by using the opportunities America provides. While it has become more and more clear over the years that this dream is dishonest and misleading, it is still a major talking point when it comes to American identity and, therefore, unity.

Another more concrete aspect of our country that unifies us is a shared culture. Being able to travel across the country and still having one’s cultural knowledge base be relevant

creates a strong sense of shared identity. For example, if I traveled from Mississippi to Wyoming, I could most likely find someone with whom I could talk about college sports, the Bachelor, Twilight, or any other number of popular cultural topics. This cultural homogeneity allows for those of different political beliefs, geographical locations, and demographic to maintain a sense of greater national identity.

America's history as the world's "melting pot" also aids in creating a sense of unity despite the country's strong diversity. Since the United States is a country of immigrants, the idea of what an "American" looks like is amorphous. This allows for a more flexible acceptance of others since most people that live in this country are used to a level of diversity that would not be possible in other parts of the world. We are united by the fact that we, as a country, can come together despite and because of all of the differences between us.

*Requirement 2: For each of the candidates, forge a prediction about how their presidency will affect the job market when you graduate and the general business economy for the companies that will either be your clients or your employers. How will taxes, regulations, employment, wages, outsourcing/manufacturing, and overall financial health (for individuals and companies) differ under each administration?*

The COVID-19 outbreak is an unavoidable consideration when talking about the job market nowadays. The pandemic has caused a lot of unpredictability and doubts about job security and may continue to do so by the time I am entering the job market in May of 2023. How the president reacts to the pandemic is important for future employment, as the state of the



pandemic will determine how businesses are operated. If the pandemic continues, more companies will shut down their physical offices and be forced to switch to online platforms, increasing unemployment by reducing the number of maintenance workers necessary.

Democratic nominee Joe Biden believes that wealthy individuals and corporations are not paying their fair share of taxes, while the average American is paying more than they ought to. Because of this, Biden wants to decrease taxes paid by the average American citizen and increase the corporate tax from 21 percent to 28 percent while also eliminating the tax cuts put in place by the Trump administration which favored big businesses (*2020 Presidential Debate*). If companies are unable to avoid the increase by way of tax credits or otherwise, more money will be leaving the company as tax expenses. This not only affects the company's finances, but may lower employee incomes if those businesses reallocate the funds by reducing their wages. While the average citizen may prefer lower taxes at the expense of the upper classes, corporations and individuals making more than \$400,000 a year are unlikely to be thrilled by the idea of the tax rate increase.

On the other hand, incumbent president and Republican candidate Donald Trump lowered the corporate tax rate from 35 percent to 21 percent during his term and presented the Trump tax cuts (*Donald J. Trump for President*). Large businesses favor this as it means that they can conserve money that would have previously been spent as tax expenses, likely leaving their employees at either a similar financial position or at an advantage due to increased wages if the money was reallocated. On the topic of favorable outcomes for corporations, Trump believes regulations "have stood in the way of hard-working Americans," and wishes to deregulate the system to give corporations more freedoms (*Donald J. Trump for President*). Biden opposes this

and proposes more regulation on corporations, a fact that encourages large businesses to again root for his Republican opponent.

Both candidates want to lower unemployment, but have different methods to do so. Trump believes Biden's plans of rejoining the Paris Climate Accord and creating new, green infrastructure will be costly and will cut industrial jobs. Biden acknowledges that these environmental goals have a price, but believes the creation and operation of new infrastructure would create "thousands and millions" of "good-paying jobs," making up for the losses that joining the Paris Climate Agreement may create (*2020 Presidential Election*). Biden also believes that, by taking these steps towards environmental issues, the nation will spend less on the remediation costs of natural disasters caused by climate change.

Neither candidate approves of outsourcing industrial production and would rather keep it in the United States to create and secure American jobs. By producing more items within the country rather than importing, more local job opportunities will be created, which should lower unemployment. During the debate, Trump went against his stance on outsourcing to defend his ideas to drastically lower drug prices, which he would do by "going with favored nations," meaning he would import the drugs from other countries (*2020 Presidential Debate*). The financial effect of lowered drug costs would be beneficial to Americans, but may negatively impact domestic pharmaceutical production. Biden also wants to keep manufacturing in the United States, but his increase of corporate taxes may cause these companies to move their operations outside of the country in search of lower rates.

Tax differences and regulations between the candidates are considerable and would likely lead corporations to side with Trump. If Biden were to become president and enact higher taxes and more regulation, he would do so at the risk of companies moving their locations elsewhere

or lowering employee wages. However, these clients could theoretically be replaced by new green businesses created as a result of Biden's green initiatives.

*Requirement 3: How will the two sides of the country come together harmoniously once the election is over? Frame your answer in terms of how individuals, like yourself, will achieve peace with the other side and they, with you. How do you personally intend to function in the aftermath? Discuss coping strategies for yourself and suggestions for reminding family, friends, and colleagues about the values you outlined in Requirement 1. Formulate a plan to be an agent of positivity and discuss the content of that plan.*

For the 2020 presidential debate, each campaign agreed to rules stating that the moderator would bring forth topics which both candidates would have two minutes to reply, after which they would be allowed open discussions for the remainder of the segment. This agreement was clearly ignored, as evidenced by the candidates interrupting and speaking over each other constantly throughout the debate. These interruptions and general disrespect from the presidential candidates towards each other are not promising in regards to how the two sides of the country will interact once the election has ended. It is difficult to imagine that people will act "harmoniously" once the election is over, especially in the beginning days of the winning candidate's presidency when tensions will still be high. There may be a stagnation of this unrest once the results have settled and before talk of the 2024 presidential election begins, though voters will likely still find faults if their preferred candidate ends up losing the election.

At some point, no matter the political stances taken, one must accept the leader that was chosen as the decision cannot be undone unless the president is removed from office or passes

away. One can only hope that the winner will do their best by providing whatever changes or policy they deem necessary to create a more successful country and leave a positive lasting impact. Achieving peace with the other side may be difficult, but it is possible and necessary for us to be respectful towards one another and our differing opinions. Rather than having heated discussions over whose political opinions are right and whose are wrong, individuals can end the conversation on a high note, agreeing to disagree. After all, having differing opinions on a topic does not make one less human.

In the event my preferred candidate is not chosen as president, I will not let my emotions get the best of me. Though I will be understandably upset, I plan to stay optimistic in my hopes that the president will bring positive change during his term. If my party wins, I will not laugh in the faces of those on the other side, nor will I begin confrontational conversations on the matter as I find this rude and unnecessary. If urged to speak on the matter in a social setting, I will politely decline or offer another topic to speak about, a tactic I use often. I find changing the subject of the conversation to be much more pleasant and less stress inducing than arguing over political opinions.

If unavoidable political conversations arise after the election, I will not follow the leads of our candidates by arguing and issuing personal attacks but will rather remain calm and listen to what the other has to say. By being understanding and open while having conversations such as these, we can progress and work together on the ideas that we do agree on. These differing political opinions are the same differences that make us individuals, individual being a main emphasis on what unites us as a nation. We must remember is that we are not so different in the long run, and are Americans just the same, and ought to treat each other as equals rather than assuming one is better than another.

It is important to stay optimistic, as the promise of being able to change future decisions urges voters to stay informed and continue voting in later elections. Indubitably, I will still find faults in the president's actions but staying positive means I will also be able to see the beneficial outcomes that they bring. I plan to help others steer away from pessimism as well, reminding them that they can make an impact during future elections, and that their opinions still matter.

## CASE STUDY V: Taxodus- Playing The Global Tax Avoidance Game

For this case, the class was required to watch a video called “Taxodus - Playing The Global Tax Avoidance Game” and read two articles written about the effects of the Tax Cuts and Jobs Act that President Donald Trump put into effect during his presidency. The video presented the various ways that large U.S. corporations like Walmart get around paying their fair share of taxes. One of the strategies used includes using tax havens, which are countries that require little or sometimes no tax liabilities from companies. By offshoring, companies can avoid the high corporate tax rates of the United States and reduce the amount of corporate income taxes that they must pay, increasing their net income. Though legal, I find these acts to be morally unsound, as corporations get around having to pay taxes for the public resources that they use in abundance, yet pay so little towards.

Before Trump’s TCJA, the corporate income tax rate was 35 percent, which the TCJA reduces down to 21 percent, in the hopes that doing so would incentivize companies to stay in the country, and unemployment would decrease. Presidential candidate Joe Biden proposes an increased corporate income tax rate of 28 percent, which I find to be an acceptable middle ground between the new and previous rates. A rate within a few percentage points of this would be low enough to (hopefully) keep businesses operating within the United States, but high enough that corporations are paying what they ought to pay. I do not believe income tax rate is

enough to change how corporations behave and where they station themselves. To keep these companies accountable, regulations and other incentives should be put into place as well. For example, taxing offshore businesses extra to make up for the loss would help neutralize the negative effects of that practice.

