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Accounting Case Studies

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By

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Abstract

Accounting Case Studies is a compilation of independent case studies performed during the Honors Accounting 420 class. The case studies consisted of multiple performed individually, and a case competition with an assigned group. The case studies I performed individually consist of an assessment between the two cities I was interested in beginning my career in, a case study about the presidential debate in 2020, an evaluation of the optimal corporate tax, a mentorship interview, and an analysis of the 2008 housing crisis in the United States. My group for the case study included my fellow classmates; Francena Sekul, Caitlyn Henry, Anna Brock, and Adam Lalejini. Our case consisted of evaluating the different aspects of work an accountant may do for a public company and offering our own suggestions to the company we chose, The Coca-Cola Company.

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Case Study I: A Tale of Two Cities

A Tale of Two Cities is a case study assessing and comparing the pros and cons of my two most preferred cities to begin my career in; Houston, Texas and Nashville, Tennessee. The requirements for this case study were to identify my top two cities and answer a series of seventeen questions about each city to provide a full analysis that I would eventually use to determine my most desired location. To complete this case study, I began by researching Houston, Texas. Using the internet and any prior knowledge I already had, I was able to answer the series of questions and offer a complete analysis of my findings. Then, I used the same approach for researching Nashville, Tennessee. Having no prior knowledge of Nashville, I was able to complete an analysis of the city through extensive research on the internet.

Doing an analysis for each city I was able to learn about what it would be like to live in each city and the pros and cons of the two cities. After doing my analysis of Houston, I was able to learn a lot more about the city I grew up in. I already had a good amount of prior knowledge that I was able to use in my full analysis of the city, however, doing this case study gave myself a better idea of what working in Houston and being on my own in the big city would be like. I researched about the taxes, school districts, neighborhoods and other aspects of Houston that someone growing up there never really had to worry about. From my research of Nashville, I was able to learn more about a city where I have also been interested in beginning my career. I was able to learn about the city and the opportunities the city provides for entertainment and career purposes, something I previously was unfamiliar with, and give myself an idea of what life as a young adult in the city is like. After completing my analysis and creating monthly operating budgets for each city, I was able to compare the pros and cons of each city and come to the conclusion of my preferred city.

<u>Houston, Texas</u>

<u>Question #1: What is the population?</u>

As of 2020, the city of Houston has a population of 2.34 million residents, making it the largest city in Texas and the fourth largest city in the United States. The population of Houston's metropolitan area, as of 2020, is 7.2 million residents. From an outside perspective, a population of seven million people sounds daunting; however, I have lived in Houston my entire life and the big city is really all I have ever known, and I would be happy to begin my career in a large city.

<u>Question #2: Describe the climate and seasonal fluctuations. Are you accustomed to living in this weather? If not, describe some of the challenges from this climate.</u>

Houston has a very hot and humid climate throughout most of the year. Since I have lived in Houston my entire life, though, I have become very accustomed to the heat and humidity. In the Summer, temperatures hover in the mid to high 90 degrees and occasionally exceed 100 degrees. During the Fall and Spring, Houston is much more pleasant which allows for plenty of outdoor activities. The Winters in Houston are cool, but the temperatures rarely get below freezing. Occasionally, Houston will experience some ice and snow in the Winter. The constant in Houston's climate is the year-round humidity. Houston is about an hour away from the Gulf of Mexico and experiences a lot of moisture and rain that is brought in from the Gulf and its proximity to the water causes the climate to stay very humid throughout the entire year. Every few years, the city is struck by a tropical storm or hurricane.

<u>Question #3: Describe the city's topography, scenery, and other geographic or geological features of the area in which the city is located. Include pictures where appropriate.</u>

Houston has a very flat terrain. The city sits only about fifty feet above sea level because of its proximity to the Gulf of Mexico. The scenery in the inner parts of Houston mainly consists of large buildings and skyscrapers that form a beautiful skyline. If you were to move more to the outskirts of the city to places such as The Woodlands or Sugar Land, you will begin to see more spread out areas consisting of trees, flatlands, and other smaller buildings. Also, there are two primary lakes in the Houston area, Lake Conroe and Lake Houston, both of which are located north of the city. Lastly, Houston has four bayous that run through the city, Buffalo Bayou, Brays Bayou, White Oak Bayou, and Sims Bayou. These bayous are the basis for Houston’s nickname, the “Bayou City” and can be the source of much flooding during stormy weather.

Figure 1: Brays Bayou in Houston, Tx

Figure 2: Lake Conroe

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

Houston, Texas has no state or local personal income taxes, which is great because that means that the only taxes that I will be paying on my personal income are the federal rates and the FICA rates. Based on a starting salary of $55,000, my marginal federal tax rate would be 22 percent and my effective federal tax rate would be 9.59 percent. FICA rates are 7.65 percent, so my total tax rate would be 17.24 percent and I would be left $45,518 after personal income taxes.

Sales tax in Houston is 8.25% and the average effective property tax rate is 1.89%. Property tax is not included in my overall tax rate because I will be looking to rent but it will be an indirect component of my rental payment. Lastly, the Texas gasoline tax rate is about 20 cents per gallon with the federal government also imposing a tax rate of 18.4 cents per gallon. So, in total, using the tax calculator on the website *smartasset.com* to estimate the amounts being paid in sales tax per month, I will be paying about 20 percent of my income in taxes which would be about $10,954 of my starting salary of $55,000. The idea of not having to pay state or local income tax is always great, but Texas also has one of the highest property tax rates in the United States. The high property tax rates in Texas are really only a problem for me when I start looking to buy property. However, as I will be starting work right out of college, I will likely only be looking to rent for a few years and the high property tax ultimately will not really affect my decision. Paying only about 30% of my income in taxes is a real draw because I know that there are other places that I could choose to live where I would be paying a higher percentage of my income in taxes.

<u>Question 5: What transportation hubs are in the city?</u>

Houston has an abundance of transportation options in the city. For long distance travel, Houston is home to two major airports, William P. Hobby Airport and George Bush Intercontinental Airport. George Bush Intercontinental Airport is currently the eleventh busiest airport in the United States and William P. Hobby Airport is mainly for short to medium distance flights but continues to expand. Houston also has the METRO bus and METRO rail for public transportation in the city. The METRO rail in Houston runs from Downtown Houston to the Medical Center and the METRO bus has stops all around the city. Because of the size of the city of Houston, the abundance of public transportation hubs gives me confidence in getting to locations around the city with ease and having two major airports in the city is necessary in my field of work. Additionally, the city has an extensive highway and toll road system that also helps in commuting by car.

Question 6: What are the city's most prevalent industries? What are this city's five largest companies?

Houston over the years has been known as an energy city, specifically the oil and gas industry. Houston is considered to be the oil and gas capital of the world, having over 5000 energy firms operating in the city. While, energy is still the most prevalent industry in Houston; health care, aerospace, finance and biomedical research have all become very prevalent industries within Houston's economy. Houston is home to the Texas Medical Center, the largest medical center in the world, that includes many hospitals and research facilities, including The University of Texas M.D. Anderson Cancer Center, which is the largest cancer research center in the world. The five largest companies that have their headquarters in Houston are: Conoco Phillips, Occidental Petroleum, CITGO Petroleum, Sysco, and Phillips 66. Based on these top five companies in Houston, you can see that the oil and gas industry is unquestionably the leading industry in Houston as Sysco is the only company that is not in the oil and gas industry. Working in the energy field has always been a major interest of mine as someone who grew up around it and has family that work in it, and Houston is the perfect place to start a career in the energy industry.

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

Healthcare options in the city of Houston are numerous as Houston has some of the highest rated medical facilities in the United States with satellite locations throughout the city and its suburbs. Houston, as mentioned before, is home to the largest medical center in the world, Texas Medical Center. Along with the Medical Center, there are many public health services located around town. The city itself is rather clean too, considering its size. The quality of the school districts in Houston vary depending on where you live, with the Houston Independent School District being one of the largest in the nation. Many of the public schools have International Baccalaureate programs for advanced students and magnet schools for special talents. There are also excellent private and parochial schools throughout the Houston area that are also options.

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

Being one of the largest cities in the United States, Houston is subject to a lot of crime. Houston has one of the highest violent crime rates in the United States, but that is not uncommon considering the size of the city. Houston also has a large amount of gang activity and is a hub for drug trafficking of cocaine, heroin, and other narcotics in the United States. The major areas in Houston that you need to avoid are Sunnyside, the Third Ward, and the streets around the intersection of McGovern and Dowling. Obviously, the high crime rates in Houston are a concern to anyone looking to live there. However, the crime rates are only high in select areas around the city. Houston is relatively safe in most neighborhoods and as long as you avoid the areas known for being dangerous you will be safe in the city.

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

Working in Houston, location is a major key when deciding where to live. Since I will be working in the accounting profession and most of the major accounting firms are located in the central business district of Houston, I expect to be working in the downtown central business district. The popular areas for recent college graduates to live in Houston are the Upper Kirby area, The Heights, or Montrose, all neighborhoods close to the downtown area. Since I will be working downtown, these areas are ideal to live in because of the relatively short commute time. Based on my assumed starting salary, I expect to be paying no more than one-third of my annual take-home pay in rent. This would allow me approximately $1,000 to spend on monthly. An advantage of living in Houston is that there are plenty of places in these popular neighborhoods that are affordable within my given budget. Providence at Heights is an apartment complex in The Heights that has places available for rent for about $1,000 a month. The Hanover in Montrose is another apartment complex that is a little more expensive but has more reasonable options with a roommate. Both of these apartments offer all the necessary amenities such as gyms, laundry, parking, and they are in close proximity to areas with popular nightlife and activities for someone my age to enjoy. For myself, a roommate is not a necessity because I would be able to find places to live within my budget for a solo apartment. But, for example, Providence at Heights offers solo apartments that are about 686 square feet, but I can always find a roommate and look for apartments with more space that are still within my price range.

Figure 3: Providence at Heights

Figure 4: The Hanover Montrose

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

The typical mode of commuting to work in Houston is by car. Houston is fairly spread out and unlike places such as New York or Boston, it is difficult to walk to work. I could always ride the METRO bus or rail, but a more reasonable mode of commuting would just be to drive myself. Park-and-ride options are also available. Based on where I would be living, I can expect about a 15 to 30-minute commute to Downtown Houston from both the Heights and Montrose neighborhoods.

Question 11: Where will you do your grocery shopping?

There are plenty of options for grocery shopping around Houston. In the neighborhoods I am most likely to live in, there is an abundance of H-E-B grocery stores, Krogers, and Whole Foods to choose from so I will not have any issues in finding a place to get groceries.

Question 12: How will you do your laundry?

The apartments that I mentioned before offer laundry services in their buildings that I can use. Preferably I would like to have my own laundry room with a washer and dryer that I can use but a more reasonable option is utilizing the services that the building offers. Also, my family still lives in Houston, so if necessary, I can always take my laundry to their house when I pay them visits.

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

Growing up in Houston, I was and still am a member of St. Martin's Episcopal Church. Going back after college I fully plan on being involved in my church and participating in the opportunities they offer. The Beacon in Houston is a non-profit organization that helps the homeless. I have worked with The Beacon before in high-school and middle-school and really enjoyed my time working with them. The Houston Food Bank is another organization I have worked with before that offers a lot of opportunities to serve the community in Houston. They are America's largest food bank and offer a great experience for those that volunteer. Houston offers a lot of opportunities to give back to the community and these are just a few of those opportunities. I have been presented a lot of opportunities during my time in Houston and I am grateful for the chances I have to give back to my community.

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

Houston is a great place to live for someone who wants to have plenty of activities to do. Growing up in Houston I have become a huge fan of all the sports teams located in Houston. The Houston Texans are the NFL team located in Houston and they always offer a lot of entertainment for football fans. The Houston Rockets are the NBA team in Houston and have consistently been contenders for championships. Personally, my favorite activity is attending Houston Astros games. Recently the Astros won the 2017 World Series and the residents of Houston show a ton of support for them. Besides the city's sports teams, Houston offers a lot of entertainment options such as movie theaters, events held at the convention center, and nightlife that is appealing to the younger residents of the city. Lastly, Houston offers plenty of recreational activities, my favorite of which is the amount of golf courses that are open to the public to play.

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

An advantage of living in Houston for me is that it is my hometown. Because of this I will be able to visit my family with ease as they will most likely be living within 20 minutes of where I am located. This way I will not have to worry about expensive costs of visiting family and will be able to spend lots of time with them.

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

Assuming an annual salary of $60,000 a year I estimated that I would be bringing home a monthly income of about $3,955 after factoring in the taxes that were calculated in Question 4 and adjusted them for the $5,000 increase in my salary. Rent for a one-bedroom apartment for Providence at Heights is $1,108 per month. I estimated my other monthly expenses using the average costs of living in Houston provided by *smartasset.com* and exploring different rates for insurance and internet. The groceries expense and the entertainment expense are budgets I have set for myself. My monthly savings of $702 is based on the 50/30/20 percent rule of budgeting that says you should be looking to save around 20 percent of your income. Based on these calculations I expect to be spending 64 percent of my income on expenses and $702 will go towards savings, leaving myself with $722 leftover at the end of each month.

