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COLLECTION OF ACCOUNTANCY CASE STUDIES

by
Adam Lalejini

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

Oxford, MS
May 2022

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Abstract

COLLECTION OF ACCOUNTANCY CASE STUDIES

(Under the direction of Dr. Victoria Dickinson)

The following collection of case studies examines various personal and professional topics in accounting. These topics range from personal research and reflection on important topics within the profession to a comprehensive case competition focusing on The Coca-Cola Company. Throughout the collection, theoretical accounting frameworks and solutions are applied to real world scenarios. In addition to theoretical frameworks, financial statements and relevant outside sources are used with applicable.

Case 1

A Tale of Two Cities: Dallas and Houston

Introduction

Pondering the question of where I would like to end up upon graduation has always been a fun, yet seemingly distant thought experiment. It was not until I began this case study that I realized just how daunting and consequential that decision is. After all, in the United States alone, there are 50 states and over 19,000 cities to choose from. And choosing is the objective of this case study; more specifically, I was challenged to compare and contrast two cities of interest that one may begin a career in public accounting. To begin, I created a set of parameters in order to narrow my search window. First, the city's population was to be over 500,000. Second, the city's cost of living should be within reason for an entry level accounting salary. And finally, the winters should be mild. These parameters immediately ruled out cities previously on my radar such as New Orleans, New York, and Chicago. Through continued screening, Texas began to look very appealing, especially Dallas and Houston. Both cities are very large at over a million people, the cost of living is relatively low considering size, and the Texas climate is fairly similar to that of Mississippi. Additionally, both cities are experiencing tremendous economic growth, current pandemic conditions aside.

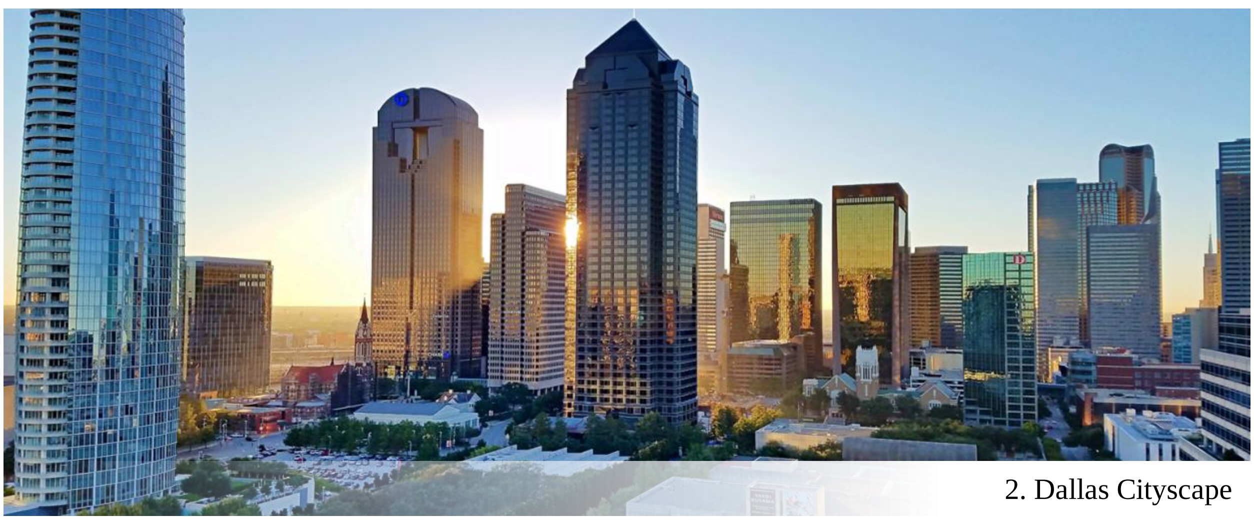
By the end of this case, however, I discovered both the incredible opportunities and major shortcomings of each of these cities. I gained a deeper understanding of the qualities an accountant should be looking for in a city. But most importantly, I learned that nowhere I choose to live will be perfect, and it is more important than ever to understand the priorities and goals I have as an individual. Those priorities and goals should determine, more than anything else, the city I choose to build my career.

Dallas

Dallas sits in the heart of northern Texas with an estimated population of 1,343,573 as of 2019 (U.S. Census Bureau). This number continues to grow as more people from across the country migrate to the city. A growing population signals a growing economy, certainly a positive trend for accounting firms in the region. Its climate is described as humid subtropical: hot, humid summers and mild to cool winters. Although it does not get very cold, the seasonal range of temperatures is relatively wide, as daytime temperatures in the summer frequently exceed 100 degrees Fahrenheit (U.S. Dept of Commerce). It is also located in the Tornado Alley region where tornadoes are commonplace. Apart from tornadoes, the climate is very similar to my hometown in South Mississippi, so it would not be a major adjustment. The city sits on a mostly flat landscape with the Trinity river running through the city center. Historically polluted and neglected, the city has been funding development of nature trails, parks, and other amenities throughout the river space. White Rock Lake is another popular outdoors destination with recreational space for boaters, joggers, and bikers. Overall, I feel very positively about Dallas's trending growth, familiar climate, and picturesque cityscape.

1. Dallas Skyline

Taxes in Dallas are very low; in fact, they are some of the lowest in the country with some caveats. Residents enjoy no state or city income tax but instead must pay a higher sales tax of 8.25 percent. Property taxes are also higher than the national average at around 78 cents per 100 dollars of assessed valuation (Dallas City Hall). Additionally, all residents are subject to the federal income tax and FICA taxes. Assuming a $55,000 salary with no tax deductions, total taxes would equal $7,889.78 at the 22 percent marginal tax rate. This does not take into account the 8.25 percent sales tax, which must be added to daily purchases. Dallas does have some public transit options such as the METRO bus and rail systems, the GoLink shuttle service, and a trolley system. Monthly passes range from $96 to $196 (Dallas Area Rapid Transit). However, much of the city was designed with car accessibility in mind, so driving has become the most common mode of transportation.

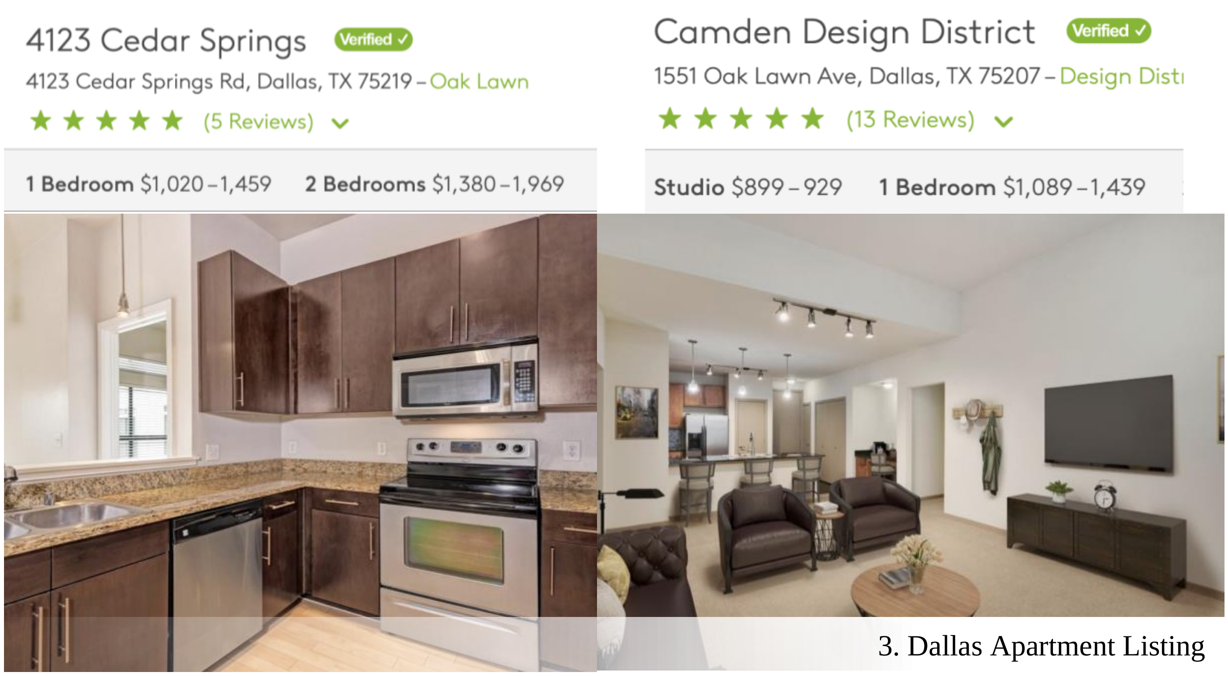


2. Dallas Cityscape

Unfortunately, nowhere is perfect. Texas as whole is consistently ranked near the bottom of healthcare rankings. A report by Houston Public Media in 2019 points out that Texas is ranked 49th nationally in overall healthcare rankings, which includes factors like access, affordability, and treatment (Alvaro). Public education across the state also suffers, as U.S.

News ranks Texas a poor 33rd in K-12 education. There are, however, several highly ranked private schools in the Dallas area that I would prefer to send my children. Crime rates are also much higher in Dallas than other parts of the country with violent crime rates at 765 per 100,000 people compared to just 386 per 100,000 nationally (U.S. Dept of Justice). Crime hotspots include downtown, Deep Ellum, and Old East Dallas (City of Dallas).

Negatives aside, average rent in the city is much lower than other cities like New York or San Francisco. Apartments.com estimates the median one-bedroom apartment rents for $912 a month. Opting to live closer to the city center, I can expect to pay between $1,000-1,300 a month for a 600-800 square foot apartment near the Medical District. Most current listings include numerous amenities such as kitchen appliances, outdoor space, parking, in-unit washer and dryer, and more. Close to the Medical District, commuting to the office would be under 10 minutes by car, 15 to 20 minutes by bike, or 20 to 30 minutes by public transit. Since most apartments provide parking, groceries could be picked up weekly at local supermarkets. In-unit laundry is also widely available in these apartments (Apartments.com).