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*Requirement 1: What do you think the optimal corporate tax rate should be and why? Explain your answer including information gleaned from the two links and the documentary (in addition to any other sources you would like to include)*

The video “Taxodus - Playing The Global Tax Avoidance Game” shows the methods large, notable corporate entities like Starbucks employed in 2013 to avoid the high corporate income taxes of the United States, the country where they were actually situated and operating within. These companies were, along with other avoidance methods, offshoring, which is the act of taking operations overseas so that costs can be reduced. In “Taxodus,” it was stated that they “figure that of the 21 to 32 trillion dollars of offshore wealth owned by private individuals, about a third of that is from the developed world” (Taxodus). Instead of paying the high 35 percent corporate income tax of the United States, they were able to pay the little, or in some cases, no corporate income taxes offered by countries like the Netherlands and Kenya. By lowering the income taxes that they pay paid, corporations are left with higher net incomes. Because these profits are not flowing through the United States, shareholders are not getting enough payback from their shares in these companies, and market distortions occur.

High corporate income taxes in the U.S. is one of, if not the largest, factors in urging companies to move their operations elsewhere, along with advantageous tax treaties and tax breaks in those foreign countries. It is much more beneficial for a company to move away and pay little to no taxes rather than pay a high rate. The idea behind lowering the tax rate is that more corporations will stay within the United States, reducing the negative effects that would occur if these corporations were to take their business elsewhere. “As capital moves away in response to high statutory corporate income tax rates, productivity and wages for the relatively immobile workers fall,” so operating within the borders not only provides a higher GDP but creates job opportunities for workers, the latter of which should theoretically lower the unemployment rate (Testimony).

During his presidency, President Donald Trump signed The Tax Cuts and Job Act (TCJA) into place. This act lowered the corporate income tax from the then-present 35 percent to a much lower 21 percent. The goals of this act were to “grow the U.S. economy, resulting in a higher level of GDP, higher wages for workers, and more full-time equivalent jobs” (Testimony). So far, this act has been showing positive effects, with U.S. unemployment at a 50-year low of 3.7 percent, rising wages, and increased job opportunities (U.S. Department of the Treasury). Since the act has only been in place for three years and “major portions of the Tax Cuts and Jobs Act are set to phase out or expire,” we would have to make it permanent to see its long-term contributions (Testimony).

Democratic Presidential candidate Joe Biden proposes increasing the corporate income tax from the current lowered 21 percent to 28 percent, which is still seven percent lower than the 35 percent rate that was in place before President Trump lowered it. I find this rate to be a perfectly reasonable middle ground, yet not low enough that corporations will pay even less of



their fair share of taxes. I believe that to keep these corporations accountable, not only should the rate be high, but write-offs should be reduced and more restrictions should be put into place that makes offshoring difficult. “Biden has also newly proposed a 10 percent surtax on imports from offshored business activity and a 10 percent ‘Made in America’ tax credit to incentivize onshoring,” which seems as if it would reduce offshoring in a more balanced way (Details and Analysis of Biden's Tax Plan).

I am a firm believer that corporations should pay a larger amount in taxes, and that it is immoral for them to avoid paying what they rightfully should. These companies bring in millions, billions, and trillions of dollars, yet pay only a minuscule percentage out in taxes. As a whole, corporations use a high amount of resources provided by taxes such as infrastructure and education, yet contribute so little towards those resources. The burden then falls onto citizens to pay higher taxes to cover the expenses that corporations should be contributing more towards. That being said, raising rates increases the risks of corporations offshoring, a negative effect that could be neutralized with the proper incentives and regulations. For these reasons, I think the corporate income tax, if properly aided with other aspects, could be set around 30 percent.

*Requirement 2: Did the case increase or decrease your interest in pursuing a career in the tax service line of public accounting? Explain your position.*

In my efforts to educate myself on the field of accounting over the past few years, including doing internet research, attending presentations, and meetings with accountants, I have concluded that I would prefer to work in the audit service line of public accounting. From what I

understand, those in audit work as a team and each day is different, both aspects I generally enjoy. You are also working more closely with the clients, which I find to be more personal and believe that would make me feel more connected to the work. This contrasts with tax accounting, where one is more likely to go through the same processes day-to-day and do individual rather than group work. Though I appreciate the routine tax accounting could provide, I believe the audit line would allow me to have versatile workdays, decreasing the chance I would become bored with my career over time.

Before watching the case I strongly preferred the audit side of accounting and after the assignment, this sentiment stands. Tax rules, regulations, and processes are constantly changing, so when working with taxes one must stay educated on the newest reforms or additions. The substantial change in the U.S. corporate income tax rate from 35 percent to 21 percent (and the changes likely to occur if candidate Joe Biden is elected as President), is just one example of the ever-changing tax codes that I would have to consider if working in tax accounting. I find taxes and their consequences interesting, yet would not want to relearn them constantly.

## CASE STUDY VI: Business Interview- Abby Meyer Sudduth

Abby Meyer Sudduth was born in Batesville, Indiana, the first of many locations in which she would live. Her love of learning was one reason leading her to realize that she wanted to continue her studies and complete college. She attended the University of Mississippi, where she planned on majoring in fashion merchandising. She soon realized this was naïve, and switched over to completing a double-major in accounting and marketing. After interning at Watkins Uiberall, PLLC in Memphis, TN, her love for accounting blossomed, and her career path was set.

Since graduation and passing the CPA exam, Abby has held several positions including supervisor, treasury analyst, and corporate accountant. Now, as an operations finance manager at Batesville Casket Company, a leading casket and cremation urn manufacturer, she analyzes and budgets cost data for the sector, then reports the results in hopes of improving profits from operations. She recently changed over to working part-time hours while also juggling the demanding requests of her sons and their busy schedules.

From her childhood and well into her twenties, Abby lacked self-confidence, instead believing that if she was not excelling in each asset of life, she was a failure. After seeing her successes in her career and building her relationship skills along the way, she now has a different take on life. Abby's advice on the matter is that one should following their strengths rather than letting their weaknesses take over, which is helpful for both the workplace and everyday life. Though she has faced challenges, and every generation does, Abby is proud of how far she has come and the life that she has built for herself.

*Question 1: Tell me about your life growing up before you started college or your career.*

Abigail Meyer Suddath was born to Richard and Joyce Meyer in Batesville, Indiana on December 2, 1982. She had a conventional middle-class upbringing and grew up along with her two older brothers and an abundance of extended family. Abby, the nickname that has stuck since said childhood, was a bright, happy, and healthy child. Like most children, she attempted a variety of sports and recreational activities like soccer, softball, and pottery. Enthralled by her schooling, she sought any chance at learning something new, a characteristic that has followed her into adulthood. She had lived in New Hampshire, Mississippi, and Indiana by the time she got to high school and excelled in her studies in each location. As a result of both her exceptional grades and love for learning, Abby decided to continue her studies and began applying to both local and distant universities.

*Question 2: What were your college years like?*

Abby lived in Oxford, MS from grades one through nine and had made many lifelong friends and memories during her time there. After graduating high school, these connections to the charming city of Oxford led her to enroll at the University of Mississippi. Oxford was a comfortable middle ground for Abby, since she missed her family and friends back in Batesville, Indiana, but had lived there for ten years of her life, had a solid set of friends, and had her brother, Jamie, and niece, Olivia, living just down the street. It was the perfect location for her to both have the out-of-state college experience she desired, yet the support familiarity provided. Abby did not plan on joining a sorority at the University of Mississippi but was soon recruited by

the new friends that she met in her dormitory. She rushed late and joined Kappa Alpha Theta, a Greek sorority chapter now defunct at Ole Miss. She did not participate in the stereotypical Greek party scene and was committed much more to her studies, the reason she entered higher education in the first place. She looks back on her college years fondly and wishes she would have been able to further her higher education by continuing on to graduate school.

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

When looking into career field options, Abby thought she would be well suited to enter fashion merchandising, as she found fashion to be more interesting than her other options and enjoyed the artistic expression it would allow her to show. Her naivety soon hit her, as she no longer believed it realistic nor fiscally responsible to follow the dreams of heading into the fast life of New York fashion. This realization steered her towards entering the Ole Miss School of Business, where during her sophomore year she changed her major to marketing. The marketing major required her to take accounting principles, a class in which her skills in math and organization set her up for success. Her professor recognized her successes in the class and recommended that she continue onto the accounting path since she seemed to be well suited to the career. After taking on a double major in marketing and accounting with an emphasis in management, Abby had the 150 hours needed to sit for the CPA exam but did not continue onto further schooling to become a Master of Accountancy.