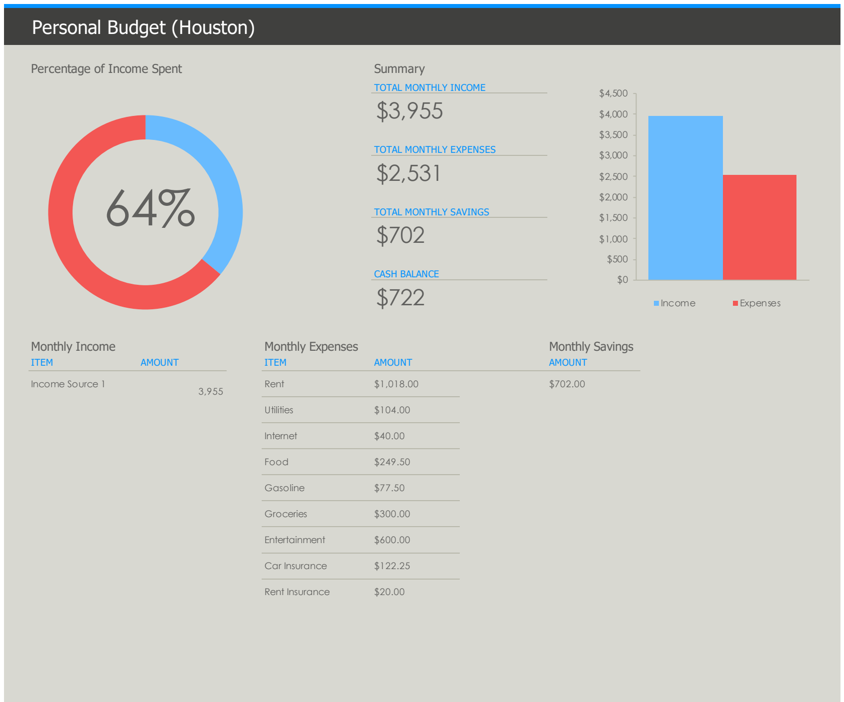

Figure 5: Monthly Operating Budget (Houston)

<u>Nashville, Tennessee</u>

<u>Question #1: What is the population?</u>

The population of the city of Nashville, Tennessee is 673,167 residents. The metropolitan population of Nashville is 1.99 million residents. Having grown up in the fourth largest city in the United States, Nashville's population presents no problems to me because I have always been used to living in a big city. As a matter fact, the population of Nashville is so much smaller than that of Houston's that it will probably feel like a small city in comparison to where I grew up.

<u>Question #2: Describe the climate and seasonal fluctuations. Are you accustomed to living in this weather? If not, describe some of the challenges from this climate.</u>

The climate of Nashville, Tennessee is very similar to that of Houston, Texas. The summers are described as very hot and humid and the winters are very cold and wet. The temperatures of Nashville max out around 96 degrees Fahrenheit in the summers, and in the winters, they can get down to around 16 degrees Fahrenheit. These temperatures do not present many problems for me as they are very similar to Houston, the winters seem to get a little colder than Houston, but not to the point where I would feel uncomfortable. Nashville is also described to experience all four seasons throughout the year, none of which really reach extremes. This is very appealing to me because in my hometown it feels as though we do not get to truly experience all four seasons as the summers seem to take over most of each year.

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

The topography of Nashville is very different than Houston. Nashville lies on the Cumberland river and sits at the start of the Highland Rim. Because of this, Nashville is very hilly. As opposed to Houston, this a lot different from what I am used to living in Houston which is very flat. I do not see the hilly topography of Nashville being a problem for me because I have always enjoyed being around mountainous areas and the hills in Nashville will not be an issue for me. Nashville also has great scenery and is a beautiful place to live in. The city's skyline is very impressive, and the city has clearly worked hard to maintain the landscaping and keep the city clean.

Figure 6: Nashville Skyline

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

Similar to the state of Texas, the state of Tennessee does not have a state income tax. This means that living in Nashville the only income tax I can expect to pay are the federal rates and the FICA rates. Assuming a starting salary of $55,000, I can expect the same take-home pay after income taxes in Nashville as I would in Houston. As I calculated for Houston, my take-home pay in Nashville will also be $45,518. Property tax in Nashville is based on the assessed value, which is 25 percent of appraised value, but this would not factor into my overall tax rate as I am looking to rent not buy. Sales tax in Nashville is 9.25 percent, which is higher than the sales tax in Houston, and the fuel tax is 21.4 cents per gallon plus the 18.4 cents per gallon from the federal tax rate. In total, using the website *smartasset.com* to estimate the amount to be paid in fuel and sales tax, I can expect about 20 percent of my annual salary to go towards paying taxes, which is about $11,184. If I were to live in Nashville long-term versus living in Houston long-term, I would be paying more in sales and fuel tax but less in total taxes because property taxes in Houston are higher than that of Nashville. However, my first few years working out of college I will be renting and not buying property and the property tax rate will not have an effect on my decision and factoring out those property taxes actually means I will be paying less in taxes in Houston. While the amount of taxes I have to pay in a given city is not the only determining factor of my preferred destination, having to owe more in taxes in Nashville is not appealing in choosing between the two cities.

Question 5: What transportation hubs are in the city?

Nashville is an up and coming city and is not nearly as large as Houston. Due to this, Nashville does not seem to have the same amount of transportation that Houston does. However, Nashville has the Nashville International Airport. The airport is not quite the size of those in other major cities, but they offer a lot of cool amenities such as live music and plenty of places to eat while waiting on your flight. For local transportation, Nashville has WeGo Public Transit which provides public transportation throughout the city and to the airport for a low fee. There is also the Music City Star Commuter Rail which runs from the east of town to the center of Downtown Nashville. Nashville's offers plenty of ways to travel outside of the city and within the city which gives me confidence in being able to get from place to place with ease.

Question 6: What are the city's most prevalent industries? What are this city's five largest companies?

Nashville has greatly benefitted from being a very diverse economy. It is a city in which you can find a lot of people working in a lot of different industries. One of its top industries is health care. 21 healthcare companies are based in Nashville with 350 more companies having operations in the city. Nashville is also known as the largest publishing center in the Southeast. The industry the city is probably most known for is the music industry, hence the nickname "Music City". There are hundreds of recording studios in Nashville and most of the major music labels have offices there. Many artists move to Nashville in attempts to be signed by these music labels and make their name in the music industry. The five largest companies in Nashville are HCA Healthcare, Envision Healthcare, Vanguard Health Systems, O'Charley's, and Genesco. I am intrigued by the Nashville's ability to provide a lot of opportunities to work in different industries and based on their largest companies, healthcare is a major industry in the city. While I mentioned before that I have interests in working in the energy industry, that is not necessarily set in stone. Nashville provides a lot of opportunities to branch out and work in many different industries that interest me.

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

Nashville is known to have great quality in healthcare. One of their biggest industries is the healthcare industry which provides plenty of hospitals and clinics located in the city. Hospitals such as Vanderbilt University Hospital and St. Thomas Hospital are considered among some of the best hospitals in the United States. Similar to Houston, Nashville is not considered among states with great public-school systems. However, Nashville does have plenty of private schools to choose from with great educations. Six of Nashville's high schools are highly ranked in the *U.S. News & World Report's Best High Schools* rankings. If I were to live in Nashville, I would expect to send my children to private school as they are not known to have great public-school districts but have plenty of options to choose from when it comes to highly ranked private schools.

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

CBS News has Nashville ranked as the number 16 most dangerous city in the United States. This is comparable to Houston, as Nashville is a large city and a high crime rate is fairly common in cities that size. A lot of the crime in Nashville is what you would expect in major cities across America such as murder, robbery, aggravated assault, etc. The violent crime rate is about three times higher than US average and the property crime rate is almost two times higher. Some of the more dangerous neighborhoods in Nashville that should be avoided are Shepherd Hills, McKissack Park, and Buena Vista Heights. The high crime rates in Nashville are unnerving of course, however, I believe it is similar to Houston and if I am able to avoid the dangerous areas in the city, I should feel safe living there.

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

Unlike Houston, Downtown Nashville is considered a great place for young professionals fresh out of college to live. It is where is I see myself working and offers plenty of affordable apartments for someone with my price range. Again, based on an annual of salary of $55,000 I expect to be paying about $1,000 a month for rent, which yearly is about one-third of my annual take-home pay. 500 Fifth offers plenty of one-bedroom apartments that are within my price range, about $950 a month. These one-bedroom apartments are rather small, about 420 square feet, but they offer close proximity to my workplace and activities in the downtown area and they offer all the necessary amenities and more such as a business center, gym, laundry service and parking options. Again, in Nashville I do not necessarily need a roommate, but a roommate would offer an opportunity to get an apartment with more space that would still be within my price range.

Figure 7: 500 Fifth Apartments

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

The typical mode of commuting in Nashville is also by car. However, living in Downtown Nashville would offer alternatives for commuting to work. A drive from 500 Fifth to where many of the accounting firms have their offices located is only a five-minute drive and walking would only be about a 25-minute walk. Knowing myself, I will most likely choose to drive to work every day, but the close proximity from the apartment to the office gives me great relief in case unexpected issues arise such as car trouble or simply running late to work.

Question 11: Where will you do your grocery shopping?

Based on the area I expect myself to be living in Nashville, there are a few options to choose from for grocery shopping but the closest is H.G. Hill Market. While there are not many options to choose from for grocery shopping in the area I expect to live in, just having one store very close to me is all I really need.

Question 12: How will you do your laundry?

Hopefully I will be able to afford my own washing and drying machines and will be able to do my own laundry in my apartment. However, if that is not the case, the apartment building offers their own laundry service that residents can use.

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

As mentioned before, growing up in Houston I was involved with my church St. Martin's Episcopal. In Nashville, I will look to continue my involvement with the Episcopalian church and most likely become a member of St. George's Episcopal Church in Nashville. Not only do I plan on joining the church, I want to be involved in any of their outreach programs they offer.

Nashville also provides a lot of opportunities to be involved with charitable organizations around the city. Sports 4 All Foundation is a non-profit organization that offers people of all ages with disabilities the opportunity to play sports. This would be an organization I would be more than happy to become active with because it provides people with the opportunities to be active and play sports which has been a blessing and a large part of my life. Another organization I would like to be active in is the Second Harvest Food Bank of Middle Tennessee. In Houston, I have been active in the Houston Food Bank and have had great experiences working with them and the Second Harvest Food Bank offers those same opportunities to give back to the Nashville community.

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

Nashville is a modern and up and coming city in the United States. Because of this, the city offers plenty of opportunities for entertainment. First off, the Tennessee Titans are the NFL team located in Nashville and while I may not be a Titans fan, I am a huge football fan and would love to attend games in Nashville. The Nashville Predators are the NHL team located in the city. Living my entire life in Houston, the city never had a professional hockey team that I could go and watch. I have always been a casual hockey fan but have never been able to go and support a local team which is why I would be very excited to go and watch the Predators play because it would offer a whole new experience for me. Another appealing attraction of Nashville is Broadway. Broadway is the area in Nashville where pretty much all the nightlife takes place. Nashville being the "Music City" offers plenty of places to go and listen to music and watch concerts and Broadway is where most of this takes place. The "Music City" also is home to the Grand Ole Opry, a world-famous country music concert venue. Being from Texas, country music has always been my favorite genre of music and many artists mention the Grand Ole Opry in their music, so being able to experience it in person really excites me. Lastly, just like Houston, Nashville offers plenty of chances for recreational activities. For me, the amount of golf courses available for the public to play is very influential in my decision and Nashville does not lack in that category.

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

One downside of living in Nashville would be that it is a little farther from my hometown than I am typically used to. Nashville is about 12 hours away by car and about a two-and-a-half-hour flight. My actual mode of transportation back to Houston would ultimately depend on how long I was going to stay there. For a short weekend, I will most likely fly home which based on the current prices of flights during Covid-19 a flight would only cost about $97 with United Airlines, assuming I book in advance. If I were to go back for longer than just a weekend I might consider driving back. Currently, my car gets around 12 miles per gallon and holds 25 gallons, meaning that I can get about 300 miles from a tank of gas. Driving from Nashville to Houston, I would be travelling about 780 miles. Based on *travelmath.com*, the average gas prices from Nashville to Houston are $1.89 per gallon. Based on these prices it would cost about $47.25 each time I fill up my tank and assuming I can get all 300 miles out of my tank of gas I should only have to fill up three times between Nashville and Houston. On average if I were to drive back to Houston from Nashville, I would spend about $141.75 on gas. The travel time to get back home might have been a problem for me a couple years ago, but now that I am in my third year at the University of Mississippi and I have become used to long car rides back home.

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

Using the same approach as I did when calculating my monthly operating budget for Houston, I found that I would have a monthly income of $3,930 after factoring in taxes. The monthly rent expense of 500 Fifth is $950 per month. I calculated my expenses the same for Nashville as I did with Houston, using the averages given by *smartasset.com.* My internet and insurance rates stayed the same assuming I would use the same companies. Again, I set my budget for buying groceries at $300 a month, but since Nashville has so many activities to offer, I made my entertainment budget $800 to allow myself the opportunity to truly experience Nashville. Using the 50/30/20 budgeting rule again, 20 percent of my monthly income would be $786 and that would go towards my monthly savings. In total, I estimate that about 69 percent of my income will go towards paying expenses and $786 will go to my savings leaving me with $416 and the end of each month.

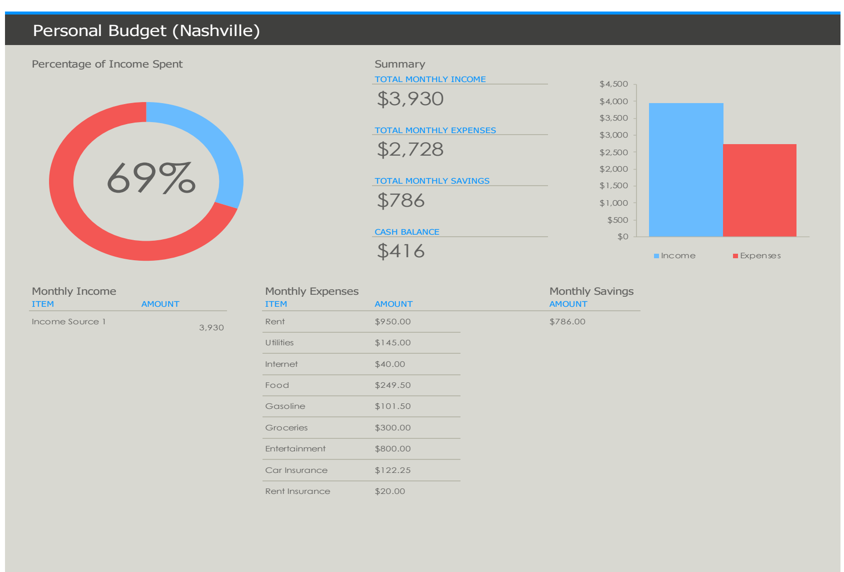

Figure 8: Monthly Operating Budget (Nashville)

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

After completing a full analysis of both Nashville and Houston, I have come to the conclusion that Houston is my preferred city to begin my career. Nashville offers a wide range of new experiences for me and many career opportunities in different industries. However, Houston is well-known as being one of the energy capitals of the world and the energy industry, more specifically oil and gas, has always been my most desired industry to work in. Also, Houston is my hometown, and while I would love to branch out and experience new places such as Nashville, Houston gives me the comfort of being back at home around my family. Growing up in Houston, I have had the opportunity to create many connections in the city and going back there to begin my career allows myself to take advantage of these connections and expand on potential career opportunities. Nashville is a great city, especially for someone young and fresh out of college. It provides a lot of entertainment and opportunities for young people to take advantage of around town. However, Houston also provides these same opportunities, and while I have had a lot of great experiences in Houston, I know there are many more places and activities in Houston that I am yet to experience. Houston is also the city I see myself living in long-term. I grew up there and I know the area and I have always wanted my children to have the same experiences as me and even better ones down the road as the city continues to grow and add new opportunities. In conclusion, Houston provides me with more career opportunities in my desired industry than Nashville and provides myself the comfort of returning home to the city that I grew up in and love.