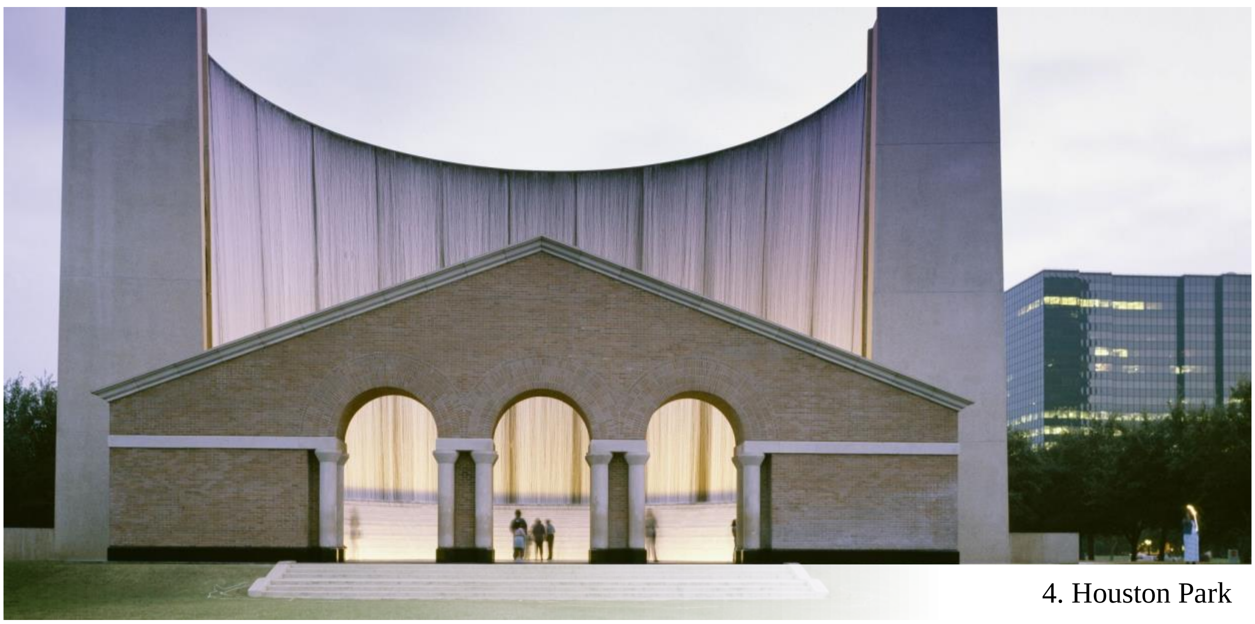


3. Dallas Apartment Listing

There are several organizations I could actively take part in. A local church would provide a sense of community and provide opportunities for helping those around me. I would also reach out to local charities of interest and find out if my experience in accounting could be of service. Finally, the Rotary Club of Dallas would be a great opportunity to connect with local leaders and serve the community. For recreation, Dallas is home to both the Dallas Cowboys and Dallas Mavericks. I would also heavily utilize the network of nature trails, experience downtown nightlife, and learn to golf on some of the city's numerous golf courses. When I would like to visit my parents in South Mississippi, a round trip flight would run well under $250 according to Google Flights and takes less than two hours nonstop. In short, Dallas is a relatively affordable, very diverse, and rapidly growing city that suffers from expensive healthcare, lackluster public schools, and higher than average crime rates.

Houston

Houston differs from Dallas in many ways. First, it is a larger city with an estimated population of 2,320,268 as of 2019 and, like Dallas, its population continues to grow at similar rates (U.S. Census Bureau). The climate is nearly identical to that of Dallas, although the frequent tornadoes are replaced with frequent flooding; I am not sure which I prefer. Like Dallas, the surrounding region is very flat; however, it is located on the coast of the Gulf of Mexico. The scenery would probably be similar to my home in South Mississippi, with numerous bayous and access to the Gulf. Houston is home to numerous large parks with historical monuments, nature trails, and even a massive artificial waterfall.



4. Houston Park

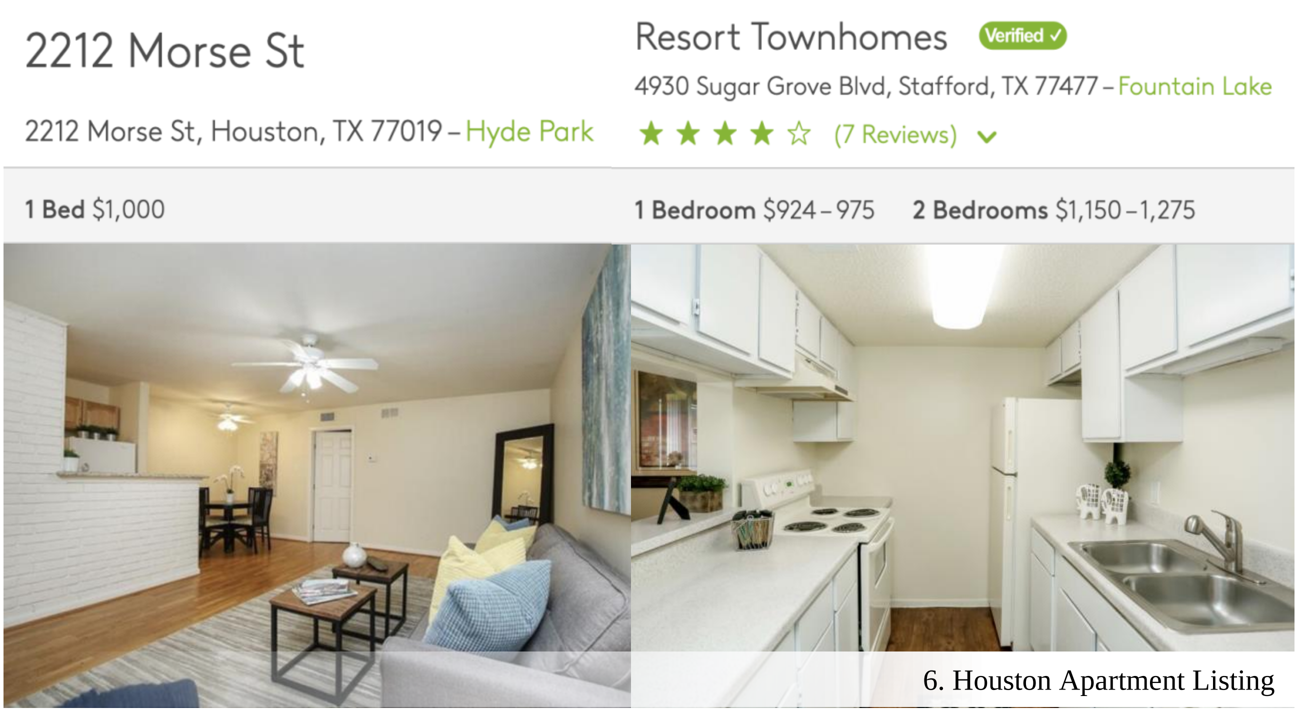
Taxes in Houston are almost identical to those in Dallas: no state or city income taxes but higher sales and property taxes. Unfortunately, Houston's public transportation system is not as extensive as that of Dallas. Although there is a large number of bus lines, there are only three rail lines, and not much else. Similarly, Houston is a heavily car dependent city with ample accessibility for cars. While the dominant industry in the city is energy (especially oil and gas), the Houston economy is also very diverse with large sectors in health care, biomedicine, and aerospace. The largest Fortune 500 companies headquartered in Houston are as follows: (27) Phillips 66, (56) Sysco, (93) ConocoPhillips, (98) Plains GP Holdings, and (101) Enterprise Products Partners (Fortune 500). Similar scenery to my hometown, rapid growth, and low taxes make Houston an attractive prospect; however, its smaller public transit system and reliance on the energy industry is less attractive, so far, to Dallas.

5. Houston Aerial View

Healthcare in Houston seems similar to that of Dallas. Access and affordability are rated very low, but the city is known for having exceptional hospitals, albeit for a premium price. Like Dallas there are hundreds of schools in Houston that range from good to bad, but there are some notably high ranked schools in the city. U.S. News gives Houston a "College Readiness Index" of 7.5 out of 10 and Dallas a 7.4 out of 10. Depending on the school district, I would likely send my children to private school in Dallas also. According to the FBI, violent crime rates in Houston were 1,026 per 100,000 people in 2018; this is significantly higher than Dallas. Similar to Dallas, however, are abnormally high property crime numbers with over 94,000 incidents in

2018 (U.S. Dept of Justice). Crime hotspots include much of northern Houston, downtown, and neighborhoods spread throughout the city (Top 10 Most Dangerous). While healthcare and education are similar in Houston, I prefer Dallas's lower prevalence of crime hotspots and crime rates.

According to Apartmentlist.com, the median rent for a one-bedroom apartment is only $835, much lower than similar sized cities and slightly lower than Dallas. I would likely opt to live in Hyde Park, as it is fairly close to the city center and median one-bedroom rent hovers around $1,095 according to Apartments.com. In this regard, the cost of living and commute time would be comparable to Dallas. Most apartment listings also include amenities similar to those in the Medical District in Dallas. I would most likely either bike or drive to work given the limited public transit options and large availability of parking. Grocery shopping could be done once a week with a drive to local supermarkets, and laundry could be done at home since most apartments come with in-unit washers and dryers. Frankly, renting in either city would be very similar, but higher crime in Houston may limit my choices.



6. Houston Apartment Listing

In Houston, I would definitely get connected with a local church and get involved in various ways there. Having seen the effects of hurricanes in my hometown, I would like to volunteer for various disaster preparedness and disaster relief organizations in the city, such as All Hands and Hearts, which has helped to rebuild homes, schools, and other structures devastated by hurricane Harvey. Also, I would like to get connected with the Rotary Club of Houston in order to find out ways my professional experience could be of service to the community.

In terms of recreational activities, there are plenty in Houston. For one, the city is home to numerous sports teams including the Houston Rockets and Houston Texans. I would also take advantage of the parks and trails throughout the city and visit the many museums in the Museum District. Experiencing the diverse culture of the majority-minority city and exploring the downtown nightlife would also be great experiences. When visiting family in Mississippi, the cost of a flight is even cheaper than Dallas at under $150 according to Google Flights; flight time would be under an hour and a half. All things considered, Houston is a youthful, growing city with cultural diversity found in few other places in the United States. It is a massive city but remains affordable. However, the dominance of oil and gas does not align with my desire to work with financial services clients, and its extraordinarily high crime rate is off-putting.

Conclusion

In the end, Dallas is my preferred choice between the cities. Both cities are almost identical in terms of climate, cost of living, healthcare, and education; however, public transit, industry makeup, and crime rates were deciding factors in my final preference. Dallas boasts an extensive public transportation network that connects the city to neighboring Fort Worth and Arlington. Houston, while providing an expansive bus system, lacks a sizable rail system and other alternatives. Additionally, I have a strong desire to work with large financial services clients, and Dallas dominates in that regard. Dallas is also part of the much larger Dallas-Fort Worth metroplex, a truly massive metropolitan area home to even more Fortune 500 companies. Companies have continued to relocate to the region year after year, and I believe that could provide incredible career opportunities in the future. And while the crime rate is high in Dallas, it is still significantly lower than Houston's. When weighing these factors against not only my career goals, but life goals as well, Dallas is the clear winner.

Monthly Budget				
	Dallas		Houston	
Gross Pay	**$**	**5,000**	**$**	**5,000**
Taxes				
Federal Income	$	(750)	$	(750)
FICA	$	(310)	$	(310)
Net Pay	**$**	**3,940**	**$**	**3,940**
Living Expenses				
Rent	$	(1,250)	$	(1,100)
Utilities	$	(100)	$	(110)
Health Insurance	$	(240)	$	(240)
Groceries	$	(200)	$	(200)
Transportation				
Gas	$	(30)	$	(40)
Car Insurance	$	(125)	$	(125)
Maintenance	$	(100)	$	(100)
Other				
Personal Expense	$	(150)	$	(150)
Dine-Out	$	(100)	$	(100)
Entertainment	$	(150)	$	(150)
Savings / Investments	**$**	**1,495**	**$**	**1,625**

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Honor Code

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

Case 2

Financial Statement Concepts

Tyler Burke, Matthew Conroy, Adam Lalejini, and Madison Todd

Executive Summary

The FASB, Financial Accounting Standards Board, is a nonprofit organization working to improve and establish GAAP, Generally Accepted Accounting Principles. This second case evaluates different viewpoints addressing the creation and existence of two different FASB standards, and the manner that modern accounting will be changed by these decisions. This case is broken down into three different questions. The first question addresses the practicality of the balance sheet versus the income statement in assessing the financial position of a company. Overall, the group concluded that the income statement more accurately communicated the financial position of a company due to the reliability and steady nature, as opposed to the balance sheet. The second question assesses the "value-in-exchange" versus the "value-in-use" approach for the measurement of assets. The conclusion reached on this second question was that the "value-in-use," rather than the "value-in-exchange" approach was a better measurement of assets because of the acknowledgment that value is created by the use of an asset. The third, and final, question relates to the second question; it evaluates the adjustments that will have to be made to journal entries due to the use of the "value-in-use" rather than the "value-in-exchange" approach. The group found that under the "value-in-use" approach, versatility increases the value of an asset, thus affecting assets such as land, machinery, and buildings. The discussion of these questions helped our group have a better appreciation and understanding of all that goes into the creation and decision making of FASB standards.

