Financial Analysis of Accountancy in America Today through Collective Case Studies

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FINANCIAL ANALYSIS OF ACCOUNTANCY IN AMERICA TODAY THROUGH COLLECTIVE CASE STUDIES

By
Caitlyn Ashlee Henry

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, Mississippi
May 2022

Approved By

Advisor: Dr. Victoria Dickinson

Reader: Dean Mark Wilder
DEDICATION

I am dedicating this thesis to my cousin—Mr. Sam Ellis Thomas Jr.—who encouraged me to pursue a degree in accounting at Ole Miss and offered me sound advice as I have navigated throughout my undergraduate career. Mr. Sam serves as one of my role models in life, and I aspire to be even half as successful as him one day. Thank you for believing in me and always pushing me to explore new pathways. Without you, this thesis would not be possible.
ACKNOWLEDGEMENTS

I would like to extend a special thank you to Dr. Victoria Dickinson who has guided me throughout the preparation of this work. Because of you, I feel more than adequately prepared for a professional accounting career and can confidently say that your course pushed me to discover the best version of myself as a student and writer. I also want to thank the Patterson School of Accountancy for its continuous support of my academic endeavors and each of its professors who have blessed me tremendously through their kindness and gift of knowledge. I would like to recognize the Sally McDonnell Barksdale Honors College and Luckyday Scholars Program, who accepted me with open arms my freshman year and gave me some of my dearest friends and communities unlike any other. My college experience has been truly enriched and is better because of you. Finally, I want to thank my family and friends who have supported me in chasing my dreams and never stopped believing in me. I am forever grateful. Hotty Toddy!
ABSTRACT

CAITLYN ASHLEE HENRY: Financial Analysis of Accountancy in America Today through Collective Case Studies

(Under the direction of Dr. Victoria Dickinson)

The following thesis contains a collection of ten accounting case studies that were written and directed under the advisement of Dr. Victoria Dickinson during the enrollment of Honors Accountancy 420. Dr. Dickinson presented us with unique prompts for each case study and guided our research as we dove into the professional world of accounting standards in America today. Five of my cases specifically correlate to The Coca-Cola Company, which my case competition team selected to research as we devised tax, audit, and advisory plans to better the company. We presented our findings to a panel of accounting professionals from numerous firms that were personally invited by Dr. Dickinson to attend our defense in March of 2021. The remaining five case studies cover a variety of topics that include: current financial statement concepts, an in-depth analysis of cities in which to begin a career, corporate tax rates, the 2008 Financial Crisis, and a personal account of my cousin’s life as a certified public accountant. Through my findings, I discovered a deeper passion for accounting and a thirst for knowledge outside of the classroom. I completed this course as a junior during the 2020-2021 academic school year in order to fulfill the requirements of the Sally McDonell Barksdale Honors College Accounting Practicum.
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Case Competition: The Coca-Cola Company Overview

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Introduction

This week, our group was tasked with selecting an American-based, publicly traded company as our focus for the upcoming case competition. Through some discussion and debate, we settled on one of the most prominent and established brands in the world, Coca-Cola. Once we chose our company, we started off the research process by simply trying to get a general idea of what Coca-Cola is and what they do. After our initial background research, we examined various financial statements, industry analyses, and news articles surrounding the company. Together, we were able to evaluate Coca-Cola’s general positioning in the marketplace and discover many key events taking place. By the end of this initial analysis, we had learned a great deal about the scope of Coca-Cola and their business processes. The following sections detail our findings for the week.

Annual Reports Key Findings

Coca-Cola has been sold in the United States since 1886, and the company was incorporated in September 1919. Since then, Coca-Cola has risen to become the world's largest nonalcoholic beverage company. They own or license more than 500 nonalcoholic beverage brands, and Coca-Cola products are sold in more than 200 countries and territories worldwide. The company markets, manufactures, and sells two different categories of product: concentrates and finished products. Their finished product operations consist primarily of company-owned or controlled bottling, sales, and distribution operations. Coca-Cola produces a myriad of beverage products, all of which fall under these categories: sparkling soft drinks, water, enhanced water and sports drinks, juice, dairy and plant-based beverages, tea, and coffee. The company is currently trying to expand their product offerings to include value-added dairy and plant-based
beverages, which are beyond their traditional range of beverage products. They have also recently moved into the energy drink sector, despite their relationship with the popular energy drink brand Monster. Lastly for product expansions, they are now unrolling alcoholic beverage options.

Coca-Cola’s operating structure includes seven segments: Europe, Middle East, and Africa; Latin America; North America; Asia Pacific; Global Ventures; Bottling Investments; and Corporate. They are subject to income tax in the United States and numerous other jurisdictions in which they generate profits. The company is in a current dispute with the Internal Revenue Service. There have been a few court rulings on the matter, but the issue has not yet been put to bed. Coca-Cola does not typically raise capital through the issuance of stock; instead, they rely on debt financing to lower their overall cost of capital and increase their return on shareowners' equity. They believe their ability to generate cash flows from operating activities is one of their greatest financial strengths, and they believe their current liquidity position is strong and will continue to be sufficient to fund their operating activities and cash commitments for investing and financing activities for the foreseeable future.

**Articles and Key Events**

**Coke with Coffee:**

As part of the company’s efforts to diversify its brand, Coca-Cola has recently launched Coke with Coffee, a product blending its classic product with coffee. There are three flavors of the new drink: Dark Blend, Vanilla, and Caramel. Coca-Cola representatives state, “Research shows that consumers are more open to trying new category-crossing drinks like Coca-Cola with Coffee, which push Coca-Cola into uncharted territory while staying true to its core values”. To
launch the product, the company plans on utilizing digital, outdoor, radio, and TV advertising as well as digital and traditional sampling (The Coca-Cola Company).

**Discontinued Products:**

While Coca-Cola has been launching many new products, it is also making changes to its current product lineup. According to Business Insider, the company plans to drop around 200 of its drinks’ brands. A few cuts, including Tab, Zico, and Odwalla, have already been publicly announced. Interestingly, CEO James Quincy stated that half of the company’s product portfolio only generated two percent of revenue. The article continues to suggest that some brands in the hydration category, like Dasani and Smart Water, are likely to be removed in the future (Meisenzahl).

**Profits Drop 32 Percent:**

During the COVID-19 lockdowns, the company experienced a sharp 32 percent drop in profits as of July 2020. At the time, CEO James Quincy said, “We believe the second quarter will prove to be the most challenging of the year.” These circumstances lead to a significant drop in Coca-Cola’s share price; however, since then the stock has somewhat recovered (Garber).

**Restructuring:**

Coca-Cola announced that they will cut 2,200 jobs in its global workforce as a part of their restructuring plan. The restructuring plan was previously announced but has been sped up due to COVID-19. The announcement of the cuts comes shortly after the company announced that they are planning on reducing their number of brands to 200. The company says they will use these savings in an effort to expand and grow other brands such as Minute Maid and help
fund the launch of new products such as Topo Chico, hard seltzer, and Coca-Cola energy (Manfredi).

**IRS vs. Coke Dispute:**

In September of 2015, The Internal Revenue Service issued a “Statutory Notice of Deficiency” for the fiscal years of 2007, 2008, and 2009 after a lengthy five-year audit of the company. The IRS claims that Coca-Cola owes $3.3 billion in federal income tax plus interest. The dispute centers around the legal amount of taxable income being reported by Coca-Cola in the United States due to their outsourcing of product manufacturing and bottling in foreign countries due to lower expenses and availability of labor in other parts of the world. The IRS feels that the use of Coca-Cola’s intangible assets such as trademarks, licensing, manufacturing, and distribution being used in these foreign countries are substantially worth a lot more than the subsidiaries are paying Coca-Cola for use, and therefore, Coca-Cola’s overall income tax is reported at a much lower rate than in reality. The federal trial was held from March to May of 2018 during which time Coca-Cola argued that the IRS claims were without sound logic and merit. The IRS changed the interpretation of their standards, thereby changing an agreement they had with Coca-Cola, and they are now trying to retroactively apply that to Coca-Cola (The Coca-Cola Company).

**Industry Summary**

The next task for this case was to understand the industry in which the company operates. Coca-Cola currently operates in the broad non-alcoholic beverage industry. More specifically, it primarily competes within the syrup and flavoring industry. In the United States alone, the syrup and flavoring industry saw revenues total over $11.7 billion. Structurally, the industry enjoys high barriers to entry and capital intensity. Because of this, Coca-Cola has been
able to achieve and maintain a market share of nearly 60 percent. The next largest competitors in the U.S. syrup and flavoring industry are PepsiCo at 14.2 percent and Keurig’s Dr. Pepper at 11.6 percent. Since the industry is highly concentrated, profits have remained relatively high and steady. However, socioeconomic factors have pushed the demand for soft drinks downward, as consumers grow more health conscious. In fact, the number of businesses is projected to decline 0.5 percent over the next five years (Jaura). Recently, Coca-Cola has been aggressively increasing its market share in other industries to reduce its reliance on its traditional industry. These alternative industries include ready-to-drink teas, energy drinks, juices, and most recently, ready-to-drink mixed spirits as well as dairy and coffee beverages.

**Blogosphere**

Across the blogosphere, Coca-Cola has caught the attention of many as the company plans to launch new beverages and as the fluctuations in the stock market over the past year have affected share prices. Recently, Coca-Cola has been making news as they prepare to produce a new hard seltzer in the United States. CEO of the company, James Quincy, believes that to keep up with the ever-changing consumer tastes, the company needs to take the opportunity to enter the industry. Currently leading the industry are Mike’s Hard Lemonade’s White Claw and Boston Beer’s Truly Hard Cider. As one of the largest beverage companies, Coca-Cola’s entrance into the hard seltzer industry would not be quiet, and many other companies would be affected by the new competition (Schultz).

The news of the hard seltzer has not been the only thing circulating on the blogosphere. Over the past year, Coca-Cola’s stocks have fallen 16.16 percent. The most notable dip in shares was in mid-March following the first major outbreak of COVID-19 in the United States. The
company’s shares plummeted to 36.64, and they have since increased into the high 40’s (Seeking Alpha). The changes in the company’s stocks have been a topic of many financial analysts as they analyze the profitability of investing in Coca-Cola and how the changes in the stock market affect their investments.

**State of the Business**

From our findings, it is clear that Coca-Cola has many challenges ahead. COVID-19 has negatively impacted the demand for its products, creating short-term problems for its bottom-line. However, the company’s extensive experience in the industry along with its increasingly diverse product portfolio will likely aid in mitigating the effects of the pandemic. The company will also need to be cautious in choosing brands to discontinue. The fact that half of its portfolio generates such a small amount of revenue relative to other products should be a concern. As profits drop and the company cuts many less-profitable brands, a restructuring plan could add significant value going forward. While cutting costs will increase the bottom line, it will need to be careful that those cuts do not reduce the top line inadvertently. Additionally, the company’s involvement in a major investigation by the IRS poses some concern for its financial outlook. The large tax bill comes at a time when cash is tighter than usual. Considering these factors, Coca-Cola’s state of business is currently challenged by falling demand, restructuring efforts, and tax litigation, but the company’s focused strategy and commitment to building successful brands gives its long-term viability a positive outlook.
Case Competition: The Coca-Cola Company Audit Report

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Introduction

During week two of our business analysis of Coca-Cola, we analyzed Coca-Cola’s balance sheet and income statement for the year 2019. We assessed the risk of every account on both sets of financial statements and determined Coke’s top six riskiest accounts: cash and cash equivalents, accounts payable and accrued expenses, long-term debt, net operating revenues, and selling, general, and administrative expenses. Our risk assessment strategy included evaluating the existence, completeness, valuation, and presentation of each account as well as observing the balances of each account for the past three fiscal years. After risk evaluation, we then moved onto identifying at least two sets of internal controls that could be implemented in each account to reduce risk and mitigate the opportunity for fraudulent activities or balances. Next, we discussed potential tests to use during the audit to ensure accurate reporting and then agreed upon the usage of data analytics to lessen manual testing to increase efficiency within our audit.

After proper analysis of each account, we were able to develop a sophisticated audit procedure to evaluate risks and confirm accuracy within the financial statements. During this group activity, we learned how to evaluate risk for Coca-Cola, a multi-billion-dollar manufacturing company that is a resounding market leader in the world of non-alcoholic beverages and learned how to develop strong reasoning skills when assessing different scenarios that could create the potential for fraud. Through this week, our team was able to grow and learn so much about the strategy behind auditing a manufacturing company.
**Cash and Cash Equivalents**

*Materiality:* The cash account represents the largest portion of Coca-Cola’s current assets, and its balance directly impacts the cash flow statement.

*Audit failure risk:* The cash account is important for determining the liquidity of the company, and material misstatements could give financial statement users an unreliable view of the company’s liquidity. Internally, having a misstated cash account could cause a liquidity crisis if cash were to unexpectedly run out.

*Internal Control 1:* Access Controls: There should be select authorized signers on the Coca-Cola Company’s bank accounts. Those signers should be selected after a background check or similar evaluation is completed by a review board. Additionally, they should keep the number of people on the signature card to a minimum.

*Internal Control 2:* Reconciliation of Bank Statements: Reconciliation of the bank statements is crucial in order to confirm that every transaction on the account was authorized and not fraudulent or indicative of an internal user issue. Also, reconciling bank statements is key in identifying potential bank errors, such as double postings, and in locating deposits and other financial materials that are still in transit or have not yet been fully processed.

*Internal Control 3:* Policy & Procedures: Coca-Cola should have standardized rules dictating which methods of payment are acceptable, under what conditions discounts may be given and the amounts of those discounts, and what policies are in place for customers’ returned payments.

*Test 1:* Auditors can verify bank accounts by directly contacting the banks in where Coca-Cola holds accounts and requesting a list of all the accounts Coca-Cola holds and their related balances be sent directly to the auditors.
Test 2: After requesting balances from the bank, auditors can also request bank statements from the past fiscal year to verify individual transactions and reconcile each statement.

Data Analytics 1: We would use a robotic process to verify identity and check the validity of addresses and other data points when confirming cash balances with the bank and from customers. If an address was found to not be valid, we would look further into the case and trace the entries made in relation to the invalid address.

Inventories

Materiality: The inventory account is a significant portion of current assets. The changes in its balance impact the cost of goods sold account, which ultimately affects net income.

Audit failure risk: Like cash, inventory is an important account for assessing the liquidity of Coca-Cola. Additionally, excessive inventories can be concerning to investors and creditors for multiple reasons. Misstatement would have adverse effects on the ability of users to evaluate liquidity and efficiency. Internally, Coca-Cola could run into problems with customer orders if inventory is misstated, or they could incur unnecessary costs by holding too much inventory.

Internal Control 1: Physical Access: An ID card or some form of identification should be required to access inventory stores. There should be locking mechanisms in place that prevent people without the proper identification from gaining access. Minimizing the people who have access to inventory will reduce the probability of inventory issues. If issues do arise, this will make it easier to trace the sources of the problem and determine the cause.

Inventory Control 2: Segregation of Duties: The same person should not be in charge of all inventory processes. The person who counts the physical inventory should not be the same person who values the inventory. Along the same lines, the person checking-out the inventory
should not be the same person who verifies that inventory was moved; there should be an employee designated to verify inventory check-outs.

*Inventory Control 3*: Company-Wide Policies and Procedures: There should be a standardized procedure for purchasing, selling, counting, and using inventory. Training should be held periodically to ensure that employees are up to date and aware of these procedures.

*Inventory Control 4*: Audit: There should be random inventory counts; not having every count scheduled in advance will ensure consistent vigilance.

*Inventory Control 5*: Proper Documentation of Usage and Purchases: Coca-Cola needs to have proper documentation of any inventory being sold and shipped out as well as documentation of any raw materials used during the manufacturing process. Coca-Cola also needs to require the use and documentation of purchase memos when receiving inventory from the shipping dock or when shipping goods out.

*Test 1*: Our auditing team can hire outside personnel to perform a physical count of the client’s inventory and confirm the validity of the inventory count.

*Test 2*: We can observe Coca-Cola’s internal audit team’s physical count of inventory and review the process.

*Test 3*: Our audit team can contact key suppliers and compare their records with Coca-Cola’s records.

*Data Analytics 1*: The company could scan inventory in and out using barcodes or using a keypad instead of having an employee assigned to manually enter this data. They would be utilizing automated robotic counting instead of manually counting inventory. We would implement inventory aging tests and use visualization tools to show trends about how long
inventory typically sits in the warehouse. From the visualizations, we would be able to find irregularities in the trends.

**Accounts Payable and Accrued Expenses**

*Materiality:* The accounts payable and accrued expense account is a large portion of current liabilities. For Coca-Cola, delayed payment on account is the primary method of payment to suppliers, and accrued expenses directly affect income statement accounts.

*Audit failure risk:* A misstatement in accounts payable could give investors or creditors false information regarding Coca-Cola’s ability to pay its suppliers. Misstating accrued expenses would also have implications in misstating various other accounts on the income statement. Internally, management would have problems allocating the right amount of cash for payments, and misstated accruals could lead to expense allocation discrepancies.

*Internal Control 1:* Policies and Procedures: Coca-Cola should have policies in place detailing how to manage its accounts payable and a standard time frame cut-off for payments before they are considered long-term debt.

*Internal Control 2:* Documentation: The company must maintain proper documentation of all payments made and all debt outstanding in order to accurately identify how much Coca-Cola owes its debtors and how much currently resides in accounts payable.

*Internal Control 3:* Segregation of duties: The individual who submits a purchase request cannot be the same individual who issues payment.

*Test 1:* Our audit team can utilize random sampling to gather a collection of invoices which we will compare to Coca-Cola’s books to ensure validity.
Data Analytics 1: We would use a robotic process to test and compare purchase orders, goods received documentation, and invoices. If any of the three did not correlate, we would look further into the account.

Data Analytics 2: As auditors, we would use a filter to analyze purchase orders by how often they reoccur. With the filter, our audit team can better utilize our time to look into purchase orders that are unusual and not recurring.

Data Analytics 3: A robotic process that confirms the validity of client addresses for those clients the company owes money to would be used to verify each account. If an account could not be matched to a valid address, an auditor would look further into it.