Case Study III – The Presidential Debate

Case Study Three is a case study where I was asked to watch the first presidential debate and provide answers to three separate requirements laid out for me. The first requirement was done before watching the debate and asked how our country can warrant calling itself the United States of America. The second requirement for this case study was to create my own predictions on how the election of each candidate would affect the overall economy and job market of the country and, more specifically, the effects that the election of each candidate could have on the industries and economy when I begin my professional career. And lastly, the third requirement was to develop a plan as to how our country can come together harmoniously at the conclusion of this election and how I can be an agent of positivity.

I began this case study by answering the first requirement, after that I began watching the debate and taking notes on important things said by each candidate that I felt would have a significant impact when formulating a prediction for each candidate. I then decided after the debate to strengthen my own knowledge on each of the candidate's policies and stances before I began writing my response. For requirement three, I answered by giving my own opinion on what I could do to be an agent of positivity.

This case study required me to do more research into a presidential election than I have ever done. I realized that this election could be one of the most important elections of my life and for our country and will likely have a significant impact on my professional career. I was able to research each candidate's policies and opinions and learn more about how either outcome could affect my professional career. By doing this research, I have been better able to formulate my own opinion on which candidate I prefer rather allow others to influence me as to the candidate they prefer. My professor has asked me to omit the body of this case to protect my privacy regarding this sensitive topic.

<u>Requirement 1: You live in the United States of America. What is it about our country that "unites" us to warrant naming our country that?</u>

Currently, the United States of America is experiencing a time in which our country is very divided politically. Sometimes we have to step back and remember and that our political views do not define us as individuals and there are many reasons that we, as Americans, can warrant naming ourselves the United States of America. For one, as citizens of the United States we are all represented by the same government selected by all of us. And, while that is a more legal and technical basis for our unity, I think it shows that we are united by the freedoms we are given every day as citizens of the United States such as the right to vote and the freedom of speech and religion, and those freedoms that are not explicitly stated, such as our freedom to choose what career you want and where you want to go to school. As American citizens, we can take pride in knowing that no matter what, we are guaranteed the freedom to be ourselves and to achieve whatever our individual talents will allow us to achieve.

Our freedoms also suggest another reason that I believe unites us as a country, and that is the idea of "The American Dream." As Americans, we are granted so many opportunities to strive for and achieve goals, accomplishments, and successes that are difficult to find elsewhere around the world. I believe every American is united by this ideology that we live in a country that provides us the best chance to become what we truly want to be. As Americans, we are not forced to follow a set path for our lives, but rather, we have the opportunity to choose different paths and create the life that is best for each of us.

One last thing that unites us as Americans is the value of family. Living in this country you are never truly alone. Whether you surround yourself with family or really close friends, I believe that being in this country you will always have someone that you can talk to about anything and someone that cares for you. While it's impossible to know everyone in the country personally, I would say that being American citizens, we are still united as a family. Similar to families, when we hear something good about our country, we get excited as a country, and when tragedy strikes our country we mourn together. Just like families, we want to see each other succeed. No one wants to see our country fail because that means that we all fail. Even though we may not all agree with each other's opinions, ultimately, we win and lose together as a country.

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

As our country prepares for one of the most important presidential elections in recent memory, I think it is very important in assessing how each candidate's stances on different matters impacts our country as a whole. At the same time, I am approaching a time in my life where I am truly going to start seeing how these differing points of view specifically affect me and my anticipated career plans. My most desired location to begin my work is the City of Houston, Texas. Houston is a major player in the energy industry, more specifically the oil and gas industry, and also the healthcare industry. The 2020 election will have a major impact on the job market for both those industries and a major impact on the economy of Houston. Therefore, it is very important to compare and contrast the policies of each candidate in these areas and the impact those policies could have on the City of Houston, the State of Texas, the nation and the world as that impact will, directly or indirectly, affect my career trajectory and the prospects of success in my chosen field and in the area in which I choose to live and work.

Trump:

The first candidate whose positions I will discuss is our current president, President Donald J. Trump. My prediction for the job market if President Trump is reelected first comes down to how COVID-19 is handled after the election has concluded. Donald Trump has emphasized that if he is reelected, he plans to open the economy back up promptly and get back to a normal routine as soon as possible while implementing reasonable protections for those most vulnerable to the virus. Throughout the most recent presidential debate, Trump made it very clear that he believes he handled COVID-19 to the best of his ability and that it is a priority for him to try and reopen our economy if he were to be reelected. In relation to COVID-19, a Donald Trump reelection would be more focused on assisting businesses rather than on an individual basis. We will most likely see businesses opening back up to their normal capacity soon, and the rehiring of previous jobs and positions that had to be cut or put on hold in the wake of this pandemic. Before the pandemic, our economy was experiencing some of the best times in recent memory. Employment, the stock market, and wages were all reaching record highs in all sectors of the economy and across all classes and constituencies. I believe that a Trump reelection will continue to see these numbers set new records, or at the very least, make dramatic improvements from their current levels.

The 2020 election also is important when it comes to the differing opinions on tax codes and regulations. As president, Donald Trump has maintained a focus on lowering taxes, providing a free-market economy and bringing back manufacturing jobs, and he made that an emphasis during the presidential debate. During the debate, Trump made a point that Joe Biden's plan to increase taxes would cause great damage to an economy that is coming out of a recession. Trump's viewpoint on taxes revolves around providing tax cuts that allow for a greater amount in an individual's take-home pay. Trump's tax plan also has an impact on the economy by establishing incentives that encourage companies to bring jobs back to America that were previously outsourced to China and elsewhere. Trump has made a major emphasis in not having to rely on China and others for economic purposes and wants to create more jobs for American citizens that were previously unavailable due to companies choosing to locate those jobs to China and other countries due to the significant cost savings from cheap labor in those countries. He has also emphasized the restriction or elimination of burdensome government rules and regulations which unnecessarily hinder businesses and are costly to implement and maintain, especially for small businesses, the backbone of the U.S. economy. I believe Trump's policies to streamline government rules and regulations will result in the creation of more jobs throughout the United States as companies will have more capital to invest in their businesses which will, in turn, result in the creation of more and better paying job opportunities. Those job opportunities will result in greater financial power for the U.S. and its people.

More specifically, I think Donald Trump will provide a great impact in the industries in which I will likely begin my professional career. The 2020 election is huge for the energy industry as both candidates have widely differing opinions with regard to carbon energy production and the need for more carbon-free practices. If Trump is reelected, he has made it known that he is a major supporter of the oil and gas industry and has laid out and implemented policies that he believes relieves oil and gas firms from regulations that many see as a burden to the industry. Biden on the other hand, is in favor of bringing a stop to new drilling on federally managed land and wants to work for a completely carbon-free future. In my opinion, a Donald Trump reelection will allow the oil and gas industry to continue to thrive in Houston, in Texas and throughout the United States and the world and allows for these firms to ease their way into cleaner energy practices rather than an abrupt and disruptive end to all carbon-based production activities. Trump also takes pride in the United States being the number one source in the world in oil and natural gas production. When assessing the impact of President Trump's stances on the energy industry, it can be taken in good or bad ways. For one, if you are to look at his positions strictly from an oil and gas industry point of view, you would be very pleased with his support for the industry, At the same time, from a perspective of the energy industry as a whole, if Trump's policies are not enacted, a major part of the industry could be adversely affected causing a major disruption in the U.S. economy. But the assumption is that a shift away from carbon-based exploration and production activities will result in an increase in renewable energy, another major part of the energy industry. The key question here is, how much does oil and gas impact the energy industry as a whole and can the industry sustain its success if it were forced to move to strictly carbon-free practices? Trump's stances on the energy industry are very important in being able to assess the impact his reelection will have on the local economy in Houston because the performance of the energy industry has a direct correlation to the status of Houston's economic situation.

When assessing the impact of a President Trump reelection on Houston's second most important industry, the healthcare industry, you have to look into his policies on healthcare. First and foremost, in regard to COVID-19, Trump has emphasized the production of a vaccine and treatments to combat the virus. This push to produce a vaccine, I believe, will hopefully result in a successful vaccine that will ease the burden felt on healthcare workers and allow workers to shift a lot of the time they have dedicated to fighting the virus back to areas where they may have had less time to invest in assistance. Trump's main goal when it comes to healthcare is to cut the government bureaucracy and the middleman out of healthcare. Since President Trump began his first campaign and throughout his time in office, he has had an emphasis on repealing the Affordable Care Act. The Affordable Care Act has had a huge effect economically on the healthcare industry. While the Act provides many citizens of the United States access to affordable healthcare who previously did not have it, it has had a corresponding negative impact economically for hospitals, doctors and other workers in the healthcare industry. The Act has provided more Americans with healthcare, but the increased availability of healthcare insurance has placed a severe strain on the medical profession and the production of pharmaceuticals resulting in shortages and increased costs. Doctors and other healthcare companies are experiencing increased workloads and additional, costly administrative requirements but are not seeing an increase in their revenues. Many doctors operate as small businesses and because of the Affordable Care Act some have started to refuse patients with Obamacare because it is economically detrimental to them. Because of this, the Affordable Care Act has created a system where those who can afford private insurance receive better care than those that cannot afford it. Trump continues to reiterate his plan to repeal the Affordable Care Act and implement a new, less expensive healthcare plan that will hopefully allow citizens to receive affordable care while not at the expense of those who work in the healthcare industry. Similar to the energy industry, Trump's views can be seen from an alternate perspective. Under the Affordable Care Act, revenues for major hospitals have been up because of the increase in patients with healthcare insurance, therefore, a Trump reelection could result in a decrease in revenues for healthcare providers as a result of the cost-cutting measures. Whether you see it as good or bad, a Trump reelection will have a significant impact on the healthcare market and especially the economy of Houston.

Biden:

The other candidate in the 2020 Presidential Election is former Vice President Joe Biden. As in the case with President Trump, I believe the election of Joe Biden as President and its impact on the job market and the economy will be measured by how he will handle COVID-19. During the first presidential debate, Joe Biden was light on details for dealing with the virus if elected. However, he does want to provide more and free testing for Americans and he also wants to provide more resources in support of science-based vaccines. But, he is adamant about not rushing the vaccine approval process and in his position that businesses and schools should not be opened until there have been sufficient reductions in community transmission of the virus. When assessing Biden's plan for dealing with the COVID-19, I cannot help but notice that his plans seem to be slower and more methodical than President Trump's. I think his plan for reopening could be safer, but at the same time could result in the country and it economy being closed or severely curtailed for a much longer period of time. This could prove to be detrimental to the economy and will could result in an unnecessarily long recession. The result will be fewer job opportunities available upon my graduation.

The election of former Vice President Joe Biden will also have a major impact on the stock market, unemployment, wages and the position of our economy. I see his election as creating both good and bad results for the U.S. stock market. For one, I believe Joe Biden's plan for repealing the tax cuts President Trump has put in place will result in companies reporting lower profits. This could result in a depression of their share prices. As public companies' shares are now widely held in employee retirement plans, the impact from the depression of stock prices could be far reaching and adverse. In regard to unemployment and wages, it is hard to predict how a Biden election would impact both; however, I believe that if Biden is elected, the increase in taxes that will likely result from a Biden administration as well as the increases in government regulatory oversight will result in companies having to cut costs. The most likely cost cutting will be in their workforces, thus driving up the U.S. unemployment rate. But, Biden has indicated that he intends to significantly increase the minimum wage. This will result in additional burdens on companies that will further depress their stock prices but could also result in more disposable income available to employees. This increase in employee income could result in increased consumer spending which will have a positive impact on the economy.

As noted above, the stark differences in energy policy between Trump and Biden will have major impacts on the energy industry and ultimately the nation's economy and, specifically, the local economy of Houston, Texas. During the debate, Biden made it clear that, if elected, he intends to rejoin the Paris Agreement. By doing this, Biden has made it clear that he is determined to provide a carbon-free future. This stance has a major impact on the energy industry and will cause significant slowing of new carbon-based energy projects around the world as energy companies shift to more environmentally friendly alternative energy resources such as wind and solar power. As Houston is significantly dependent on the oil and gas industry to support its local economy, any significant slowdown in that industry could be detrimental for those companies based in Houston and could result in less opportunities available in that area when I graduate. However, as I discussed above, Biden's stance on energy could also result in an increase in the production of renewable energy and such a shift could result in new opportunities within those same companies in the Houston area. Again, the key question that needs to be answered is how abrupt will the shift from a carbon-based energy policy to a more renewable and environmentally friendly energy policy be? Houston's economic future could hang on the answer to this question. I do feel that a Biden election will be detrimental to the oil and gas industry in Houston, and we will have to see if the increases in renewable energy will be significant enough to counter the losses in the oil and gas industry and what effect it will have on my professional career in Houston.

Biden's election will also have a major impact on the healthcare industry in Houston as well. He has said he will protect the Affordable Care Act and expand on it. As I said before, this Act was great in that it provided Americans with affordable care act, however, it greatly affected the economics of the healthcare industry as a whole. By protecting and expanding the Affordable Care Act, the industry will likely see increases in costs and regulatory burdens. This could result in less opportunities for those covered by the Affordable Care Act. Hospitals, on the other hand, could continue to see an increase in revenues as is elected, the healthcare industry will experience serious changes that could result in more skilled doctors electing to work as their own small businesses and treat those that can afford private healthcare insurance because that is most beneficial to them economically. Whereas, the less skilled doctors will be the ones treating those under the Affordable Care Act. At the same time, I also expect that hospitals and large companies in the healthcare industry will see increases in revenues and the industry as whole could benefit from those increases.