Question 1

The first question of the case presents two conflicting viewpoints that essentially center around the balance sheet and income statement. Viewpoint one argues, "the proper valuation of assets and liabilities is the primary goal of financial reporting, with income concepts occurring as the result of changes in the asset and liability values." Through group discussion, we determined that this statement places the reliability of balance sheet values above those of the income statement. There are some upsides to this. For one, asset and liability accounts would be more accurate as changes in assets and liabilities are primary with changes in income secondary. Because the balance sheet represents a point in time, a firm's true enterprise value could more accurately be assessed by investors and creditors. However, there are some major flaws in this argument. "Under this view, firms are essentially 'asset greenhouses', where the primary mission of the firm is to earn money by acquiring assets… and earnings represent the realized or unrealized growth in these assets." We disagree that the primary mission of the firm is to acquire and grow assets. Instead, the growth of a firm should be measured in the earnings associated with the assets. If the valuation is derived primarily from balance sheet accounts, firms that see material growth in sales will not grow unless assets are purchased during the same year. Additionally, if earnings are tied to the change in the value of assets, this could skew the relevance of information for users of financial statements, as a change in fair value is not directly related to a firm's core operations. Assets can also be difficult to properly value, often involving subjective estimates of depreciation or subjective changes in fair value estimates.

Considering these issues, our group agreed with viewpoint two: "The determination of revenues, expenses, and especially earnings is the primary goal of financial reporting, with asset and liability values being updated by changes in the income statement accounts." At the end of the day, what values are users of the financial statements primarily concerned about? Investors and creditors use earnings, above all, to determine a firm's present and future financial position. Growth in revenues is not necessarily tied to an increase in assets. Perhaps a firm improves its processes, hires new management, or some other change impossible to reflect in the balance sheet accounts. Only the income statement can reflect the results of these changes. Under this perspective, a firm's share price would be derived from the objective results of a firm's operations and not the often-subjective valuation of assets or liabilities. Critics would argue that, under this viewpoint, asset-heavy firms would be undervalued in comparison to other firms that generate slightly more revenue with fewer assets. This is true; however, firms should be incentivized to generate more revenue with fewer assets to encourage asset efficiency. "Under this view, firms are essentially 'asset furnaces', where acquired or internally created assets are continually sacrificed or transformed for the larger goal of producing revenue and earnings." Looking at assets as a means to an end rather than the end itself would provide far more relevant information, more reliable projections, and better valuations for users of the financial statements.

Question 2

Similar to the first question, the second question of the case study provided us with two different viewpoints. After analyzing the two viewpoints, the students chose the viewpoint that they believe the FASB should put into effect when creating new standards. The first viewpoint stated assets should be measured as "value-in-exchange." This means that assets realize their contribution to firm value on a standalone basis in exchange for cash or other economically valuable assets. By using these assets along with other firm assets, hardly any incremental firm-specific value is generated, and sometimes no value is generated. The main benefit of this viewpoint would be each step in the asset creation process creates a marginal value that can be ascribed to the specific step in the process. After determining the main benefit, several disadvantages of this viewpoint were discovered. If assets are measured as "value-in-exchange," the importance of the use of capital assets in creating inventory available for sale during continuing operations will be underestimated. The first viewpoint also makes it difficult to determine how much value from each step in the asset creation process is provided to the value of a finished good. Lastly, fair value can be subjective by using this viewpoint.

After determining the benefits and disadvantages of the first viewpoint, an analysis of the second viewpoint was performed. The second viewpoint declared assets should be measured as "value-in-use." This method states assets realize their contribution to firm value by being consumed or used in combination with other assets. Firm-specific value incremental to the sum of the assets' values-in-exchange is generated by using these assets with other firm assets. We determined the second viewpoint should be the FASB's main focus after coming up with the benefits this viewpoint provided. By using the second viewpoint, value is also created through the use of an asset, like PPE, to create other assets that can be sold to generate revenue. This means the value of an asset can be directly tied to usage. Another main benefit of the second viewpoint is its ability to match depreciation expenses to revenues. Finally, internally generated assets that may go unrecorded will be accounted for. The second viewpoint also includes some disadvantages that were determined. The greater use of an asset does not necessarily equate to additional value being created. The value derived from asset use can be very difficult to determine, especially in combination with other assets. Although disadvantages of this viewpoint arose, these disadvantages can be avoided. It will be very beneficial to the accounting field if the FASB decides to focus on measuring assets as "value-in-use" when they are creating their new standards.

Question 3

In order to accommodate the accounting for value-in-use, current accounting standards will have to make minor adjustments in the carrying value of capital assets. Current accounting standards have capital assets carried on the balance sheet at historical cost, less any accumulated depreciation. However, given our response to the second question, the carrying value of a capital asset may be inaccurate due to consumption in conjunction with other capital assets. For example, in the manufacturing process, a unique piece of machinery that serves a singular purpose will only have marginal value by itself, but that single piece of machinery when used along with other machinery produces inventory, which leads to a firm deriving revenue. Our group is not arguing that machinery serving a singular purpose is carried on the balance sheet at an inaccurate price; instead, our proposed change centers around the idea that capital assets that are capable of serving a variety of purposes are inaccurately carried at historical cost. Some types of machinery are capable of pivoting, with minimum burden, to produce a different type of asset than what may have been produced in prior days. Thus, we propose that current accounting systems will need to adjust the fair value of the previously outlined capital assets to reflect the versatility of assets serving a wide range of purposes. In effect, an account called "versatility premium" would need to be created which represents the estimated potential savings a firm would incur from utilizing an asset that can fulfill a variety of needs in the production process.

Our proposed versatility premium would only apply to firms that carry capital assets with the ability to pivot to produce a new, distinctly unique product that an alternative type of machinery would be unable to produce, primarily manufacturing companies. This versatility would be of value due to its ability to serve as a hedge against potentially lessened demand for a specific product. For example, some firms will experience sharp downturns in demand of carried inventory due to the seasonal nature of some industrial sectors. This ability to pivot should be capitalized by projecting costs to switch to production of a separate inventory, so the versatility premium would be held on the balance sheet as the projected number of manufacturing changes multiplied by the costs associated with switching. Initially, the versatility premium will serve as a contra asset account. The premium is carved out of a portion of the purchase price and computed as the number of switches in manufacturing multiplied by the associated switching costs. Additionally, the versatility premium would be amortized over the useful life of the capital asset using whichever method is used in depreciation of the corresponding asset (straight-line, units of production, sum-of-years-digits, and double-declining balance). Ultimately, our proposed change would only lead to a slightly higher carrying value of a capital asset.

To demonstrate our proposed change, the following example will show the necessary journal entries associated with the versatility premium. This example involves the purchase of machinery that the versatility premium can be applied to the book value. In addition, the first example will show the journal entries for the annual depreciation expense utilizing the straight-line method of depreciation, and the second will show the same given information with the sum-of-years-digits method. The examples uses machinery purchased (with only cash) for $1,500,000 with a salvage value of $150,000 and a useful life of 10 years. The cost saved in purchasing this equipment compared to the purchase of two separate non-versatile machines is $25,000 per switch, and the company can expect to switch production once per year over the useful life of the machinery.

Example 1 Journal Entries

Entry for Purchase of Equipment:

Machinery	$1,375,000	
Versatility Premium	$125,000	
Cash		$1,500,000

Entry for Amortization of Versatility Premium in Conjunction with Depreciation of Machinery:

Depreciation Expense- Machinery	$122,500	
Amortization Expense- Versatility Premium	$12,500	
Accumulated Depreciation- Machinery		$122,500
Accumulated Amortization- Versatility Premium		$12,500

Example 2 Journal Entries

Entry for Purchase of Equipment:

Machinery	$1,375,000	
Versatility Premium	$125,000	
Cash		$1,500,000

Entry for Amortization of Versatility Premium in Conjunction with Depreciation of Machinery for First Year of Use:

Depreciation Expense- Machinery	$222,727	
Amortization Expense- Versatility Premium	$22,727	
Accumulated Depreciation- Machinery		$222,727
Accumulated Depreciation- Versatility Premium		$22,727

Honor Code

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study."   Signed: Adam Lalejini

Case 3

A Country Divided

Introduction

This case dives into the political and social environment surrounding the 2020 presidential election. Its contents reflect personal opinion and was written at the time of the first presidential debate. Throughout the case, I was forced to look inward and gain a true understanding of my own perspective. In doing so, I learned much about how my outlook has affected my interaction with others and how I should shape that outlook going forward. The issues at stake in the election will inevitably have huge consequences for my personal life, career, and the surrounding environment. Because of this, it is very important to build predictions in the scenario that either candidate is elected and connect those predictions to a personal plan of action.

More importantly, I sought to understand what goals and values have historically united the country and how a sense of unity can be achieved today. During an election year, these values are at stake now, more than ever, as the increasing division grows more evident. In my predictions, I compare the rhetoric of Donald Trump to that of Joe Biden and draw connections between the rhetoric and the concrete effects it could have on the economy. It should be noted that these connections are from a business perspective and focus on the economic effects. The effects on other dimensions such as social justice or foreign relations are equally important but not given significant consideration throughout the body of this case. More specifically, extra consideration is given to the effect on the accounting environment and its future job market. By the end of the case, I had gained a much better understanding for the implications of each candidate's policy proposals and the steps Americans will need to take in order to finally come together as a coherent society.

2020

The year 2020 will undoubtedly go down as one of the most consequential years in modern history; however, for better or for worse, that is unclear. On one hand, Americans are more aware of the technological revolution than ever before, as almost everyone has adapted to some degree of the digital world. On the other, blatant inequalities in American society have been exposed as many children in poverty miss out on online schooling or low-income workers miss out on working from home. On one hand, social media has revolutionized the way people communicate, opening up borders to the flow of information like never before. On the other, disinformation has plagued social networks, spreading false narratives, defaming individuals, and even inciting violence. From Australia bushfires, a presidential impeachment, and Covid-19, to global lockdowns, a historic stock market crash, and nationwide civil unrest, this year has been consequential. And now, Americans are faced with yet another crucial event: the presidential election. It is more important now, more than ever, that the question of what unites the United States of America is deeply and thoughtfully examined. Individuals must look deeper than status updates on social media or headlines on the nightly news. Instead, people must look into the minds of each other and consider the ideals that united the country in the first place: to thoughtfully engage and debate, attempt to truly understand the opposing opinions, and fight fiercely for the right to disagree free from retribution.