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

Abby began her first part-time job her junior year of high school, where she worked at Schmidt's Bakery in Batesville, Indiana on afternoons after class and early Saturday mornings. She took and completed orders, answered questions, and tidied the shop. Her first job taught her to be responsible, timely, and dependable while also strengthening her customer service and socialization skills. After Schmidt's Bakery, she worked at Batesville Casket Company where her father had been working for the last thirty years. Her position was in the shipping department of urn options, where she sat in a non-air-conditioned room and shipped urns to funeral homes. This job taught her not only organization and inventory skills but also reaffirmed that she wanted to pursue a college education.

While in college on the accounting major track, she interned as a tax intern at Watkins Uiberall, PLLC in Memphis, TN during the spring semester of her senior year. What she cites as her first "adult" job was no easy task and forced her into a new headspace. At the firm, she worked by a very rigid set of tasks and rules and had to maneuver through confusing software and other issues with her fellow interns. Though she did not enjoy the position, she gained her first bit of accounting experience and concluded that tax accounting was not something that she wanted to pursue.

After graduation Abby began her professional career, starting as a staff accountant in corporate accounting for Home Depot in Atlanta, Georgia. She worked with large teams in consolidation and reconciling balance sheet accounts. After only a year she was promoted to senior accountant for her good work, a title which came with greater responsibility. Her group at

Home Depot consisted of 25 other accountants with whom she could share questions and concerns, an environment she finds was important for easing into the professional world.

Soon Abby realized that to be promoted to supervisor, she would need to become a Certified Public Accountant, which the state of Georgia at the time required three years of work experience. Impatient and with only one year under her belt, she decided the next smartest course of action was to change jobs, returning to the Batesville Casket Company in Batesville, Indiana where she had worked after high school. She knew she would still need the extra years of experience to sit for the CPA exam, but that the senior accountant position at Batesville would allow her to gain new skills and exposure to the profession. Unlike Home Depot, Batesville had only three accountants at the location and Abby was now in charge of managing a four-person team, both of which were unfamiliar territory. The biggest challenge of managing her first team was gaining the respect of the members, some of which were 20 or more years her senior.

Abby took on several other positions before landing her current spot, including treasury analyst, cash manager, and acquisition team member. She worked with teams not only in her department but as well as banking representatives and other financial departments to figure out how to optimize processes and negotiate credit. When the offer of moving to Stuttgart, Germany to work on a large acquisition was brought up, she ultimately decided that the effects it would have on her two children, husband, friends, and family would outweigh the opportunities that the move to Germany would provide. Now, as an operations finance manager, she does high-level cost accounting, setting standards for the year and forecasting plant and operations costs, then reporting the results to drive improvements.

*Question 5: What has your life been like outside of your work?*

Abby married her husband Kris Suddath as her career was already well underway, and since the couple have had three wonderful little boys: Tucker, Asher, and Meyer. She uses each free hour of her day spending time with her boys, carting them to and from extracurricular activities, and watching them grow. Though gracious of the lifestyle her career has allowed her, she finds family time much more important and recently switched to working part-time hours. She resides in her birthplace, Batesville, Indiana, a rural town centered around community and which houses the majority of her large pool of relatives. On weekends and free afternoons they play, socialize with family and friends, read books, and watch movies to pass the time. Abby wishes they could travel more often, but with a busy schedule and a handful of little boys, it has been difficult to do such.

*Question 6: What has been the best vacation you have ever taken?*

Since her boys are still young and not very keen on travel just yet, Abby cites a two-week trip to New England as her favorite vacation to date. During the summer of her junior year of college, her parents and brother took a spontaneous, leisurely trip and drove along the Eastern United States coast. The Meyers had once lived in Merrimack, New Hampshire, which they left for Mississippi in 1989, so this was a return to their old stomping grounds. Abby kept fond memories of their outings as a child and was glad to revisit old vacation spots like Hampton Beach, Freeport, and Nantucket. They drove along day after day, stopping wherever and whenever they wished, truly get the best out of their jaunt. As well as enjoying the natural



scenery and beaches, they dined on the notorious east coast seafood while enjoying one another's company.

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

When asked what she would change about her life, it was difficult for Abby to formulate a response. She finds most of her decisions to be successful, or at least valuable teaching moments. After some deliberation, she brought up that she wished she had been more confident in all aspects of life, which is connected to her other wished change, which would be that she would have been more ambitious before choosing to start a family.

As a little girl, Abby knew she was intelligent but felt that she never quite met her expectations and goals. She had the mentality that if she was not being the absolute best at anything she attempted, she was failing herself and ultimately others as well. Abby believes that this lack of confidence in herself and her capabilities held her back from taking important risks because she was worried that she would not succeed. Instead of taking risks with the chance of failure, she stuck to what felt comfortable, holding herself back from opportunities. Looking back on her accounting internship while in college and the path she took after graduation, she realizes that she should have taken offers from big four accounting firms, which at the time she did not believe she could handle.

Abby's other desired life change goes hand in hand with her self-perceived lack of confidence. A short six and a half years after entering the profession she had her first son Tucker. Though he fit right into her life plan and she could not have wished for a better first child, becoming a mother changed her perspectives on life. She wishes that she would have been more

ambitious and had taken more risks before starting her family, as her actions now affect more than just her own life. If this change in ambition had occurred, she believes that she would have gotten out of her element, moving to a big city or even a different country to work. Though she appreciates the lifestyle her career path has allowed her, if she took had taken more risks, she would have chosen a different career altogether, possibly working in her dream job as a high school art teacher.

*Question 8: What do you wish you would have known when you were 21 years old about life and your career? What piece of advice would you share with me and my classmates?*

At 21 years old Abby was motivated, yet incredibly hard on herself. She wanted to be all things to all people, pleasing everyone, and fulfilling only the highest of expectations. She now realizes that she was unrealistic and put too much pressure on herself, setting herself up for the failure she so detested. She said that, “Not everything has to be made so complex, as once you pass simple, you are just adding more value.” One does not have to be so hard on themselves, as it only increases the risk of burning yourself out. Her biggest takeaway from this was that “simple always wins,” a phrase I feel I should heed in my present and future actions. Instead of following everything, one should follow what they excel in because we all will have weaknesses, so should focus on the strengths we hold.

*Question 9: What are you most proud of?*

When asked what she is most proud of, Abby's simple yet multifaceted answer was "relationships." She attributes past successes in her career as a result of the social skills she has developed over her adult life. From her experience working with a variety of professionals falling into a large range of demographics, she has learned to get along with most everyone she meets, which she says "goes a long way in every aspect of life." This is truly important in her field, as rapport with clients and coworkers alike is necessary to successfully complete the job at hand. She encourages those that will be entering the workforce to work on these skills because she sees them as invaluable for networking and later in everyday communications in the workplace.

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

Abby was born in 1982 placing her as a Millennial, a generation that she said is just trying to balance the middle ground between the Baby Boomers and Gen Z. She came in behind the Baby Boomers, a group of very goal-centric individuals who have set their ideas. Abby's generation has since come into the workforce with new ideas, changing the game and challenging the set ways of the previous generation. With the newer generations, it means her generation must "battle extreme differences," as changes continue to occur, technology advances, and more tradition is broken. While this is true for her generation, I believe these challenges will greatly affect the previous and subsequent generations as well.

*Question 11: What will be the biggest challenge for my generation?*

The invention of the internet and the subsequent social media boom have drastically changed the way that people communicate, socialize, and work. Abby has three young sons, and though she limits their daily screen time, is already able to see the negative expectations and consequences that access to the internet and the desire for social media accounts has created. She also has noticed that those from Gen Z are more self-focused, having a “me’ mentality I do not think will do much for anyone.” She does not blame the Gen Z kids themselves, but rather believes it is a result of the latchkey generation, those children being raised by working parents who were left alone after school while their parents made a living. These kids had to care for themselves, now knowing only their lives and self-interest. Though we are more globally connected now than at any other time in history, she worries that this selfishness will not make new generations successful at working towards community goals.

# Intel Corporation

## Case Competition

### CASE STUDY VII

#### Members:

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## WEEK ONE - Overview

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

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

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

The revenue for the year 2020 set company records by rising 8% from 2019, reaching \$77.9 billion. Also a record for the company, in 2020 they generated a combined \$56 billion from operations and free cash flow, returning \$19.8 to shareholders. The residual net income for the company was \$149 million less than the previous year. During the year, they invested \$13.6 billion in research and development for the use of growth acceleration.

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

Intel is hoping its new processors, as well as new management, will bring the company back into the forefront of the industry. They expect two of their new 50 processors to lead the way. The first processor is the 11<sup>th</sup> Gen Intel Core vPro which has no rivals as a business platform because of the increased efficiency versus its competitors. The two big draws of this chip are its inclusion of the first silicon-enabled Artificial Intelligence threat detection unit as well as Intel Control Flow Enforcement Tech. These two pieces in unison can shut down an entire class of cyber-attacks that are unable to be stopped by software based securities. Their other new flagship processor is the 11<sup>th</sup> Gen Intel Core H-Series Mobile Processor, which is

expected to revolutionize gaming laptops. Playing video games on a PC is superior to playing on a gaming laptop, but this new processor aims to close the gap. It will allow gaming laptops to have much better graphics as well as lessen any lag or crashes. More than 40 new laptop designs have been announced to be released in 2021 with this new processor from top gaming laptop companies.