Overall, I believe that the policies of both candidates will have a mix of both good and bad impacts on the economy as a whole and specifically the industries in the city I see myself working in. Assessing the impact each candidate will have on the economy and deciding who to vote for really comes down to what I value as someone looking to begin my professional career and which candidate would promote a better situation for me as I come closer to becoming a professional.

Requirement 3: As you watch the debate, think about the following: How will the two sides of the country come together harmoniously once the election is over? Frame your answer in terms of how individuals, like yourself, will achieve peace with the other side and they, with you. Imagine going to class and eventually work with the people around you knowing half of those people share a different viewpoint. Both sides believe this is the most important election in American history, so emotions and tensions will be running high. How do you personally intend to function in the aftermath? Discuss coping strategies for yourself and suggestions for reminding family, friends, and colleagues about the values you outlined in Requirement 1. Formulate a plan to be an agent of positivity and discuss the content of that plan.

Personally, I am not usually someone that enjoys engaging in political discussions. I think once the election is over and no matter which outcome occurs, I will most likely find a way to have a positive outlook about it. However, I know there are people that do not feel the same way and that I will be working and going to class with people that have differing opinions than me. I honestly believe that the best way to come together harmoniously as a country is to listen to each other's opinions, make your own opinion known and discuss with each other and try to find a common ground somewhere. But, at the end of the day, I think the most important way to be an agent of positivity is to remember that no matter what happens in the election it is not the end of the world, life goes on, and to remind ourselves that someone's political view does not define them as a person. After the election, I want to be able to put everything politically aside and be friends with someone and try to not let differing opinions prevent that from happening.

<u>Case Study IV – Optimal Corporate Tax</u>

The fifth case study looks into the corporate tax rate discussion in the United States and the problems that arise from our country's tax laws. To begin this case study, I read two articles about the effects and future projections of the Tax Cuts and Jobs Act passed by the Trump administration. One article was from the US Department of the Treasury and the other article was from the Tax Foundation. Afterwards, I watched the documentary "Taxodus", which is about corporations using loopholes and "tax havens" that allow them to avoid paying the high tax rates in the United States at the time. After reading the two articles and finishing the documentary, I was instructed to answer two questions. The first question was an opinion-based question asking what I believe the optimal corporate tax rate should be. I answered this question by analyzing the statistics provided to me from the two articles and recalling the information talked about during the documentary and coming up with my own conclusion on what I believed the optimal corporate tax rate should be. The second question was about whether my interest in the tax service line of public accounting had increased or decreased after the case study.

By doing this case study, I was able to get a deeper understanding into our country's tax laws and the effects higher and lower tax rates can have on the country as a whole. I also learned more about the problem of corporations moving some or all of their operations overseas to minimize or avoid US tax obligations on those operations and the reasoning behind these somewhat shady strategies. This case study also gave me the opportunity to research topics that are heavily debated and researched in the tax service line of public accounting and provided me with insight into a service line in public accounting in which I am considering entering into as I begin my career in this field.

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

The discussion over what the optimal corporate tax rate should be has been debated over many years. There are many people who believe the corporate tax rate should be zero as that would technically provide for the most economic growth and eliminate the likelihood of corporations using shady tactics to avoid paying a higher tax rate. However, there is a counter-argument that corporate tax rate of zero percent would be very unlikely to be passed by Congress due to the appearance that corporations would be receiving a tax break not available to individual taxpayers and at their expense. After completing my research into this subject, I concluded that the optimal corporate tax rate should be around 15 and 20 percent.

I was able to form my opinion on a 15 to 20 percent corporate tax rate based upon research data obtained from the US Department of the Treasury and the Tax Foundation and from information gained while viewing the VPRO documentary "Taxodus". Specifically, I observed that prior to the Tax Cuts and Jobs Act passed by the Trump administration, the US corporate tax rate was around 35 percent. The documentary "Taxodus" takes you around the world and discusses how major corporations seek ways to avoid paying taxes in high rate jurisdictions by moving money into offshore accounts and basing all or part of their operations in so-called "tax havens". My research led me to conclude that by lowering the corporate tax rate from 35 percent to a range between 15 and 20 percent (currently the TCJA has a 21 percent corporate tax rate), the effect is to reduce the likelihood of large corporations using these tactics to avoid paying taxes and to incentivize them to bring their operations back into the United States.

While corporations will continue to seek legal (and sometimes illegal) ways to avoid paying high taxes in order to maximize their profits, the lower tax rates will significantly decrease the number of corporations seeking to use tactics because the risk and costs of doing so would be outweighed by the relatively small tax savings. Additionally, lower corporate tax rates generally result in an increase in long-run economic growth for the economy as a whole. As corporations spend less money on taxes, they are able to invest that savings into new capital projects because the costs of capital will decrease and the ability to finance such projects becomes more economically feasible. These new projects will also create more job openings as they are being implemented and come online thus increasing employment. Further, increased employment due to lower corporate tax rates will result in higher wages as more corporations will be competing to fill these job openings spurring competition for workers.

Along with creating new jobs and increasing the competitiveness of our economy, lowering the corporate tax rate will also allow our country to be more competitive in the global economy. With a 15 to 20 percent corporate tax rate, foreign-based corporations will no longer be discouraged from investing in the US economy as they are able to see higher returns on their investment because of the lower tax rates applicable to them with respect to their US operations. In fact, many of these foreign corporations would be encouraged by the lower US tax rates to move their corporate headquarters to the United States again creating more opportunities for higher paying jobs in this country.

I also based my reasoning for my conclusion that an optimal corporate tax rate should be 15 to 20 percent on my analysis of the effects that the Tax Cuts and Jobs Act has already had on the US economy prior to the COVID-19 pandemic and its projected economic effects as the country moves out of the pandemic. According to the Treasury Department statistics, the TCJA significantly and rapidly improved the US economy by increasing job opportunities and wages, lowering unemployment, providing capital for investments in business operations in the US and creating a heightened sense of business optimism in the country. Specifically, Treasury Department data shows that for the first time since records have been maintained on these statistics, the historic level of jobs created resulted in enough available job openings for every unemployed American to go to work.

The current corporate tax rate under the TCJA is 21 percent; however, President Trump originally wanted it to be as low as 15 percent. I believe that there is room to lower the rate below the current 21 percent level so as to enable the country to experience even larger increases in long-run economic growth. According to the Tax and Growth model used by the Tax Foundation, the long-term impact of the TCJA is projected to be a 1.7 percent larger economy. The Foundation also projects a 1.5 percent increase in wages, a 4.8 percent increase in capital stock, and the number of jobs also experiencing an increase as well. Taking these factors into account, prior to the onset of the COVID-19 pandemic, trends were showing that the lower corporate tax rate was extremely beneficial to our economy. The 21 percent tax rate provides more incentives for companies to be in the US and has made the country more competitive in the global market. Because of these advantages as the current corporate tax rate, I am convinced that lowering the rate even more to a tax rate between 15 and 20 percent will result in continued long-run economic growth as companies will continue to pay less in taxes allowing them to have more capital available for investment in corporate infrastructure and employees. Additionally, with the lower tax rates, there will be the follow-on benefits of lowered capital costs, thus encouraging more investment in the United States and an increase in capital stock, leading to the need for more workers, higher wages, higher productivity, and more economic output.

In conclusion, in my opinion, a 15 to 20 percent corporate income tax rate is not only optimal, but it is also realistic. While a zero percent corporate tax rate might be optimal in a sense that it provides for the most long-run economic growth, the ability to achieve such a rate is unrealistic and the 15 to 20 percent is far more likely to obtain Congressional approval. The data has already been provided that shows us the positive effects of the 21 percent corporate tax rate provided by the TCJA, and I believe a slight decrease would allow for even more benefits and a sustained long-run economic growth for our economy. A 15 to 20 percent tax rate encourages corporations to keep their operations in the US, allows for the creation of more jobs, reduces the use of shady business practices, increases wages, and results in a larger economy as a whole.

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

After completing this case, my interest in pursuing a career in the tax service line of public accounting has definitely increased. Prior to this case and still up to this point, I have not yet made a final decision as to which service line of public accounting I want to pursue. However, I have been leaning towards a career in tax practice primarily because certain members of my family have worked in that area of the profession and, therefore, I have had more exposure to that area than others. Until now, though, with the exception of a few informational sessions on the different service lines of public accounting, I have never done much research into the tax profession and what it entails. Working on this case study gave me the opportunity to research the different effects higher and lower tax rates have on the economy as a whole and the chance to give my own opinion on an optimal corporate tax rate that I believe would have the best effects on our economy. I found the research I did for the case study to be very enjoyable and I found myself interested and invested into the work I was doing. While I am not yet completely certain that I want to pursue a career in the tax service line, this case study has definitely increased my interests in the tax practice, and I could very easily see myself pursuing a career in the tax service line of public accounting.

Case Study VI – Mentorship Interview

Introduction

Case Study Six is a Mentorship Interview that asked me to reach out to someone in the business community that is fairly established in their career and interview them about their experiences in life, business, college, etc. I chose to interview Thomas Powell who is currently Vice President at Crutchfield Capital, an investment banking firm in Houston, Texas. I reached out to Thomas over the phone and asked him a series of eleven questions provided to me. With permission, I recorded our conversation to help myself with the writeup and wrote a short biography about his life. After going through the questions, we were able to chat for a little longer and I was able to share a little about what I was thinking career wise and he was able to offer some insight specific to me.

Doing this case study, I was given the opportunity to talk to someone in the business community and in an area of business that I have been interested in. I was able to learn about

Thomas' time growing up and going to college and was able to compare some of my experiences to his. I was very glad to hear that at one point he was in the same exact position as I am right now. Another great thing that came from this interview is the amount of advice Thomas was willing to share with me. He told me about some of the best advice he got and even shared some advice that he had to learn himself. I am very grateful for the advice he was willing to share with me and I hope to take it and use it as I navigate through my final years of college and eventually into my professional career. Lastly, it was great to be able to talk to someone who also grew up in Houston. We were able to talk about our high schools and make the connection that he went to my rival high school and we were able to joke around about that. I really enjoyed my conversion with Thomas, and I am really appreciative of him taking the time to talk with me.

Biography

Thomas Powell was born in Austin, Texas and lived there for about two years. Shortly after, his parents, Anya and Frank, moved to Houston, Texas where he spent the remainder of his childhood and through high school. Thomas went to catholic school his whole life. For kindergarten through eighth grade, he went to St. Vincent De Paul and high school he went to St. Thomas. After graduation, Thomas decided to go to the University of Mississippi and shortly after transferred to and graduated from the University of Houston with a finance degree and a minor in accountancy. He began his professional career with Crutchfield Capital in Houston and still continues to work there today.

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

Growing up, Thomas had a pretty normal childhood. He was born in Austin, Texas and shortly after his family moved to Houston where he still lives today. He grew up with two younger half-brothers, one was eight years younger than him and the other was eleven years younger. As a kid, Thomas went to lower and middle school at a catholic school in Houston named St. Vincent De Paul. While he was there, he made a lot of life-long friends and played a lot of the typical sports that kids his age played, including baseball, basketball, football, and soccer. For high school, he went to a local catholic high school in Houston named St. Thomas. He really enjoyed his time in high school and made a lot of great friends that still remain some of his closest friends today. In high school, Thomas played football his freshman year and he wrestled his sophomore year. After wrestling, he decided it was time to hang it up and quit playing sports and he got his first job working at Discount Tire in Houston until he graduated from high school.

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

Thomas had an interesting road in college. He started out at the University of Mississippi for a semester and decided it was not the best place for him and he decided to go back home and transfer to the University of Houston. Other than transferring, he says he had a pretty normal and fun college experience. He majored in finance and minored in accounting during college and was able to join the Investment Banking Club on the University of Houston campus where he eventually made the connection that got him his first job in the investment banking field. While in college, Thomas clerked with a law firm in Houston called Vinson & Elkins, which was a great experience, and he says he was kept very busy with work and school. Also, in college, Thomas met a girl named Mary in one of his classes and a few years after graduation they were married.

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

Going into college, Thomas had no idea what he wanted to do. His whole life he had always been good with numbers and wanted to be able to use that skill somewhere in his career. He talked to his stepdad about possible majors and routes he could take in his career and his stepdad told him that getting either a finance or an accounting degree will always be very beneficial. He also talked to him a little about the investment banking career and was instantly attracted to the idea. So, he decided to major in finance with a minor in accountancy and joined the Investment Banking club on campus.

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

Thomas' first job was in high school at Discount Tire. He worked there during his junior and senior year of high school and quit when he went off to college. Thomas told me that working at Discount Tire taught him a lot about responsibility and time management because it was his first job, and he was having to learn how to balance work with school. During college, Thomas was a clerk at Vinson & Elkins law firm in Houston, Texas for about two years. During that time, he was just embarking on his college studies, but he decided that he knew he did not want to become a lawyer. So, he left to focus on his studies. The most important thing he says he learned while working at Vinson & Elkins, besides the fact he did not want to be a lawyer, was how to deal with clients in a professional setting which he says is one of the most important skills he has learned. While in college, Thomas participated in a college investment banking club where he met a principal of Crutchfield Capital. This meeting resulted in him getting an invitation from Crutchfield Capital for an internship. His supervisors were impressed with his work and extended him an offer of full-time employment upon graduation. Thomas has been with Crutchfield Capital since then and says he loves the work he has been doing there. He joined the firm as an Analyst and was promoted to Associate, then Senior Associate and now he is currently Vice President. So far, the most important thing he thinks he has learned while working at Crutchfield Capital is patience and management skills. To work in this field, he says you have to be patient because nothing goes perfectly the way you want it. Clients will forget to communicate with you, or you will find yourself in disagreements and you just have to stay patient with them. Patience was something he says he had to really learn and get good at in his earlier positions with the firm. As he has been promoted over the years, the management skill is what he has really had to learn. Thomas has a lot of new or younger employees that have to report to him, and he says he has had to learn ways to make sure they are able to do their job so that he can do his.