A democracy is only as effective as its electorate permits it to be, and a silenced electorate is no electorate at all. In fact, it is a mob. On social media, someone who expresses an unpopular opinion is devoured by the mob, silenced. Rather than present logical arguments to refute an opposing viewpoint, it is easier for the mob to demand suppression or banish the dissenter from society. What happened to civil conversations about serious issues or even presidential debates where candidates could share a joke? This goes back to the constitutional principles that were designed to unite a country full of diverse thoughts and opinions: civility, empathy, and individuality. Today, there is an unpresented push to scale back the scope of the constitution. Free speech, religious freedom, and due process, to name a few, are sometimes criticized as outdated in regard to current society. However, human nature has not changed since the ratification of the constitution; rather, only perspectives have changed. America is not perfect, which is why fostering intellectual growth and expanding opportunities for the underserved are more important, now, than ever before in working towards the common goal of a better, united America.

Donald Trump

President Donald Trump is the Republican nominee for president seeking his second term in office. Throughout the debate, the president repeated much of the rhetoric he has used throughout his presidency. This was especially true on issues concerning the economy. He touted his tax cuts, push for deregulation, and the economic boom seen under the Trump administration. All of these issues have already had massive impacts, both positive and negative, on the business environment and will likely continue under Trump if reelected. Tax cuts for individuals certainly freed up cash flow for families and encouraged higher spending, boosting the economy. Additionally, his corporate tax cuts lead to greater profits for companies, which lead to higher investment by the private sector in nearly every aspect of the economy, including jobs. This would have an overall positive impact on the job outlook for accountants as businesses would have more money to spend on consulting, advisory services, etc. There would also simply be more businesses for public and private accountants to serve. However, it is worth noting that there has been a widening of income inequality due to the disproportionate impact these and other tax cuts have had, such as the substantial reduction in the capital gains tax. Based on his tone in the debate, it is safe to assume these policies would continue under Trump.

During the debate, it was also clear Trump would seek to further roll back various regulations and programs created by the Obama administration. Probably the most talked about during the debate was the Affordable Care Act. Trump's nominee to the supreme court would most likely vote to in favor of Trump when it reaches the Supreme Court, effectively ending the program. On one hand, reducing government spending on programs like the Affordable Care Act would likely open up more business for the private insurance companies and further deregulation could increase profitability for these firms. Objectively, that could have positive impacts for accountants going into the industry.

However, Biden brought up valid criticism during the debate that repealing the Affordable Care Act would have adverse effects on low income earners. If that is the case, it could lower discretionary spending for lower income individuals as a result of higher healthcare expense, possibly negatively affecting the business environment. Trump noticeably said less about trade agreements during this debate in comparison to 2016, but it is likely that the policy of increased protectionism would continue under Trump. This could have positive impacts for American industry by incentivizing domestic production but could also raise prices for consumers with less access to cheap production inputs. Overall, the president attempted to focus on perhaps his strongest selling point during the debate: the economy. Indeed, the stock market boomed under president Trump, but it is still unclear how his continued deregulation, tax cuts, and other policies would affect the economic recovery and subsequent job market in a post-coronavirus world.

Joe Biden

Joe Biden echoed a much different tone than President Trump during the debate. While Trump focused on the positive aspects of his presidency and his pitch to continue those trends, Biden highlighted the shortcomings of the administration and how he would govern differently. Certainly, Biden's policies would have much different consequences, both good and bad, for the job market and overall economy over the next four years. Although only briefly mentioned, Biden said he would increase taxes on high earners and corporations. On his campaign website, he advocates for a 28 percent corporate tax, twice the current offshoring tax rate, a 15 percent minimum corporate book tax, higher top income tax rate, and higher taxes on investment income for high earners. There are several positive things that could come from these changes. For one, it could help in reducing the substantial amount of income inequality in the United States by taxing the wealthier class and redistributing that wealth to lower earners through public programs. It would also raise significant revenue for the federal government that could be spent on a variety of government agencies or programs to create jobs throughout the economy. Both of these aspects could have positive impacts on the future job market.

Trump and his allies make valid counterarguments, though. First, a higher effective tax rates on corporations would certainly stifle growth in the private sector to some extent. Corporations would have less after-tax earnings to reinvest in the business which means less private sector job creation. It would also make business more expensive to do in the United States which may lead some firms to withdraw operations from the country, taking their jobs with them. Also, many would argue that the private sector is much more efficient in allocating funds towards capital investments or job creation, as opposed to the bureaucracy of government, often cited for inefficiency and excessive red tape. While higher taxes and regulation would likely have positive impacts on the lowest income earners, it would objectively have adverse impacts on the economic outlook for public and private accountants.

For obvious reasons, COVID-19 response was a large focus of the debate. Joe Biden criticized Trump's handling of the virus and suggested he would handle the reopening differently. It was not clear during the debate if Biden supports further shutting down parts of the economy, but he did make a point about increasing funding to struggling businesses. If the virus continues to negatively impact the economy in the future, it is likely that Biden would attempt to push more stimulus through Congress. This would have a positive impact on short term economic growth and therefore the near future state of the job market as businesses have access to government capital to stay afloat. Low interest rates may reduce long term consequences of increased government debt, but it would likely put a strain on long term economic growth, perhaps negatively impacting the job market much later on.

Biden also highlighted his positions on climate change and made the case for President Trump's failure to act. Trump did withdraw from the Paris Climate Accord and defended his decision to do so, claiming it resulted in American jobs. However, Biden makes valid points that climate change is an increasingly important issue and that the United States needs to be a part of the solution. Trump's environmental deregulation and support of controversial issues like fracking has most likely resulted in positive economic consequences for businesses and the short-term job market, but Biden's plan to invest in renewable energy could create new industries and new jobs. Climate change, if left unchecked, could also pose long term economic consequences through things like food shortages, natural disasters, and rising sea levels.

Biden's health plan could also have major implications for the business environment. In the debate, he suggested the government offer a public option for those who currently qualify for

Medicaid. Such a program would offer economic relief for poor Americans, and perhaps spur an increase in discretionary spending. However, it would also introduce a government organization to compete with private enterprise. This could have negative economic effects on both pharmaceutical and health insurance companies, as government could simply regulate away the competition. Doing so would reduce private sector jobs available for accountants and the availability of public accounting clients in those industries, but it would likely create public sector jobs and open up more opportunities for governmental accountants.

Unity

Frankly, throughout this case, it was difficult to find substantive arguments made by either candidate to reflect these predictions. In fact, there was little substance at all throughout the entirety of the debate. Rather, it was a perfect reflection of the current state of political discourse in the United States: basically a shouting match. Both candidates chose personal attacks over policy and rivalry over rationality. By the end of the debate, it seemed the two sides were hopelessly divided on nearly every issue. Regardless, the country must find a way to achieve some degree of unity if there is any hope of a positive and productive future; however, it must start with the individual. The individual must empathize. Empathy is the glue that holds society together, and it becomes very easy for tribalism to prevail in the absence of empathy. The individual must be tolerant. There will always be unpopular opinions in society, but how society reacts to unpopular opinions is the true test to its democracy. There was a time when racial equality was unpopular or a woman's independence was unpopular. Unpopular opinions must be allowed to coexist with the mainstream; in fact, they must be protected. Finally, the individual must be responsible. Perhaps the most important step in achieving harmony is personal responsibility. People should be encouraged to admit when they are wrong instead of being met with intense condemnation. After all, society is made up of people, and people are not perfect.

Personally, these are the steps I intend to take after this election. Regardless of which candidate wins, I must accept that millions of Americans voted opposite of myself. Instead of holding animosity towards those people, I will listen. I will not focus on who they vote for, but why they vote for either candidate. After all, that classmate, coworker, or family member I disagree with has had completely different life experiences and, as a result, an entirely different perspective. Perhaps there is something I can learn from those perspectives that would make me more empathetic, more tolerant, or even change my views. However, I will not succumb to group think. I will listen intently and provide criticisms in a rational and respectful manner. Through civil debate, there is something everyone can gain from one another. If anything, the 2020 presidential debate has provided Americans with the perfect example of what not to do. However, only American society as a whole is to blame for the discourse of the debate. Instead of blaming one another, we will need to accept responsibility that, as a society, we have created the environment for that sort of shouting match. It is a failure of American society; however, failure is the best teacher and, hopefully, the best unifier.

Honor Code

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study." Signed: Adam Lalejini

Case 4

Excel Cash Course Certification


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Case 5

Corporate Taxation

Introduction

This case study analyzes the current state of taxation in the United States, prevalence of global tax havens, globalization, and potential proposals to optimize corporate taxation. At the end of the case, I examine my previous views on a career in tax and how this case has changed those views. Prior to undertaking this case study, I was relatively unfamiliar with domestic and international tax law as they pertain to corporate taxation. I knew little about the complexities of tax law and the huge resources involved in exploiting those complexities. Consequently, I performed extensive research to understand the complex nature of tax systems. Through the research, I learned about the effects that the recent Tax Cuts and Jobs Act has had and is projected to have on the economy. Often, the news media focuses on highlighting one side or another of the tax debate, so it was refreshing to see the raw data behind the tax cuts.

Additionally, I began to understand the inner workings of global tax havens and the incentives for companies to exploit them. Countries like the Netherlands and Bermuda have some of the most relaxed tax laws in the world, and the most powerful global companies take great advantage of this. The documentary, Taxodus, shed light on these tax schemes, most of which I had never heard of. I also learned about the various ways globalization has encouraged the downward trend of corporate tax rates across the globe. After extensively researching the factors influencing the current state of taxation, I was tasked with coming up with an optimal corporate tax rate. This also required a great deal of research, as I had to understand how various tax systems work throughout the world and the economic effects of changing the corporate tax rate. After much thought, I presented two very different systems for tax optimization and rationalized each. For the final part of the case, I examined how the case study had influenced my perspective on a career in tax.

Taxation Today

The current state of American corporate taxation warrants debate. One of the largest, most profitable companies in the world pays under two percent of its net income in taxes, while the vast majority of Americans pay over ten times that percentage. Tax deductions can be beneficial when incentives are thoughtfully aligned with the interests of society through deductions for research, innovation, or investment; however, tax avoidance achieved through exploiting legal and financial complexities, arguably, does little to benefit society. What good does trillions of dollars stored in offshore subsidiaries do when that capital could be reinvested to further economic growth?

While unfortunate, the blame cannot be placed on private enterprise. After all, the purpose of private enterprise is to generate returns for shareholders, and taxes adversely affect returns. Instead, ineffective tax policy put forth by the government is to blame. When the tax rate was as high as 35 percent, companies had very little incentive to bring foreign profits back into the country as they would be severely taxed. The Tax Cuts and Jobs Act (TCJA) has reduced the top line corporate income tax rate down to 21 percent, bringing it much more in line with the rest of the world. This decreases some of the incentive to store profits abroad; although, I would argue, not enough.

At a time when the national debt has reached astronomical levels, growth will be the most important factor in maintaining U.S. economic solvency. The Tax Foundation lays out some of the long run effects of the TCJA: 1.7 percent increase in long-run GDP, 4.8 percent increase in long-run capital stock, 1.5 percent increase in long-run wage rate, and increase of 339,000 full-time equivalent jobs (Hodge). Many of the provisions are temporary, so positive long run effects could be compounded if they are made permanent.

These are certainly positive effects for the economy, but the TCJA does not completely address the issue of tax havens. According to the documentary, Taxodus, an estimated 21 to 32 trillion dollars are parked offshore, more than the annual gross domestic product of the United States. In the Netherlands, tax rates for companies are likely at or near zero, as 91 of the 100 largest companies directed revenues to flow through the country at the time of the documentary. Unfortunately, it is very difficult to compete with zero on the basis of taxation. If a company faces huge tax payments by returning capital to the United States, it would much rather hold or invest that capital elsewhere.