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

We learned that Intel is more than just a technology company. Intel is the only U.S.-based manufacturer of semiconductors with involvement in a wide range of sectors from financial markets to vaccine development. Intel is focused on using its processors and hardware to impact every sector of life. Recently, Intel has changed their management and a new CEO will take over in February. The recent innovations and management changes are promising for success in the upcoming years.



## WEEK TWO - Audit

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

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

After completing this week's objectives, we learned more about the 10-K form and how it presents information about a company's financial situation. By comparing the current year and prior year values, we were able to observe trends and changes. We found that much of the information we deemed important was located within the footnotes, rather than in the

consolidated financial statements, which would create challenges for potential investors and current investors who are trying to understand the overall financial position of Intel Corporation. After completing our audit of Intel Corporation's 2020 10-K, we have a better understanding of the entire company.

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

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

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

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

Short-term investments are one of the riskier assets for Intel Corporation because of valuation issues. The short-term investments more than doubled from 2019 to 2020. All the values for short-term investments are listed under level two. Any withdrawal of funds or sale of short-term investments should go through two different senior level employees who authorize and ensure that the money is the correct amount going to the correct account as a control measure. Intel Corporation also should have a set standard of what classifies an investment as

short-term and have continual checks to verify the investments are classified correctly. We recommend that Intel Corporation checks on the models and the methods used to arrive at level two valuations. Data analytics can provide better and more accurate valuations and predictions for short-term investments by analyzing past data which allows a better fundamental and technical analysis of these short-term investments.

Net gains and losses on equity investments are also risky for Intel Corporation because of their presentation and completeness issues. Intel Corporation might be hiding extra expenses as losses on equity investments which would show a misstatement of gains or losses on investments and would lower the net income. Intel Corporation may intentionally embed expenses into their losses below the operating line to avoid paying taxes while showing a high operating income to investors. Intel Corporation should ensure that any changes on the market value of these equity investments are checked by two different managers to establish that there is no attempt to increase or decrease earnings in order to increase compensation. Any sale of an asset should be approved by two different managers to make sure that ratios are not changed ahead of reporting data. Intel Corporation should test for impairments on any long-term investment. We recommend using algorithms and automation to check the amounts of gains or losses on equity investments. Intel Corporation should also use predictive analytics techniques to calculate losses or gains resulting from equity investments, since equity investments are highly volatile.

### WEEK THREE - Tax

We were assigned to read descriptions of tax provisions and credits that would affect the tax liability of corporations across the United States, including our chosen company, Intel Corporation. We read about the Tax Cuts and Jobs Act, with provisions such as BEAT. BEAT was created so multinational corporations will keep profits within the nation and pay the taxes they owe to the United States' government. Another provision to make sure corporations pay their fair share of taxes is GILTI (global intangible low-taxed income). GILTI creates a minimum of a ten and a half percent tax on the income made from foreign corporations that is brought back into the United States. These tax provisions make sure corporations will still be paying high minimum payments even with the lower tax rates the corporations have found outside of the United States. We also read an article about the CARES Act, which is expected to benefit most businesses. The CARES Act allows businesses to carry back any net operating losses (NOL) generated in 2018, 2019, or 2020 for a maximum of five years and obtain refunds of taxes paid in prior years.

After our readings, we researched corporate tax credits that were specific to Intel Corporation, including tax credits for the semiconductor industry as a whole. One article stated how corporate taxes are likely to change under the Biden administration and how these changes would impact Intel Corporation. After reading and researching, we gained knowledge about the current tax status and possible changes that could occur under Biden's administration. This research helped us understand how to provide tax strategy advice to Intel Corporation. We looked at strategies to minimize the tax liability and increase savings for Intel Corporation, which gave us a deeper understanding of what we might do to help our future

clients. We recommended that Intel Corporation reincorporate in Wyoming for advantageous tax purposes. We also recommended that Intel Corporation invest in retooling as part of their tax plan. This investment would allow Intel Corporation to become more competitive in the manufacturing chip industry and would allow Intel Corporation to take advantage of the ten percent tax credit proposed by Biden for creating jobs in America.

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

After the “F Reorganization,” we would merge the current Intel Corporation that was incorporated in Delaware with the newly incorporated Wyoming Intel Corporation. Intel would need to file a certificate of merger stating that both Intel Corporations will merge and state that the Intel Corporation incorporated in Wyoming will be the surviving Intel Corporation. After calculations, we found that this move would save Intel Corporation forty-six million dollars in 2020, which would be greater than the incorporation and merging costs Intel Corporation incurred. Delaware has an 8.7 percent state income tax, but Intel Corporation in previous years

has paid just under one percent. The state income taxes for Intel Corporation in Delaware have risen in the last three years due to one-time benefits expiring. If Intel Corporation moves to Wyoming, it would save them roughly 50 million dollars in the early years, but could also save the company time attempting to receive benefits and credits for state income taxes in years to come. Although much of the semiconductor industry has moved manufacturing plants overseas, proposed plans by President Joe Biden include an added ten percent surtax on any profits of goods manufactured overseas and sold to United States' markets, making it more advantageous to just move states. This additional ten percent tax comes along with the proposed minimum fifteen percent tax, "on all corporations with book profits of \$100 million or higher," making the potential consequences of moving overseas more advantageous than the positive tax rate decrease.

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

President Joe Biden has proposed a ten percent tax credit to companies who create jobs for Americans. The retooling of plants for more efficient production, which is an important step in increasing American competitiveness, is included in the requirements for the tax credit.

Intel Corporation is the leading American company in designing and manufacturing microprocessors, recently releasing ten-nanometer chips. While it was announced that these chips would be released in 2017, they are currently being mass produced. Intel Corporation is trying to make their chips even smaller, shrinking them to seven nanometers. The issue with



creating such small chips is that a minuscule error can cause the chip to no longer be viable. Defects in microchips are always going to be an issue, but Intel Corporation’s factory in Hillsdale, Oregon, is encountering defects too often to mass produce them. This has allowed the Taiwanese Semiconductor Manufacturing Company to overtake Intel as the leading chip producer. The Taiwanese Semiconductor Manufacturing Company only focuses on production and not design, so they have better factories. If Intel Corporation invested in retooling their factory in Hillsdale, Oregon, they could remain competitive in manufacturing their chips, as well as take advantage of the ten percent tax credit that the Biden administration has proposed. The Creating Helpful Incentives to Produce Semiconductors for America Act was created with the intention of increasing United States’ semiconductor manufacturing by giving a forty percent refundable federal tax credit for semiconductor manufacturing facilities and equipment.

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

## WEEK FOUR - Advisory

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

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

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

suggestions into their business model, Intel Corporation will be more financially successful and more successful in their market.

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

Intel Corporation's headquarters are in Santa Clara, California, and they are incorporated in Delaware. In North America, they have factories in Hillsboro, Oregon, Rio Rancho, New Mexico, and Chandler, Arizona. Their international manufacturing locations are in Israel, China, and Ireland. "Intel Corporation's strategy is to play a larger role in our customers' success by delivering a predictable cadence of leadership products." The entity exists "to create world-changing technology that enriches the lives of every person on earth," through computing systems in efforts to "unleash" the potentials of data. By investing in themselves, they believe they can strengthen the corporation through other investments and acquisitions, providing returns to stockholders and increasing net revenue.

Intel Corporation needs both suppliers of components and distributors to deliver the completed products to customers. Intel Corporation has thousands of suppliers including ASML, DISCO Corporation, and Fujimi Corporation. They have ten trusted distributors in the United

States that sell processors, server products, and other components from Intel Corporation to their customers. Intel Corporation has two primary operating segments. One operating segment targets a Data Center Group, and one operating segment targets a Client Computing Group. Intel Corporation's three largest customers, consisting of 39 percent of their net revenue in the year 2020, were Dell Inc. accounting for 17 percent of their revenue, Lenovo Group Limited accounting for 12 percent of their revenue, and HP Inc. accounting for ten percent of their revenue.