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

Thomas' life outside of work has been pretty normal. He recently bought a new home where he lives with his wife and their French bulldog named Chunk. He told me that recently they have been busy moving everything into the new house, so he has not been able to take much time off for hobbies, but usually outside of work he likes to go play tennis or take Chunk to the dog park.

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

Thomas says the best vacation he has ever had was his honeymoon in Saint Lucia with his wife. He said he also really enjoyed the vacations he took to San Francisco and Los Angeles. Thomas also loves to snowboard, and he says he always has a great time when he gets to take a ski trip to the mountains.

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

Thomas told me that right now there is not much in his life that he would want to change. If he had to choose, he says he is about 5’9” right now, so being slightly taller would be nice. A second thing would he said was he wishes he had been born with a trust fund so he could use that money to pursue the thing he has always been fascinated with, space travel.

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

Thomas says there are a few things he wishes he knew when he was twenty-one. The first is that in business the absolute most important thing is the connections you make. Making plenty of good connections throughout your life will set you up for your whole career when you are looking for jobs and eventually when you are established in your career the connections you make in your life will lead to new clients or even better job opportunities. He said that joining the Investment Banking club in college allowed him to make the first connection that has led to his success. Another piece of advice he shared with me is where you go to college or grad school really does not matter except for your first job and that an MBA is great to have but you do not need it if you get into the right profession and have the right connections. One of his last couple pieces of advice he really wishes he knew when he was twenty-one was to eat a high calorie diet when you are young and twenty-one because as you get older it all goes downhill from there. And the last piece of advice he gave was to learn how to get your work done earlier in the day because it gets harder and harder to stay up later as you get older.

9. <u>What are you most proud of?</u>

Right now, Thomas says he is most proud of the new home he just bought for his wife and him. He says this was a big moment in his career because it reassured him of his successes, and he was able to buy a place for his wife and him to live and start a family with his own money and no help from anyone else. A couple of other things he said he is proud of are being married to his wife Mary and raising their dog Chunk.

10. <u>What do you think will be the biggest challenge for your generation?</u>

In his opinion, Thomas believes the biggest challenge for his generation will be his parents' generation. He says that his generation is very technology based because they grew up in it, while his parents are a part of the boomer generation that did not grow up with the same advanced technology and they have had to learn how to shift their lifestyles and how they work to be more centered around technology. Thomas said he does not believe they were ready for the change to happen as fast as it has, and now we are seeing two generations, his and his parents, fighting over control in this country in all aspects of life.

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

According to Thomas, the biggest challenge to my generation will also be my parents' generation. He believes this because he feels that both our generations are fairly similar, except that my generation is even more use to living in a technology-based country because we were born in it while he was just a young kid when it really started to take off. He thinks my generation will see a challenge when it comes to the transfer of power from our parents' generation to his generation and then eventually to my generation. Another challenge my generation might experience is navigating through an economy that is increasingly becoming more and more global and countries becoming more and more reliant on each other. Lastly, he also thinks that my generation will begin to see the effects of climate change, but he is not sure how much it will actually affect my generation.

Case Study VII – 2008 Housing Crisis

The seventh and final case study revolved around the 2008 housing crisis. I was tasked with reading or watching a series of materials in the order provided to me. The first video was a video from PragerU and gave a rundown of what Crony Capitalism is. The second video was an interview with Dr. Thomas Sowell where he discusses his beliefs of the cause of the 2008 financial crisis. Next, I was tasked with watching the Academy Award-winning documentary *Inside Job* directed by Charles Ferguson and narrated by Matt Damon. This documentary detailed the questionable actions and decisions made by policy leaders and financial institutions before, during, and after the crisis. Lastly, I was tasked with reading two web articles. The first was from Wired.com and talked about David X. Li the creator of the Gaussian copula formula many used to justify the use of the derivative instruments used before the crash. The second article was from Rollingstone.com and talked about Goldman Sachs and their effects on the market and the creation of bubbles throughout the years that led to financial crises.

Upon completion of this case study, I found that I was able to gain a better, more in-depth knowledge of the 2008 financial crisis and the factors that lead up to it, and the lessons that have been learned from the aftermath of the crisis. Prior to this case study, I had a solid understanding of what the 2008 housing crisis involved but had never taken an in-depth look into the decisions and actions that ultimately led to the crash. Besides gaining an in-depth knowledge of the crisis itself, I also found that I learned a lot about my role as a professional and the profound impact I can have on society as I progress into becoming a professional in the financial world. I learned that my actions and decisions as a professional have an impact not only on how people view me but on how the industry as a whole is viewed. Lastly, I learned the importance of accountability and learning from your mistakes as a professional to avoid any future financial crises to the scale of the 2008 crash.

1. **<u>How did these materials affect your trust in institutions and the government?</u>**

While I continue to have trust in financial institutions and the government, the materials showed me that these institutions are capable of making serious errors in the implementation of financial policies because they are heavily influenced by special interest groups and the political atmosphere of the times. Specifically, while the goal of providing greater opportunity for lower-income Americans to enjoy homeownership was seen as a worthy policy, the political goal of implementing that policy as quickly as possible resulted in financial institutions and their government regulators failing to properly recognize the substantial risks, they were placing on themselves and the U.S. housing market. The lowering of standards for the qualification of loans that were issued to home buyers and insured by government agencies fueled the housing market which saw more Americans qualifying for loans to purchase more homes at higher prices. This policy led to the creation of an entire class of loans that were deemed to be “subprime”, meaning the borrowers did not meet traditional standards for qualification that would have given a higher assurance of repayment of the loans. These loans were then packaged and marketed into the secondary market as qualifying loans that offered a greater profit margin on the spread due to their higher interest rates. This ultimately led to financial institutions seeing great returns with seemingly no risk and eventually led to lenders making more and riskier loans. However, it is difficult to know whether financial institutions intentionally took advantage of this situation for these purposes as these practices were common throughout the industry with mathematical evidence, such as the Gaussian copula formula, supporting the use of these types of financial instruments. Instead of experiencing distrust in the government and these financial institutions, I feel more disappointed that they were justifying their actions based on surface-level material and not understanding and relaying to the public the amount of risk involved in these transactions. Unfortunately, this exposed the fallacy of the policy, in that it did not take into account that if and when the economy slowed, the rate of defaults in these loans would increase thereby resulting in the significant losses incurred by the financial institutions and government agencies that issued and insured the loans as well as the investors who purchased interests in them.

This unintended, but totally foreseeable, outcome could have been avoided if policymakers, government agencies, and financial institutions had taken a closer look at their actions. Pursuing policies that benefit more Americans is a worthy goal. But the lessons of the 2008 financial crisis are that worthy policies must also be properly scrutinized so that their implementation does not create a bigger problem than the one such policies are designed to alleviate.

The aftermath of the 2008 financial crisis put policymakers and financial institutions into a difficult situation. People, businesses, and the economy as a whole, across not only the United States but the entire world, suffered tremendously due to the crisis. Hank Paulson, former U.S.

Treasury Secretary, was tasked with handling the aftermath of the crisis. One of Paulson's controversial decisions was to provide a government bailout to AIG, a private financial investment firm, while not providing similar assistance to Lehman Brothers, another private financial investment firm that ultimately collapsed. As a result of this decision, many investors and others lost trust in government agencies and financial institutions as they believed Paulson showed preferential treatment to certain favored Wall Street investment firms while allowing others to collapse or seek other remedies as a result of the crisis. As Mr. Paulson was a former CEO of Goldman Sachs, one of the largest Wall Street investment firms, many believed that he should not have been in the position to handle the aftermath of the crisis due to his apparent conflict of interests. On the other hand, others believed Mr. Paulson, with his Wall Street background, and other leaders of these large financial institutions were exactly the right people to work through the aftermath of the crisis because they knew, more than anyone else, how these financial instruments and techniques worked and how they affected the overall U.S. and world financial markets and, therefore, would be most able to determine the remedies for the current situation and the safeguards to put in place to prevent future similar crises of this sort.

I find it difficult to say I distrust these large financial institutions or the government regulators who oversee them based on how Mr. Paulson handled the aftermath. While it does seem unfair that millions of people, many of whom were not sophisticated investors, were suffering as a result of the crisis and were not given the same bailout assistance that AIG received, Mr. Paulson knew the markets had to be unfrozen and people needed to have faith in these institutions again and, therefore, the immediate bailout of AIG became critical to saving our economy and the world economy from a total collapse.

With all this being said, I am still disappointed in the way the 2008 financial crisis was handled and some of the questionable decisions that were made both before and after the crisis. However, I cannot say that I have lost trust in these financial institutions or in the government agencies that regulate them. It is not unusual for government policy to be slow to catch up with current financial trends and impose the appropriate regulations to address the adverse pitfalls and shortcomings of those trends. While the profit motive will always be a driving force to contend with in the financial world, it remains incumbent on both government and the financial institutions subject to its regulations to adapt quickly to these types of financial transactions and address shortcomings in the implementation of desired policy objectives to avoid the type of market carnage seen in the 2008 financial crisis. I believe those who now lead the financial institutions and government agencies affected by the crisis learned from these mistakes and I feel confident and have trust that they will act in the future with these lessons in mind. Further, political leaders must likewise learn that they are to be always keenly aware of the impact of government policies poorly implemented and do all they can to ensure that those policies are well thought out to eliminate the possibility of such a disastrous outcome in the future.

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

The information provided by these materials really opened my eyes to how much of an impact I can have on society. As someone who is about to join the financial world as a professional and seeing how the 2008 financial crisis played out, I recognize that my actions can have major consequences. As a professional, I am looked to by others who are not professionals in the industry for guidance, because this is what I have worked and studied for during these past few years of my life. From the most basic standpoint, my role professionally is to execute my job in the best way possible that also aligns with the goals of my company and the virtues they abide by. At the same time, my role professionally is to move up through the ranks and be able to provide for myself and my family. Something that I think I can learn from the 2008 financial crisis as a professional is that I must always maintain an independent view with respect to the work that I do and the advice that I render so that I do not allow my judgment to be clouded by financial schemes that do not pass the smell test for soundness. To do this, I must always approach my work from both the ground level and ten-thousand-foot viewpoints. I think these materials have allowed me to realize my foremost role as a professional in the industry is to be thorough in my analysis and understanding of various financial investments and methods of accounting for them and whether those investments and accounting methods are both legally and practically sound.

My role personally goes hand in hand with my role professionally. As a member of society, I must strive to be the best version of myself and act in good faith towards everyone I come across, whether that is my family, friends, or business associates. However, as we saw in these materials, you can be a good person towards your family and your friends but allow shortcomings to affect your actions in your professional life that reflect upon society as well. While my role is to be able to provide for my family, I always need to remember that in achieving my personal goals, how I manage my professional life also has a major impact on not only my family but on my business, clients, and others I come in contact with in the financial industry.

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

Today, in our political landscape, we see a lot of the same issues that were around in 2008 that led us into the housing crisis. Our political leaders implement inconsistent policies with each change of power leading to a more short-term view of economic policy that inhibits the implementation of more stable longer-term economic policies. The polarization of the public, as reflected in the political leaders we elect and the social media we follow tends to prohibit effective compromise of critical economic issues such that wide swings seemingly occur with the change of the political winds. The impact of large contributions from financial institutions and investors in the political process is having a similar outsized effect on economic policy as it did in the 2008 financial crisis. The effect of these scenarios could lead to the implementation of similarly bad economic policies being imposed that could result in similarly disastrous consequences on our economy and the world economy unless checked by the lessons of the 2008 financial crisis.

What I think we can learn from the 2008 financial crisis to help avoid future crises are transparency and accountability. A big reason as to why the 2008 financial crisis was so disastrous was because the people affected by the crash were completely caught off guard when it happened. A lot of people were putting a lot of blind faith in these institutions and the government regulators to ensure that their investments were handled properly. But, they were totally blindsided when the policies hit a roadblock. Had these investment banks and their government regulators been more transparent with their clients and their policies, I believe the effects of the crash may have been less detrimental. Many investors did not understand how the new derivative and other investments really worked but only focused on the potential for significant returns with no view to the possibilities of a downside to the investments. The crisis that ensued revealed the lack of accountability on these financial institutions and their government regulators. If these banks had taken more time to step back and consider the effects their practices could have on their clients' livelihoods rather than just the profits they could bring to their own pockets, they probably would have been less likely to risk their clients' finances to the extent that they did. With a lack of accountability for a banker's actions, nothing is going to stop them from gambling on riskier bets because they seemingly have no risk of their own involved. An increase in the transparency and accountability among financial institutions, the government, and investors could significantly decrease the likelihood of future crises like the 2008 economic crash occurring again because all parties involved will better know the policies involved and how the implementation of those policies will affect their investments and the economy as a whole.

Case Competition Week 1 - Overview

Introduction

This week, our group was tasked with selecting a US based, publicly traded company as the 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 that initial background research, we dove into 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; and 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. And lastly for product expansions, they are now unrolling alcoholic beverage options.

Coca-Cola's operating structure includes 7 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 currently battling with the United States Internal Revenue Service (IRS). 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. According to Coca Cola, "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.

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 its 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 amount 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 about and are now trying to retroactively apply that to Coca-Cola (10-K).

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 dollars. 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 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 one-half 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. 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 Week 2:

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 to 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 by which 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 nonalcoholic beverages and learn how to develop strong reasoning skills when accessing 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 which Coca-Cola frequents and request 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 verifying 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: The 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: Auditors can observe Coca-Cola's internal audit team's physical count of inventory and review the process.

Test 3: Auditors 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 do 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 user's 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 under 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: Audit team should request documentation from creditors to examine the original debt covenants and contractual obligations.

Test 2: Our audit team can pick a randomized sample of invoices to compare to Coca-Cola's books and compare past cash payments transactions to memos.

Test 3: The 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 their 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: 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: Compare to Industry Average and Historical Company Data. Examine common industry ratios and look for abnormal deviations throughout the period.

Test 2: 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 SG&A account, in particular, 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 spendings 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 Week 3:

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 into 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.