Long-Term Debt

Materiality: Long-term debt is the largest liability account on Coca-Cola’s books. Additionally, creditors exercise some degree of control over management through contractual arrangements.

Audit failure risk: Long-term debt is important in evaluating the solvency of a business. Misstatement would negatively affect the financial statement users’ ability to assess the company’s leverage and capital structure. Internally, Coca-Cola would not have an accurate picture of its current leverage and could either underextend or overextend its debt financing.

Internal Control 1: Segregation of duties: The department or manager that wishes to acquire long term debt or issue bonds should receive approval from a financial committee who evaluates Coca-Cola’s current debt holdings.

Internal Control 2: Documentation: Coca-Cola must keep proper records of all long-term debt contracts to oversee all principal and interest payments to debtors and contract dates at any given time.
Internal Control 3: Policies and Procedures: Coca-Cola must have proper regulations in place to establish thresholds for long-term debt and how much the company can take on in a fiscal year.

Test 1: Our audit team should request documentation from creditors to examine the original debt covenants and contractual obligations.

Test 2: We can pick a randomized sample of invoices to compare to Coca-Cola’s books and compare past cash payment transactions to memos.

Test 3: Our audit team can request randomized amortization schedules to verify balances of long-term debt are correct.

Data Analytics 1: We would use robotic processes to compute interest payments and amortization amounts. Then, we would use a filter to run each payment and amortization amount against records of long-term debt to find abnormalities.

Net Operating Revenues

Materiality: Revenues represent one of the most significant accounts on the income statement, as it has a direct impact on net income. For Coca-Cola, it is also the largest account on the income statement.

Audit Failure Risk: Revenue is one of the most examined accounts for projecting a company’s financial position as well as the ability to distribute earnings and repay creditors. Misstatement would have a major impact on the reliability of these projections. Internally, revenue information is used by various departments for budgeting, and misstatement could negatively affect reliability.
Internal Control 1: Documentation: Timestamps and deadlines would be required in order to properly document when the revenue was recognized and in what period. Cash receipts produced whenever revenue is recognized and documented in a database.

Internal Control 2: Segregation of Duties: Coca-Cola must have different departments for procurement and finance to ensure that revenue figures are being properly recorded.

Internal Control 3: Policy & Procedures: Coca-Cola must incorporate standardized rules for what forms of payment are acceptable and what discounts may be issued as well as what policies are in place for a returned check.

Test 1: Our team can compare Coca-Cola’s revenue to industry averages and historical company data. Then we can examine common industry ratios and look for abnormal deviations throughout the period.

Test 2: We can compare past invoices for transaction dates and refer back to the GAAP’s revenue recognition principles to ensure that revenue is being recognized in the proper periods.

Data Analytics 1: We would filter through normal revenues compared to previous periods and pull any irregularities to audit.

Data Analytics 2: Our audit team would filter through revenue to recognize and sort by regions and employee sales history to check for high activity.

Selling, General, and Administrative Expenses

Materiality: Like revenues, expense accounts directly impact net income. The Selling, General, and Administrative Expenses account carries a significant balance on Coca-Cola’s income statement.

Audit Failure Risk: Expenses are carefully monitored by investors and creditors when assessing company margins. Misstatement would skew the accuracy of net income and negatively affect
the ability of users to assess the company’s financial position. Internally, misstatement could lead to operational inefficiencies and the failure of proper cash allocation.

**Internal Control 1: Documentation:** Coca-Cola should maintain records of all purchases made within every department and by each individual employee.

**Internal Control 2: Policy and Procedures:** Timestamps and deadlines would be required in order to properly document when the expenses are recognized and in what period. Policies must be in place to monitor excessive use or spending within departments.

**Test 1:** We would audit purchase memos and analyze select documents to ensure that expense is recognized in the proper period by using the expense recognition principle.

**Data Analytics 1:** A filter would be used to recognize and ignore expenses similar to previous periods and pull abnormal expenses for us to verify.

**Data Analytics 2:** As auditors, we can use data visualization to map out high levels of activity by office, department, or employee. At the higher levels of activity, we would verify transactions to identify fraud, if any.
Case Competition: The Coca-Cola Company Tax Report

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**Introduction**

For week three of our business analysis of Coca-Cola, we researched and educated ourselves on the BEAT, GILTI, and CARES Act tax provisions, as well as the expected tax provision changes under President Biden’s administration. We used this knowledge to formulate tax strategies that would assist Coca-Cola in minimizing their future corporate tax liability. Coca-Cola is a huge company with more than 250 bottling partners and approximately 700 thousand system-associates worldwide. As such, determining Coca-Cola’s annual tax expense requires significant analysis, judgement, and expertise.

One interesting thing we learned about Coca-Cola’s internal tax process is that, due to how much judgement is required to determine their annual tax expense, they establish reserve accounts to remove some or all of the tax benefit of any tax positions that may be uncertain, so they are not making business decisions based on things that may hold true. The reserves are adjusted as facts and circumstances change, but it may take years for an uncertain tax position to be audited and finally resolved. The uncertain tax benefit will be recognized as an income tax expense in the first interim period in which the uncertainty disappears.

Another interesting thing to note about Coca-Cola is that, in addition to income taxes, their business operations are subject to many indirect taxes not based on income. These taxes include import duties, tariffs, excise taxes, sales or value-added taxes, taxes on sugar-sweetened beverages, packaging taxes, property taxes, payroll taxes, and other indirect taxes imposed by state and local governments ("The Coca-Cola Company, 2018" 17). Legal requirements have been enacted in various jurisdictions in the United States and overseas requiring that ecotaxes be charged in connection with the sale, marketing, and use of certain beverage containers and certain types of plastics. Coca-Cola anticipates that similar legislation or regulations may be
proposed in the future at local, state, and federal levels, both in the United States and elsewhere. Compliance with these new requirements has the potential to significantly impact their costs and may require changes to their distribution model ("The Coca-Cola Company, 2018" 11 & 19). Coca-Cola should start formulating plans now to produce more sustainable products in more sustainable ways. By placing more focus on sustainability, they will be better positioned to implement proactive changes before additional eco-taxes are legislated. Additionally, they may be able to become first-movers in the sustainable beverage space and receive positive consumer perception for their efforts that will, combined with major tax benefits, offset the increased costs associated with sustainable production.

We have created four tax strategies designed to gain tax credits and/or direct savings for Coca-Cola. Our strategies include plans to implement solar photovoltaic technology, reduce equity investments, relocate American operations to the state of Nevada, and relocate foreign subsidiaries to the United States in anticipation of President Biden’s potential new tax policies. Each of these potential strategies are expected to provide substantial tax savings for the company and could, in turn, stimulate the economy, create American jobs, and protect the environment through the use of clean energy. We concur as a team that in implementing at least one of these strategies, Coca-Cola will see substantial tax benefits as well as support from consumers.

**Strategy One: Implementation of Renewable Energy**

Our first strategy recommendation focuses on recently extended federal renewable energy tax credits. As a concentrate-manufacturing company, Coca-Cola operates numerous manufacturing, distribution, and warehousing facilities throughout the United States. Each of these facilities require large amounts of energy to operate. In the current social and political
environment, investing in renewable energy on a commercial scale has become increasingly attractive, especially from a tax planning perspective. Through construction of solar improvements on its existing facilities, Coca-Cola would be able to claim the Investment Tax Credit for Commercial Solar Photovoltaics. For construction beginning before December 2022, 26 percent of total costs could be claimed as a federal tax credit. Depending on the location of the facility, Coca-Cola may even be able to benefit from state and local income tax credits.

Additionally, the total cost, minus the tax credit, can be depreciated on an accelerated basis. The federal tax incentive also provides the option for the company to claim 100 percent first year bonus depreciation (Guide to the FITC, 2021, 1-3). Coca-Cola should first implement these improvements on its wholly owned operations, but due to its business model of frequent bottler acquisition and restructuring, installations can take place at bottling facilities over time.

While the implementation of solar energy currently has many operational and tax-related benefits, it also provides significant protection against potential future tax liabilities. Canada currently levies a carbon tax at $30 per ton with plans to increase that to $170 per ton by 2030 (Tasker, 2020, 1 & 3). With public support for a carbon tax on the rise, Coca-Cola’s tax strategy should adequately address this potential multi-billion-dollar tax liability. Since energy consumption is a key driver for carbon emissions, this strategy will greatly benefit Coca-Cola.

Table 1, which can be found below, shows projections for total lifetime tax savings that could result from this strategy. The table is interactive, and the values in blue can be changed to accommodate any number of variable factors that could impact the expected tax savings.
Table 1: Renewable energy information regarding costs and savings

<table>
<thead>
<tr>
<th>Facility</th>
<th>Total Cost</th>
<th>Minus TC</th>
<th>Depr Basis</th>
<th>Useful Life</th>
<th>Depr Per Year (Straight Line)</th>
<th>Corporate Tax Rate</th>
<th>Tax Savings Per Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution</td>
<td>2,025,000</td>
<td>(526,500)</td>
<td>1,498,500</td>
<td>30</td>
<td>49,950</td>
<td>28%</td>
<td>13,986</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>2,430,000</td>
<td>(631,800)</td>
<td>1,398,200</td>
<td>30</td>
<td>59,940</td>
<td>28%</td>
<td>16,783</td>
</tr>
<tr>
<td>Office</td>
<td>675,000</td>
<td>(175,500)</td>
<td>499,500</td>
<td>30</td>
<td>16,650</td>
<td>28%</td>
<td>4,662</td>
</tr>
</tbody>
</table>

Total: 35,431

Strategy Two: Reduction of Equity Investments

Our second tax strategy involves selling off equity method investments to reduce taxable income. Currently, equity method investments account for over $1 billion of Coca-Cola’s taxable income. The equity method investment account is comprised mostly of investments that come from a common business activity that falls under Coca-Cola’s operating group: Bottling Investments Group, or BIG. The activity involves buying bottling plants with poor operating performance and implementing systems to improve performance and overall efficiency before reselling the plants while maintaining a partnership with them.
Coca-Cola is currently working on the process of refranchising all of their bottling operations. This means that they are returning ownership of all bottling operations to local business owners while maintaining partnerships so that their bottling operations act as a coordinated, but local and independent, system. They have completed their refranchising efforts in all of their geographical sectors except for Southeast and Southwest Asia and parts of Africa. If Coca-Cola were to continue this activity and sell off their remaining equity method investments, they would reduce their taxable income by over $1 billion. President Biden’s plan to increase the corporate income tax rate from 21 percent to 28 percent should serve as a key factor in motivating Coca-Cola to lessen their taxable income before President Biden enacts his proposed tax rate. The following table (Table 2) illustrates the potential tax savings if the corporate tax rate is increased to 28 percent.

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Equity Investment Divestiture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>2021</td>
</tr>
<tr>
<td>Reduction in Taxable Income</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Corporate Tax Rate</td>
<td>28%</td>
</tr>
<tr>
<td>Annual Tax Savings</td>
<td>280</td>
</tr>
<tr>
<td>5 Year Savings</td>
<td>1,400</td>
</tr>
</tbody>
</table>

Table 2: Equity Investment Divestiture information

**Strategy Three: Relocation of Select Operations**

Our third tax strategy involves relocating concentrate and finished product operations to take advantage of more promising tax environments. For this specific case, we propose moving some of Coca-Cola’s current United States-based production operations and combining them into a single factory in Nevada. By moving operations into Nevada, the company would be able to benefit from lower property taxes, no corporate tax, and many other state incentives, including
competitive air cargo costs. One final benefit to relocating to Nevada is that the state offers workforce development programs meant to provide enrichment to workers and the company alike, so finding skilled employees would not be an issue.

We would select which of Coca-Cola’s numerous concentrate production plants and distribution centers to move based on multiple factors. For example, we would determine which current operations are subject to the highest state tax rates, like their California based operations. Similarly, we would determine which current operations are subject to the highest local tax rates. Then, we would ascertain which operations have the lowest production capabilities. We would work closely with Coca-Cola to gather this data. By using these filters, we would be able to select which exact locations would result in the highest operational and tax benefits from moving to Nevada. Once all of this information was acquired, we would create long-term tax savings projections and compare the savings against the cost to move the facilities. We expect that the tax benefits would be well worth the costs incurred from relocation efforts.

**Strategy Four: Relocation of Foreign Subsidiaries to the United States in Anticipation of Biden Tax Revisions**

Our fourth strategy relates to President Biden’s proposed tax plan. He intends to increase the corporate income tax rate to 28 percent, implement a 10 percent offshoring penalty surtax, and increase the Global Intangible Low Tax Income rate on foreign profits to 21 percent. Coca-Cola’s foreign subsidiaries and profit margins stand to be significantly affected by these tax ramifications (Mengle, 1). In order to promote American prosperity, President Biden has proposed a “Made in America” tax credit of 10 percent to encourage multinational corporations to “re-shore” and bring back American jobs, to revitalize closing manufacturing plants, to expand current manufacturing facilities on American soil to boost employment, and to pursue
other activities that would create American jobs (“The Biden-Harris Plan” 1). Coca-Cola Company should consider relocating some of its European, Middle Eastern, and African plants, which made up 17.3 percent of its 2019 revenue, or its Latin American manufacturing plants, which made up 11 percent of its 2019 revenue as shown in Figure 1. Overall, 69 percent of Coca-Cola’s revenue is generated from international production and distribution, as can be seen in Figure 2. Coca-Cola Company owns six principal concentrate and syrup plants in Europe, the Middle East, and Africa and owns an additional six plants in the Asian-Pacific region (“The Coca-Cola Company, 2019” 24). It also owns five plants in Latin America (“The Coca-Cola Company, 2019” 24). Even if Coca-Cola was to consider moving just one of these 17 foreign concentrate plants back to the United States, it would create American jobs, stimulate the economy, and take advantage of a potential 10 percent tax credit and avoid the 10 percent offshoring surtax.

In 2019, Coca-Cola generated $5.252 billion in United States’ concentrate operations revenue as shown in Table 4. That same year, international revenue in concentrate operations accounted for $15.247 billion as seen in Table 4. Therefore, if one of the 17 foreign plants relocated to the United States, it could stimulate roughly $896.882 million in revenue. In turn, Coca-Cola would receive $89.688 million from the potential 10 percent tax credit and save $89.688 million from the possible 10 percent offshoring surtax. Additionally, Coca-Cola would avoid losing $188.345 million from the increased GILTI tax. As shown in Table 3, by moving one foreign concentrate plant, Coca-Cola could save approximately $367.722 million in taxes alone for a single fiscal year.
Figure 1: 2019 Coca-Cola Revenue Regions

Figure 2: 2019 Coca-Cola revenue sources
Table 3: Foreign subsidiary relocation tax implications

<table>
<thead>
<tr>
<th>In Millions</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relocated Revenue to U.S.</td>
<td>896.88</td>
<td>923.79</td>
<td>951.50</td>
<td>980.05</td>
<td>1,009.45</td>
</tr>
<tr>
<td>Offshoring Penalty</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Offshoring Penalty Avoided</td>
<td>89.69</td>
<td>92.38</td>
<td>95.15</td>
<td>98.00</td>
<td>100.94</td>
</tr>
<tr>
<td>One-time U.S. Tax Credit</td>
<td>10%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax Credit Savings</td>
<td>89.69</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GILTI Tax</td>
<td>21%</td>
<td>21%</td>
<td>21%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>GITI Tax Avoided</td>
<td>188.35</td>
<td>194.00</td>
<td>199.82</td>
<td>205.81</td>
<td>211.98</td>
</tr>
<tr>
<td>Annual Tax Savings</td>
<td>367.72</td>
<td>286.37</td>
<td>294.97</td>
<td>303.81</td>
<td>312.93</td>
</tr>
</tbody>
</table>

Table 4: Data for concentrate and finished product operations

<table>
<thead>
<tr>
<th>For Year Ended 12/31/2019</th>
<th>United States</th>
<th>International</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentrate Operations</td>
<td>$5,252,000,000</td>
<td>$15,247,000,000</td>
<td>$20,499,000,000</td>
</tr>
<tr>
<td>Finished Product Operations</td>
<td>$6,463,000,000</td>
<td>$10,304,000,000</td>
<td>$16,767,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>$11,715,000,000</td>
<td>$25,551,000,000</td>
<td>$37,266,000,000</td>
</tr>
</tbody>
</table>
Case Competition: The Coca-Cola Company Advisory Report

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February 17, 2021
Introduction

For the fourth week of our business analysis of The Coca-Cola Company, our main task was to complete the advisory portion of the case and provide solutions to combat the company’s two biggest threats. The first task of the case involved answering questions about Coca-Cola’s operations. First, we were asked to describe the company’s operations, such as its core business, where the company conducts business and generates revenue, and where its facilities and corporate headquarters are located. We were also asked to determine the company’s stated business mission and strategy, discuss its customers and suppliers, and identify its biggest competitors. The second task of the case was to use Microsoft Excel to produce charts and observe trends in different balance sheet accounts and ratios for the past five years and to discuss the reasons behind any trends we observed. The third task this week was to identify the two biggest threats to the company’s success and to identify an action plan for each threat. After identifying an action plan for each threat, we were tasked with fully developing the implementation plans and identifying the effect the plans will have on Revenue, Cost of Goods Sold (COGS), Selling, General and Administrative (SG&A) Expenses, Operating Income, Assets, and Liabilities in the future. Lastly, we were asked to recompute Coca-Cola’s Return on Assets (ROA), Profit Margin, and Asset Turnover for all the future years affected by our implementation plan and identify the effects each plan has on each ratio.

By analyzing the company’s existing risk factors and potential changes in the macroenvironment, we presented two major threats to Coca-Cola’s business and provided solutions to each. Evolving consumer preferences is the first of these threats, as consumers shift demand away from traditional beverage categories such as soft drinks. For our solution, we recommend Coca-Cola continue their success of building new brands by heavily investing into
the alcoholic beverage category through a new ready-to-drink mixed spirit line and an innovative new use of its Freestyle drink machine. Our second assessed threat is the ongoing digital evolution of business. The solution to this threat, we propose, involves utilizing its proprietary Freestyle machine platform and proposed expansion into bars and nightclubs to vastly increase its customer data collection capabilities.