The core problem of tax avoidance lies in the complexity that has arisen as a result of globalization. Countries have increasingly enacted their own tax laws that often conflict with the tax laws of other nations, and it has become a race to the bottom. According to the Tax Foundation, the average worldwide corporate tax rate has steadily declined from 40.38 percent in 1980 to 24.18 percent in 2019, a 40 percent reduction (Asen). Due to the complexity of multinational corporate taxation, the search for an optimal tax rate may take numerous approaches. As a result, the optimal solution for the United States will be either competitive or cooperative in nature. Optimization through competition would mean winning the global race to the bottom, while optimization through cooperation would involve an international push to snuff out tax avoidance. In an effort to find this optimal corporate tax rate, the following sections will examine possible solutions, along with their respective benefits and drawbacks.

Competitive Optimization

The primary motive behind tax avoidance lies in the tax rates set forth by the government. A company is willing to expend significant resources to avoid slashing its after tax profit from corporate income taxes. So, why not cut the corporate tax rate to zero? By doing so, the government does not have to track down foreign earnings or discourage reinvestment into the economy as a result of high taxes. Additionally, all earnings stored offshore would be freed up for capital expenditures in the United States. The cost of capital for domestic corporations would be significantly reduced, and businesses would be encouraged to take on more ambitious projects, invest more into R&D, expand job opportunities, and much more. Debt financing costs represent an economic deadweight loss; lower corporate taxes increase the incentive for equity financing, reducing the economic deadweight loss (Masso et al.).

The benefits for the private sector would be tremendous, and economic growth would accelerate. However, lowering the corporate income tax to zero does pose a major problem: government revenue. According to the Tax Policy Center, seven percent of government revenue came from corporate income taxes in 2019 (Tax Policy Center). That is seven percent of revenue that will need to be sourced from other places. I would argue, though, that in place of the corporate income tax, dividends and capital gains could be taxed as ordinary income. Doing so allows companies to freely invest their earnings into projects deemed to benefit its shareholders the most.

As an additional measure, capital gains would be taxed on an annual basis, as opposed to the time of realization. Likewise, unrealized capital losses at the end of the year would be carried forward to reduce future tax liabilities. Removing the deferral of taxes on investments encourages investors to buy and sell securities when they are deemed good or bad investments, not when it is beneficial for taxes, providing higher liquidity and market efficiency. After removal of the corporate income tax, the dividend and capital gains taxes could be adjusted to bring in similar revenue, eliminating concerns over lost tax revenue. This also has the benefit of eliminating the double taxation of corporate earnings and shareholders by only taxing at the shareholder level.

Tax sheltered retirement accounts such as a 401k or Roth IRA would benefit greatly, as companies could generate better returns on equity, but retirement accounts remain untaxed. This would encourage higher productivity and retirement savings among workers, reduce future reliance on Social Security or other welfare programs, and expand the middle class. Also, lower corporate taxes and greater capital expenditures would likely result in higher job growth and better wages for employees, providing an even larger tax base for the government; income and payroll taxes accounted for the large majority of federal revenue in 2019 (Tax Policy Center).

Cooperative Optimization

A different solution to tax avoidance is a continuation of current tax rates, but backed with a coordinated effort by the international community. According to the Tax Foundation, the average corporate tax rate, worldwide, was 26.3 percent in 2019 (Asen). However, because of the high variation in rates from country to country, corporations have an incentive to funnel revenues through jurisdictions with the lowest rates. If a common worldwide rate was enacted, there would no longer be an incentive for companies to do so. Currently, corporations based in the United States may face taxes in foreign countries where products are sold, as well as taxes on earnings returned to the United States.

To avoid double taxation on foreign earnings, countries would need to adopt destination-based taxation as opposed to the source-based taxation currently in place in the United States. This could be achieved through what is known as a value added tax. Here, a tax would be levied on each stage of the production process and passed on to subsequent stages. The added tax would eventually be passed on to the consumer. Arguably, the current tax system places most of the burden on labor and eventually the consumer. An analysis by the Tax Foundation shows that likely 50 to 100 percent of the corporate income tax burden falls on labor (Entin).

A value added tax would result in similar revenues but incentives would be better aligned with the goals of society. In fact, a value added tax is already used in many European countries that have relatively low rates of corporate taxation. Taxing consumption as opposed to earnings also encourages saving and investment by individuals, increasing the availability of capital for businesses. Higher saving rates can lead to lower interest rates as well, which can lower the cost of capital for corporate expenditures. Of course, these policies would need to be enacted internationally through extensive cooperation between governments and lengthy tax treaties. However, globalization has been a continuing trend for decades, so it would not be unreasonable to expect. In fact, most states in the U.S. already have a similar tax on consumption in place through sales taxes, but no such national system exists.

A common criticism for the value added tax is its regressive nature. Since it is effectively a tax on consumption, lower income spenders are disproportionately affected, as spending is generally a higher percentage of their income. This could be offset through the use of direct transfers. Direct transfers would send direct, cash payments to citizens within a certain income threshold. This ensures that the regressive nature of a VAT is offset with the progressive nature of direct transfer payments.

Conclusion

While either solution could go far in reducing the prevalence of tax avoidance and reduce tax distortions, I believe optimization through competition would be more effective. The reality is that international cooperation is slow and cumbersome. Nations will always have competing interests, and those interests pose major problems for productive negotiation. The World Trade Organization could be leveraged for this purpose, but it lacks the authority to enforce international policy on competing superpowers like the United States, China, or European Union. By taking the lead and reducing corporate taxes to zero, the U.S. would only be completing the trend that has taken place for decades. And now, when the United States has taken on unprecedented levels of debt, ensuring the economy grows at a faster rate than the national debt will be key. To many, it would seem to be a radical solution; but amidst a global pandemic, these are radical times.

A Career in Tax

By the end of this case study, my perspective on the tax service line had completely changed. Researching the intricacies of international tax law actually proved, unexpectedly, quite interesting. Before this case, my impression of tax involved over qualified individuals filing the necessary personal or corporate tax returns. However, it has become clear that tax is so much more than that. Not only are there intricacies that need to be understood by corporate tax professionals, but the field is ever changing. The TCJA alone made hundreds of changes to the tax code and, as a result, had immense implications for companies and the economy as a whole. In order to keep pace with change, tax professionals must be dynamic and continuous learners. Personally, I enjoy the challenge of adapting to new situations and have a passion for learning. So, while the tax service line seemed undesirable before, I could now see myself potentially pursuing a career in tax. Although I am still more interested in audit, this case has certainly opened my mind to new possibilities in accounting.

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Honor Code

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study." Signed: Adam Lalejini

Case 6

Interview Case

Introduction

In this case, I interviewed Dr. Eugene Paik, a retired business professional now working in academia. Having met Dr. Paik in my strategic management class, I knew he had a deep understanding of many aspects of business, and his experience as a global sales manager in South Korea made for an exceptionally unique background. Before undertaking this case, I admittedly knew little about Dr. Paik's personal life and was not sure what to expect for the interview. By the end of the interview, however, I had taken away many lessons applicable to my personal life, school, and future career.

Dr. Paik is currently an assistant professor of management at the University of Mississippi, but his entry into academia has been relatively recent. Prior to his position at the University, his experience in the business community included the role of senior manager at a venture capital startup as well as global sales manager for Samsung Electronics. Throughout the interview and following case write-up, a common theme repeatedly grabbed my interest. At every turn in his life, Dr. Paik faced new experiences with a sense of courage. And whenever he did make mistakes or find something not as expected, he took lessons with him from each experience. For me, that central theme impacted me the most during this case. As I enter my final years in college, I now see just how important an emphasis on daily growth and development is to overall success. And in Dr. Paik's case, it was not just growth and development as a business professional. His desire to grow his knowledge and appreciation for the arts early in life would later provide distinctive and useful perspectives on complex business problems. The following questions and answers come from my interview with Dr. Paik.

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

Dr. Eugene Paik was born in Louisville, Kentucky, where he lived for six years before moving to Korea. His parents were well educated, having both received PH.D.s, and he enjoyed a fairly comfortable home life early on. At the age of seven, he moved from the United States to Korea, where he would experience a major culture shock. Interestingly, it was the small things that surprised him the most, like how the bathrooms looked or the lack of popular American chains such as McDonalds and Pizza Hut. He experienced his second major cultural change when moving away from his parents to attend high school in Seoul. As the capital of South Korea, it was a dense metropolitan area with a much different culture. Everything from how people thought to what a kid was allowed to do became focal differences. While the cultural differences proved difficult to adjust to, they would influence his life for years to come. After these experiences, he became more comfortable moving around and developed a keen eye for the diversity of cultural norms.

Reflection

When speaking with Dr. Paik, it became clear that he does not shy away from new and interesting experiences. Certainly, the unique experience of entering an entirely new culture not once, but twice, contributed to this ability. Reflecting on my own life, I can see my biggest periods of growth have stemmed from experiences outside of my comfort zone. The challenge of learning the unknown forces one to adapt. While I have increasingly embraced the challenges of learning new things, Dr. Paik's early encounters with diverse cultural differences make me aware of my cultural ignorance when it comes to regions outside of the western world. It is clear I could only benefit from seeking out cultures foreign to myself and aspiring to understand them.

What were your college years like?

After high school, Dr. Paik attended Seoul National University, where he majored in French Literature. Being considered the top university in South Korea, he found himself surrounded by bright minds and, as an art major, met talented individuals from various artistic backgrounds. Due to the difficult nature of the college entrance exam, many students would enjoy college parties and a lax lifestyle as a way of blowing off steam. He did the same, as he would soon enter mandatory military service and could catch up on studies upon returning. For twenty-six months, Dr. Paik served as a Katusa, supporting the Korean based United States Army. Upon completing his military service, he returned to university to continue his studies. Again surrounded by interesting and artistic minds, he began to watch more Hollywood and artistic style movies. He also read more classical literature, attended art museums, and studied art history, all of which furthered his interest in the arts.

Reflection

Dr. Paik's experiences remind me of how my own interests as an individual have been shaped over time by the people in my environment. Having grown up alongside friends whose families were heavily involved in the business community, I can see the strong influences those friends have had on my current path as an accounting and finance major. Going forward, his experiences would suggest the importance of surrounding yourself with people you aspire to emulate in some way. His initial college experience suggests an importance of taking time to enjoy the simple pleasures of life and not letting the grind of daily life completely consume oneself.

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?

Because of his interest in the arts, Dr. Paik wanted to work in the entertainment industry upon graduation. Although he was very interested in art, he did not believe he had the specialized talent necessary to become a director or musician. However, wanting to remain in the scope of the arts, he sought to leverage the field of business as a way to be involved in the entertainment industry. He landed an internship with a movie distribution company at a time when movies were growing rapidly in Korea, both commercially and artistically. While working there, he realized he could leverage the status associated with Seoul National University to enter the business world in a more conventional way, and eventually transfer that experience to the entertainment industry. After his internship, he completed his Master's in International Commerce and began working for Samsung Electronics at the age of twenty-nine.

Reflection

I found it interesting the variety of areas Dr. Paik took an interest in college and how they contributed to his business career. While art and business do not seem to have much in common at first glance, his art studies likely gave a fresh perspective on various theoretical frameworks of the business world. For me, I believe it's important to learn things not necessarily related to my field of study. Each new experience builds upon past experiences to offer a new way of thinking about otherwise conventional topics. For example, understanding the psychology of humans could help an accountant understand the physiological motivations behind managerial decisions.