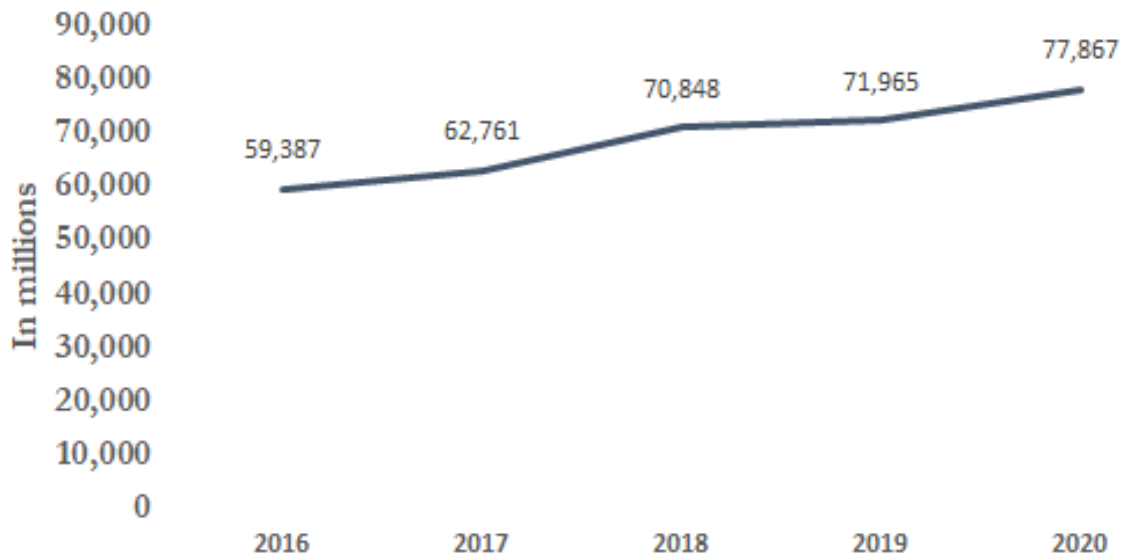
Intel Corporation has two major competitors in the two fields they occupy. Intel Corporation is the largest integrated semiconductor manufacturer, so they design and manufacture their microprocessors. Their biggest design competitor is AMD, American Micro Devices, which solely focuses on chip design.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

Intel Corporation is unable to create their own chips at the seven nanometer level and is currently designing chips to be produced at the five nanometer level. On the other hand, TSMC, their biggest competitor in the manufacturing sector, is currently creating chips at the seven nanometer level and is trying to make their chips even smaller. Intel Corporation has always been an integrated semiconductor manufacturer, but integration is leaving them behind due to their manufacturing team's inability to keep up with their design team. Intel Corporation also

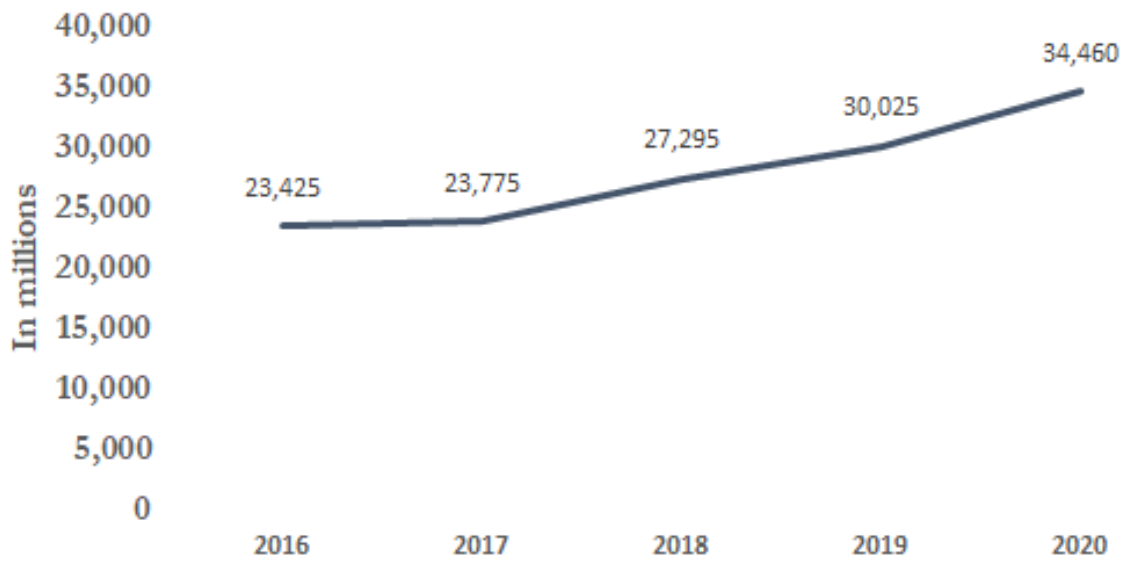
does not have enough machines to produce all of the technology they are promising. Production delays in their ten nanometer CPU chips have led to delays in all of their CPU products being shipped. This supply chain issue led to AMD signing a new deal to provide their chips to Lenovo Group Limited, Intel Corporation's second largest customer in 2019. AMD stock increased by 83 percent in 2020, while Intel Corporation's stock only increased by 8 percent. To combat this, Intel should invest in buying new state of the art ASML's TWINSCAN NXE:3400B. These machines are able to produce chips at the seven and five nanometer level, which would allow Intel Corporation to produce their current designs, as well as produce the next generation of chips.