In terms of Coca-Cola’s financial position, we learned several interesting trends through vertical and horizontal analyses. First, we noticed a significant drop in revenues, COGS, and SG&A expense over recent years. We also noticed several changes in various ratios during this same period. Upon further analysis, we determined the company’s refranchising efforts to be behind this trend. For our strategy implementation plans, we repeated these vertical and horizontal analyses to gauge the financial impact of our proposed solutions. By designing our strategies around synergies within Coca-Cola’s existing business, we were able to improve projected income statement amounts and many financial ratios within each strategy.
I. Business Analysis

a. Company Operations

Coca-Cola’s core business involves selling concentrates and syrups to bottling facilities around the world and selling finished products to retailers and other distributors. The Coca-Cola corporate headquarters is located in Atlanta, Georgia, and they have manufacturing facilities all over the world in Europe, the Middle East, Africa, Latin America, North America, and Asia.

b. Stated Mission and Strategy

According to Coca-Cola’s website, their purpose or mission is, “to refresh the world and make a difference” (“Our Purpose,” The Coca-Cola Company). Coca-Cola’s number one strategy right now is “Disciplined Portfolio Growth;” they are trying to become a total beverage company (“Growth” 1). Coca-Cola started as a predominantly sparkling soft drink company, and now they offer a diverse array of products across categories. Their strategy is very customer-centric, as their constant focus on innovation, mergers and acquisitions, revenue growth management, and improved execution is all supported by greater brand-building.

c. Demand and Supply Analysis

Today, Coca-Cola maintains strong demand for its core products, as the classic Coca-Cola soft drink makes up the majority of its sales. However, shifts in consumer preferences and rising health awareness have slowed demand for this market segment, especially in the United States. The COVID-19 pandemic has also significantly reduced demand in 2020, although this will likely rebound relatively quickly as the global economy recovers. Unlike its traditional business, Coca-Cola’s newer markets are experiencing rising demand trends. According to IBIS World, the ready-to-drink tea, juice, sparkling water, and energy drink markets are currently in the growth stage of their industry life cycles (Jaura, IBIS). As a concentrate producer, its
customers primarily include bottlers, restaurant partners, and wholesalers. Customers that determine demand are consumers with discretionary income.

The company’s raw material inputs include commodities such as water and, “principal non-nutritive sweeteners” such as, “aspartame, acesulfame potassium, sucralose, saccharin, cyclamate, and steviol glycosides” (The Coca-Cola Company, 7). Coca-Cola notes that it has not had any issue receiving these raw materials through its suppliers. High fructose corn syrup is the “principal nutritive sweetener in the US”, and sucrose, commonly known as table sugar, is the most common “principal nutritive sweetener” used in production in international territories (The Coca-Cola Company, 7). Because these are commodities, supply is vast and mostly affected by changes in the macro environment. This is true across all of Coca-Cola’s beverage segments. Coca-Cola also requires juice and juice concentrate from various fruits, especially oranges, for their juice and juice drink products (The Coca-Cola Company, 15). Coca-Cola’s primary orange juice and orange juice concentrate supplier is “Cutrale Citrus Juices U.S.A., Inc.” who sources their oranges primarily from Florida and Brazil (The Coca-Cola Company, 8). Supply is typically not a problem here, but the citrus industry is impacted by “greening disease,” which is reducing the number of viable trees and increasing selling prices and is also greatly dependent upon weather conditions such as hurricanes and freezing weather (The Coca-Cola Company, 8).

Coca-Cola’s bottling and finished product operations use other raw materials including, “polyethylene terephthalate resin, preforms and bottles; glass and aluminum bottles; aluminum and steel cans; plastic closures; aseptic fiber packaging; labels; cartons; cases; post-mix packaging; and carbon dioxide” (The Coca-Cola Company, 8). Once again, because these products are commodities, supply is vast and mostly affected by changes in the macro environment.
As of December 31, 2019, Coca-Cola employed approximately 86,200 people (The Coca-Cola Company, 11). Labor inputs are composed of factory workers, managers, and other production staff as well as employees who support Coca-Cola in the corporate sector. Increasing automation will likely continue to decrease the role of labor inputs over time. The company’s main labor supply is made up of manufacturing laborers. The largest threats to Coca-Cola’s labor supply are labor strikes from unions and other labor unrest.

**d. Competitors**

Coca-Cola’s strongest competitor is PepsiCo Incorporated, which, from 2020 to present, holds a 14.2 percent market share, whereas Coca-Cola holds a strong 59.4 percent market share in syrup and flavoring production (Jaura, 2020). In soda production, however, PepsiCo holds 31.9 percent of the market (Hiner, 2020). In the year 2019, PepsiCo produced a total revenue of $67.2 billion, while Coca-Cola only reported an annual revenue of $37.3 billion (Jaura, 2020).

Although at first glance it may appear that PepsiCo is the leading beverage competitor, one will see that the numbers are slightly misleading after further investigation. Coca-Cola serves as the industry-leading producer of hot and cold beverages, whereas PepsiCo also owns and produces Frito Lay’s snack food and Quaker Foods which generate a significant amount of revenue, contributing to their impressive figures.

Coca-Cola has been competing against PepsiCo since 1898 when Pepsi was invented by a pharmacist in North Carolina, marking the start of the infamous “cola wars” (Ken C., 2019, 3). Coca-Cola has consistently been the strongest competitor in the cola world since its start in 1886 and began outselling PepsiCo by a million gallons of its beverages per year (Ken C., 2019, 4). In 1923, Pepsi went bankrupt due to sugar rationing during World War I and had to completely restructure its company moving forward (Ken C., 2019, 7). Coke and Pepsi have continued to
battle in the field of advertisement as well as acquisitions and the development of new product lines. While PepsiCo is generating a larger revenue at the current date, research shows that Coca-Cola has the highest market share in the beverage industry alone.

The Coca-Cola Company’s second largest competitor in the beverage manufacturing industry is Keurig Dr Pepper Inc. whose main product line includes concentrates, packaged beverages, and coffee. In 2019, Keurig Dr Pepper’s total revenue was $11.1 billion, and the company manufactures the majority of its products within the United States. Keurig Dr Pepper owns and operates 24 manufacturing plants in America and employs over 20,000 hard-working Americans. Dr Pepper actually generates the “largest share of fountain soda sales” (Jaura, 2020). Although both Dr Pepper and PepsiCo are both strong competitors in the beverage industry, Coca-Cola has consistently outperformed them in the cola industry and will continue to closely monitor its competition moving forward.

II. Historical Horizontal and Vertical Analysis

a. Revenue

Coca-Cola’s revenues decreased from 2015 to 2018. There is a slight increase between 2018 and 2019. The decrease in revenue from 2015 to 2018 came mainly from Coca-Cola refranchising its bottling operations. These trends can be seen in Figure 3.
Figure 3: Revenues over the past five years for Coca-Cola Company

b. COGS

Coca-Cola’s COGS has followed the same general trend as their revenues. The decrease in Coca-Cola’s COGS can also be attributed to the company’s refranchising efforts. These trends can be seen in Figure 4.

Figure 4: Cost of Goods Sold over the past five years for Coca-Cola Company
c. Selling, General, and Administrative (SG&A) Expense

Coca-Cola’s Selling, General, and Administrative Expense account has followed the same general trend as their revenues and cost of goods sold. The decrease in SG&A can be attributed to divestitures and a reduction in expenses related to their bottling operations. These trends can be found in Figure 5.

![Figure 5: Selling, General, and Administrative expenses over the past five years for Coca-Cola Company](image)

d. Operating Income

Operating income was very similar from 2015 to 2016. From 2016 to 2017, Coca-Cola saw a decrease in operating income, and from 2017 to 2019, there was an increase in operating income. The recent increase in operating income from 2017 to 2019 was mainly due to a growth in concentrate sales volume of two percent, a favorable price and product mix, savings from productivity initiatives, lower other operating expenses, and a benefit from acquisitions. These trends can be seen in Figure 6.
Figure 6: *Operating Income over the past five years for Coca-Cola Company*

**e. Assets**

From 2015 to 2016, there was a decrease in assets, followed by a slight increase between 2016 and 2017. There was a more dramatic decrease in assets from 2017 to 2018, and an increase in assets followed from 2018 to 2019. These trends can be seen in Figure 7.

Figure 7: *Total Assets over the past five years for Coca-Cola Company*
f. Liabilities

Total Liabilities have remained about the same amount from 2015 to 2019. In 2017, we observed an increase in long-term liabilities that caused total liabilities to increase, but long-term and total liabilities decreased again in 2018. These trends can be seen in Figure 8.

![Liabilities Over the Past Five Years for Coca-Cola Company](image)

Figure 8: Liabilities over the past five years for Coca-Cola Company

g. Return on Assets: Computed as Operating Income/Assets

From 2015 to 2019, Coca-Cola’s Return on Assets saw a steady increase, with the exception of 2017. In 2017, we saw a significant decrease in operating income that caused return on assets to be lower than previous years. The increase in return on assets shows that Coca-Cola is mostly using their assets efficiently to generate earnings. These trends can be seen in Figure 9.
Figure 9: Return on Assets over the past five years for Coca-Cola Company

**Dupont Decomposition**

**h. Profit Margin: Computed as Operating Income / Revenues**

Profit margin has increased from 2015 through 2019. The sharpest increase was between 2017 and 2018. This increase in profit margin shows that Coca-Cola has been able to continuously make a profit off each dollar of sale. These trends can be seen in Figure 10.

Figure 10: Profit margin over the past five years for Coca-Cola Company
i. Asset Turnover: Computed as Revenues / Assets

The Asset Turnover ratio decreased from 2015 to 2018, seeing the sharpest drop between 2016 and 2017. There was a very slight decrease between 2017 and 2018, and the company saw an increase in the ratio between 2018 and 2019. This trend shows that the company struggled to use assets efficiently to generate revenue. The increase from 2018 to 2019 shows that the company has started using the assets more efficiently than previous years. These trends can be seen in Figure 11.

![Asset Turnover Graph](image)

Figure 11: Asset Turnover over the past five years for Coca-Cola Company

Statement on Financial Analysis and Stated Strategy

As seen by Coca-Cola’s stated strategy, the company has been working to build their portfolio and grow revenues. The increases in many accounts over the most recent years show the positive effects of new and improved products. Profit margins have steadily increased over the past five years, following an improvement in brand-building and restructuring efforts. The company has been able to increasingly differentiate its products for a high profit margin. Between 2015 and 2018, Coca-Cola saw a decrease in asset turnover. As the impacts from the
company’s introduction into the complete hot and cold beverage market have evened out, the company has been able to increase their asset turnover in the most recent years.

III. Company Threats and Solutions

Threat One: Evolving Consumer Preferences:

One of the biggest threats to Coca-Cola’s success comes from having a large consumer base with ever-evolving preferences. The 2019 Coca-Cola 10-K states, “If we are not successful in our innovation activities, our financial results may be negatively affected” and be unable to “achieve our growth objectives” (The Coca-Cola Company, 13). Furthermore, Coca-Cola wants to focus on the “ability to evolve and improve our existing beverage products through innovation and to successfully develop, introduce and market new beverage products” (The Coca-Cola Company, 13). Coca-Cola explains that “innovation activities in turn depend on our ability to correctly anticipate customer and consumer acceptance and trends” (The Coca-Cola Company, 13). If Coca-Cola cannot continue to accurately predict consumer preferences and new product trends, the company could risk falling behind to other competitors or losing market share.

Solution: New Product Line

Part One: Ready-to-Drink Spirits Product Line

Our team created an innovative solution to continually anticipate customer preferences by creating a new alcoholic beverages product line. Coca-Cola has the capabilities to heavily expand into the alcoholic beverage market due to its current indirect involvement with the industry. It is a common occurrence for people to use Coca-Cola beverages as “mixers” for their alcohol. Coca-Cola could push its advertising onto its existing products that are commonly used as mixers such as Sprite, Coca-Cola, Topo Chico, Minute Maid Lemonade, and Simply Made
Orange Juice in a way that highlights its use for that purpose. Our strategy targets a young-to-middle-age adult consumer group that Coca-Cola has been aiming advertisements toward in recent years. Coca-Cola could also create a new beverage line of products designed to be used as mixers, or the company could start producing its own mixed drinks. Coca-Cola has recently moved into the seltzers market, so they could use what they have learned from that endeavor to aid in their development of a mixed drinks line.

Additionally, we would like to acknowledge Crown Royal’s newly released, as of December 2020, ready to drink cocktails consisting of whiskey and cola in a can retailing for roughly $13.99 for a pack of four (Target). We feel that, with prominent liquor brands pursuing ready to drink spirits with an unbranded cola, Coca-Cola has the potential to easily pair with a liquor producer to immediately gain brand recognition from consumers. The new cocktails have been trending on all social media platforms within the last few months of Crown Royal’s release. Although we do not have access to current sales data, we suspect revenues are substantial due to its out-of-stock status on numerous retailer websites and limited availability throughout the country. Our team recognizes the potential for a major expansion into the alcoholic industry since Coca-Cola has already taken the initiative to create a new seltzer and no longer self identifies as the largest non-alcoholic beverage company. We feel a sense of urgency for Coca-Cola to act quickly in acquiring a market share within the Ready-To-Drink or RTD mixed spirit industry before one of its major competitors, such as PepsiCo, paves the way.

**Part Two: Coca-Cola Freestyle Cocktail Mixer and Dispenser**

Coca-Cola can also partner with top alcohol brands to build upon their Coca-Cola Freestyle drink dispenser platform, modifying the machine to dispense Coca-Cola products with alcohol. These machines can be put in place anywhere that serves alcohol. We especially believe
that this equipment could be successful at bars and clubs, where consumers spend significant amounts of disposable income. Since brand recognition goes a long way in the industry, Coca-Cola is uniquely positioned as a global brand to leverage its highly recognizable image. Leveraging its brand image will also give the company significant bargaining power when choosing alcohol brands to partner with.

One of the largest benefits of this strategy is that the company avoids the costs associated with developing a new technology and machine. With slight adjustments to the preexisting mechanics of the Coca-Cola Freestyle drink dispensers, the company would be able to advertise and sell to a new market. Costs associated with this strategy would include the manufacturing of new machines, salary expenses associated with programming to add new functionality, and business-to-business marketing expenses. Fortunately, the machines could easily be integrated into existing infrastructure, since bars and clubs already utilize on-demand concentrate and seltzer systems as well as maintain high inventories of liquor. The current beverage choices on Coca-Cola Freestyles are divided into the categories of “all drinks, low no cal, fruit flavored, and caffeine free” (Coca-Cola Freestyle). After connecting the machine to existing site infrastructure, the company could easily add an “alcoholic” option.

Ultimately, the Coca-Cola legal department will have to further investigate the regulations surrounding this strategy, but we are able to anticipate and address a few issues with this strategy. The first issue with the modified use of the Freestyle machines is that there may be a need to determine that the buyer is of legal drinking age depending on the location. A possible solution is to install technology that can scan IDs. Furthermore, the machine could require payment by credit card, so that the name on the ID can be matched to the purchaser. Another solution is that the business owner of the individual machine would be required to grant
customers a card or wristband with a scannable QR code that grants customers access to purchase alcohol from the Freestyle dispensers.

In terms of financial implications, a challenge for the bar and nightclub industry is day-to-day revenue volatility. Coca-Cola could circumvent this obstacle through the use of a leasing structure, whereby participating locations pay a monthly fixed fee for the use of a Freestyle machine. In combination with revenue from the fixed leasing fee, a portion of the sales could be collected by Coca-Cola as a royalty for use of the proprietary technology. Incentives are aligned in this arrangement, as both parties benefit through increased sales.

**Projections:**

Based on previous successful market expansions, we project for Coca-Cola to secure 20 percent of the RTD Mixed Spirit market by 2024. This will add over $3.4 billion in revenue compared to the base case in the span of five years. For the Freestyle machine expansion, we project Coca-Cola to achieve a five percent share in bar and club revenues by 2024, yielding over $3.8 billion in added revenue. Between both expansions, Coca-Cola can expect a revenue increase of over $7.2 billion in five years, as seen in Figure 12.

Overall, in terms of cost of goods sold, we expect this margin to be comparable to Coca-Cola’s existing business. We do not foresee large expenses associated with expansion as existing production and distribution capabilities can be utilized. We argue that because of Coca-Cola’s launch into the world of alcoholic seltzers, there will not be a major increase in research and development expenses when creating this new ready-to-drink cocktails line. SG&A expenses will increase slightly as the company works to capture a market share in the alcoholic beverage space. Fortunately, Coca-Cola has successfully traversed market boundaries many times before,
so that corporate expertise can be applied here as well. Following these projections, we expect operating income will improve by over $2 billion in five years, as seen in Figure 13.

Assets will mostly maintain their existing growth rate, since existing infrastructure and manufacturing plants will be utilized. However, additional Freestyle machines could slightly increase the asset account. Finally, liabilities are not expected to increase beyond their current proportion of assets. This is due to Coca-Cola's exceptional free cash flow generation which allows the company to internally fund expansions.

![Strategy Effect on Revenues](image)

**Figure 12: Forecasted effects of the solution to Threat One on revenues over the next five years**
Threat Two: The Digital Evolution

A second large threat to Coca-Cola’s success is digital evolution. As stated in Coca-Cola’s 10-K, “future success will depend in part on our ability to adapt to and thrive in the digital environment” (The Coca-Cola Company, 15). One of Coca-Cola’s major goals moving forward is to “digitize” the company’s structural system, “to create more relevant and more personalized experiences wherever our system interacts with consumers” and to invent, “more powerful digital tools and capabilities for the Coca-Cola system's retail customers to enable them to grow their businesses” (The Coca-Cola Company, 15). Coca-Cola notes that if they are unsuccessful in their endeavors to expand the technology sector of the company, their “ability to increase sales and reduce costs may be negatively affected” (The Coca-Cola Company, 15). Technology is an ever-changing threat to any major corporation, and, although it takes extensive resources in order to implement new software, it is a necessary investment to remain competitive and efficient within its particular industry.

Figure 13: Forecasted effects of the solution to Threat One on operating income over the next five years
Solution: Data Mining Customer Databases

Coca-Cola has huge undiscovered potential within their Coca-Cola Freestyle drink dispensers. Coca-Cola should update these machines to include valuable data-gathering technology, then push them to market more than they currently do. They should not only use the gathered information for their own benefit, but also sell it back to current customers.