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

At Samsung, Dr. Paik worked as a global sales manager primarily over the Russian and Ukrainian markets. He was in new business development, involved with the launch of a new product from the very beginning. The entire process spanned a wide array of responsibilities, beginning with product planning and channel development to the ongoing marketing and management of the new product. By the end of his time at Samsung, he had grown the products to sizable market share in both Russia and Ukraine. Unlike many employees at Samsung, he was able to see the product development from before its existence to the successful distribution and sale in its target markets.

He described the experience as peculiar in comparison to other employees, but found the experience to have yielded many lessons. For one, business is done by people and therefore very difficult. As someone not initially accustomed to interpersonal skills, he adapted to the challenge through embracing the role of the professional. He described a professional as an individual who is courteous to others, shows up on time, and asks thoughtful questions. These things really helped him build the relationships he needed in his position.

Another important lesson he took from his time at Samsung was the utility of academic theories when trying to improve practice or better understand complex situations. Practical application of these theories allowed him to see the close relationship between theory and practice. Something seemingly abstract at first began to offer unique analytical perspectives. By reading books, he was able to come up with his own analysis of scenarios and offer unique approaches to problems to his colleagues.

As his time at Samsung came to a close, Dr. Paik realized his passion for business was not in his current role. After that, he entered the entertainment industry to ensure he was not missing anything by staying put. He joined the management team at a venture startup, a much different environment than the familiar corporate structure of Samsung. While he sometimes previously disapproved of the constraining nature of rules at Samsung, he began to appreciate those policies and procedures that a startup company lacked. Here, everything had to be designed from scratch, and he saw it as an opportunity to see just how tough starting from scratch was. Prior to the role, he had expected the entertainment industry to be more artistic or free than his previous role; however, he saw more similarities than differences.

After working there for less than a year, he joined the Ph.D. program at the University of Arizona, where he majored in management. More specifically, his field of study focused on organizational theory, a combination of economics, sociology, and the traditional lens of management. In the beginning, he was more focused on trying something new as opposed to a clear vision of research or teaching. However, he quickly found a passion in research, going on to successfully complete his PH.D. program and join the University of Mississippi in 2018.

Reflection

I especially took away a great lesson from Dr. Paik's definition of a professional. As he stated, business is done by people. As such, it is crucial to interact with people in a courteous way, always respecting their time and thoughts. Upon graduation, I will need to develop as a professional to build important relationships with coworkers, managers, clients, etc. This will require quickly learning and adapting to the business environment and making an honest attempt to get to know the people I interact with.

I also find theoretical frameworks interesting to learn, but it can be hard at times to visualize the practical application of those frameworks. The fact that Dr. Paik was able to utilize business theory and apply it to real world scenarios is reassuring. In my own life, I should find some time to learn alternative frameworks not necessarily taught in my business classes. I admire his willingness to venture into new endeavors and learn from each one. By keeping an open mind and sustained curiosity, he was able to eventually find his passion in academia. Going forward, I look to keep a curious mind and never shy away from new experiences.

What has your life been like outside of your work?

As an assistant professor, Dr. Paik does not have much time outside of work. But when he does find free time, he still enjoys reading especially during the winter or summer breaks. He described it as one of his biggest joys. He also still watches movies and enjoys listening to music.

Reflection

I too enjoy music and movies. However, I do believe I should read more, especially in topics outside my current field of study.

What has been the best vacation you've ever taken?

Around September of 2009, he and his family traveled to Spain for a road trip across the region. The trip lasted about nine to ten days and included historical cities like Madrid and Barcelona. The trip was not only really fun, but his family grew much closer over that time. For him, the trip was a different kind of experience filled with interesting cultures, food, and wine.

Reflection

It is interesting how joy in life can bring people together. Having never traveled outside of North America, I would love to see the rest of the world. I hope whatever company I eventually work for has opportunities for international travel in which I could see the world with my family.

If you could change two things about your life, what would they be?

Dr. Paik described being very satisfied with his life. He admitted pondering this sort of question quite a lot. But looking back, he stated he would not change anything. His experiences, both good and bad, have enriched his life in many ways and have led to where he is today.

Reflection

This answer resonates with my current outlook on life. Certainly, I have made plenty of mistakes, but each one has granted me important lessons to take with me for the rest of my life. Success is valuable, but so is failure.

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?

If speaking to his former self in college, he would say more reading and maybe less partying. After all, he could party quite long in life so perhaps drinking one day less and reading a little more would have been beneficial. If speaking to his former working self, he would say travel more. While he had the opportunity for vacation, he had grown tired of business travel. Looking back, he would have enjoyed more personal travel to see the world for himself.

In terms of advice for me and my classmates, Dr. Paik described the importance of lifelong learning. One particular book that changed his perspective on life describes how people today will live much longer than before. Many of whom will have two to three careers over time or retire and come back to another career. His grandmother passed away at ninety-five, and his parents will probably pass one hundred. Considering that, there is a good chance that people his age will live even longer. At that point, it becomes important to be ready to learn very new things at a very late age. People will need to embrace that kind of experience and push outside of their comfort zones. He explained that people like myself and my classmates will need to learn to upgrade themselves every now and then, even more often than people his age.

Reflection

I like the emphasis Dr. Paik places on reading. There is no doubt that he has benefited greatly from his joy of reading throughout life. In my case, I do not think I read enough. Life is so busy, and it seems as if it will only become busier with new responsibilities later down the road. I should invest some time in reading now and make it a goal to dedicate some portion of time every week to reading. Certainly, the knowledge offered by any number of books in and out of my field of study would provide me with new perspectives to be leveraged later on.

What are you most proud of?

Dr. Paik is proudest that he is doing what he truly loves to do in life. When speaking to his friends, not many can say they have a job they really love to do. Often, many jobs are simply about having to feed the family or making money. For Dr. Paik, his work is about his passion. He feels he may have been a little late in finding that passion, but he is proud he was able to.

Reflection

For me, I see a lot of value in this answer. In college, it can be hard to see what the work I will really be doing upon graduation looks like. It is one thing to read about the role of auditors or tax accountants, but actually understanding what their daily responsibilities look like is difficult to visualize. I am hopeful that this career path I have chosen will continue to offer the passion I have experienced when learning. I believe that passion for work is a bigger determinant of success than any other factor.

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

For Dr. Paik, he feels his generation was actually quite lucky. In contrast, millennials have been quite unlucky. When they were ready to start their career, a global economic crisis impaired economic opportunities. When they were settling down, a global pandemic again sent the world into economic crisis. In order to solve many of the problems such as inequality or generational conflict, he believes his generation may need to give up something they have earned because of the relatively lucky economic circumstances. While he sees it as an important challenge to face, he admits it will be questionable whether his generation will indeed choose to give something up for the younger generations.

Reflection

When looking back at historical struggles of past generations, I can see how Dr. Paik's generation could be viewed as relatively lucky, historically speaking. However, while I agree older generations have a responsibility to leave the world a better place for younger generations, I also think younger generations have an equally important responsibility in working hard to close the gap of generational inequalities. The world will never be fair, human nature would not allow it; but that reality should never hold back hard work and determination. Nor, should it ever stop the eternal effort of providing equal and exceptional opportunities to everyone, regardless of age or background.

What will be the biggest challenge for my generation?

As mentioned earlier, Dr. Paik echoed the idea that the world is changing rapidly, and that the dynamic nature of the world will only intensify. He stated that the biggest question for my generation will be if we can transform ourselves repeatedly in order to be up to date and go through the upcoming changes of the world.

Reflection

With the onset of the global pandemic, global change is more evident than ever before. It has become clear that the technology adopted in response to COVID-19 will not be going away anytime soon. It seems what was normal is now obsolete, which really reflects Dr. Paik's answer for the biggest challenge of my generation. For example, college students, like myself, had to transform themselves in order to learn through a vastly different medium. Because of what Dr. Paik calls the "dynamic nature of the world," it is inevitable that my peers and I will need to transform ourselves yet again, and many more times after that.

Honor Code

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study."   Signed: Adam Lalejini

Case Competition: The Coca-Cola Company

Week 1 Report

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Introduction

This week, our group was tasked with selecting an American-based, publicly traded company as our focus for the upcoming case competition. Through some discussion and debate, we settled on one of the most prominent and established brands in the world, Coca-Cola. Once we chose our company, we started off the research process by simply trying to get a general idea of what Coca-Cola is and what they do. After our initial background research, looked 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. Lastly for product expansions, the company is rolling out alcoholic beverage options.

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

Articles and Key Events

Coke with Coffee:

As part of the company's efforts to diversify its brand, Coca-Cola has recently launched Coke with Coffee, a product blending its classic product with coffee. There are three flavors of the new drink: Dark Blend, Vanilla, and Caramel. Coca-Cola representatives state, "Research shows that consumers are more open to trying new category-crossing drinks like Coca-Cola with Coffee, which push Coca-Cola into uncharted territory while staying true to its core values" (The

Coca-Cola Company). To launch the product, the company plans on utilizing digital, outdoor, radio, and TV advertising as well as digital and traditional sampling.

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, including Tab, Zico, and Odwalla, have already been publicly announced. Interestingly, CEO James Quincy stated that half of the company's product portfolio only generated two percent of revenue. The article continues to suggest that some brands in the hydration category, like Dasani and Smart Water, are likely to be removed in the future (Meisenzahl).

Profits Drop 32 Percent:

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

Restructuring:

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

IRS vs. Coke Dispute:

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

Industry Summary

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

Blogosphere

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

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

State of the Business

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

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Case Competition: The Coca-Cola Company

Week 2 Report

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Introduction

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

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

Cash and Cash Equivalents

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

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

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

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

Internal Control 3: Policy and 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 where Coca-Cola has accounts and requesting that a list of all the accounts Coca-Cola holds and the related balances be sent directly to the auditors.

Test 2: After requesting balances from the bank, auditors can also request bank statements from the past fiscal year to verify individual transactions and reconcile each statement.

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

Inventories

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

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

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

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

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

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

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

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

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

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

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

Accounts Payable and Accrued Expenses

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

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

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

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

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

Test 1: Our audit team can utilize random sampling to gather a collection of invoices which we will compare to Coca-Cola's books to ensure validity.

Data Analytics 1: We would use a robotic process to test and compare purchase orders, goods received documentation, and invoices. If any of the three did not correlate, we would look further into the account.

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

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

Long-Term Debt

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

Audit failure risk: Long-term debt is important in evaluating the solvency of a business. Misstatement would negatively affect the financial statement users' ability to assess the company's leverage and capital structure. Internally, Coca-Cola would not have an accurate picture of its current leverage and could either 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: Our audit team should request documentation from creditors to examine the original debt covenants and contractual obligations.

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

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

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

Net Operating Revenues

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

Audit failure risk: Revenue is one of the most examined accounts for projecting a company's financial position as well as the ability to distribute earnings and repay creditors. Misstatement would have a major impact on the reliability of these projections. Internally, revenue information is used by various departments for budgeting, and misstatement could negatively affect reliability.

Internal Control 1: Documentation: Timestamps and deadlines would be required in order to properly document when the revenue was recognized and in what period. Cash receipts produced whenever revenue is recognized and documented in a database.

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

Internal Control 3: Policy and Procedures: Our team can create standardized rules for what forms of payment are acceptable and what discounts may be issued as well as what policies are in place for a returned check

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

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

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

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

Selling, General, and Administrative Expenses

Materiality: Like revenues, expense accounts directly impact net income. The SG&A (Selling, General, and Administrative Expenses) 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 spending within departments.