System Information			
System	Annual Capacity	Installation Cost	Per kwh
100 kW System	150,000	180,000	1.20

Installation Cost (Per Facility)						
Facility	Square Footage	Annual kwh per SqFt	Annual Energy Consumption (kwh)	Target Solar Percentage	Annual Solar Capacity Needed (kwh)	Intallation Cost
Distribution	250,000	22.50	5,625,000	30%	1,687,500	2,025,000
Manufacturing	300,000	22.50	6,750,000	30%	2,025,000	2,430,000
Office	250,000	22.50	5,625,000	10%	562,500	675,000
					Total	5,130,000

Investment Tax Credit for Solar PV (Per Facility)			
Facility	Installation Cost	Tax Credit	Credit Savings
Distribution	2,025,000	26%	526,500
Manufacturing	2,430,000	26%	631,800
Office	675,000	26%	175,500
		Total	1,333,800

Depreciation Tax Effect (Per Facility)							
Facility	Total Cost	Minus TC	Depr Basis	Useful Life	Depr Per Year (Straight Line)	Corporate Tax Rate	Tax Savings Per Year
Distribution	2,025,000	(526,500)	1,498,500	30	49,950	28%	13,986
Manufacturing	2,430,000	(631,800)	1,798,200	30	59,940	28%	16,783
Office	675,000	(175,500)	499,500	30	16,650	28%	4,662
						Total	35,431

Potential Savings (Total)					
Facility	Target Facilities	One Time Tax Credit Savings	Annual Depr Tax Savings	Life Time Depr Savings	Total Lifetime Tax Savings
Distribution	101	53,176,500	1,412,586	42,377,580	95,554,080
Manufacturing	160	101,088,000	2,685,312	80,559,360	181,647,360
Office	11	1,930,500	51,282	1,538,460	3,468,960
Total		156,195,000	4,149,180	124,475,400	280,670,400

Table 1: Renewable energy information regarding costs and savings

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 one billion dollars 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.

In Millions	**Equity Investment Divesture**				
Year	**2021**	**2022**	**2023**	**2024**	**2025**
Reduction in Taxable Income	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Corporate Tax Rate	28%	28%	28%	28%	28%
Annual Tax Savings	280	280	280	280	280
5 Year Savings	1,400				

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 upside 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 will 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 will 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 that 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 reshore 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 be able to 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.

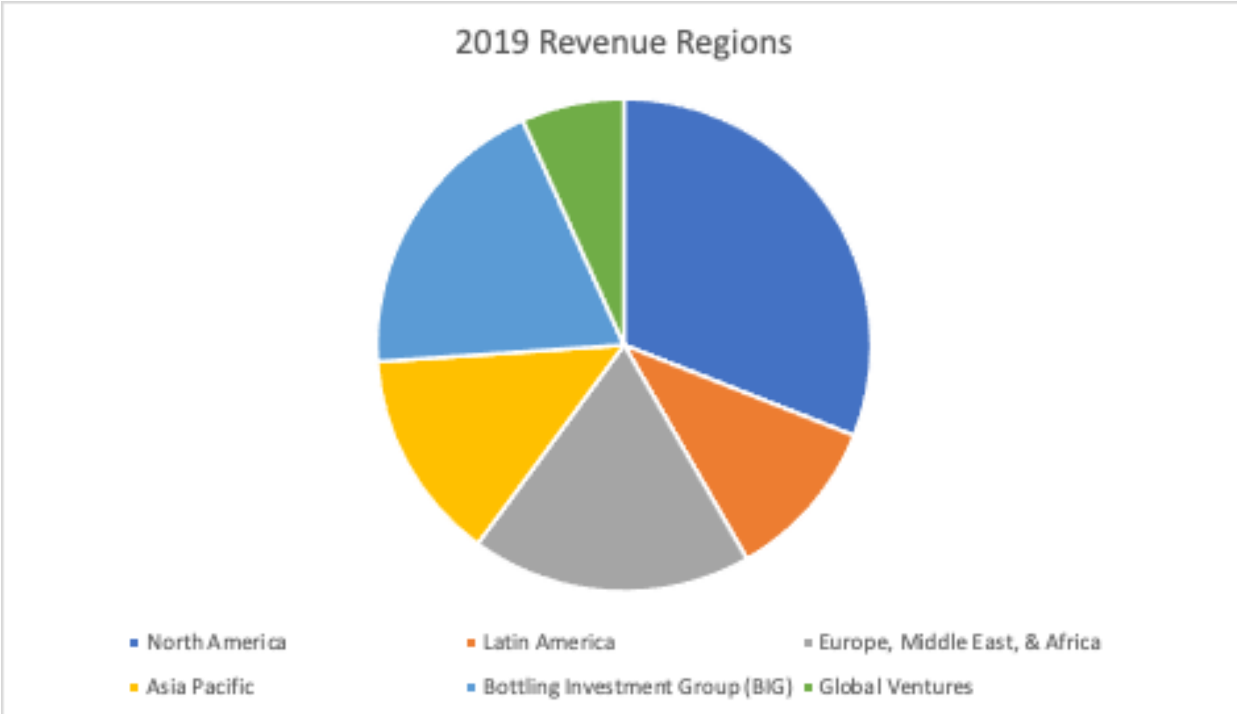

Figure 9: 2019 Coca-Cola Revenue Regions

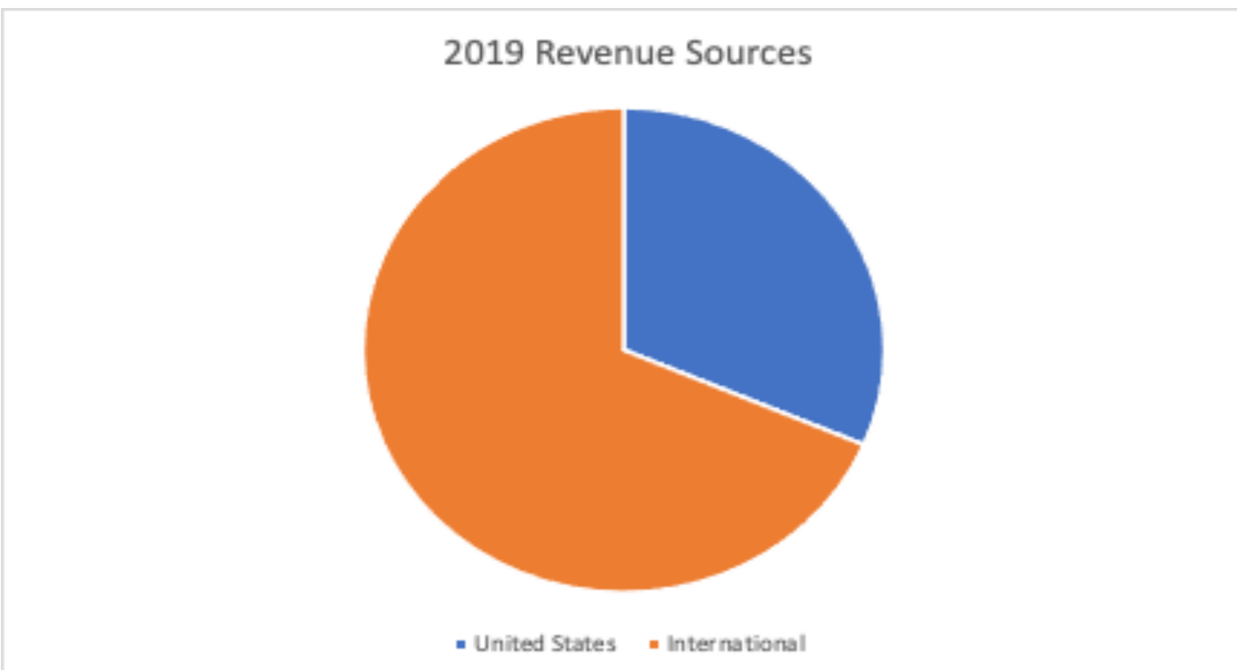

Figure 10: 2019 Coca-Cola revenue sources

In Millions	Foreign Subsidiary Relocation					Revenue
Year	2021	2022	2023	2024	2025	Growth:
Relocated Revenue to U.S.	896.88	923.79	951.50	980.05	1,009.45	3%
Offshoring Penalty	10%	10%	10%	10%	10%	
Offshoring Penaly Avoided	89.69	92.38	95.15	98.00	100.94	
One-time U.S. Tax Credit	10%					
Tax Credit Savings	89.69	-	-	-	-	
GILTI Tax	21%	21%	21%	21%	21%	
GITI Tax Avoided	188.35	194.00	199.82	205.81	211.98	
Annual Tax Savings	367.72	286.37	294.97	303.81	312.93	

Table 3: Foreign subsidiary relocation tax implications

For Year Ended 12/31/2019	United States	International	Total
Concentrate Operations	$5,252,000,000	$15,247,000,000	$20,499,000,000
Finished Product Operations	$6,463,000,000	$10,304,000,000	$16,767,000,000
Total	$11,715,000,000	$25,551,000,000	$37,266,000,000

Table 4: Data for concentrate and finished product operations

<u>Case Competition 4:</u>

<u>Introduction:</u>

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 are 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 its 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 they have 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 in 2020 currently 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 of 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 that impressive $67.2 billion in revenue.

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 1.

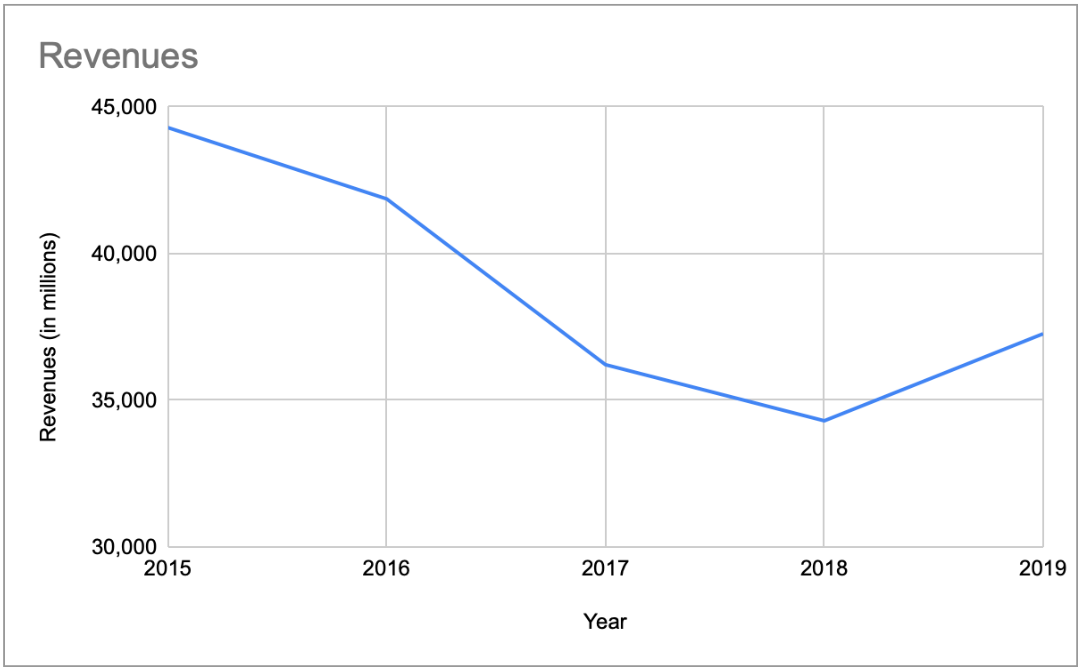

Figure 11: Revenues over the past five years for Coca-Cola Company

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 2.

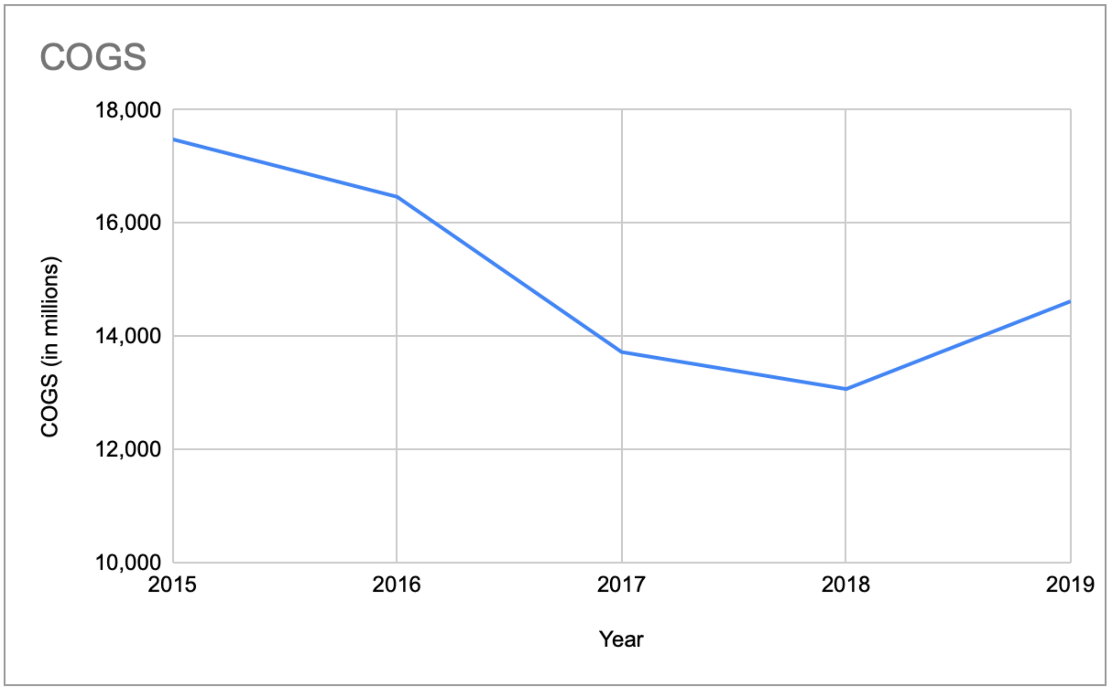

Figure 12: Cost of Goods Sold over the past five years for Coca-Cola Company

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 3.