We, as a team, acknowledge that everything discussed here will need to be vetted by a professional legal team to ensure that it abides by personal data protection and privacy laws, but we believe that these machines could be used to gather a multitude of data metrics if uploaded with the correct software. All of this data would automatically be stored in a cloud system, where it could be accessed from Coca-Cola’s corporate offices.

Coca-Cola already has an app designed to allow users to find the locations of Freestyle machines near them and then work interactively with those machines to build a customized drink. If the transfer of information is restructured so that the Freestyle machine can gather a customer ID and the customer’s age from the app, that provides two key metrics that can be collected. Another metric that can be collected is the specific percentages of various beverages that each customer requests in their drink. This can be useful in analyzing which products sell best at specific locations and how specific beverages sell at various times of the day.

An alternative to utilizing the app to gain data involves the use of an employee. This strategy is mainly useful if Coca-Cola intends to add an alcoholic component to their Freestyle drink dispensers. In this scenario, the staff of the business where the Freestyle is in place would be required to provide customers a card or wristband displaying a QR code that grants the customer access to all of the Freestyle machine’s features. This QR code could be individualized for each patron to hold a number of useful data metrics. More specifically, it could contain a
customer ID so multiple purchases can be tracked along with the customer’s age and the date of issuance. These QR codes can be printed as stickers for placement on the patron’s card or wristband upon entry. The newly programmed Freestyle machines will collect this data, along with specific time, date, and location data. All of these metrics can be utilized by Coca-Cola and sold to the allied alcohol brands and businesses where the Freestyle machine is installed.

This strategy aligns with Coca-Cola’s stated strategic mission for brand-building and innovation. Through the introduction of these new machines and implementation of systems to collect vast amounts of data, Coca-Cola introduces new innovation into their consumer and technological fields. Because of the collection of data, the company will be able to analyze the trends created by customers and learn new information on how to better build their new alcoholic beverage brands as they become a “total beverage” producer.

**Projections:**

Financially, customer data collection will improve Coca-Cola’s revenue generation capabilities through the use of customer databases, personalized marketing, insights into behavior patterns, and much more. We project Coca-Cola’s revenue generation to improve four percent by 2024 as the company utilizes the insights to improve its existing businesses. Over five years, this has the potential to increase Coca-Cola’s top line by over $4.9 billion, as seen in Figure 14. Cost of goods sold will be improved through more efficient supply chain management, Freestyle machine efficiency, and other analytical insights. Over a five-year period, we project cost of goods sold to also experience a four percent improvement, yielding a nearly $2 billion benefit.

SG&A expenses will be reduced as data analytics can improve customer acquisition abilities. However, without knowing the details of Coca-Cola’s SG&A expense breakdown, the
extent of its reduction is difficult to pinpoint. Due to increased revenues and reduced cost of goods sold, operating revenues will improve an estimated $2.1 billion over the base case, as seen in Figure 15. Assets will largely be unaffected, since the improvements involve proprietary technology. Liabilities will also remain unaffected compared to the base case, since Coca-Cola generates sufficient free cash flow to fund significant investment opportunities.

**Figure 14:** *Forecasted effects of the solution to Threat Two on operating income over the next five years*

**Figure 15:** *Forecasted effects of the solution to Threat Two on revenues over the next five years*
IV. Ratio Recalculation

Implementation of each action plan results in more favorable ratios for the next five years. It is important to note that the operating income for 2019 is much higher than previous or projected years. The “Other Operating Expense” account in 2019 was historically low when compared to previous years. In the past decade, only twice—2012 and 2019—has this account dipped below $700 million. When analyzing the impacts of the ratios, it should be noted that 2019’s operating income is not a clear indicator of normal operating expenses, and therefore, the ratios computed for 2019 should not be the sole indicator of growth or shrinkage in the projected years. The numbers included in the data for the projected years for this account are based on the average of previous amounts.

For the solution to threat one, the return on assets for Coca-Cola improves to 14.56 percent by 2024, compared to 11.68 percent in 2019. This is due to the ability to share existing assets between product lines. Profit margins dip slightly in 2020, but they maintain high levels through 2024. Asset turnover also improves to 54.51 percent, compared to 2019’s 43.14 percent. Like ROA, this signals the company’s ability to generate higher revenues with existing manufacturing and distribution assets. For the solution to threat two, ROA improves to 14.22 percent due to higher margins from implementation of proprietary technology. Profit margins receive a considerable boost to 28.02 percent by 2024. Asset turnover also improves to 50.73 percent by 2024, since Coca-Cola is able to generate higher revenues without much increase in physical assets.
Case Competition: The Coca-Cola Company Stock Price and Ratio Analysis

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Introduction:

For this week’s assignment, we are analyzing the Coca-Cola Company (KO)’s current status on the New York Stock Exchange using the NASDAQ index. We reviewed the company’s current stock prices, Price-to-Earnings ratio, Earnings Per Share, beta, and forecasted growth rate. We found that Coca-Cola closed on March 1, 2021, at $49.90, down from $55.26 on March 2, 2020. We relate this difference of $5.36 to the economic turmoil caused by the COVID-19 Pandemic that began to disrupt routine trading on the stock exchange in the following two weeks in March of 2020. The Price-to-Earnings ratio was 26.42x in 2019 with a basic earnings per share ratio of $2.09 and diluted earnings per share of $2.07. Coca-Cola’s beta, or its measure of riskiness or volatility, is currently a .62 in comparison to the overall market average as of March 2021. Therefore, KO stock is relatively less risky than the market averages. Coca-Cola is followed by 18 financial analysts which appears to be average in comparison to other competitors and major publicly traded companies. The forecasted growth rate is projected to be 9.7 percent for the year 2021.

We were able to forecast Coca-Cola’s future change in net income based on the implementation of each of our previous innovative strategies. Using those projections, we were able to calculate the net income and common share outstanding trends over the next five years. Coca-Cola’s Return on Assets in 2019 was 11.68 percent, and our advisory strategy projects this to increase to 14.56 percent by 2024. After weighing the risks associated with financing our recommendations, we feel our strategies will be very appealing to investors of Coca-Cola and that our plans will overall improve the financial ratios and performance of the company moving forward.
Closing Price as of December 31, 2019:

The Coca-Cola Company (KO) had a closing price of $54.69 as of December 31, 2019, up from $47.57 the prior year. We note that the end-of-year financial information is now available for 2020. However, our analysis in this case study is based on 2019 data.

Price-to-Earnings Ratio:

Coca-Cola’s stock generated $2.09 in earnings per share in 2019 (The Coca-Cola Company, 68). Using the 2019 year-end price of $54.69 and dividing that by $2.09, we computed the company’s basic price-to-earnings ratio to be 26.17x.

Our calculation for the price-to-earnings ratio using diluted earnings per share is identical to the previous method, except that $2.07 was used for earnings per share (The Coca-Cola Company, 68). In this calculation, the price-to-earnings ratio would be 26.42x. We will be using diluted earnings per share because it includes dilutive securities and the effect of those accounts on earnings per share. We do note that the difference between basic and diluted earnings per share is not material enough to affect our analysis.

Closing Price as of the Current Date (March 1, 2021):

Coca-Cola’s closing price was $49.90 as of March 1, 2021. This is down year-to-date, as the company continues to deal with its tax litigation and the effects of COVID-19.

Beta:

According to Yahoo Finance, Coca-Cola currently has a beta of .62 as of March 2021. Beta measures the relative riskiness of a stock to the overall market. The reference point for
analyzing beta is one, where beta values greater than one indicate that the security tends to be more volatile than the market while values lower than one are generally viewed as less volatile than the market. In Coca-Cola’s case, a beta of .62 suggests the company is less risky than the market average. For example, if the overall market were to decline 10 percent, Coca-Cola should theoretically decline 6.2 percent over the same period.

**Analyst Following:**

For the earnings estimate, there are 18 analysts following our company. For the revenue estimate, there are 11 analysts following our company. The number of analysts is expected to grow in 2021 in both categories.

**Forecasted Growth:**

Coca-Cola’s forecasted growth rate for the current quarter (March 2021) is negative two percent, and for the next quarter (June 2021), it is 31 percent. For the current year (2021), the growth rate is 9.7 percent, and for the next year (2022), it is 8.4 percent. The forecasted growth rate for the next five years is 5.24 percent.

**Analyst Recommendations:**

Currently, Coca-Cola’s average recommendation across several analysts is a buy. For March 2021, the stock received four “strong buys”, seven “buys”, 13 “holds”, and one “underperform”. Analysts also give Coca-Cola an average price target of $57.37.
Effects of Advisory and Tax Recommendations:

In neither our tax nor our advisory recommendations do we recommend for Coca-Cola to finance its expansion through additional equity issuance. Issuing additional equity would reduce earnings per share, increase expected dividend payments, and send negative signals to investors. Instead, we recommend Coca-Cola utilize its impressive cash flows to internally fund projects where possible and leverage its strong balance sheet to fund additional expenditures through debt financing. The company’s investment-grade bond rating allows Coca-Cola to borrow at low rates and benefit from an interest tax shield. Issuing debt also signals to investors that management expects future performance to justify additional leverage. These factors enable the company to return greater value to shareholders. The company should utilize the additional cash flows generated from our advisory and tax recommendations to either fund additional growth opportunities or continue its long-term trend of repurchasing shares in order to return earnings to shareholders.

Projected Earnings Per Share and Stock Prices:

Using our projected net income and estimated shares outstanding for the next five years, we derived estimated earnings per share under our first advisory strategy. Under this strategy, our projected earnings per share for the next five years is as follows: $2.06 (2020), $2.17 (2021), $2.31 (2022), $2.48 (2023), and $2.70 (2024). From these projections, combined with the price-to-earnings ratio, we can estimate the stock prices for the next five years to be $54.42 (2020), $57.33 (2021), $61.03 (2022), $65.52 (2023), and $71.33 (2024).

Using the same formulas as the previous strategy calculation, our second advisory strategy projected the following earnings per share for the next five years: $2.08 (2020), $2.20
(2021), $2.35 (2022), $2.51 (2023), and $2.71 (2024). From these projections, we can estimate the stock prices for the next five years to be $54.95 (2020), $58.12 (2021), $62.09 (2022), $66.31 (2023), and $71.60 (2024).

Implementation of our tax recommendations would have similar effects on earnings per share across both strategies. Our first tax strategy involving federal solar credits would improve earnings per share by an average of $0.01 each year over the next five years. Our second tax strategy would reduce earnings per share by an average of $0.17 per year. This is due to the effect that eliminating equity income would have on net income. In our third tax strategy of relocating various manufacturing locations, the effect on earnings per share would be highly variable and dependent on the specifics of relocation. Our fourth tax strategy of relocating foreign earnings would improve projected earnings per share by an average of $0.07 per year. Where earnings per share increase in strategies one and four, the projected stock price would appreciate proportionately; strategy two’s reduction in earnings per share would reduce the projected stock price proportionally. However, it should be noted that price-to-earnings valuation does not consider numerous other factors that would positively affect the stock price. In the case of strategy two, Coca-Cola would receive large amounts of funds for selling its equity investments that would strengthen the assets account on the balance sheet, and the company may be better positioned to focus on its core competencies. These factors could actually lead to an increase in stock price perhaps not reflected by price-to-earnings ratios alone.

**Return on Assets and Risk:**

Our projected return on assets would support the appreciation in stock price for the next five years. Coca-Cola can build synergies between its existing businesses and our proposed
expansion through its corporate structure, supply chain, and improvements in data analytics technology. However, there are a few factors that management would need to consider when financing these expansions. For one, increased leverage would increase the company’s riskiness to investors. This would increase the company’s beta and, consequently, increase Coca-Cola’s cost of equity financing. Additionally, increased interest payments require consistent liquidity over long periods of time. With this in mind, we believe Coca-Cola’s history of strong cash flows, credit history, and stability shows that the benefits of debt-financed expansion outweigh the risks.

In 2019, Coca-Cola saw an actual Return on Assets of 11.68 percent. Our advisory strategy projects this to increase to 14.56 percent by 2024. A significant increase such as this would look attractive to investors, leading to an appreciation in the stock price as well as a reduced cost of equity. This improvement in return, combined with other favorable changes in financial ratios, would offset the impact of additional leverage as reflected in our projected future stock price.
Case Study Six: A Tale of Two Cities

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Honors Accy 420
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September 24, 2020
Summary

For this case study, I am choosing two cities in which I can imagine myself doing an internship and starting my career and then evaluating how they compare to one another. The primary objective of this case study is to determine which city better suits my overall personality, budget, passions, priorities, and career goals. My two cities are Memphis, Tennessee, and Nashville, Tennessee; both of which I have visited in the past and are in the Southeastern United States. I am from Isola, Mississippi, a very small town in the Mississippi Delta, and I have always known I want to stay in the South but move to a bigger city with more opportunities for my career as well as for my future family.

The population of Memphis in comparison to Nashville is slightly less; however, they are both large metropolitan areas with a very diverse population and environment. Both Nashville and Memphis have similar climates to that of Mississippi so I feel that the weather will be fairly familiar and comforting in a sense. The Mississippi River neighbors Memphis as it does in the Mississippi Delta, and Nashville also has the Cumberland River nearby. The topography is not drastically different from the flatlands and rolling hills throughout the state of Mississippi. The tax rates are slightly less in Nashville than they are in Memphis; it only has a difference of $188 between the two amounts.

Memphis is a major transportation and logistics hub in the United States. Memphis ships things by way of road, air, water, and rail and has some huge manufacturing companies and logistics corporations located in it. Nashville also sees a lot of travel by road, air, water, and some rail. Memphis’s most prevalent industries include manufacturing, agriculture, and logistics with its top companies being FedEx and AutoZone; on the other hand, Nashville’s primary industry is healthcare. Its top companies include HCA Healthcare and Envision Healthcare.
Memphis’s public-school systems are very poorly rated and rank in the lower half of the state’s scores. Memphis’s healthcare system is only moderate. On the other hand, Nashville has flourishing school districts in and outside of the metropolitan area, and its healthcare ranks slightly better but still poor. Both Memphis and Nashville have a huge crime rate in comparison to the rest of the country, but most of the crimes involve property and not violence. It is very challenging to pick a neighborhood in which to live in both Nashville and Memphis although I am willing to pay more to secure safety. I will primarily commute by car and will not have to commute more than an hour to work no matter where I live.

I find that my grocery shopping habits, laundry habits, extracurriculars, and passions all align very well in both Nashville and Memphis, but Nashville seems to offer just a little more variety and opportunity among its city. My monthly budget ended up being cheaper in Memphis than in Nashville because I chose to pay a little more in rent to live in Brentwood instead of the city. I can easily adjust that to make it where both cities would cost near the same. After evaluating the pros and cons of both cities, I have decided that Nashville may be a better fit with me as it seems to align with my values and offers a sense of security. When considering where I would like to raise a family, I see Nashville as slightly safer and offering a better education and healthcare system for my family. Although this is not my final decision of where I want to start my career, it has certainly provided me tremendous and realistic insight as to what life will be like as an adult. I will use these findings moving forward as I further investigate other cities and begin the interview process in the spring.
1. Memphis: What is the population?

The population of Memphis, Tennessee, in 2020 is roughly 647,374 (World Population Review). Memphis is the 28th largest city in the United States although it has been a slow decline in the past few years (World Population Review). I am from Isola, Mississippi, a small town in the Mississippi Delta with an estimated population of only 592 people in 2020. Moving from a small town of that size to a major metropolitan would be a huge adjustment for myself; however, I feel that I could quickly adapt. I have adjusted to Oxford quite nicely over the past two years and am confident that I would find a larger city as exciting and full of promise.

1. Nashville: What is the population?

Nashville, Tennessee, has an estimated population of 673,167 in the year 2020 (World Population Review). Nashville is the largest city in the state of Tennessee as well as its capital city. Nashville is also the 23rd largest city in America, and I find that number to be slightly overwhelming although I suspect that the promise of industry and opportunity will ease my nerves. I certainly will have to adjust to Nashville traffic since the biggest cities I have ever driven in are Jackson, Mississippi, and Baton Rouge, Louisiana. Moving to a large city alone to start a new internship is intimidating; however, I thankfully have family living in Brentwood, which is about 20 minutes outside of Nashville. Having my cousins to show me around the city and offer sound advice is incredibly appealing to me.

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

Since Memphis is located in the Southeastern United States, I feel that I am fairly accustomed to the climate. It is certainly not as big of an adjustment as it would to move to a city that experiences a large amount of snowfall each year. Memphis receives an average of 54 inches
of rainfall every year (Best Places). In contrast, Isola’s annual rainfall averages at 55 inches so I am very well adapted to the tremendous number of storms that tend to pass through our areas (Best Places). Isola has an average of zero inches of snow each year; we very rarely see snow. When we do have a snow day, it rarely sticks to the ground or amounts to less than an inch. On the other hand, Memphis sees about three inches of snow annually, a significant difference from my hometown (Best Places). I do not mind snow; however, I do prefer warm weather to brutally cold winters. The average high temperature in Memphis is 91 degrees and has a low of 30 degrees, whereas Isola averages a high of 91 degrees and a low of 34 (Best Places). That gives me a relative peace of mind knowing that the temperature trends are fairly similar.

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

I also feel that I am fairly accustomed to the weather tendencies in Nashville, Tennessee, as well since it is still in the South. I would describe its climate as mild. Nashville has an average of 49 inches of rainfall each year, and I find that very appealing since it is six inches less than Isola’s annual average (Best Places). Nashville receives an average of four inches of snow each year; a significant adjustment since I hardly ever see snow at home although it is not enough to make me want to steer clear of Nashville (Best Places). There are typically 208 sunny days in the city, and Isola usually has around 216 sunny days (Best Places). Only one less week of sunshine is a slight downgrade that I am willing to accept. Overall, I suspect that I would be very comfortable in this climate.
3. **Memphis:** 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 sits at around 331 feet above sea level and neighbors the Mighty Mississippi River (City Data). City Data describes the topography as a slightly rolling countryside with mostly flat land (City Data). The scenery is fairly similar to that of the Mississippi Delta since it also neighbors the river and is very flat with an immense amount of farmland. Memphis has quite a few iconic scenic spots such as the Big River crossing, a bridge walking bridge that overlooks the Mississippi as well as the famous Peabody Hotel in downtown Memphis with an iconic duck march that is a must see. One of my personal favorite spots is the Bass Pro Shop at the Pyramid that allows you to travel to the top of the Pyramid to give an overlook of the city and river.