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

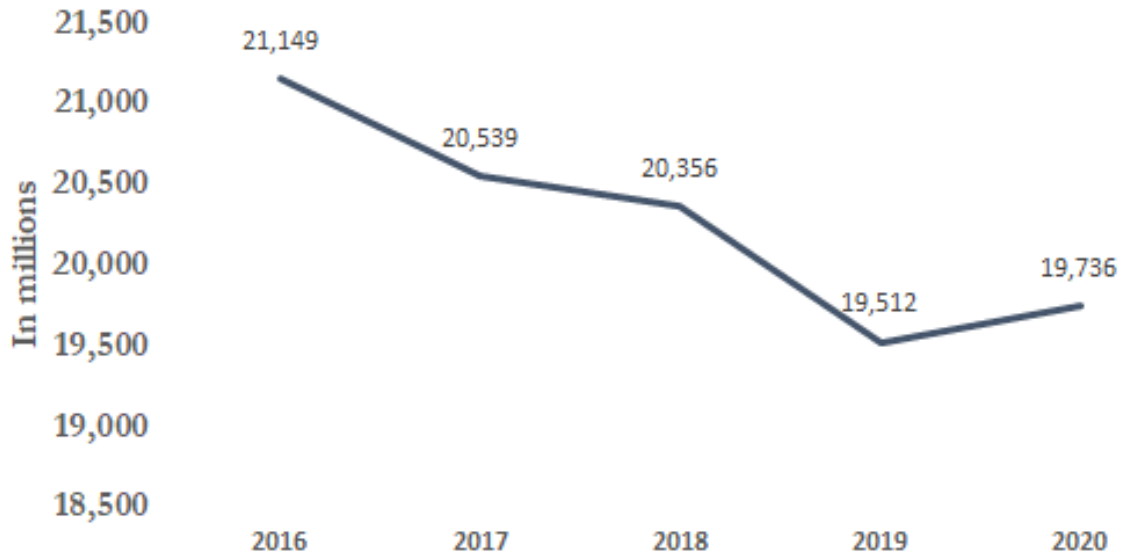
## Revenue



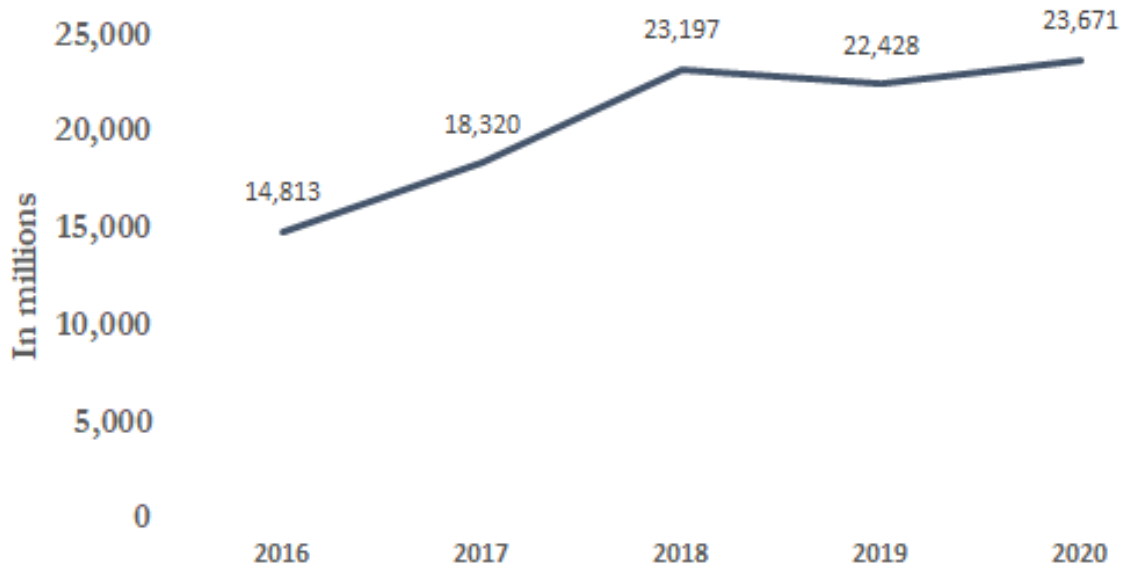
## COGS



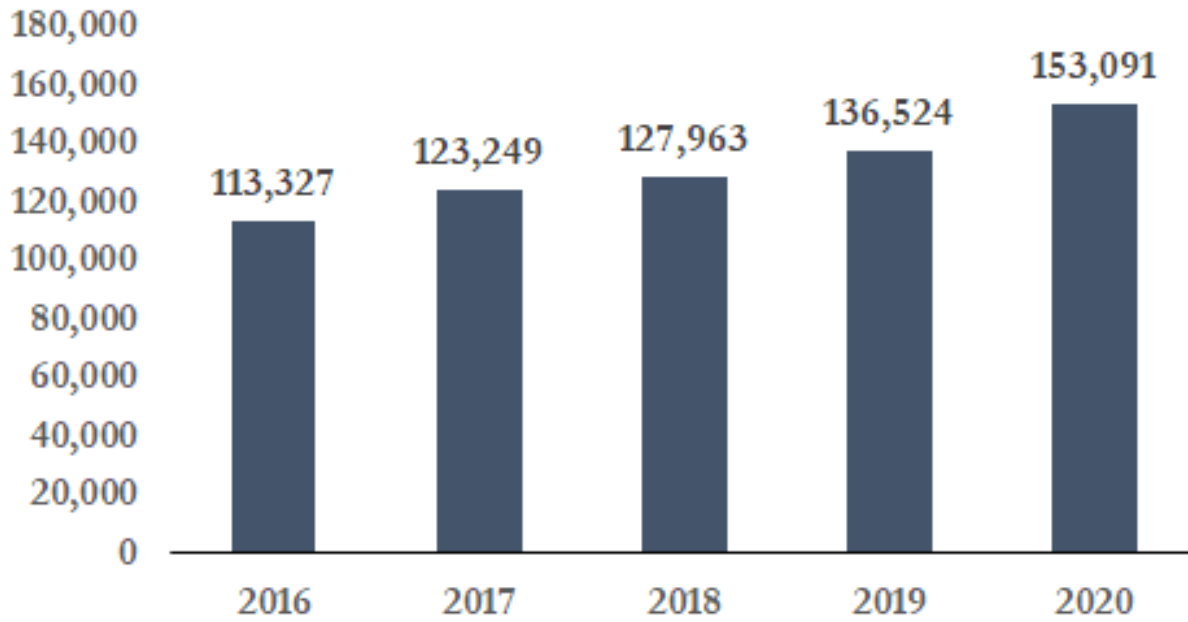
## SG&A



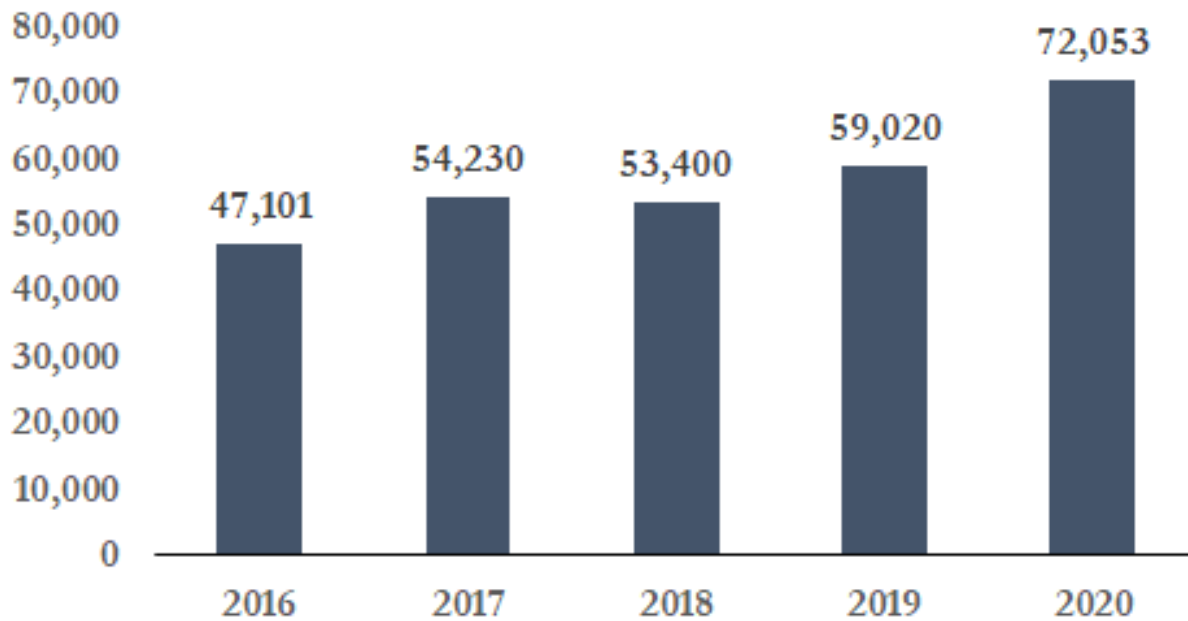
## Operating Income



### Total Assets

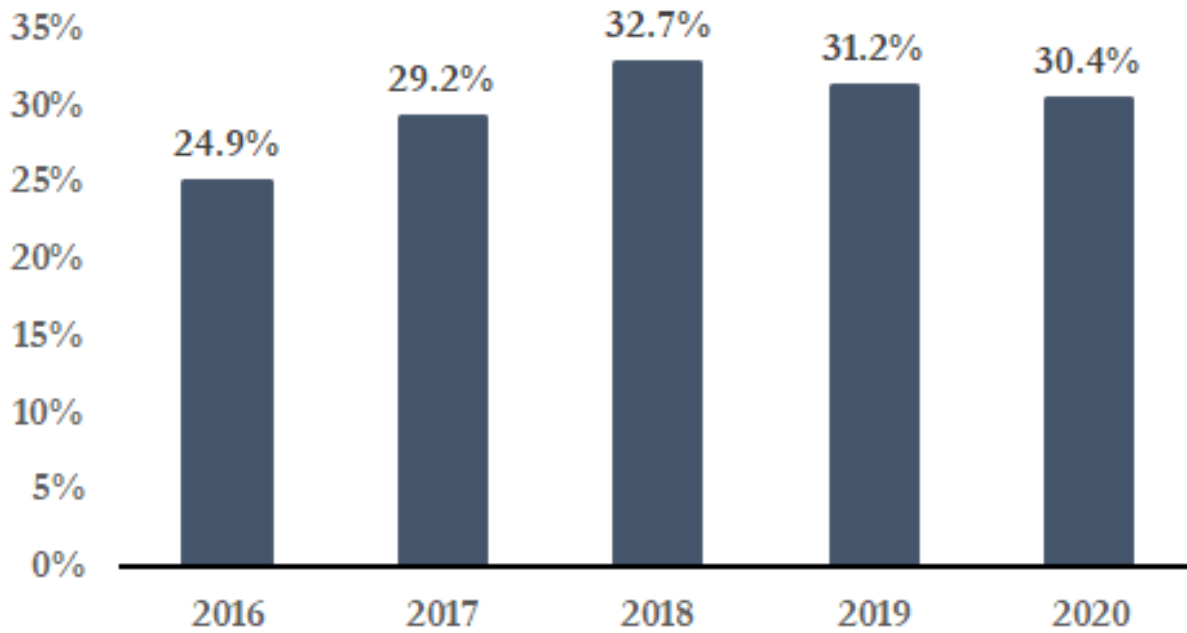


### Total Liabilities

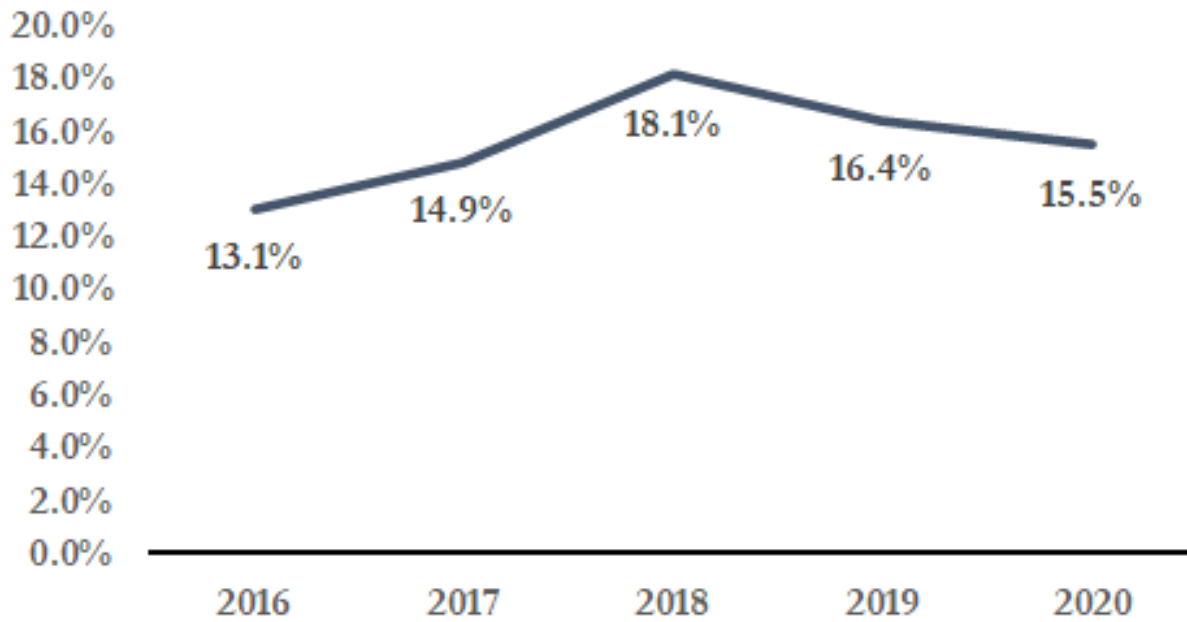




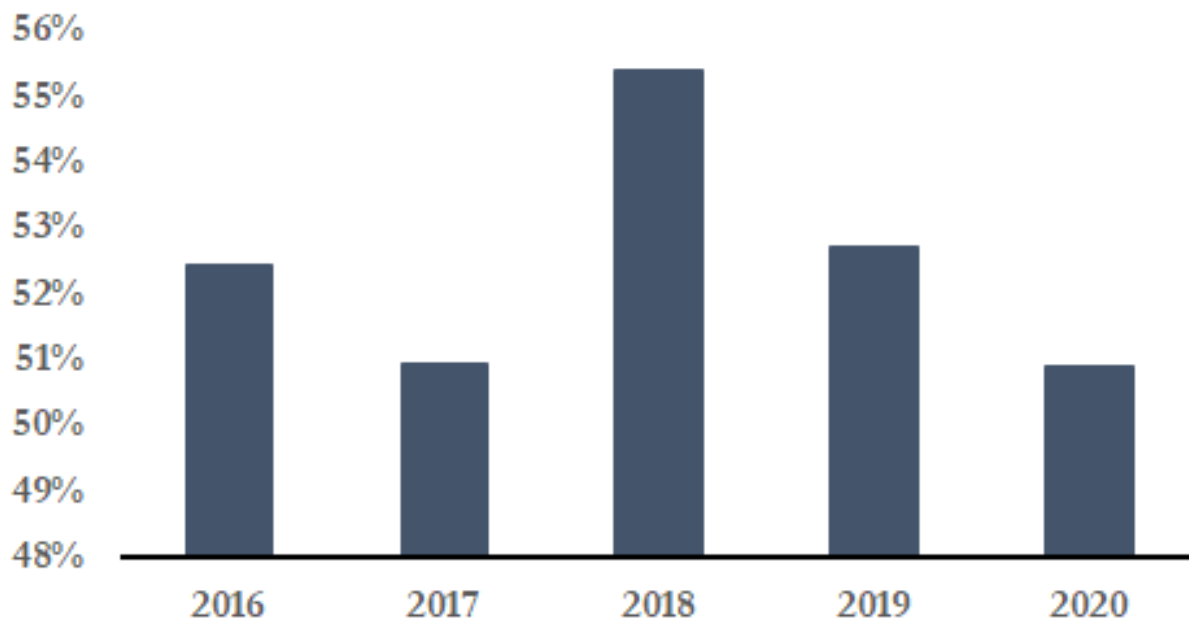
### Profit margin



### Return on Assets



## Asset turnover



One of the strategies of Intel Corporation is to provide consistent returns to stockholders and increase net revenue on a yearly basis. From the analysis of Intel Corporation's revenue over the past 5 years, we see that Intel's revenue has an increasing trend. However, its cost of goods sold and other expenses have been increasing at a faster rate than the increase in revenue, which is shown by their declining profit margin since 2018.

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

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

## Retooling

	Revenue	COGS	SG&A	Operating Income	Assets (in millions)	Liabilities (in millions)	ROA	PM	Asset TO
2022	645,000	300,000	0	345,000	360	360	0.0009	53.5%	0.00179
2023	661,125	307,500	0	353625	144	368.712	0.0024	53.5%	00.00459
2024	677,653	315,187	0	362466	57.6	368.712	0.0062	53.5%	0.0118
2025	711,535	330,946	0	380589	23.040	368.712	0.016	53.5%	1.870
2026	747,111	347,494	0	399,617	0	0	-	53.5%	-

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

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

Intel Corporation's Program for Master's Students

	Revenue (in millions)	COGS	SG&A (in millions)	Operating Income	Assets (in millions)	Liabilities (in millions)	ROA	PM	Asset TO
202 2	-	0	2.487	-2,487,500	-	2.487	-	-	-
202 3	-	0	4.975	-4,975,000	-	4.975	-	-	-
202 4	240	0	4.975	235,025,000	120	4.975	1.959	.97927	2
202 5	480	0	4.975	475,025,000	240	4.975	1.979	.98964	2
202 6	720	0	4.975	715,025,000	360	4.975	1.986	.99309	2

## WEEK FIVE: Earnings, Stock Price, and Analysis

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

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

The net income will change during the next five years, but the common shares outstanding will remain the same. We collected forecasted ROAs from previous weeks' tax and advisory strategies which had a positive trend. This data combined with other recent positive news about Intel Corporation helped us arrive at a buy recommendation for our clients. We finally assessed the impact of our investment recommendation on our client's portfolio risk and return. This week allowed us to have a better understanding of Intel Corporation's stock and how risky it is in comparison to other stocks on the stock market.



Intel Corporation's stock closing price on the last day of the fiscal year, December 26, 2020, was \$47.07. The Price-to-Earnings ratio as of the last day of the fiscal year was 9.45, indicating that our current stock price may be low relative to the earnings it provides. The stock's closing price was much higher today, February 24, 2021, at \$63.19.