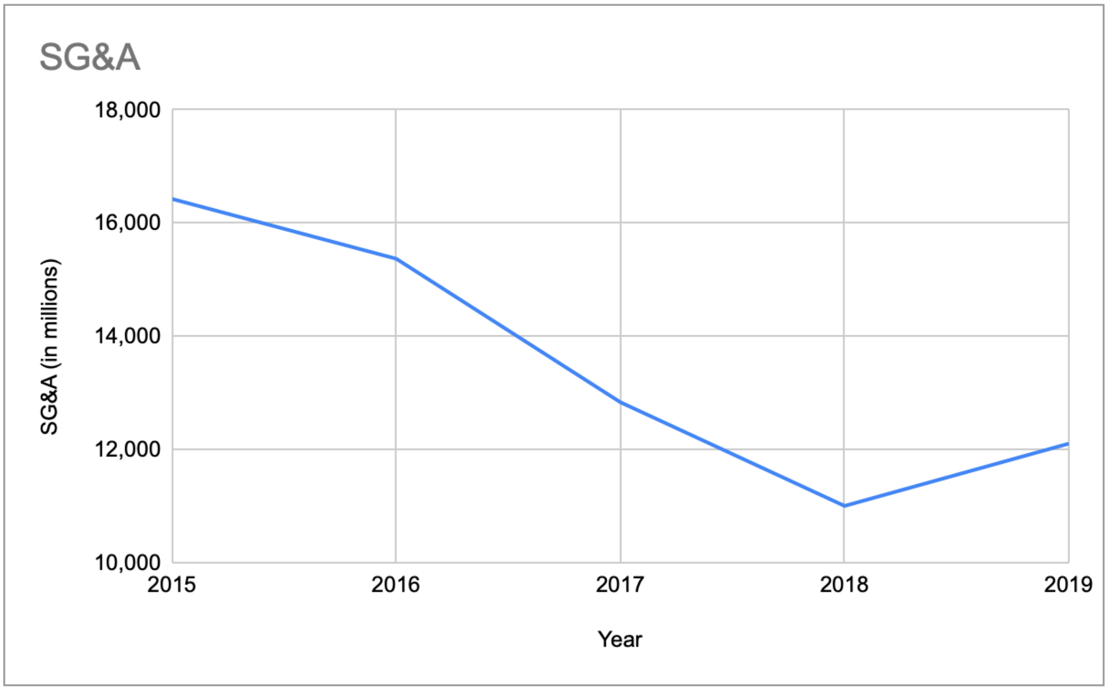

Figure 13: Selling, General, and Administrative expenses over the past five years for Coca-Cola Company

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 4.

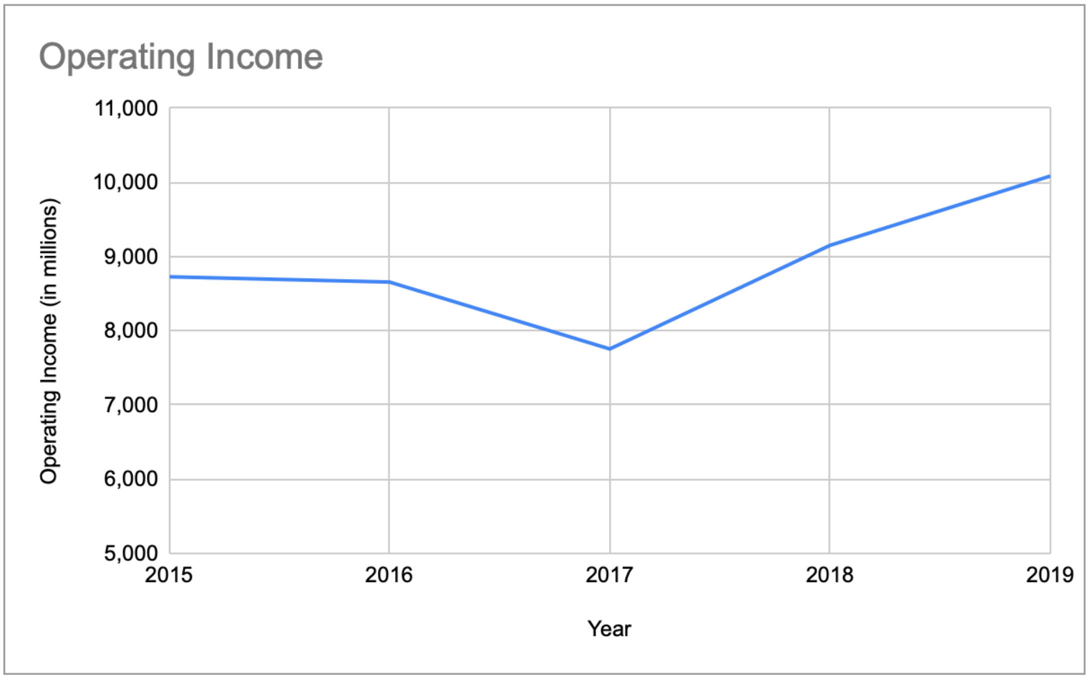

Figure 14: Operating Income over the past five years for Coca-Cola Company

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 5.

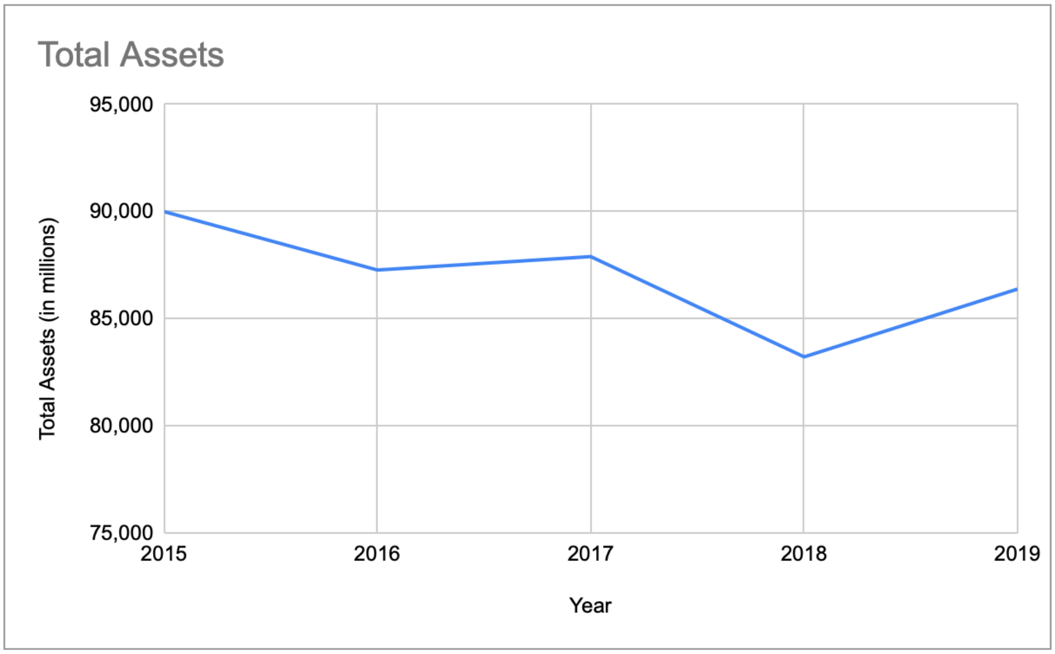

Figure 15: Total Assets over the past five years for Coca-Cola Company

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 6.

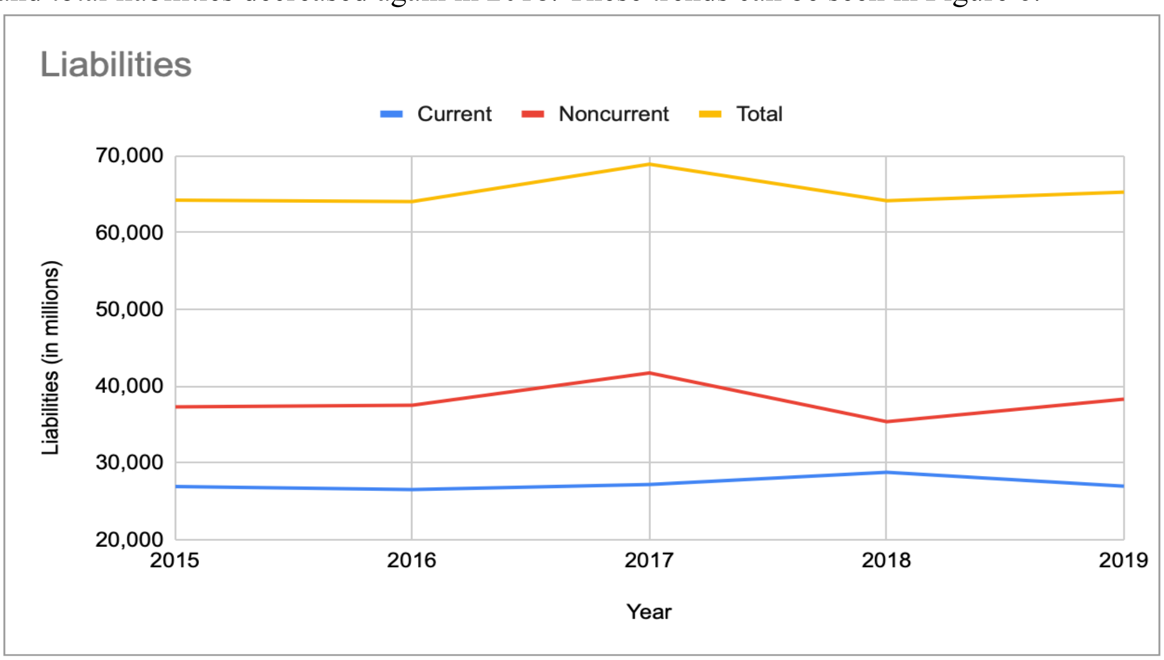

Figure 16: Liabilities over the past five years for Coca-Cola Company

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 7.

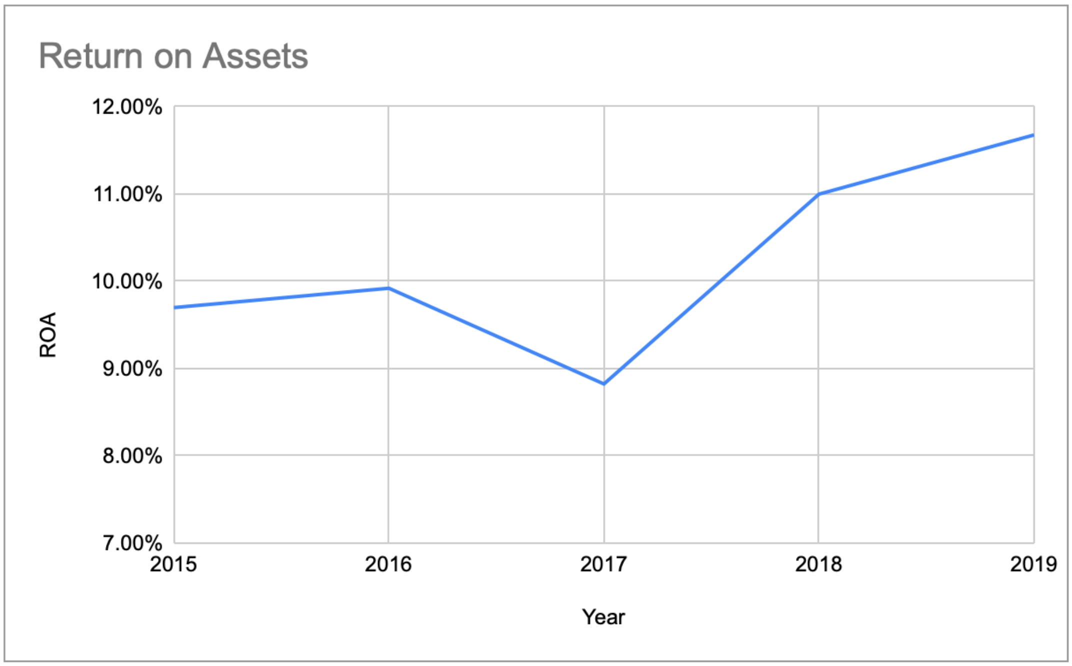

Figure 17: Return on Assets over the past five years for Coca-Cola Company

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 8.

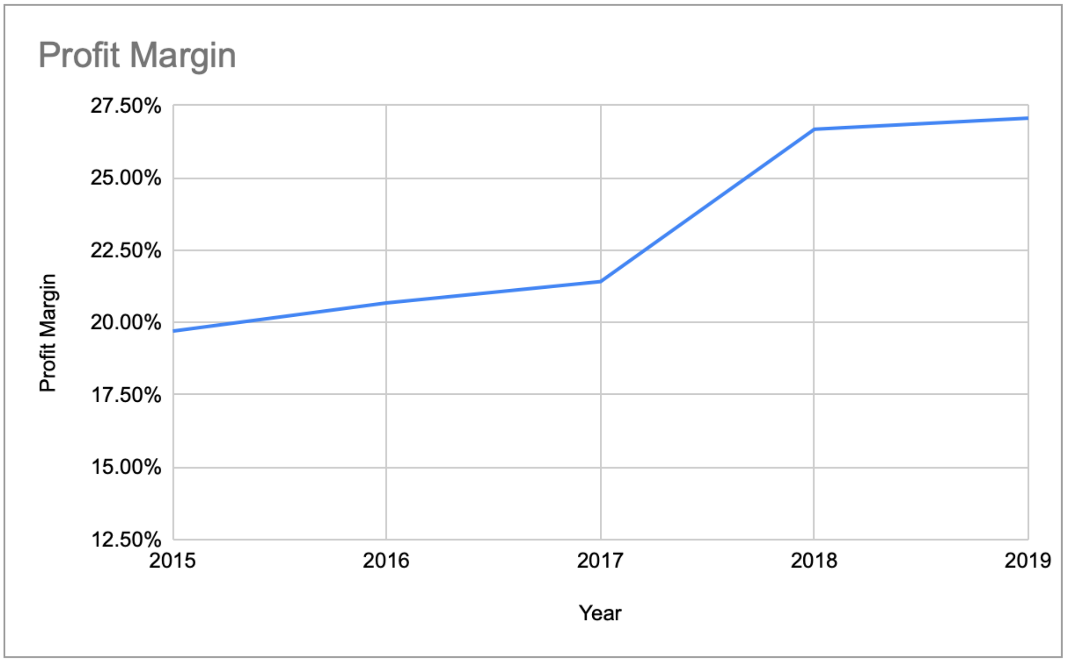

Figure 18: Profit margin over the past five years for Coca-Cola Company

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 9.