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

Nashville is located in the “Central Basin, a low, flat, and fertile region in north-central Tennessee” and is at 550 feet above sea level, and the city has the “second largest land mass” in America of “more than 500 square miles” (Littman). Nashville’s topography is described as “rolling hills of middle Tennessee” and located on the bank of the Cumberland river (Encyclopedia). Nashville has an immense amount of popular tourist attractions, most of which I have not ever seen. The Grand Ole Opry is a classic must see in Nashville, due to its rich history in the music industry. The Parthenon is one of the most fascinating sights in the city as it is a replica of the original Parthenon located in ancient Greece. The architecture is breathtaking and has so much rich history behind it. Another popular sight is Andrew Jackson’s Hermitage, the seventh United States President’s estate located in Nashville that offers tours and the historical facts of President Jackson’s life.
4. **Memphis: What are the individual tax rates within the city (e.g., consider federal, state and local income tax, property tax, and any other taxes you’d be likely to pay. Quantify what this means based on a starting salary of approximately $55,000/year)?**

Using the Smart Asset income tax calculator, I have found that if making a starting salary of $55,000 a year, I will roughly pay an average of $9,482 in income taxes (Smart Asset). This calculation includes a federal tax rate of 22 percent and a Federal Insurance Contributions Act tax made up of social security and Medicare rate of 7.65 percent (Smart Asset). The state of Tennessee does not have a state income tax rate. Memphis has a sales tax of 9.75 percent, a combination of seven percent of state sales tax and 2.75 percent of county sales tax (Avalara). Smart Asset estimates an expense of $1,474 on sales tax, a fuel tax expense of $206, and a property tax expense of $3,729 if I owned a home in East Memphis (Smart Asset). My estimated “tax burden” is roughly $14,891 for the year of 2020, meaning that I would only have 40,109 gross income to cover living expenses with a budget of $3,342 per month (Smart Asset).

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

In using the Smart Asset income tax calculator, I will be using the same data of paying $9,482 in income taxes, including federal taxes of 22 percent as well as FICA of 7.65 percent. Nashville has a sales tax rate of 9.25 percent, with 7 percent as state and 2.25 percent as county taxes (Avalara). The Smart Asset calculator estimates that living in Brentwood, Tennessee, a suburb fifteen minutes outside of Nashville will have an estimated sales tax expense of $1,474, fuel tax expense of $216, and a property tax expense of $1,471 (Smart Asset). The overall tax
burden for the year of 2020 is an estimated $12,643, leaving a gross take home income of $42,357 with a budget of 3,530 per month (Smart Asset).

5. Memphis: What transportation hubs are in the city?

Kevin Litwin explains that Memphis has a huge transportation hub in America as it supports transportation logistics through road, railroad, water, and air (Litwin). Litwin states that Memphis International Airport is “the busiest cargo airport in North America” because FedEx a “logistics giant is headquartered” in Memphis and employs “more than 30,000 people” (Litwin). The port of Memphis seated on the Mississippi River serves as a huge transportation port for immense “grain and petroleum shipments” and is the “fifth-largest inland port in the U.S.” (Litwin). Memphis is only one of four cities in the United States that uses five different “Class I rail carriers” so that shipments have the ability to “reach 45 states, Canada, and Mexico within 48 hours” (Litwin). Memphis also is home to hundreds of trucking and logistics companies that transport goods by road. Memphis clearly has an incredible transportation and logistics central location.

5. Nashville: What transportation hubs are in the city?

Nashville offers numerous modes of transportation such as a commuter railroad, buses, taxis, and air travel (Becker). Kraig Becker notes that the “main form of public transit in Nashville are city buses” although a “limited light rail system exists” as well for public transportation. Nashville is home to “large shipping hubs, access to interstate roadways, and well-skilled workforce” that is very appealing to companies looking to locate in Nashville (Kaelble). Nashville also offers a home port that is used in transportation by water; the state of Tennessee hosts “more than a thousand miles of navigable waterways” that assist in the shipment of over “30 million tons of cargo annually” (Kaelble). Nashville also serves a strong transportation hub by road since it is
“one of just four cities crossed by six interstate legs” with a very prominent center for logistics, supply chain management, and thriving industries (Kaelble).

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

Memphis’s most prevalent industries include “Advanced Manufacturing, Agribusiness and Technology, Food and Beverage Processing, Medical Devices and Innovation, as well Transportation and Logistics” (Greater Memphis Chamber). The city’s five largest companies are FedEx Corporation, AutoZone, International Paper, TruGreen, and Sedgwick CMS Holdings (Zippia). All of these top companies hold a lot of promise as clients for potential accounting employers.

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

Moreover, Nashville’s most prominent industries are “Health Care Management, Automobile Production, Finance, Higher Education, Insurance, Music Production, Printing & Publishing, Technology Manufacturing, and Tourism” (Nashville Music City). Nashville’s current largest companies are HCA Healthcare, Envision Healthcare, Vanguard Health Systems, O’Charley’s, and Genesco (Zippia). Before participating in Meet the Firms this fall, I have been totally unaware of how prominent healthcare is in Nashville, Tennessee, since majority of clientele in Nashville are in the healthcare industry. My grandmother, who was treated in long-term healthcare facilities in Mississippi, was eventually transferred to a long-term facility located in the heart of Nashville, where she received tremendous top of the line care at the facility and hospitals in the city. Now, I fully understand that healthcare is at the forefront of Nashville’s growing economy.
7. Memphis: Describe the quality of the city’s healthcare. Describe the quality of the city’s school districts (K-12). Would your children attend public or private school?

The quality of Memphis’s healthcare seems fairly erratic as it seems to vary based upon each individual hospital location. The overall rating of the healthcare systems seems slightly low although it is continually improving. In 2018, the state of Tennessee ranked 43rd out of the 50 states in the quality of healthcare with Mississippi ranking as 50th, the worst overall healthcare system in America so it seems that the overall quality will only improve upon my moving to another state (Roark). A 2019 study’s findings indicate that 36 percent of Memphis hospitals received A or B grades “based on how well these facilities protect their patients from medical accidents, harm and error during a hospital visit” (Garriss). However, five hospitals have received very low grades, which suggests that “they’re really not prioritizing patient safety” (Garriss). The city’s healthcare system seems to have a tremendous amount of improvement and safety adaptations in its future.

Memphis’s public-school districts are constantly making strides to improve the quality of education. The Shelby County school district is “one of America’s 25 largest public-school districts” and educates “over 100,000 students in more than 200 schools” (Memphis-Shelby County Schools). Students have an “average math proficiency score of 22 percent” in comparison to the state average of 35 percent and perform at a 22 percent “reading proficiency” level (Public School Review). The Memphis school districts currently score in the bottom 50th percentile of the state’s public education (Public School Review). Memphis schools host an average of 90 percent minority students and have a student to teacher ratio of seventeen to one (Public School Review). The Tennessee Department of Education discloses the average ACT score of 17.2 for the district and a dropout rate of 17.3 percent (TN Department of Education). After reviewing all of the data
and speaking with some of my friends who grew up in Memphis, I suspect that I would send my children to a private school in order to ensure a quality education that has a smaller student population to allow students to engage more readily. I personally received a private school education, so I am, therefore, biased to private schools’ quality of education and success.

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

   Nashville’s quality of healthcare is innovative and very good in comparison to other large cities. The “Assessment of Nashville Region Health, Cost, Access, and Quality” study compares Nashville to 10 other large metropolitan areas across the country, and the city “ranked third among the peer group, with 81 percent beds above the national average for the timely and effective care domain” as well as second in the “patient experience domain” (FTI Consulting). Nashville is a home to a vast amount of healthcare workers and scores high in the area of patient satisfaction; however, the “outcome measures are below average” in areas such as survival rate and recovery (FTI Consulting). Nashville is also home to Vanderbilt University Medical center, the top-ranking hospital in the state and “one of the nation’s elite hospitals, coming in at number 17 on U.S. News’ annual ‘Honor Roll’ of the top 20 hospitals” (Stinnett).

   Nashville’s metro public school district serves roughly 86,000 students each year with a minority average of 73 percent with a graduation rate of 82.4 percent (TN Department of Education). The school system has a “Ready Graduate” rate of 29.9 percent that evaluates the number of students who are prepared for college upon graduation (TN Department of Education). The average ACT score of the district is 18.9 in 2019, and the dropout rate of students in 2019 rose to 15.6 percent (TN Department of Education). My cousins have grown up in Brentwood, Tennessee, about 15 minutes outside of Nashville where they received a very strong public-school
education in the Williamson County school district at Ravenwood High School. In comparison, Williamson County has an ACT average of 25.4, a dropout rate of 2.2 percent, and a ready graduate rate of 77.9 percent (TN Department of Education). For a school district located only 15 minutes outside of the metro area, I observe a significant increase in quality of education and success rate. Because of my cousins’ personal experiences, I feel more confident in sending my children to public school if it’s located in the Williamson Country school district. Otherwise, I would choose to evaluate private school options in the area.

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

Memphis, Tennessee has a reputation that exceeds itself for high crime rates, and according to this data retrieved from the FBI, it is rightfully so because its violent crime rate is “411 percent higher than the national average” (Area Vibes). In 2018, the city of Memphis had a total of 54,453 crimes reported to the authorities (Area Vibes). Property crime such as theft and burglary in 2018 occurred 41,779 times, and violent crime only had 12,674 cases reported with assault and robbery being the most prominent crimes (Area Vibes). According to these statistics, a citizen of Memphis has a “one in twelve chance of becoming a victim of crime” (Area Vibes). Downtown Memphis, Parkway Village-Oakhaven, Shelby Forest-Frayser, and Berclair-Highland Heights all have very high crime rates in the residential areas and seem to be places to avoid (Area Vibes). After reviewing this data, I feel very skeptical about living in Memphis as a young female.
8. Nashville: What types of crime are common within the city and where are the locations within the city to avoid?

Furthermore, Nashville reports show that 35,178 crimes were reported to authorities back in 2018, of which 27,537 are property crimes and 7,641 are violent offenses (Area Vibes). In the city of Nashville, the most prominent crimes are theft, burglary, assault, robbery, and rape (Area Vibes). The city’s crime rates are more than 99 percent higher than the country’s average, and as a citizen of Nashville, an individual has a one in twenty chance of being a victim of crime (Area Vibes). The most dangerous neighborhoods in the city of Nashville include Shepherd Hills, McKissack Park, Buena Vista Heights, and Elizabeth Park all with over a 150 percent increase of crime than the city’s average (Area Vibes). I understand that large metropolitans will naturally have a higher crime rate due to the immense population and poverty rates; however, I am still not comfortable with these numbers. I do not want to live in a densely populated portion of the city that presents a danger to myself or future family.

9. Memphis: 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.

I expect to rent either a townhouse or small home during my first three years post-grad. I am willing to pay up to $1,000 per month in rent plus utilities, ideally, in order to secure a safe neighborhood with kind and agreeable roommates. I have found a three-bedroom, two-bath house for $1,895 per month with 1,403 square feet with updated amenities and features located in Harbor Town, a very young community of professionals (Apartments). I have also located a house for $1,850 per month on Zillow located in East Memphis-Colonial Yorkshire neighborhood, which
upon research seems to be fairly safe and still within 25 minutes of downtown Memphis. The house’s address is 4852 Mockingbird Lane in Memphis, Tennessee (Zillow). It is a three-bedroom and two-bath home of 1,322 square feet with a fully remodeled and modernized kitchen and all new kitchen appliances along with a new washer and dryer (Zillow). The outside and inside of the house have such a modern charm to it, and the home seems to be very well taken care of. It only has a single car carport but a big enough carport to fit two more vehicles easily. If I were to rent out this home, I would expect to find two more roommates to live with in order to split the cost of living expenses and also for security purposes. We would all pay $617 per month in rent when splitting the rent three ways. Depending upon my stage of life, I would anticipate either living with my significant other or with two other young females who are on similar career paths.

Figure 16: Harbor Town Home

Figure 17: East Memphis- Colonial Yorkshire Home
9. Nashville: 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.

Upon researching places where young professionals live in Nashville, I have found an incredible three-bed, two-and-a-half-bath apartment located in the Lockeland Springs residential area (Apartment Guide). The rent is $2,530 per month or $843 per roommate without utilities included (Apartment Guide). I would also love to live in Brentwood as I start out my career in Nashville even though the prices are a little steeper to live in the nicer neighborhoods. I am willing to pay up to $1,200 of rent each month if that guarantees me a safe and engaging community. The house that I have located on Zillow is $2,100 per month for a three-bedroom, two-bath home with 1,700 square feet located on 1546 Indian Hawthorne Court in Brentwood, Tennessee (Zillow). This home has a newly renovated kitchen, with updated appliances, a large backyard, two car garage with a decent driveway, and a master bath with a new jacuzzi and walk-in shower (Zillow). I would need to locate two roommates to split the cost of rent, which would amount to $700 per month without utilities. This house is only about ten minutes away from my cousins’ house in Brentwood as well, so I am confident that this is a safe and family friendly neighborhood. Having family close by comforts me greatly, and I can see this being an incredible place to raise a family in the near distant future.
10. Memphis: What is the typical mode of commuting? Based on your answers identified in the prior question, what are your likely commute times?

The most common mode of transportation Memphis is by car. However, individuals may also the city’s public transit system of buses, trolleys, and the “new bike share program” (US News). Rush hour traffic is very real in Memphis; I have been stuck at a standstill in Memphis numerous times before due to wrecks happening on the interstate. Mass amounts of traffic will be the biggest challenge for me to get adjusted to that new normal. The house located in East Memphis
is located about 10 minutes from any of the Big Four’s offices downtown so I would anticipate leaving 30 minutes early just to be safe. The house located in Harbor Town is roughly 25 minutes away from all potential employers so my commute time would probably be around 45 minutes to an hour.

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

   The most common mode of transportation in Nashville is also by car. Heather Listhartke states that 82 percent of Nashville residents drive to work alone and 10 percent carpool; while only 1.3 percent of the total population uses the public transit system of buses and a small rail line, thus 1.7 percent of citizens bike or walk on his or her commute (Listhartke). Studies indicate that the people of Nashville spend 124 hours per year in traffic with an average of 32 minutes stuck in traffic each day (Listhartke). The cozy home located in Brentwood is an estimated 25 minutes from all the firms, and the modern, chic house that is northeast of the city and has received an average maximum travel time of 20 minutes so therefore, I need to be fairly early everyday so that I can beat traffic and start the day off right.

11. Memphis: Where will you do your grocery shopping?

   I suspect that if I were to live in Memphis, I would choose to shop at Kroger and Walmart as I already do now here in Oxford, Mississippi. Both stores are located within 10 minutes of my potential home in Memphis. I love Kroger because of its rewards program, and Walmart will forever be the most convenient and affordable store to get everything you need all in one trip. I would probably experiment with buying my meat from some local markets as well to see what I like best. I suspect that I would quiz some of my coworkers on where they do their shopping to see if they have any helpful tips too.
11. **Nashville: Where will you do your grocery shopping?**

   Nashville has so many wonderful options for grocery shopping in its surrounding area. I certainly will always be a consistent customer of Walmart and Kroger; nevertheless, I would certainly love to shop at Costco, Publix, Aldi, Trader Joe’s, and any other potential local grocery stores as well. The very first Costco that I ever had the pleasure of entering was actually in Brentwood with my cousins. The very existence of store of this magnitude and diversity amazed me, and the free samples infatuated me as a young girl. I know that I will experiment often with what locations and stores I choose to shop at during the beginning of my career in a new city.

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

   Fortunately, I will have the ability to do my laundry in my own home. I will not rent a property if it does not come with a washer and dryer; that is simply nonnegotiable for me.

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

   I plan to do my laundry in the comfort of my own home. Most of the houses that I looked at renting have a laundry room included in the house. I simply will not rent nor buy a property without a laundry room to do all my laundry inside my home.

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

   As a member of the Chi Chapter of Delta Delta Delta here at the University of Mississippi, I am incredibly passionate about St. Jude Children’s Research Hospital, our national philanthropy, that is located right in the heart of Downtown Memphis. What a blessing it would be to live so close to the hospital so that I could have a more hands-on approach with the hospital and its patients. I would vow to participate in the 5k, 10k, or half marathon each year to raise money for St. Jude and find any way I possibly could to volunteer and give back. I am also very passionate
about giving back to our veterans and finding ways to honor and serve them. Here in Oxford, we are fortunate enough to have the state veteran’s home located in our town; however, there is not one specific veteran’s home in Memphis. On the other hand, I have discovered a nonprofit called Alpha Omega Veteran’s Services Inc. whose primary goal is to extend a helping hand to any homeless or struggling veterans who need extra help in securing shelter, clean water, and a nutritious meal. I find this organization very touching and would love to further learn about their events and involvement. The final organizations that I would like to join are a church to call home every Sunday and the Neighborhood Christian Center. The NCC is a nonprofit that provides shelter, meals, and clothes to families that are experiencing hardships or crises and share the gospel with these struggling families when they need it most. All of these are incredible organizations that really align with my primary passions and service areas.

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

In Nashville, I would love to find a way to give back to the community surrounding and finding ways to engage with a diverse group of people. Nashville Rescue Mission is a Christian ministry whose mission is to serve the homeless, hurting, and struggling people who need a community of support and Christ’s love to give them restoration and hope for the future. Nashville is also home to one of the premier research hospitals in the country—Vanderbilt University Medical Center. The Monroe Carell Jr. Children’s Hospital at Vanderbilt has opportunities for volunteers to serve on a consecutive weekly basis and interact with patients or help in any way needed. I have always tutored students throughout my time in high school and in college. I would certainly love the opportunity to interact with kids and tutor them in any subject with which they
may be struggling. It seems that the Nashville Public Library offers volunteer opportunities for you to help out with tutoring and reading sessions with kids.