Intel Corporation's beta is 0.67. Beta shows the volatility of stock related to the market. Since the beta is less than one, the stock is not very risky. Intel Corporation has 33 analysts in this quarter, 32 analysts next quarter, 36 analysts in the current year, and 34 analysts next year. The growth rate is -23.40 percent for the current quarter, -8.90 percent for the next quarter, -10.60 percent for the current year, 2.30 percent for the next year, and 5.43 percent for the next five years. The recommendation for investors in Intel Corporation is to buy the stock.

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

Common shares outstanding will not change if outstanding shares are bought from other shareholders. However, if the shares are bought from Intel Corporation's issued shares directly,

then it will impact the company's shares outstanding. Intel Corporation will have more cash available for investments which will eventually turn into increased profits for the company.

Over the recommendation horizon, the net income will change, but the common shares outstanding will remain the same. For 2022, the expected stock price is \$56.32, for 2023 the expected stock price is \$51.60, for 2024 the expected stock price is \$53.36, for 2025 the expected stock price is \$55.66, and for 2026 the expected stock price is \$58.40.

For 2022, we expect to increase our stock price with our recommendations by 19.65 percent from the closing price at the end of the fiscal year for 2020. Over five years, we expect our stock price to increase 24.07 percent from the closing price at the end of 2020. Our recommendation to create a recruiting program expects a 19 percent return on assets over the next five years. This is higher than Intel Corporation's ROA in 2020. For the retooling project, the ROA does not look favorable. This is due to not being able to encapsulate the full opportunity cost of the project. As we have discussed in previous weeks, Intel Corporation is losing ground on competitors with Lenovo Group Limited recently giving a contract to AMD, a competitor to Intel Corporation, for a new line of laptops. Lenovo Group Limited accounted for 12 percent of Intel Corporation's revenue in 2020. If Intel Corporation is not able to fix their supply chain issues as well as manufacture smaller chips, their competitors will overtake them.

Overall, our increase in stock price and overall ROA will have a positive trend and give Intel Corporation a better position financially and in the industry. Intel Corporation will become slightly riskier due to an increase in debt for the purchase of our new lithography machines. This increase in debt should be offset by the new Biden administration's focus on helping domestic chip manufacturing. Today, President Biden signed an executive order for a team from the White House to look at the supply chain of domestic chip manufacturing for the next 100 days. During

those days, their task is to provide recommendations for how the United States' government can help with these supply chain issues, and keep the United States' domestic chip manufacturing viable. With Intel Corporation being the predominant microprocessor manufacturer in the United States, it should benefit from this executive order making Intel Corporation stronger domestically and internationally.