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

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

Data analytics 2: As auditors, we can use data visualization to map out high levels of activity by office, department, or employee. At the higher levels of activity, we would verify transactions to identify fraud, if any.

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Week 3 Report

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Introduction

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

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

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

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

Strategy One: Implementation of Renewable Energy

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

Additionally, the total cost, minus the tax credit, can be depreciated on an accelerated basis. The federal tax incentive also provides the option for the company to claim 100 percent first year bonus depreciation ("Guide to the FITC, 2021" 1-3). Coca-Cola should first implement these improvements on its wholly owned operations, but due to its business model of frequent bottler acquisition and restructuring, installations can take place at bottling facilities over time. While the implementation of solar energy currently has many operational and tax-related benefits, it also provides significant protection against potential future tax liabilities. Canada currently levies a carbon tax at $30 per ton with plans to increase that to $170 per ton by 2030 (Tasker, 2020, 1 & 3). With public support for a carbon tax on the rise, Coca-Cola's tax strategy should adequately address this potential multi-billion-dollar tax liability. Since energy consumption is a key driver for carbon emissions, this strategy will greatly benefit Coca-Cola. Table 1, which can be found below, shows projections for total lifetime tax savings that could result from this strategy. The table is interactive, and the values in blue can be changed to accommodate any number of variable factors that could impact the expected tax savings.

Table 1: Renewable energy information regarding costs and savings

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

Strategy Two: Reduction of Equity Investments

Our second tax strategy involves selling off equity method investments to reduce taxable income. Currently, equity method investments account for over $1 billion 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. Th 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 benefit to relocating to Nevada is that the state offers workforce development programs meant to provide enrichment to workers and the company alike, so finding skilled employees would not be an issue.

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

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

Our fourth strategy relates to President Biden's proposed tax plan. He intends to increase the corporate income tax rate to 28 percent, implement a 10 percent offshoring penalty surtax, and increase the Global Intangible Low Tax Income rate on foreign profits to 21 percent. Coca-Cola's foreign subsidiaries and profit margins stand to be significantly affected by these tax ramifications (Mengle, 1). In order to promote American prosperity, President Biden has proposed a "Made in America" tax credit of 10 percent to encourage multinational corporations to "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 create American jobs, stimulate the economy, and take advantage of a potential 10 percent tax credit and avoid the 10 percent offshoring surtax.

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

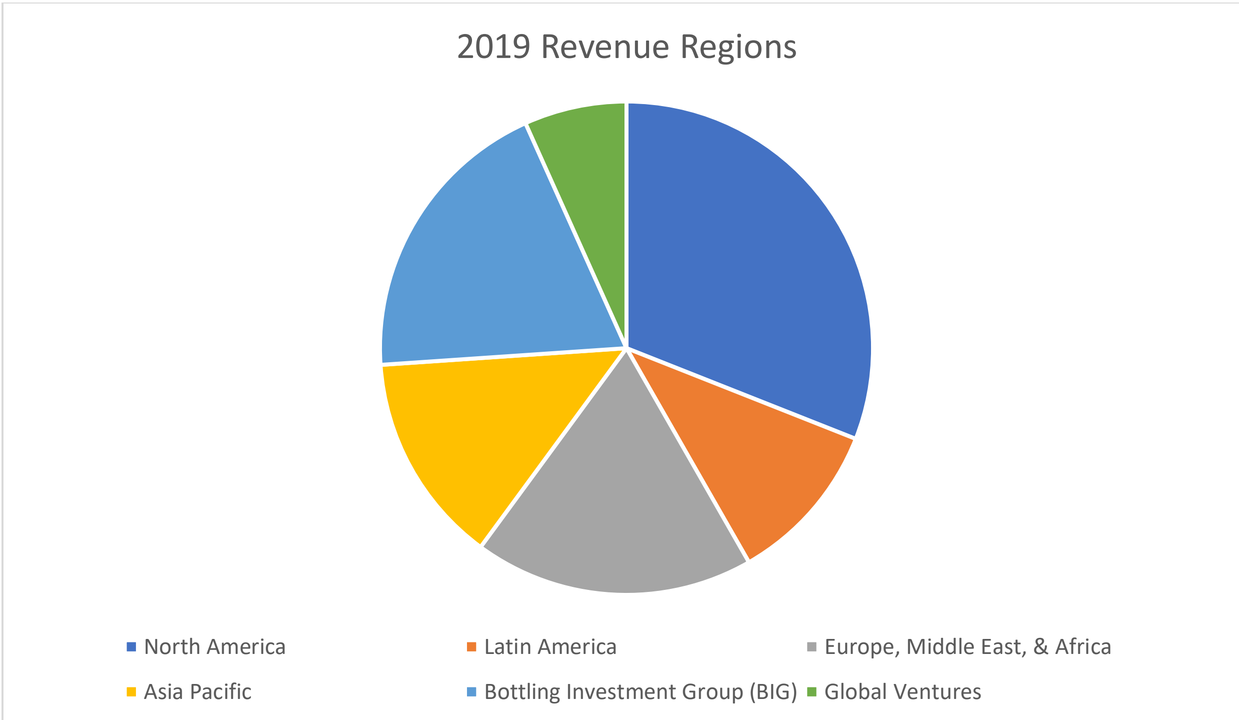

Figure 1: 2019 Coca-Cola Revenue Regions

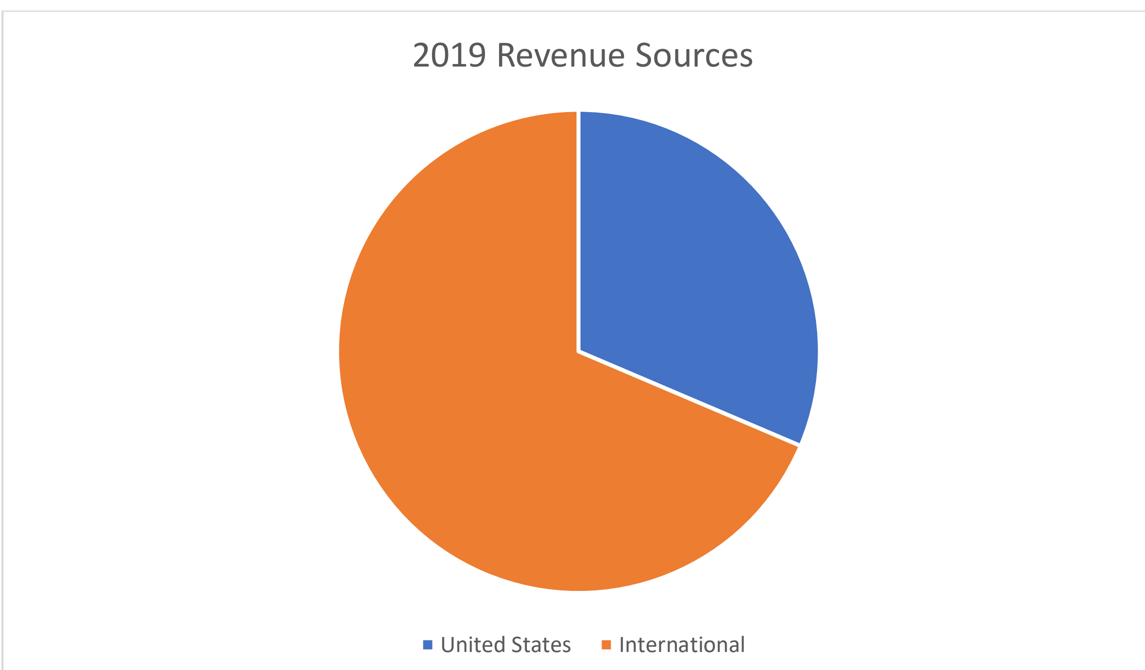

Figure 2: 2019 Coca-Cola revenue sources

In Millions	Foreign Subsidiary Relocation					
Year	2021	2022	2023	2024	2025	Revenue 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

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Honor Code

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

Signed: Caitlyn Henry

Jack McInnis

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Anna Burk

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Case Competition: The Coca-Cola Company

Week 4 Report

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Introduction

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

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

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

I. Business Analysis

a. Company Operations

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

b. Stated Mission and Strategy

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

c. Demand and Supply Analysis

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

The company's raw material inputs include commodities such as water and, "principal non-nutritive sweeteners" such as, "aspartame, acesulfame potassium, sucralose, saccharin, cyclamate, and steviol glycosides" (The Coca-Cola Company, 7). Coca-Cola notes that 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, from 2020 to present, holds a 14.2 percent market share, whereas Coca-Cola holds a strong 59.4 percent market share in syrup and flavoring production (Jaura, 2020). In soda production, however, PepsiCo holds 31.9 percent of the market (Hiner, 2020). In the year 2019, PepsiCo produced a total revenue of $67.2 billion, while Coca-Cola only reported an annual revenue of $37.3 billion (Jaura, 2020). Although at first glance it may appear that PepsiCo is the leading beverage competitor, one will see that the numbers are slightly misleading after further investigation. Coca-Cola serves as the industry-leading producer of hot and cold beverages, whereas PepsiCo also owns and produces Frito Lay's snack food and Quaker Foods which generate a significant amount of revenue, contributing to their impressive figures.

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

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

II. Historical Horizontal and Vertical Analysis

a. Revenue

Coca-Cola's revenues decreased from 2015 to 2018. There is a slight increase between 2018 and 2019. The decrease in revenue from 2015 to 2018 came mainly from Coca-Cola refranchising its bottling operations. These trends can be seen in Figure 1.

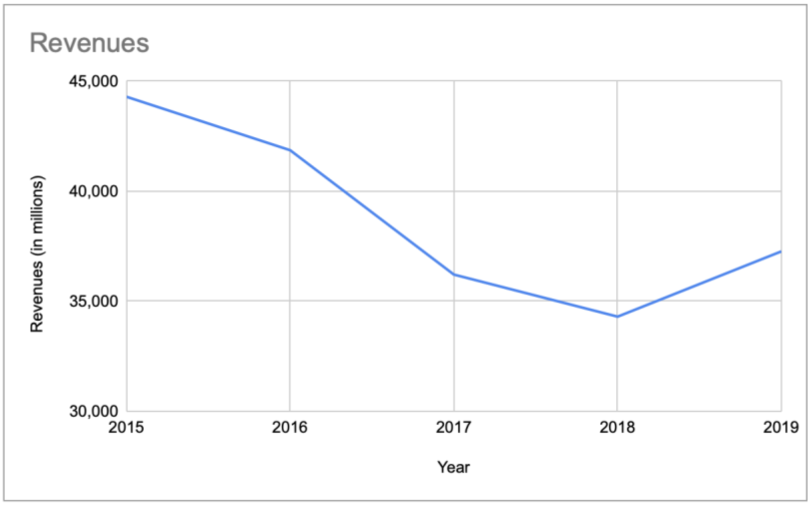

Figure 1: *Revenues over the past five years for Coca-Cola Company*

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.