14. **Memphis: 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 am a highly engaged young woman who is very passionate about sports, nature, and any recreational activities that I can find. If I were to move to Memphis, I would certainly buy tickets to the Memphis Redbirds home baseball games on a regular basis. I have always cheered on the Redbirds since I was a little girl so that would be extremely special to me. I would also love to attend some of the Memphis Grizzlies games during their season as well. Many of my friends have attended games of the years, and it seems to be quite the experience. Memphis also holds an annual Beale Street Music Festival that always has a great set list and attracts a great crowd. Memphis is also very well known for its barbecue and hosts the Memphis in May World Championship Barbecue Cooking Contest. I really enjoy good barbecue, so I am certainly interested in attending this festival. Memphis is also home to Shelby Farms Park, a massive park with opportunities to zipline, kayak, paddleboard, ride horses, and explore. Shelby Farms Park seems like a must see on my list. I also really enjoy kayaking, and the Ghost and the Wolf Rivers both offer kayaking tours for you to enjoy. The adventure awaits in Memphis, Tennessee.

14. **Nashville: 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.**

   Nashville is a city full of rich culture with so much to offer. I have actually attended a Nashville Sounds baseball game on the fourth of July several years ago and had a blast seeing the fireworks show and watching some quality baseball. I would definitely invest in some tickets to see the Sounds play. I am also eager to attend some Nashville Predators hockey games. My cousins
have season tickets and have a blast at all the games. I am so interested to see what all the excitement is about since I have never actually been to a hockey game before. I would also love to attend a couple of the Tennessee Titans football games as well because I have never actually been to an NFL game before. I grew up a Saints fan so maybe I could arrange tickets to see them play each other. Nashville offers numerous events every month that attract young crowds as well as older crowds. For example, I would love to go to Bonnaroo during the summer at least once in my life with a group of friends and camp out for a few days. I have never been to a concert before, much less a music festival, so I think I am putting a concert attendance at the top of my to-do list after Covid-19. Nashville also hosts the CMA Fest and CMA Awards, which I grew up watching on tv with my mom so it would be very surreal to attend an award show in person. I also thoroughly enjoy fishing and soaking up some sunshine in the great outdoors. Nashville has numerous fishing holes on the Cumberland River along with Percy Priest Lake and a few other large bodies of water to offer an enjoyable fishing trip with friends. Nashville has so much to offer and is so appealing to all generations.

15. **Memphis: 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?**

    My only sustainable mode of travelling back home is to drive because the closest airport that connects to Memphis is over an hour away from my house. The drive from Memphis to my hometown of Isola, Mississippi, would be around two and a half hours. My car gets around 31 miles to the gallon so my average round trip expense of coming home would only be around $19 if the gas price was roughly $2 per gallon. That is not a bad trip at all. I could sustainably make that trip as often as needed without suffering too much of a travel expense.
15. Nashville: 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?

The most common and cheapest mode of traveling home is by car. Nashville is roughly 360 miles away from Isola, Mississippi, and is a five-and-a-half-hour-long drive without stops calculated into that trip time. The round-trip total expense would roughly be $47 if gas cost $2 per gallon at the time. This is a significant difference in expense when comparing Memphis to Nashville. The drive is not that bad at all because I could stay on the interstate for a majority of the trip as long as I did not catch traffic in Memphis. I have really never pondered the cost of this trip before, but gas certainly adds up fast. I love my family but knowing that I would spend $50 per trip home might hinder my frequency of trips in order to save money when necessary.

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

Table 1: Estimated Monthly Operating Budget in Memphis

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>$5,000</th>
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<tbody>
<tr>
<td>Less: Federal Taxes</td>
<td>(92)</td>
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<td>Less: FICA Tax</td>
<td>(32)</td>
</tr>
<tr>
<td>Less: Sales Tax</td>
<td>(130)</td>
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<td>Less: Rent and Utilities</td>
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<td>Less: Groceries</td>
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<td>Less: Gas</td>
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<tr>
<td>Less: Insurance Premium</td>
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</table>
16. Nashville: Based on your findings, develop a model monthly operating budget for each city for Year 2, assuming that with bonuses for being a high performer, your annual salary is $60,000.

Table 2: Estimated Monthly Operating Budget in Nashville

<table>
<thead>
<tr>
<th>Monthly Income</th>
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<tr>
<td>Less: Federal Taxes</td>
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<tr>
<td>Less: Entertainment/Miscellaneous Expenses</td>
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</tr>
<tr>
<td>Net Income</td>
<td>$1,406</td>
</tr>
</tbody>
</table>
17. Finally, based on your full analysis, determine which one is your preferred city and why?

After fully analyzing my research data, I have decided that I would prefer to start my career in Nashville, Tennessee. There are many pros and cons to both Memphis and Nashville. However, I see myself settling down and raising a family in Nashville much more so than in Memphis. The high crime rates in both cities made my tummy turn in knots upon realizing the odds of your being a victim of crime in the city. I feel that the education and healthcare are much better in Nashville than in Memphis; two very important factors when choosing what city is best suited for a family. I am very comfortable with the weather of both cities and feel that even though Nashville is further away from home, it isn’t far enough to keep me from going home to see my family when needed. The cost of living is clearly more expensive in Nashville; however, I did anticipate that difference because of the significant change in rent expense. I feel that as long as I manage my money wisely, I can certainly survive with that budget along with my life savings as back up too. Nashville seems to just offer so many more opportunities for involvement and recreation than Memphis. I will confess that this decision has not been easy because some of research about Memphis has significantly impressed me. This case study has given me a reality check and a clearer view upon making my decision; however, I have not made my final decision of what is my top city just yet.
Case Study Seven: Evaluating Current Financial Statement Concepts

Caitlyn Henry, deYampert Garner, II, Josh Pearson, & Matthew Stersic

University of Mississippi
Honors ACCY 420

Dr. Victoria Dickinson
September 30, 2020
Summary:

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

The second question was acutely focused on the evaluation of assets and their worth to a firm. “Value-in-exchange” and “value-in-use” were the two juxtaposed positions that we were tasked with considering. This question caused more debate than the initial question which came to a consensus decision fairly quickly. This debate was intellectually straining because we had to stretch our understandings and beliefs about how accounting currently operates under the FASB. Question two ended up in an even split of the vote to decide which of the two asset valuation methods more appropriately assessed a company’s assets which eventually creates equity. Our group finally decided on viewpoint one resulting in a more effective and legitimate accounting standard for the future.
The most challenging part of the assignment was producing accounting entries that would change either in amounts or accounts with this new understanding of asset evaluation. Our group worked cohesively to discuss several possible entries ranging from patents and their worth to inventory and changes in market value. This part of the assignment allowed us to see that with any viewpoint, vast amounts of research and experimenting would be necessary when presenting this method to the FASB because so many common practices would be changed. We did not previously understand the extreme complexity involved in changing an accounting standard because of all the unique scenarios that a business enters.
QUESTION 1:

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

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

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

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

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

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

**VIEWPOINT ONE PROS & CONS:**

**PROS:**

- Assets sometimes give better context than revenues.
- It is a better evaluation of a firm’s assets at a particular point in time.
- Non-profit companies can be more appropriately valued.
- It better evaluates growing companies that have not reached profitability for any number different reasons.
• It serves as a long-term viewpoint since assets and liabilities do not close out at the end of the year like revenues and expenses.

• This method puts heavy emphasis on the ratios that result from assets and liabilities, which can be helpful in comparing firms with their competitors.

CONS:

• It may be difficult to appropriately value all assets in a company when considering depreciation or intangible assets.

• Many fair value evaluations can lead to manipulation of profit and of a stock price.

• Properly valuing assets can be expensive and serves as a cost restraint.

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

VIEWPOINT TWO PROS & CONS:

PROS:

• Revenues are the best measure of a company’s success to an investor.

• Assets are used to create revenue; therefore, revenues are the main objective.

• It focuses on what value is created rather than what increases asset balance.

• This viewpoint measures the success of established companies better.

• It allows external users to sooner see established companies’ downfalls than by solely viewing a company’s asset evaluation.

• Viewpoint two is helpful for creditors and lenders since they are looking for low-risk opportunities.
CONS:

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

FINAL DECISION:

As a group, we decided that viewpoint two is the most appropriate view of financial statements. Since earnings are what keep companies as a going concern, they should be the primary focus of our financial reporting. This view helps both investors see current prospects and allows creditors/lenders to determine whether companies should be allowed more debt. Viewpoint two is also just as advantageous for internal users to judge their success as a company because many managers and subordinates receive bonuses or commission based off the revenue of their company. Because viewpoint focuses on the short-term goal of a company’s revenue for a single fiscal period, internal users as well as external users will both want the company’s decisions to be driven by the primary concept of revenue. We feel that revenue and expenses are a better evaluation of a company’s viability rather than reporting a firm’s assets and liabilities that should simply stay on a balance sheet.
QUESTION 2:

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

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

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

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

Josh: “No, I would argue that viewpoint one is more fair value based because it is concerned with what we could sell our assets at. This is intrinsically what it is worth.”
Caitlyn: “I think it is possible that viewpoint one accounts for both fair value and historical cost because it uses the specific dollar amount as its unit of measurement. Here is a crazy thought. What if we did not value our assets using the current US dollar and totally disregarded the monetary unit assumption? This would offer an entirely different perspective of viewpoint two. If we focus on evaluating assets based on their usage throughout the daily operating activities of a company, then we could value these assets a firm-specific worth that compares usage as the value point rather than cost. We could create a rating system of one through ten to assess how often an asset is used within a week, with ten being daily and one being not at all. We would then report the assets on the balance sheet in a graded amount based on how useful it is to our specific firm. For example, the extra conveyor belts that sit in the warehouse for most of the year would not be very valuable to a company because it is rarely used. In contrast, the equipment or raw materials that are used every day during the manufacturing cycle are extremely valuable to that particular firm despite what it originally cost the company. I feel that this a very feasible yet creative alternative to viewpoint two.”

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

VIEWPOINT ONE PROS & CONS:

PROS:

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

CONS:
• It is costly to measure things at fair value.
• It is also time-consuming to measure things at fair value.
• Value-in-exchange does not always accurately convey non-monetary unit value.
• Fair value has the ability to be manipulated very easily.
• Value-in-exchange requires constants adjustments based on market/interest rate changes.

VIEWPOINT TWO PROS AND CONS:

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

• It offers firms more flexibility and freedom when evaluating assets as they value it within their own operating activities.

CONS:

• Value-in-use can be manipulated to create better ratios for assets and increase equity.

• The SEC would need to develop a complete and thorough sub-entity that understands each industry as an expert would to confirm that firms are honestly valuing assets at their worth.

• It would require a years-long rollover from current accounting standards to make such a vast change to our current methods of evaluating assets.

• Value-in-use moves managerial accounting into regulation by the FASB.

• Value-in-use jeopardizes comparability with a firm’s competitors.

• A company would have to create an account to hold differences for liquidation of assets when they are sold at market value instead of firm value.

FINAL DECISION:

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

Value-in-use simply leaves too much power in the hands of the firm when preparing financial statements. It would be difficult for auditors to evaluate assets based on the firm’s interpretation of its specific value. Value-in-use has too much fluidity throughout the valuation process, making it very difficult to have regulations and standards for all companies to follow. We feel that it could put the integrity and accuracy of financial reporting as a whole at risk if this were to become the new standards.
ENTRIES FOR VIEWPOINT ONE THAT WOULD CHANGE:

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

12/31 BUILDING 1,000,000
   BUILDING APPRECIATION 1,000,000

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

12/31 RAW MATERIALS 50,000
   MARKETPLACE GAIN ON RAW MATERIALS 50,000

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

12/31 LOSS ON LAND HELD FOR SPECULATION 500,000
   LAND HELD FOR SPECULATION 500,000

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

12/31 LOSS ON EQUIPMENT VALUE 75,000
   EQUIPMENT 75,000

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

12/31 INVENTORY 125,000
   GAIN ON INVENTORY 125,000
This example shows how a company might account for a gain on a patent through the growth of the company or its increased value after comparing to other competitors in the marketplace.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Value</th>
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<tr>
<td>12/31</td>
<td>PATENT</td>
<td>3,000,000</td>
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<tr>
<td></td>
<td>GAIN ON PATENT</td>
<td>3,000,000</td>
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The following example shows the way a company might account for the loss of their trademark if they did not protect it or if they suffer a substantial market share loss for various reasons.

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Value</th>
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<tbody>
<tr>
<td>12/31</td>
<td>LOSS ON TRADEMARK</td>
<td>750,000</td>
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<tr>
<td></td>
<td>TRADEMARK</td>
<td>750,000</td>
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Case Study Eight: A Glimpse into the World of Tax

Caitlyn Henry
University of Mississippi
Honors Accy 420
Dr. Victoria Dickinson
October 7, 2020
Summary:

Upon extensive research on the adjustment corporate tax rates and the popular financial means of offshoring, I have decided that I agree with President Trump’s decision to lower corporate tax rates which will in turn stimulate an economic boom and encourage companies to relocate back to the United States. Before the outbreak of Coronavirus, the United States of America was thriving under the Tax Cuts and Jobs Act signed into order on December of 2017. Unemployment rates reached a record-breaking low of 3.7 percent, and over 500,000 new manufacturing jobs have stemmed from this bill (More Jobs). I also find it incredibly important to clarify that this tax cut for corporations is not only beneficial to the shareholders of the company but also to the labor who is seeing an increase in pay and benefits due to an increase of after-tax earnings. Because of the complexity of the corporate world, we cannot immediately recognize a finite monetary benefit from the Tax Cuts and Jobs Act. It is impossible to see an immediate increase in overall profitability in a matter of a month much less one year. Currently, the Tax Foundation Taxes and Growth model predicts 1.7 percent overall increase in gross domestic product, 1.5 percent higher wages, and an additional 339,000 jobs being created in the long-term due to TCJA (Hodge).

Another major benefit of reducing corporate income tax is the appeal of American companies relocating to the United States who have been operating internationally due to lower tax rates. America loses an estimated $90 billion a year income taxes because American corporations hold roughly $2.1 trillion offshore in tax havens in effort to achieve tax avoidance (Fact Sheet). World-dominating corporations such as Microsoft, Apple, Amazon, and Johnson and Johnson all use the strategy of offshoring to avoid paying such insurmountably high-income taxes by relocating in tax haven countries that shield them from all or nearly all income taxing.
The issue that lies within offshoring is that it isn’t necessarily illegal to re-appropriate your money and set up foreign locations in which you can claim residency. These powerhouse corporations are not being punished for their actions so there is absolutely no reason for them to stop pursuing this endless cycle until consequences take place. Even though there are downsides to lowering the corporate tax rate such as increasing the financial deficit, decreasing federal tax revenue, and corporations saving money, I would counter that they are not plausible and substantial enough reasonings in order to reverse the Tax Cuts and Jobs Act put into place by the Trump administration.

Thus, I thoroughly enjoyed researching this case and find *Taxodus* to be very intriguing and informative. I certainly have developed a deeper interest in the line of tax through this project. The concept of offshoring and tax evasion fascinated me the most as I have always had a strong interest in law as well. I have certainly entertained the idea of pursuing a career as a tax attorney although I am not feeling inclined to do so at this point. I certainly find the computation, research, precision, and legality of the service line of tax very appealing. After this case, I am still leaning towards audit, but I truthfully am more conflicted in my decision than before executing this case study. I have been pleasantly surprised in my peaked interest in tax while implementing my research.
I. 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).

After watching the documentary *Taxodus* about the egregious amount of tax avoidance through offshoring corporations and reviewing the data and predictions about the Tax Cuts and Jobs Act, I support President Trump’s decision to lower corporate tax rates to 21 percent because I believe that in the long run it will stimulate our economy and boost capitalization of investments, workers, and long-term assets. Before the global pandemic, our economy was flourishing under these new tax regulations and allowing for a remarkable increase of job openings in 2018, “with 7.3 million jobs—enough for every unemployed American to go to work” along with an unemployment rate of a “50-year low of 3.7 percent” (More Jobs). I also fell prey to the common misconception that only large corporations benefit from the tax cuts issued in 2017. However, a tax break is also incredibly beneficial to the blue-collar labor as well because lower taxes lead to a boost in investments and capital that further lead to higher productivity and higher wages (Hodge). Research from a Tax Foundation study notes that, “for every $1 increase in state and local corporate tax revenues, hourly wages can be expected to fall by roughly $2.50” (Does Lowering). Two months after the TCJA was passed, “over 370 companies cited the law when announcing employee wage increases, bonuses, and benefits such as better 401 (K)s and tuition assistance” (Does Lowering). Lowering corporate taxes seems to ultimately produce the greatest number of benefits for the common good.

Additionally, we must acknowledge that substantial change will not happen in a matter of a day. The direct effect of the corporate tax cut is a gradual process that by the end of ten years,
we could see a more precise impact of its issuance. Scott Hodge notes, “The Tax Foundation Taxes and Growth model estimates that the total effect of the new tax law will be a 1.7 percent larger economy, leading to 1.5 percent higher wages, a 4.8 percent larger capital stock, and 339,000 additional full-time equivalent jobs in the long run” (Hodge). The Tax Cuts and Jobs Act will only remain in full effect until 2022 at which point it will begin slowly phasing out until the year 2026; by that time, we hope to have reevaluated its success and possibly make its tax reform more permanent (Hodge). We observe a direct correlation between labor and tax reform as tax rates increase labor rates fall due to less incentive to work with overall income after tax being lowered, and this phenomenon, in turn, leads to a higher voluntary unemployment rate of individuals who have the capability to work but choose to not participate in the labor market.

Furthermore, lowering the federal corporate tax rate also encourages international corporations to move back to America and stimulate a boost in the manufacturing industry that has suffered immensely over the past several years because America’s previous corporate tax rate of 35 percent was the “world’s highest” and led to corporations relocating in countries with little to no corporate taxes or, “holding profits they’ve earned overseas in foreign banks to delay or avoid paying corporate income taxes when those profits are brought back into the U.S.” (Hoogstra, Dimkoff, & Sundaram). Erin Hoogstra argues that most corporations are “taxed twice: first at the corporate level…and second, at the individual level through personal income taxes on dividends paid to owners” and states that double taxation highly motivates owners to relocate outside of the United States (Hoogstra, Dimkoff, & Sundaram).