AMD has outsourced all of its seven-nanometer chip production to TSMC in Taiwan and has little domestic chip production. If Intel Corporation can become competitive in making these smaller microprocessors using our recommendations, they will be in a strong position to capitalize on the growing demand for these microprocessors.

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

To fully evaluate the cost of capital and beta of the client's portfolio, we would need additional details of the client's overall portfolio. We can calculate the weighted average of the betas of the portfolio of stocks the client holds to calculate the new beta. The beta of Intel Corporation is less than 1, so we also expect the weighted average of the beta of our client's portfolio to decline. As for the risk profile, the client will be faced with systematic risk and unsystematic risk throughout the investment period. With our proposal of granting scholarships

for Master's degrees and retooling, the client will be faced with a medium to a high degree of firm-specific risk. However, the commensurate gains from the investment are positive and grow consistently which makes Intel Corporation a better investment than other companies.

## FINAL CASE: The Financial Crisis of 2008

Government is necessary for creating and enforcing the rules and regulations in which society runs. This being said, sometimes the entity misses its mark, whether it be deliberate or accidental. Government officials conduct crony capitalism where, as opposed to traditional and fair capitalism, governmental business occurs that benefits the politician making the deal. While this brings financial advantages to those in the interaction, it often comes as a detriment to others, as seen by the decisions made by board members and politicians that ultimately led to the 2008 financial crisis. Rather than noticing the warning signs of impending doom, those involved sat back and watched as their income flowed in.

Politicians stepped in to lessen the requirements to obtain mortgages, supposedly in an effort to provide more affordable housing. This caused those unable to repay mortgages to take them out. The mortgages and other loans were combined into CDOs, which were then sold off to people around the world. More events occurred that led to these CDOs becoming worthless, leading to a failure of financial institutions, and then to a global recession. Some came out of the ordeal more prosperous than ever, while at the same time, millions of jobs were lost.

These issues came from greed and inequality of a few, leading to the destruction of many. Rather than sitting back and watching as collapses occur, regulations should be put into place so that this cannot occur again. We should all watch for the warning signs, and do our parts to prevent calamities.

While I understand that the United States government is a necessary institution for societal stability, I cannot help but feel disillusioned by it, feelings that stem from past and present events, including the financial crash of 2008. Though the government cannot be solely blamed for the crash, it played a large part by allowing the issues to begin in the first place, and then to continue even after the issues became evident. The videos I watched supported my idea that low-and-middle-class citizens in our country do not have much influence in the decisions that are made by the government that we elect. The true people in power are those with capital, which then use that capital to make the rich, richer ,and the poor, poorer.

The first video we were to watch, “What is Crony Capitalism?” explains that the traditional, moral form of capitalism is the voluntary exchange between two independent parties in which both parties are deriving value. This seems fair until looking at the form of capitalism that the government conducts. The narrator of the video speaks about “crony capitalism,” where government officials conduct governmental business that in some form benefits themselves. For example, a politician may have a personal connection with a car vendor that, in exchange for the promise of buying government vehicles through that vendor, will then compensate the politician for bringing in business. The video gave examples of this occurring in a variety of spaces, including food stamps, defense contracting, and clean energy programs, showing how this is occurring in most sectors, not just those considered to be corrupt such as the oil industry. After hearing such a wide variety of sectors that are linked to crony capitalism, I was taken aback that even areas that seem to be for the greater good, like clean energy programs, are being used to put extra money in the pockets of already-wealthy individuals.

One could say that to defeat crony capitalism, the government should put more restrictions and policies in place that would prevent politicians from acting towards their interests. The issues with this arise from the fact that those with the most political influence are those that are participating in the corruption themselves. Why would a politician change the laws around something that benefits him? The same could be said for check-ins by external agencies. If the agencies hired to establish and enforce the rules are compensated, they will also likely look over the fraudulent activities occurring.

Throughout *Inside Job*, again and again, we see organizations looking over their roles for financial gain. Though warned about the impending doom, the federal reserve board members, members of which had ulterior motives, refused to further regulate the financial sector. As well as the federal reserve, credit rating agencies are to blame as well. The rating agencies were well-compensated to rate each company, and since they had nothing to lose if their ratings were flawed, they rated them well, leading to more requests for ratings. Since the companies were top-rated, they were wrongly assumed to be secure. The inaccuracy of the appraisals is highlighted by the fact that the entities that collapsed were given AA or AAA ratings soon before their demise.

The US economy grew for forty years without any financial crisis but this was when banks were small and the financial industry was well-regulated. The financial sector quickly expanded in the 1980's, with investment banks going public, allowing for stockholder money to enter the banks' pockets. With the recent boom, President Ronald Reagan began what would become thirty years of financial deregulation. The results of deregulation made it so that financial institutions could take depositor money and make risky investments with the money. Starting in the 1990's, deregulations combined with new technology brought about derivatives,

which economists claimed made the market safer, but instead allowed for bankers to bet on nearly anything, and was unregulated.

Before politicians stepped in, homeowners' mortgage payments were given to lenders, and the lenders were careful making decisions about whom they were lending their money to. Under the new system, lenders sold mortgages to investment banks. The banks grouped thousands of mortgages and other loans to create collateralized debt obligations (CDOs), which they then sold as a package deal to investors. This made it so that homeowner payments went to whatever investors had purchased their mortgages. Lenders knew that they could reduce their default risk liability by selling off the mortgages, so they began to make riskier loans. Rating agencies were rating the CDOs high, as they also had no liability if their ratings were incorrect.

Once mortgages were easy to obtain, home purchases soared, creating the biggest financial bubble to date. During this, the federal reserve board was able to regulate the industry but instead refused to do so. American International Building (AIG), the world's largest insurance company, began to sell derivatives that they called credit default swaps that allowed CDO owners a chance to decrease their liabilities. If the CDO did not work and an investor had purchased a credit default swap, AIG would pay out the investor for their losses. Credit default swaps set up another chance for fraudulent activities since investors did not see how they could lose in the situation. They could bet against the CDOs they did not own, getting paid out once those CDOs failed, making it so that, when their customers lost money, they profited.

Despite warnings of mortgage fraud, the federal reserve board continued to sit by and watch what would lead to the quick downfall of the United States financial sector. By 2008, home foreclosures became numerous, as people were unable to afford their mortgages. When



CDOs became useless and their market collapsed, lenders were unable to recoup their investments and failed.

In the video, “Cause of the 2008 Financial Crisis,” Dr. Thomas Sowell blames the housing bust on politicians stepping in and extending mortgages to those who were unlikely to be able to afford them. Though I understand the idea that mortgages should not just be handed out to those who are unlikely to be able to repay them, and higher interest rates are technically used to offset default risk, I find fault in the way the system works. Decent living situations should not come at such a high price, and should not leave homeowners with such high amounts of debt. Rather than raising the interest for low-income or financially less-stable individuals, I believe that programs should be put into place that creates safe yet affordable housing options without tricky clauses. Charging an additional fee for being poor seems backward, as it creates a piling of debt, which is setting lower-class individuals up for failure.

The videos and film that I watched did not create changes in my long-held mistrust of the United States government, and, if anything, learning about the ins and outs of the situation only fueled my fire. While watching, the word “greed” and “inequality” came to my head often. If all of the key players in the game of the financial sector at the time would have acted with fairness, the situation likely would not have occurred. By reaching for more gains, they looked over the potential harm that they could and later would cause. In the end, the negative consequences did not even fall onto board members and others who caused the recession, and rather most harshly hit lower-income individuals first in the United States, then the world. As Dominique Strauss-Kahn stated in *Inside Job*, “At the end of the day, the poorest, as always, pay the most.”

I fully back the idea that each citizen with voting rights should hit the polls when they are able. That being said, I feel as if our votes do not actually matter, and that we can only vote for

the candidate whom we believe will be more fitting for the job in hopes they will succeed in creating positive change. I long for a day when each vote counts but, realistically, this is not currently true. The real influencers of politics are those who can contribute funds for political campaigns and lobbying. Mere citizens do not have even a small portion of the capital that can be given by billion-dollar corporations. Once high-earners are successful in their political efforts, they use their positions to benefit them further, leading to a chain of wealth. Money is used to buy power in the country, which leads to more money, and as always, leads the little guys behind.

As well as enforcing my cynical views towards the government, politics, and the financial sector, the case made me reevaluate what I wish to do with my career. I hope that, rather than sitting back and allowing the companies that I work for to take advantage of others while still bringing in my wealth, I can make sure that fair practices are being used. I believe that while working as an auditor, I will be able to review financial reports and when fraudulent activities are occurring. Though there may be a short-term payout to some that ignore these issues, there are eventually negative consequences for the entire economy. We should, as a society, look for warning signs and listen to those who may have a point. As seen by the 2008 financial crisis, the workings of a few can harm millions.

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“On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study.”

Signature: 