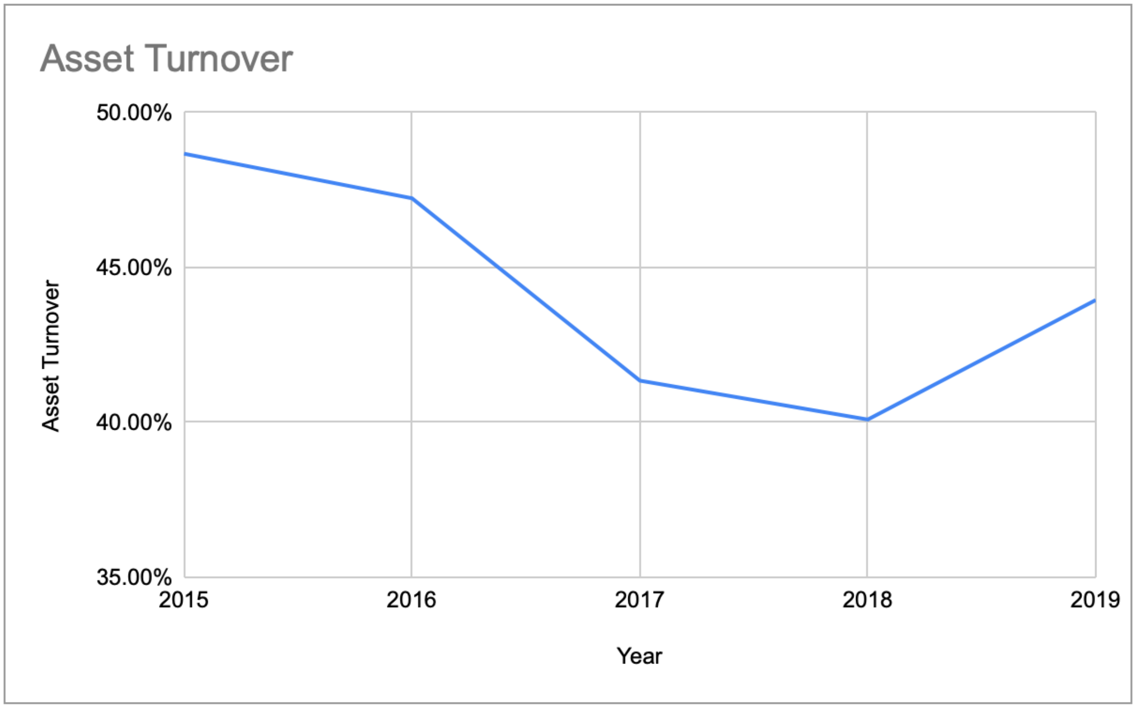

Figure 19: Asset Turnover over the past five years for Coca-Cola Company

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.

<u>III. Company Threats and Solutions</u>

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 10k 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 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 10.

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 11.

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.

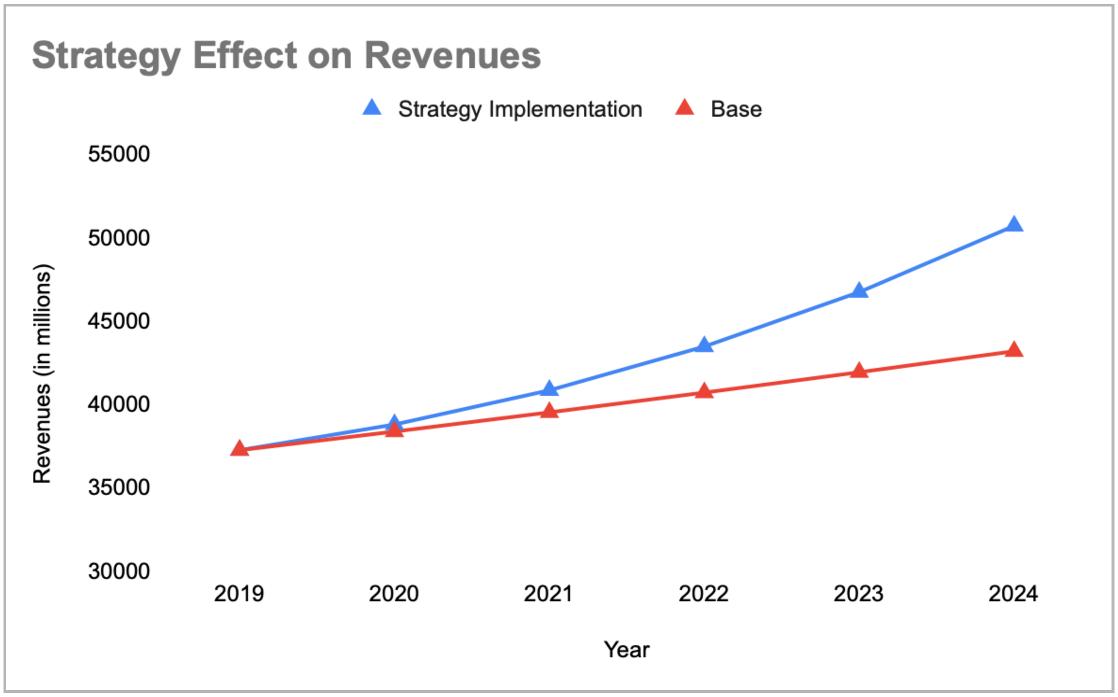

Figure 20: Forecasted effects of the solution to Threat One on revenues over the next five years

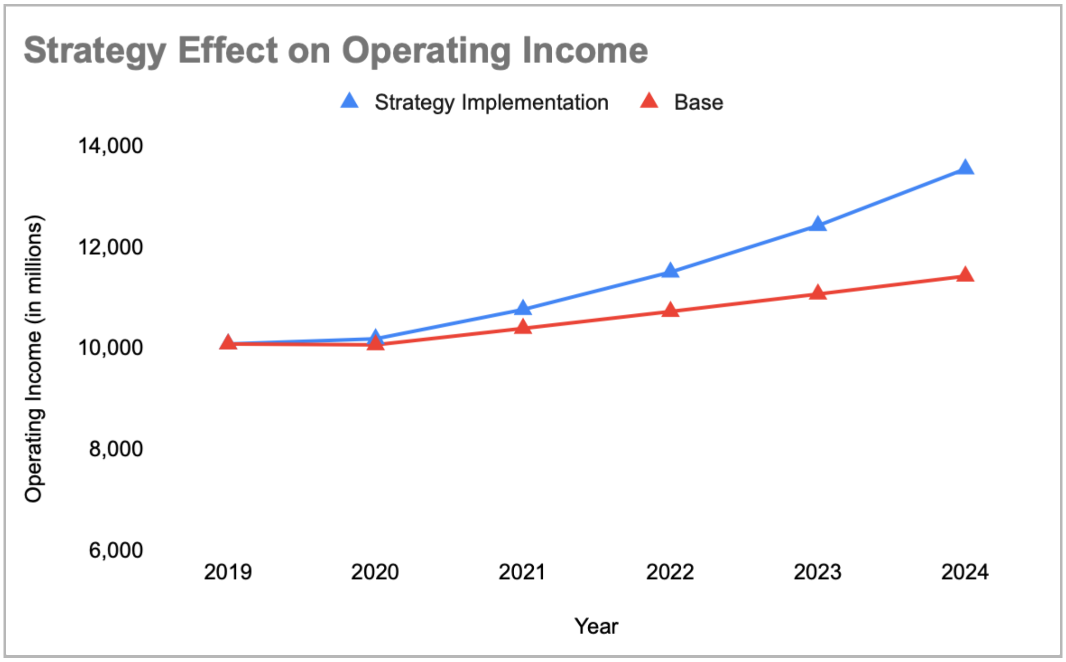

Figure 21: Forecasted effects of the solution to Threat One on operating income over the next five years

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 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.

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 13. 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 12. 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.

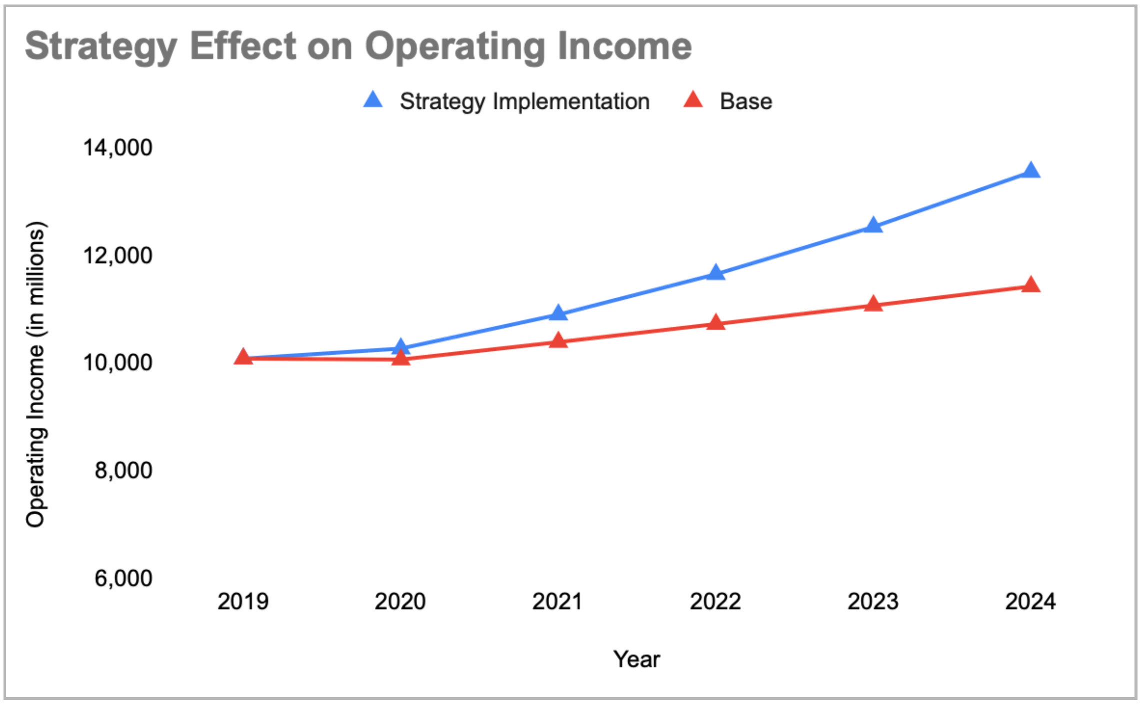

Figure 22: Forecasted effects of the solution to Threat Two on revenues over the next five years

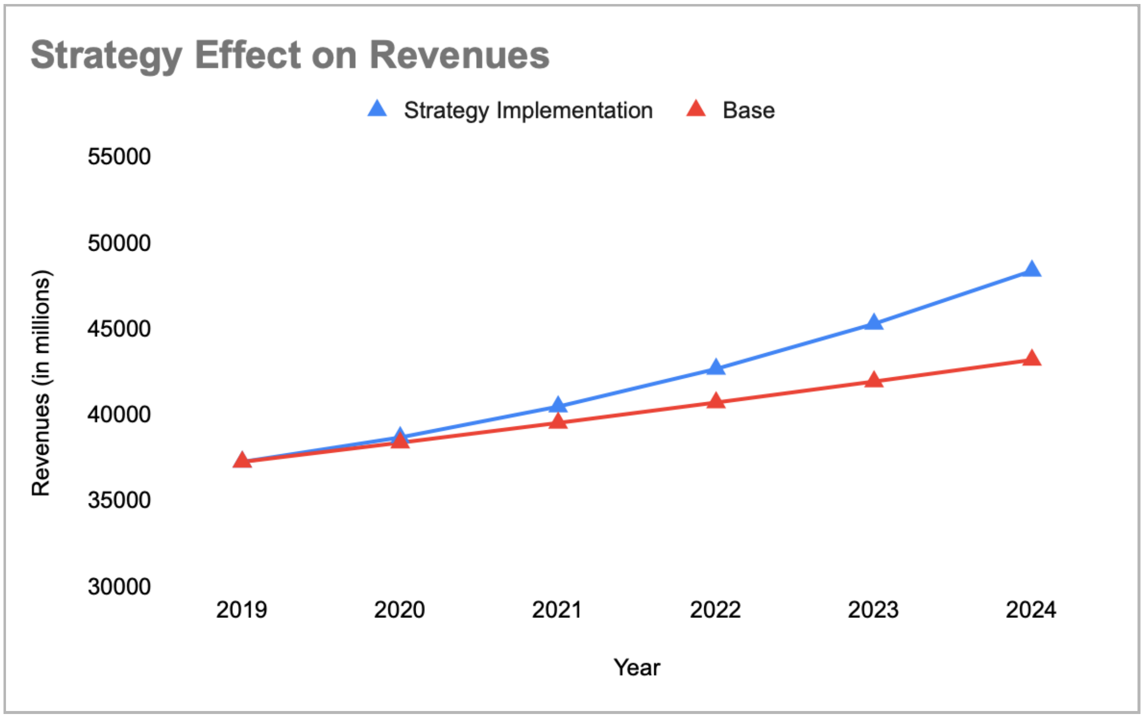

Figure 23: Forecasted effects of the solution to Threat Two on revenues over the next five years

IV. Ratio Recomputation

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—in 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 Week 5:

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 -2 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 EPS 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 EPS 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 EPS by an average of \$0.01 each year over the next five years. Our second tax strategy would reduce EPS 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 EPS would be highly variable and dependent on the specifics of relocation. Our fourth tax strategy of relocating foreign earnings would improve projected EPS by an average of \$0.07 per year. Where EPS increases in strategies one and four, the projected stock price would appreciate proportionately; strategy two's reduction in EPS 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 ROA 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.

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