*Taxodus* introduces us to the concept of “offshoring” in which American based corporations set up accounts and locations in “safe-haven” countries and areas that have little to
no corporate tax requirements and pay royalties or dividends to owners located in other international locations before returning the income to the United States at a much lower amount to avoid high taxes. For example, Microsoft shelters $49.4 billion of its $58 billions of cash outside of the United States, and “Johnson and Johnson has all of its $24.5 billion offshore” (Hoogstra). In 2016, Johnson Controls, “a company with a market value of $23 billion,” relocated to Ireland who has a corporate tax rate of only 12 percent, and it’s estimated that this strategic decision will save $150 million each year (Does Lowering). The United States is missing out on taxing trillions of dollars each year because of this elaborate and incredibly complex system of tax avoidance that is technically legal within a certain realm. One study analyzing the “tax rates of 258 profitable Fortune 500 companies” found that between the years of 2008 and 2015 nearly 40 percent of these companies paid zero corporate income tax for one or more of those eight years (Does Lowering). It is incredibly frustrating to learn that so many booming companies have manipulated our tax laws in such a way that they are responsible for zero contributions to the federal tax collection. The argument made during Taxodus is that these corporations are greatly benefitting from the use of public infrastructure such as roads and bridges, so therefore it should be their civic duty to pay taxes rather than allowing the foot of the bill to fall primarily on the weight of lower and middle-class tax paying individuals.

Doesn’t the answer seem increasingly clear? Sadly, it is not that simple to just lower corporate taxes to keep corporations from offshoring in the future. If there are no federal regulations in place about the legality of offshoring, corporations will likely continue to move their profits out of America even if tax rates are lowered. The adverse effect is that many predict that the federal tax revenue will decrease immensely at an estimated total of $1.2 trillion in 10 years while others argue that “a tax cut would spur business growth with the resulting higher
income leading to increase corporate tax receipts” in an ideal world (Hoogstra). The power seems to ultimately be held in these large corporations’ hands as they can threaten to leave the country if tax rates are too high but are still not being dictated as to how they shelter funds outside of the United States.

Although I find it incredibly frustrating that these large corporations are turning such a large profit through the manipulation of our tax system, I have to take a step back and put myself in the board of directors’ shoes. If all of my competitors are moving their profits offshore in order to keep their stock price at a competitive rate, remain more liquid in order to make new investments, and sell products at a competitive level, wouldn’t I also want to hop on the bandwagon as long as it is all legally conducted? Absolutely, I would. In an ever-changing world full of innovation and trade secrets, corporations stand to do whatever it takes to remain competitive and profitable despite whatever ethics may be compromised. I must admit that Taxodus made me incredibly uncomfortable and conflicted when suggesting that the big four accounting firms for which I hope to soon work are not only allowing offshoring to take place but advising clients on how to do so.

On the contrary, I must examine the cons and malignant effects of lowering the corporate tax rate in America. Obviously, by decreasing the tax rate, it will, in turn, decrease the amount of federal tax revenue and further add to our country’s financial deficit. The Tax Cuts and Jobs Act has an estimated contribution of $13 trillion to the deficit in the next ten years, which is certainly not a good thing (Does Lowering). However, I would argue that no matter what administration is in charge or what tax regulations are in effect, the financial debt of this country will continue to grow further and further as the trend continues especially after this great economic recession.
Another downside to the TCJA is that in response, there was a $90 billion increase in cash held in reserve in the year of 2016; thus, one can argue that companies should have used this extra cash to “hire more employees and lower unemployment rates” (Does Lowering). I would counter that investing money and keeping it within the United States alone is a good thing. Furthermore, Amy Fontnelle notes, “Saving and investing revenues…to sustain the business through hard times, would be the smarter decision for many businesses but those saved and invested revenues incur more taxes” (Fontnelle). In an economic atmosphere in which tax rates are high, corporations are encouraged to spend as much of their earnings as possible so that they can avoid taxation, but this phenomenon leads to a “more unstable” business world if corporations do not retain earnings in expectation of uncontrollable, future economic turmoil (Fontnelle).

In conclusion, my research indicates that it is simply too early to note a major economic impact of the Tax Cuts and Jobs Acts that President Trump signed into order back in 2017. I suspect that it will be increasingly difficult to measure its effects due to the global economic plummet from COVID-19. However, I support the continuance of the corporate tax cut due to the insurmountable evidence that shows that it will stimulate economic growth and encourage more corporations to bring business back to the United States. The pros simply outweigh the cons. I suspect that tax breaks will be incredibly beneficial to myself as I enter the workforce in the coming years as well as positively impact my employer and its clients.

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

Researching this case and watching the documentary Taxodus have certainly increased my interest in pursuing a career in the tax service line of public accounting. I have always been
incredibly curious about how the process of offshoring works, and *Taxodus* did an incredible job of explaining how huge this underground money appropriation scheme is. On nearly every criminal television show I watch, there are always references to an offshore bank account in which the Internal Revenue Service has no idea of its existence. Even though I was aware that these activities were taking place, I had no idea that it was legal and that so many corporations that I buy products from are using offshore accounts at such extensive lengths. I was under the impression that offshore accounts were always illegal and criminal. I did not know that there is a difference between legal tax avoidance and illegal tax evasion. It is a very gray area in which there is no definite line drawn of where things become illegal from my understanding. I am very shocked to learn that over a trillion dollars of American-made money is being transferred to foreign entities in order to avoid corporate taxes.

As a person who stands for equality and helping the greater good, I take great interest in the laws of this great nation and in pursuing legal action against greedy individuals who seek to turn a profit through others’ suffering and shortfall. The legal side of the service line of tax is very appealing to me. However, I am aware that it is an ever-changing system that is incredibly complex and impossible to master every possible scenario that can incur. I do enjoy a challenge and am an incredibly frugal individual who is interested in saving every penny. I could see myself enjoying the act of researching a very unique situation in which I find a loophole or find a way to save a client money. Helping others is one of my greatest passions, and I can see that urge being satisfied through tax. However, I can also anticipate many people being incredibly angry when finding out what taxes they may owe to the federal government.
I really did enjoy researching this case and actually found it quite fascinating, but I am still unsure that tax is the appropriate route for me to take in my future career. I am not sure that I would enjoy the working lifestyle as much as audit where one is able to travel, meet clients, and explore outside the realm of filing taxes at the end of each year. I must say that this case further added to my confliction between tax and audit, rather than my confidence in pursuing the service line of audit.
Case Study Nine: The Life of Sam Ellis Thomas Jr.

Caitlyn Henry

University of Mississippi

Honors Accy 420

Dr. Victoria Dickinson

January 27, 2021
Summary:

I chose to interview my second cousin, Sam Ellis Thomas Junior, who currently resides in Oxford, Mississippi, and has powerfully impacted my life and time here at Ole Miss. Sam was born on December 1, 1959, in the small town of Leland, Mississippi. During his childhood, Sam remained very active in his community and school while being a Boy Scout and playing sports such as baseball, football, basketball, and tennis. He graduated as valedictorian of Leland High School and attended Delta State University on a tennis scholarship. He received his Bachelor of Business Administration in Accounting and later went on to earn his Master of Business Administration from Delta State University. He joined the ROTC program through Mississippi Valley State University and signed a four-year active-duty commitment with the United States Air Force upon graduation. Thomas married his high school sweetheart Terri Corder Thomas in 1980, and they moved to Tucson, Arizona, soon after their wedding.

During his time in the Air Force, Sam served as senior auditor for the Air Force Audit Agency and simultaneously began studying for the Certified Public Accountant Examination. After passing the CPA exam, Thomas had his first son Sam Ellis Thomas III and was then transferred to San Bernardino, California, to work at the Audit Agency’s headquarters during his last year of active duty. Thomas and his family then moved back to Leland, Mississippi, in 1985, where he started full-time as an Accounting Supervisor for Boeing Mississippi Inc. In 1987, Sam and Terri Thomas had a beautiful baby girl named Kristina Thomas. He discovered his passion for football officiating in the small town of Leland and carried forward with it for the next 29 years of his life. He then went on to work as a Senior Auditor for the Mississippi Office of the State Auditor for seven years while auditing public universities and community colleges. In 1986, Thomas also made the decision to join the Mississippi Air National Guard at the 186th Air
Refueling Wing in Meridian. The Thomas family decided to move to Hattiesburg in 1991, and Sam began auditing the University of Southern Mississippi among other colleges in the area through the State Auditor’s office.

While serving on the audit staff for the University of Southern Mississippi in Hattiesburg, Thomas was offered a full-time position as the Assistant Director of Financial Affairs in 1993 and went on to serve as the Bursar and Controller of Southern Miss. A former coworker unexpectedly contacted Sam about a job opening as Bursar at the University of Mississippi in 2004, and Sam readily accepted this role and was then promoted to Controller and Assistant Vice Chancellor from 2006 to 2013. He successfully managed the University’s multimillion dollar budget and learned how to manage people all while commuting back and forth between Oxford and Hattiesburg to see his family on the weekends. He simultaneously served as an adjunct professor of Accounting 201 and 202 at both Southern Miss and Ole Miss and taught classes at night after his day job. In 2010, Thomas retired as Colonel with over 29 years of service in the United States Air Force and the Mississippi Air National Guard. In 2012, Terri retired from the public school system and moved to Oxford to be with her husband Sam full time, and in 2013, Sam accepted a job offer as the financial manager of a high wealth family’s affairs in Oxford, Mississippi, where he still works to this day.

I have learned so many valuable lessons about the financial, personal, and professional segments of my life from Mr. Sam Thomas over the years. I feel incredibly blessed to have someone in my family who has lived life to the fullest and has so much first-hand experience with the world of accounting. Sam has been the person I often turn to when I have needed advice over the past four years. He encouraged me to go to Ole Miss and major in accounting and welcomed me into his home during my summer orientation. He has introduced me to several
staff members at the Patterson School of Accountancy and served as a listening ear when I am conflicted or confused. He has helped me navigate through my financial independence at an early age and given advice when filing my taxes for the first time. He has certainly watched me transition through every stage of life, and he truly serves as one of my role models in life.

I hope to be even half as successful as he has been over the course of his life. I think there is so much I can stand to learn from a man who prioritizes God, family, America, and a career. After recording the duration of his life, I think the single biggest takeaway that I can apply to my life is to never be afraid to take risks and explore new opportunities. In each of his new jobs, they all seemed to connect back to one another because of the personal connections Sam made with his constituents so early on. I aspire to have a family one day as well and raise them in a similar manner to Sam and Terri Thomas who both worked full-time jobs but always put their family first and made many sacrifices for the benefit of their children. I have learned just how far a tenacious work ethic and passion to serve can take one in life, and I can confidently say that Sam Thomas has spent the duration of his life putting others first and making a positive impact on those around him.
1. Tell me about your life growing up before you started college or your career.

Sam Ellis Thomas Jr. was born on December 1, 1959, in the small town of Leland, Mississippi. His father Sam Thomas was an avid man in the Mississippi Delta town serving as the mayor of Leland for many years and helped run numerous businesses throughout the town such as a gas station, hardware store, and the Leland Video Corporation. His mother Shirley Thomas taught third grade at Leland Elementary School for the entirety of her career. Sam is the oldest of three boys in the Thomas family.

Sam attended school in the Leland public school district in his hometown and was always staying very active even as a young boy. He was a part of his local Boy Scouts troop, and he enjoyed going to the city park with his brothers and friends every day after school to play shuffleboard, checkers, tetherball, or horseshoes. He loved afternoons in the summer when his mom would take him and his brothers to the swimming pool behind Lillo’s, a family-owned Italian restaurant in Leland. Sam recalls his sixth-grade teacher giving all the kids in his class an ultimatum—“either go to band practice every afternoon or sit with her for the duration of study hall.” Sam goes on to reveal that he obviously chose band and learned how to play the trumpet for a year and chuckles noting that his teacher was married to the band director and was sneakily recruiting members.

Sam later got involved with the varsity sports of football, basketball, baseball, and tennis. He explains, “Back in the day, we didn’t take lessons for sports so if we wanted to do it, we just did it.” He decided to teach himself how to play tennis since it was a very big sport in the Thomas family; two of his uncles played tennis in college. Sam went on to follow in their footsteps and play tennis on the collegiate level as well. Sam Thomas graduated as valedictorian of his class at Leland High School.
2. What were your college years like?

Sam Thomas stayed close to home and attended Delta State University in Cleveland, Mississippi, on a tennis scholarship in 1977. He graduated with a Bachelor of Business Administration in Accounting in 1981. He spent the duration of his time in college playing tennis, hitting the books, and staying active in the ROTC program of a neighboring university. Two years into college, Sam had an encounter that would change the course of his life entirely. Sam remembers, “As I was walking back from class one afternoon and cut through the Union to get back to my dorm, I had a couple of gentlemen stop me. They were catching people as they walked by and were recruiting for the Air Force ROTC program from Mississippi Valley State University. I have no idea why I stopped to talk to them, but I did. They convinced me to give it a try and go to a summer camp in California for six weeks during the summer to see what I thought.” Sam continues, “I got paid $400, which was a lot of money back then, and I had always dreamed of going out West to see life outside of Mississippi, so I found the offer very appealing.”

Sam traveled to California during the summer of 1979, completed the boot camp, and decided to officially join the ROTC immediately following. Thomas, along with five or six other men, would make the hour-long trip down to Itta Bena every Tuesday for training and to take an Aerospace Studies class with the rest of their regiment. Sam comments, “I knew I was committing myself to four years of active duty as soon as I graduated.” Little did he know, he would, in fact, be commissioned to Second Lieutenant of the Air Force Detachment on graduation morning. Thomas was assigned to Tucson, Arizona, following his graduation in May but was granted a seven-month delayed entry. During Thomas’s Christmas break of senior year, he married his high school sweetheart Terri Corder Thomas on December 28, 1980. Terri was
from Southeast Arkansas and moved to Leland, Mississippi, around 1975 and joined Sam’s tenth grade class, just as luck would have it.

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

   Sam says that he did not know what he wanted to in college. He took a bookkeeping class during his senior year and found it intriguing to learn how to balance accounts and prepare fiscal reports. He credits his career in accounting to beginning with that bookkeeping class in high school. Because of that class, he chose to major in accounting at Delta State and never looked back.

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

   Sam and Terri Thomas moved to Tucson, Arizona, in January of 1982. Sam recounts, “I could have been anything from a missile officer to a flight commander, but they assigned me to the Air Force Audit Agency because of my accounting degree. The Air Force Audit Agency is comprised of 75 percent civilian and 25 percent military, and its main duty was auditing operations, compliance, and performance as the internal audit division for the Air Force.” Sam says he feels very fortunate to have been able to use his degree in the military and gain invaluable experience. During his time in the audit agency, his commanders encouraged him to go take the Uniform Certified Public Accountant Examination because they saw his potential.

   Since the military paid for 75 percent, Sam agreed and signed up for the Becker prep courses that he took for eight hours every Saturday from June until November. Sam remembers it as being “totally horrible.” He states, “Imagine having no weekends, working all through the week, and driving 30 minutes across town every Saturday to sit through a course taught using
transparencies and an overhead.” Thomas went on to take the two-and-a-half-day test three times before passing it and becoming board certified in Arizona. Thomas stayed a total of three years in Tucson, and while residing in Arizona, Sam and Terri had their first son Sam Ellis Thomas III in June of 1984. Sam noted that after his son was born, he decided that he did not want to make the military his life-long career. During his last year of his four-year commitment, Sam and his family were transferred to Norton Air Force Base in San Bernardino, California, where the Air Force Audit Agency was headquartered.

After fulfilling his last year, the Thomas family moved back to Leland, Mississippi; and Sam began work as an accounting supervisor at Boeing Mississippi Inc. located in Greenville, Mississippi. Thomas states that his duties included “payroll, financial reporting, and cost accounting with operations involving the modification and maintenance of aircrafts for the Department of Defense and private companies.” After a year at Boeing, Thomas began working with the Mississippi Office of the State Auditor as a Senior Auditor in August of 1986. During his seven years in the State Auditor’s Office, Thomas conducted financial, compliance, and operational audits of the universities and community colleges in his area of the state.

Simultaneously in the year of 1986, Thomas decided that he wanted to join the Mississippi Air National Guard, discovered an opening at the 186th Air Refueling Wing in Meridian, drove three hours southeast to check it out, and ended up swearing in before leaving the base that same day. Thomas proudly states, “In hindsight, it was the best decision I ever made.” Thomas made the three-hour drive for one weekend every month and served in numerous roles such as Director of Support, Education and Training Staff Officer, Budget Officer, overseer of Civil Engineering, and Logistic Readiness and Communications Squadrons. During this fruitful stage of life, Sam
and Terri had their second child Kristina in August of 1987, and Sam got his Master of Business Administration from Delta State in 1989.

In 1991, the Thomas family decided to leave the Mississippi Delta and move to Hattiesburg so that Terri could get her master’s degree in Speech-Language Pathology from the University of Southern Mississippi. Sam was able to continue his work in the State Auditor’s Office as he began auditing Southern Miss and other colleges in the area. While auditing Southern Miss, Sam was able to interact with university employees and get to know the client very well. A story as old as time in the accounting world, Sam experienced firsthand as his auditing client offered him a full-time position as Assistant Director of Financial Affairs in 1993, a role which he readily accepted. After six months serving as the Assistant Director of Financial Affairs, Thomas was promoted to Bursar where he “oversaw the Business Office’s cashier operations, accounts receivable, Perkins Loans, and collection management. After seven years of service as the university’s Bursar, Sam then advanced to the position of Controller, where he “directed all financial operations for the university, oversaw its annual multi-million-dollar budget, and led a team of 45 people responsible for the university’s preparation of financial statements, bursar’s office, payroll, property accounting, vending, and central ticket office.” Sam also discovered a passion for teaching and began teaching part-time the introductory classes of accounting principles one and two for approximately four years at Southern Miss.

Moreover, Thomas received a phone call from a former coworker in the State Auditor’s office who offered him a position as the Bursar at the University of Mississippi in February of 2004, and after prayerful consideration, Sam accepted this new position in Oxford even though his daughter Kristina was a junior at Oak Grove High School and his wife Terri was working in the school district’s special education department. He made the difficult decision to commit to
living in Oxford Monday through Friday and driving home to Hattiesburg on the weekends in order to avoid uprooting their lives. Thomas continued this commute over the course of the next eight years before he and Terri finally moved to Oxford. After serving as the Bursar of Ole Miss for two years, Thomas was promoted to Controller and Assistant Vice Chancellor of the University in 2006 while also balancing his role as an adjunct instructor of Accounting 201 and 202 after business hours. During his time as Controller at Ole Miss, he “oversaw the financial operations of this multi-campus university with over 18,500 students and an approximate $560 million operating budget and provided leadership for a 50-person financial team responsible for general accounting, contracts and grants accounting, financial statement and budget preparation, procurement, accounts payable, and travel.” Sam also supervised all construction projects on campus, issued bonds, and worked directly with the Institutions of Higher Learning and the State Auditor’s Office.

In July of 2010, Sam Thomas retired as Colonel and the Commander of 186th Mission Support Group of the Mississippi Air National Guard after 29 years of service to our great nation. In 2012, Terri retired from the school system and moved to Oxford to be with Sam. In the following year, a former coworker at Ole Miss approached Thomas about managing an office of a high wealth family in Oxford, and Thomas decided to accept that position and retired from the State of Mississippi in October of 2013 and is still working for the family today where he oversees estate planning, investments, taxes, and bills.

During Thomas’s first job working as a senior auditor in the United States Air Force Audit Agency, Thomas says that he learned how to work on his own, ensure readiness of aircrafts, and how to treat people with respect. Sam recalls “feeling very intimidated talking to maintenance men of thirty years of experience and learning how to delicately correct them on
operational procedures.” Sam stressed, “You cannot act like a hotshot, or they will bury you. As an auditor, you must treat all people with respect and not a gotcha mindset because people do not forget how you treat them.” As a senior auditor in the office of the State Auditor, Sam learned how to audit public universities and junior colleges and how to adjust to technology. Sam recalls, “I got my first portable computer that was at least the size of a suitcase that used floppy disks when I was first introduced to technology.”

When Thomas began his position as Assistant Director of Financial Affairs at Southern Miss, he notes that he went from working by himself to the supervisor of 25 people and learned to appreciate the joys of working alone. He had never before been in a management position in which he had to handle work and personal-related issues. He began keeping a box of tissues on his desk for colleagues at all times. Sam had to not only learn all the protocols and tasks of Bursar and Controller but also learn how to manage people. After moving to Ole Miss, Sam recounts that he encountered the same types of situations; however, he felt much more equipped on how to handle these encounters with his staff. He recalls one Friday afternoon at Ole Miss while serving as the Bursar, registering students for classes, and having the system crash. Sam remembers standing up on a table in the Union, getting everyone’s attention, and witnessing the entire room go to silence. Sam says, “I told everyone we were having computer problems and couldn’t process anything else today while all eyes were on me, and nothing I had previously done could have prepared me for that moment.”

In his current job, Sam says that he has had to learn how to totally reprogram his brain when it comes to personal funds because there aren’t nearly as many strict standards and regulations to follow. He has learned how to maximize and maintain a balanced portfolio for his clients and work closely with some higher risk investments. After 35 years of serving as a
Certified Public Accountant, Sam officially entered retirement status on his CPA license and continues to work in his small office on the infamous Oxford Square.

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

Sam and Terri Thomas have two lovely and successful children and are the proud grandparents of three boys and one girl. Sam has spent the entirety of his life devoted to his family, the Lord, his country, and his work. Life outside of work has been spent raising his two kids and coaching baseball, basketball, and soccer teams for his children. Sam also spent his spare time serving as a high school football official for 29 years, a passion that he picked up and only recently retired about four years ago. He also considers his time as an adjunct professor at the University of Southern Mississippi and the University of Mississippi to have been very rewarding while interacting with students and applying real life examples to his lectures. Sam explains that he can’t begin to understand how he managed to balance a full-time job at the University, make trips to his base in Meridian at least once a month while serving in the National Guard, teach accounting two nights a week, and officiate football games on Thursday and Friday nights.

6. What has been the best vacation that you have ever taken?

Sam explains that the best vacation he has ever taken “wasn’t really a vacation but just worked out to be while in the National Guard.” Sam’s unit in the Mississippi Air National Guard was deployed to Tokyo, Japan, for three weeks. He was able to take off work from the State Auditor’s office and travel to Tokyo where he worked during the day and was then able to explore the city at night over the course of a four-day weekend with his friends.
7. If you could change two things about your life, what would they be?

After contemplating this difficult question, Sam conveyed, “I wish we would have moved to Oxford from the start instead of moving to Hattiesburg just because Oxford is such a wonderful place to raise a family and because we ended up here anyway. Looking back, I also wish that I had explored the opportunities I had to officiate at a collegiate level. I decided against it because it would interfere with my day job, but I wish I had at least looked into it a little more.”

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 peers?

Sam explains, “I wish that I had known that being a CPA involves so much more than just balancing accounts and debits and credits. You have to deal with so many different people and personalities and learn how to handle some very sticky situations. You can be the greatest accountant in the world, but you have to know how to handle difficult situations in order to be successful in your overall job.”

Sam’s advice to me and my peers is to be flexible in your career. He explains, “There may come a time when you are just getting started in a job or that you really like, that you may be asked to take on a new role that you aren’t necessarily comfortable with, but I encourage you to take that risk because you never know what it could turn into down the road and benefit you long term. Never put yourself in a box and always be willing to expand your horizons.”

9. What are you most proud of?

Sam confidently declares, “I am most proud of my family and how they turned out. All of my children are employed with professional jobs and have started families of their own now. They all live in Hattiesburg now with our four beautiful grandchildren.”
10. What do you think will be the biggest challenge for your generation?

Sam feels that technology has been the biggest challenge for his generation to evolve with and learn about. He explains that he has “learned to embrace it but has seen firsthand how it can leave you in the dust if you don’t stay up to date.” He feels that technology can “keep his generation’s mind engaged as they get older and potentially help fight chronic, debilitating diseases that deteriorate one’s cognitive well-being.”

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

Sam worries about what the world will look like for my generation as well as his grandchildren’s generation in the years that lie ahead. He recognizes the world’s current issues involving violence and advancing narcotics and feels concerned about how these younger generations will be able to “cope with it while being young and so impressionable and vulnerable to peer pressure.”
Case Study Ten: The Financial Crisis Analysis

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Summary:

For our final case study of the year, we were tasked with examining the Financial Crisis of 2008 through the documentary *Inside Job*, two YouTube videos made by popular scholars, and two articles published to survey the causes of the crisis. After taking notes on each of the sources, I then had to ask myself how these resources now affected my view of institutions, my role in society, and the parallels of our current political state with the 2008 political landscape. I must admit that I knew very little about the Financial Crisis of 2008 because I was so young at the time. Looking back now, I wish I had researched it more prior to this week’s case study. I feel entirely ignorant about such an impactful time in our nation’s history. It was the greatest recession in our country since the Great Depression, and I lived through it without giving it a second thought. I had no idea what a strong hold investment banks had on our national economy at the time and did not realize that the financial industry is what caused the housing market to crash as an effect of the mass explosion of lending without regards for defaults.

Furthermore, my trust in the current government and financial institutions has been faltered due to the obscene amounts of bribery, collusion, and immoral activity that has taken place over the past twenty years. I have begun to rethink my earlier interest in banking and financial services due to its convoluted past and history of unethical executives within the industry. I prioritize integrity and fairness in not only my personal life but professional life as well. Although it seems intimidating to enter a field in which corruption takes place more often than I would like to admit, I may also see it as a challenge to rectify the system and strive for reform in a positive manner moving forward. From writing this case, I have learned to remain inquisitive in all areas of my life and to question the status quo or common beliefs of a corporation because there is always room for improvement. Although change is not easy, we
must ultimately seek operations that remain efficient and just. I have also observed that while there are some parallels between today’s political agenda and the past administration’s actions, we are at a crossroads in which we can decide whether we will fall deeper into an economic recession or rise from the pandemic’s ashes to flourish and encourage American growth in industry.

1. How did these materials affect your trust in institutions and the government?

After viewing each of the videos, articles, and documentary, I have certainly changed my outlook upon both the United States government as a whole as well as the financial services industry. Having only been eight years old at the time of the Financial Crisis of 2008, I genuinely have been unaware of what tremendous effects this crash had on the world around me. Moving forward, I do not want to remain ignorant on such historic moments in my life that will continue to shape our country’s future. Although I am far from an individual who has total faith in the system, I am even more aware of just how deep “peddling” or bribery runs at the root of our democracy and financial institutions (Ferguson). While I have quickly learned just how extensive and lucrative the act of lobbying in our country is, I did not realize how much it, in turn, affects the ethics and legality of every decision made by lawmakers. The documentary Inside Job notes that $5 billion have been spent from 1998 to 2008 on the financial industry’s lobbying efforts alone (Ferguson). These sources have called into question not only our lawmakers but our bankers, economists, professors, brokers, and retirement overseers. After much deliberation, I am feeling more cautious and anxious than ever before in light of our most recent economic crisis due to COVID-19.

After reviewing the evidence and contemplating the different viewpoints presented to me, I have come to the conclusion that the devastating global economic crisis could have been
prevented. In fact, numerous public officials and investment banking executives had several opportunities to recognize the grave danger our economy was facing and pivot in an alternative direction upon making substantial changes. Thomas Sowell begs the question, “Are markets imperfect because they are rooted in human experience and we live in a fallen world or because the government messed things up?” (Sowell). The overwhelming response to this question from all sources is “politicians began interfering” and that the United States government disrupted the natural rise and fall of the market (Sowell). Inside Job details the economic crisis of 2008 as a global tragedy costing “tens of millions of people to lose their savings, jobs, and homes” (Ferguson). One “out of control industry” created a global recession in which “30 million Americans were unemployed” and where national debt doubled, and as a result, “50 million people went below the poverty line across the globe” (Ferguson). Inside Job credits the Reagan Administration as the start of a “30-year period of deregulation” where “Wall Street and the President do see eye to eye” (Ferguson). When the leader of the free world and Wall Street began prioritizing the same objectives, it became a dangerous game.

When banking sharks such as Donald Regan and Alan Greenspan began entering the political sphere, the best interest of the American people and their tax money went out the window (Ferguson). President Clinton and President Bush both appointed Greenspan as the “Chairman of the Federal Reserve” even though Greenspan had ulterior motives and strongly opposed regulation of the financial services sector (Ferguson). In 1998, Citigroup one of the “world’s largest financial services companies in the world violated the “Glass-Steagall Act that prevented banks with consumer deposits from engaging in investment banking activities” (Ferguson). Because of the large stronghold of financial services on the current administration, the “Gramm-Leach-Bliley Act overturned Glass-Steagall and cleared the way for future
occurrences” (Ferguson). It seems that when greedy, self-seeking individuals receive power, they
then seek wealth and attention while leaving behind an array of mass destruction. Sadly, most of
the executives of the major investment banks never faced criminal charges and “walked away
with their fortunes intact” even after their companies filed bankruptcy (Ferguson). These
investment groups seemed untouchable, as they were let off the hook for funneling money from
the Mexican Cartel, cooking their books by overstating earnings, and even helping Enron
conceal its internal fraud scandal before the Crash (Ferguson). It seems that regulations and
demonstrations of prosecution were the only methods deemed capable of slowing the economic
devastation that incurred.

The financial tools of derivatives and securitization “created weapons of mass
destruction” and repositioned the risk taken when issuing loans (Ferguson). Lenders began
issuing astronomical amounts of loans with no fear of default because “investment banks bought
mortgages from lenders to create collateralized debt obligations or CDOs that were then sold
back to investors” (Ferguson). These CDOs became “ticking time bombs” since they were filled
with many risky or “subprime” loans, yet most of the CDOs were receiving Triple-A ratings
from rating agencies just days before defaults, which indicated very little to no risk, similar to
government securities (Ferguson). These Triple-A ratings led unsuspecting investors such as the
“Public Employees’ Retirement System of Mississippi” and other state pension programs to lose
millions of dollars on their investments in CDOs when they defaulted (Ferguson). Goldman
Sachs, one of the most lucrative investment banks, sold “at least $3.1 billion of toxic CDOs in
the first half of 2006” alone and then began “betting against the CDOs that it did not own and
getting paid when the CDOs defaulted (Ferguson). Matt Taibbi notes, “Banks like Goldman
knew full well that many of the public offerings they were touting would never make a dime”
Credit Default Swaps or CDSs also became a very popular commodity being sold by AIG as an “insurance policy to promise to pay investors if a loan defaults and will assume their losses” (Ferguson). By the beginning of 2008, credit default swaps outstanding had reached an astounding $62 trillion and relied heavily upon Li’s formula to simplify the risk and inflate the price of CDOs before their self-destruction (Salmon). In the words of Martin Wolf, the financial dealings of the time were just “a great big global Ponzi scheme” where no one’s word or expertise could be fully trusted (Ferguson).

When the market crashed in September of 2008, the Federal Reserve Board had been warned numerous times by the Federal Bureau of Investigation, International Monetary Fund, and other individuals of the “epidemic mortgage fraud” and had taken no preventative action (Ferguson). In March of 2008, Bear Stearns, an investment bank, filed bankruptcy and was then backed by $30 billion in “emergency guarantees from the Federal Reserve” (Ferguson). When Lehman Brothers collapsed in September of 2008 with over $30 billion in losses, Henry Paulson, United States Secretary of the Treasury and former CEO of Goldman Sachs, decided that it was necessary for Lehman Brothers to file bankruptcy “to calm the markets” and sent the world into turmoil (Ferguson). AIG owed $13 billion to defaulted swaps, and the government chose to bail the insurance group out using $150 billion in taxpayers’ money, while forcing AIG to “surrender its right to sue investment banks for fraud” (Ferguson). The egregious amount of taxpayers’ money used to bail out these money-hungry investment banks is sickening and makes me even more disappointed in the corrupt financial decisions of our country.

Thus, the mass display of corruption and bribery within the United States government and financial institutions serves as a reminder to remain grounded in my knowledge and not place all of my eggs in one basket. One should never be too reliant or trusting of a system that
has a history of failing. The harsh reality is that “financial engineers are being paid up to 100 times more than real engineers who build bridges, when financial engineers build dreams that often turn out to be nightmares” (Ferguson). The system will not transform and create different results without a push for reform to curve the appetite of relentless Wall Streeters.

2. How did the materials watched/read change your beliefs about your role in society, both professionally and personally?

After watching the videos and reading these articles, my view of my role in society has shifted. From a professional standpoint, I have been contemplating the financial services industry as a potential audit emphasis when completing my internship because of my previous exposure with the banking industry. I have worked as a bank teller for the past three years at Planters Bank and Trust Company, a small, locally owned bank in North Mississippi with 20 locations throughout the state. I had the privilege of working in Indianola, where the bank is headquartered, so I have had a wide variety of conversations with the leaders of the company such as the CEO and board of directors about how the company operates and what their goals are for the future. Working for a smaller bank in Mississippi with roughly $1 million in capital is vastly different than working for multinational conglomerates with the resources to control our national economy and laws. I am starting to rethink whether the financial service sector is an industry in which I want to be deeply tethered to after seeing its aftermath of destruction in 2008.

From a professional standpoint, I now feel that I have an obligation to pursue justice, fairness, and truth above all else in my career. If I have the power to stop an economic crisis or prevent a company from filing bankruptcy, I must do everything in my power to achieve economic prosperity for the greater good of our nation. As an auditor, I must challenge myself to look beyond the surface level and routine audits to make sure that no stone is left unturned, and
that fraud is not being overlooked. From a personal perspective, I feel very small and slightly powerless after meditating over all of this new information. It’s frightening to think that our elected political leaders have the authority to run this country right into the ground if given a convoluted, lucrative motive. For that reason, I feel even more passionate about exercising my right to vote, staying informed on the current issues in our world, and having educational conversations with those around me even if they have opposing views from myself.

3. Are there any parallels between the political landscape that brought on the financial crisis and our current political environment? What can be learned from the crisis to help us avert future crises, financial or otherwise?

One could argue that our current political landscape does have parallels with the previous political environment during the financial crisis. One of the main issues involves appointing people with previous ties to the financial industry to high offices in our great nation. President Trump appointed Steven Mnuchin as United States Security of Treasury during his four years in office. Steven Mnuchin actually was another “Wall Street Insider’ having spent more than 20 years at Goldman Sachs “helping the bank peddle the same kind of mortgage products that blew up the economy and sucked down billions in taxpayer bailout money” (Lopez). It seems that the Trump Administration was going down the same rabbit hole as the Bush Administration back in 2008 with Henry Paulson. When one has conflicts of interest, an individual tends to be more susceptible to being influenced through the use of manipulation, ulterior motives, and kickbacks. Jay Cost explains that crony capitalism is “immoral and unfair spending of public funding” and warns that “an entire industry can become a client of the government” if the government does not have limits to discourage law-breaking (Prager). Our political climate and economic standpoint
are incredibly vulnerable at this point in time due to the high rise of civil unrest, blatant political party tensions, financial uncertainty, and a global health crisis.

In order to avoid a future crisis, it is important for our country’s leaders to listen to experts in their fields when they warn us of potential turmoil. The economic crisis of 2008 could have been avoided if our leaders acknowledged our instability and worked to provide guidelines to prevent financial powers from being abused. I also take away the lesson of remaining critical of what may be seen as commonly accepted truths and continuing to do my own research before taking an expert’s advice upon a subject, especially when it comes to investing my life savings. Often if something seems too good to be true, it is because it really is. There is no such thing as a free lunch. Even though the government is currently “bailing out” all Americans and businesses after the financial hardships endured by COVID-19, it is important to recognize that there will be financial repercussions after handing out trillions of dollars to citizens such as inflation and rises in unemployment. I fear that our country is currently walking on a very narrow tight rope in which one faulty step could create the downfall and recession of our entire economy once again. History has a tendency to repeat itself, and I find it of the utmost importance to learn from our past mistakes to avoid repeating those errors in the future.
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Honor Code:

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

Signed

[Signature]

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