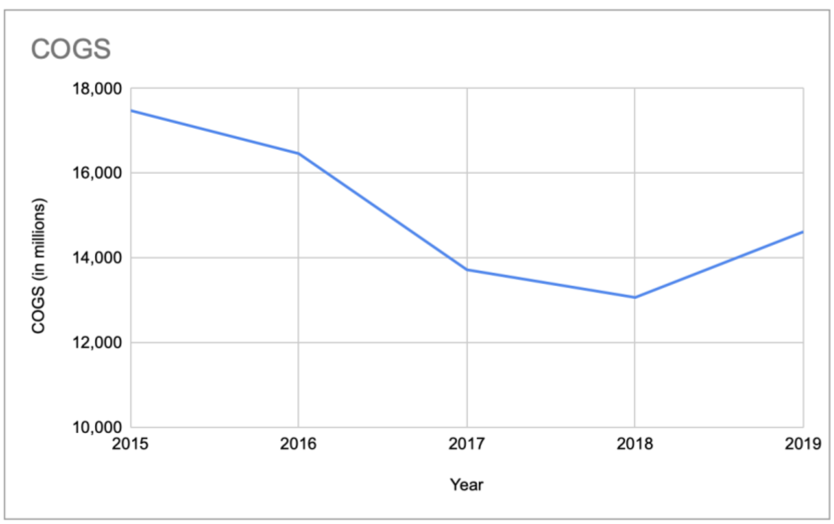

Figure 2: *Cost of Goods Sold over the past five years for Coca-Cola Company*

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.

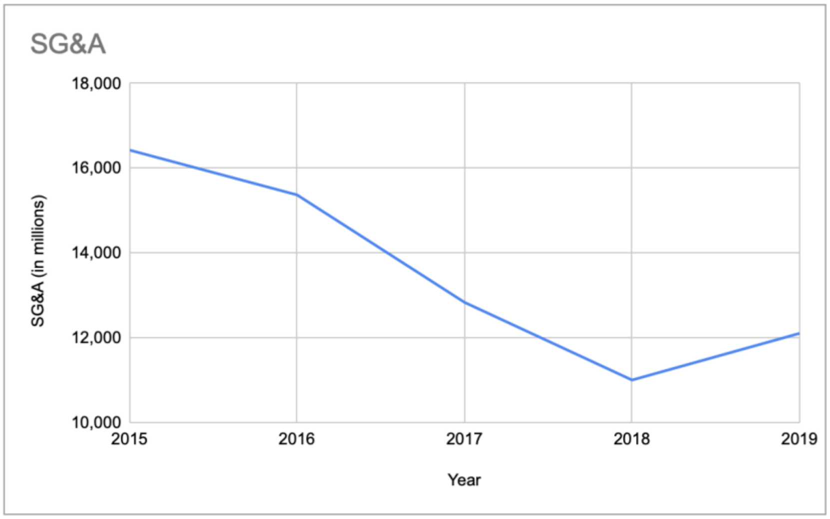

Figure 3: *Selling, General, and Administrative expenses over the past five years for Coca-Cola Company*

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.

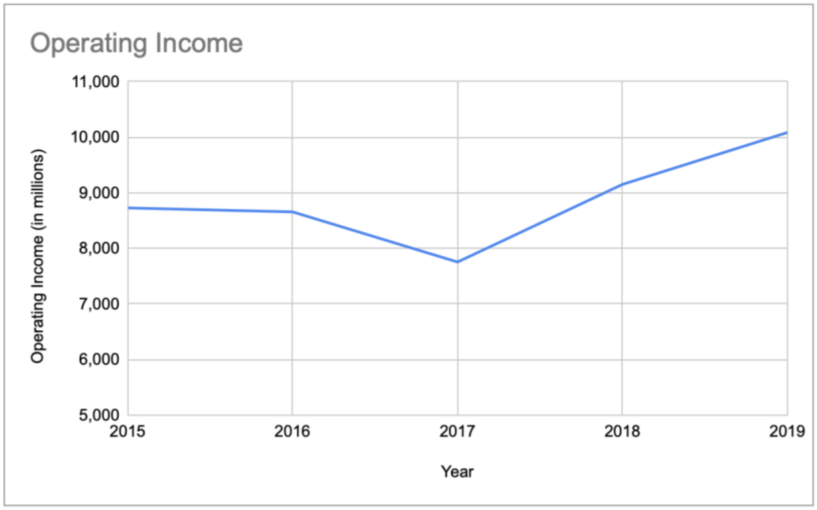

Figure 4: *Operating Income over the past five years for Coca-Cola Company*

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.

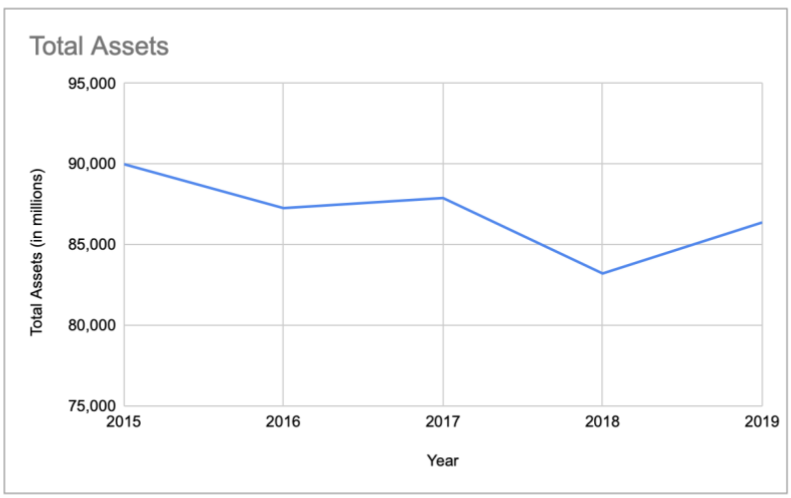

Figure 5: *Total Assets over the past five years for Coca-Cola Company*

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.

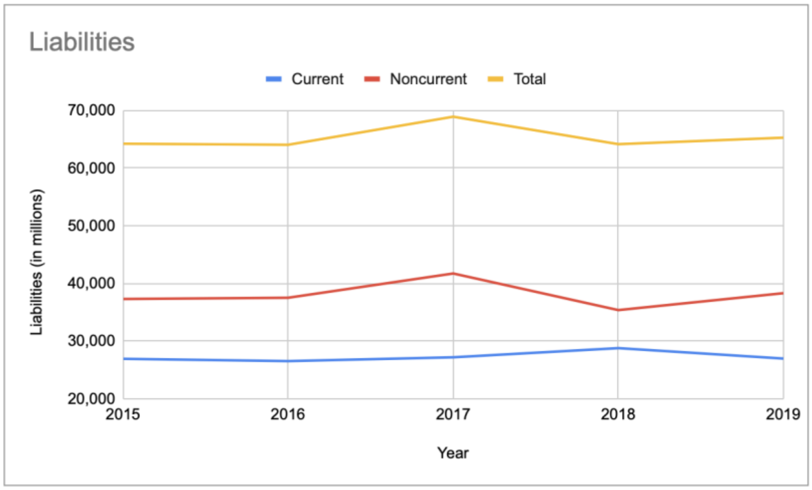

Figure 6: *Liabilities over the past five years for Coca-Cola Company*

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.

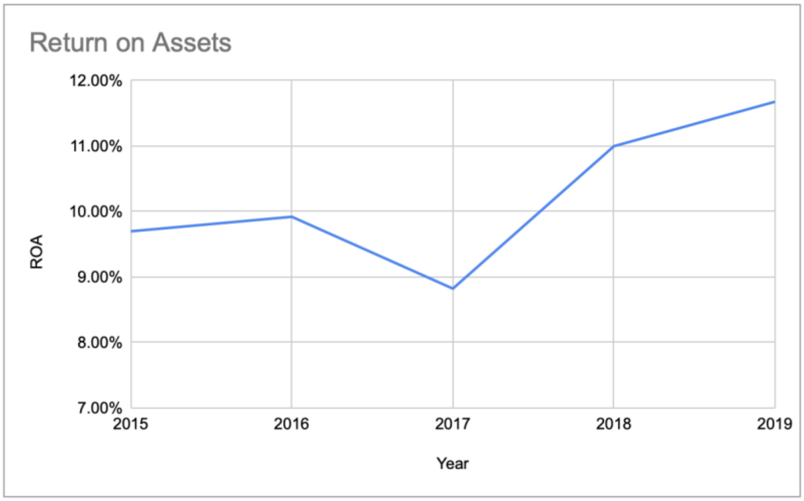

Figure 7: *Return on assets over the past five years for Coca-Cola Company*

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.

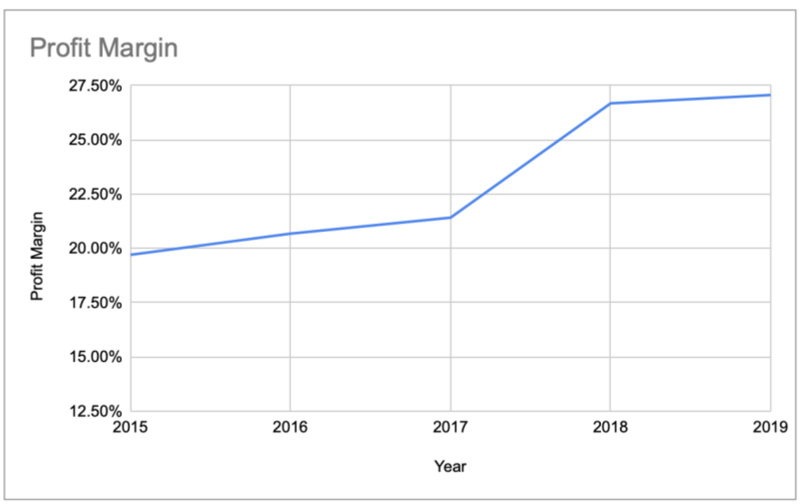

Figure 8: *Profit margin over the past five years for Coca-Cola Company*

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.

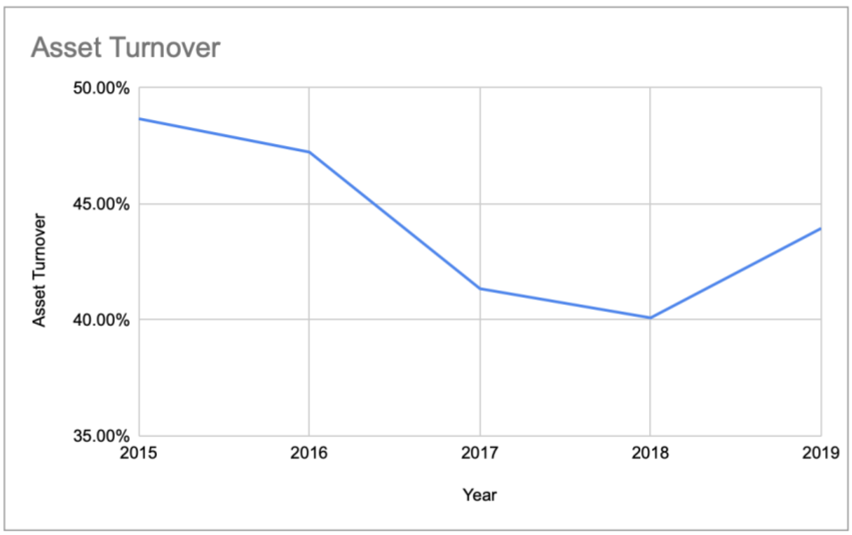

Figure 9: *Asset Turnover over the past five years for Coca-Cola Company*

Statement on Financial Analysis and Stated Strategy

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

III. Company Threats and Solutions

Threat One: Evolving Consumer Preferences:

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

Solution: New Product Line

Part One: Read- 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 (ready-to-drink) 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.

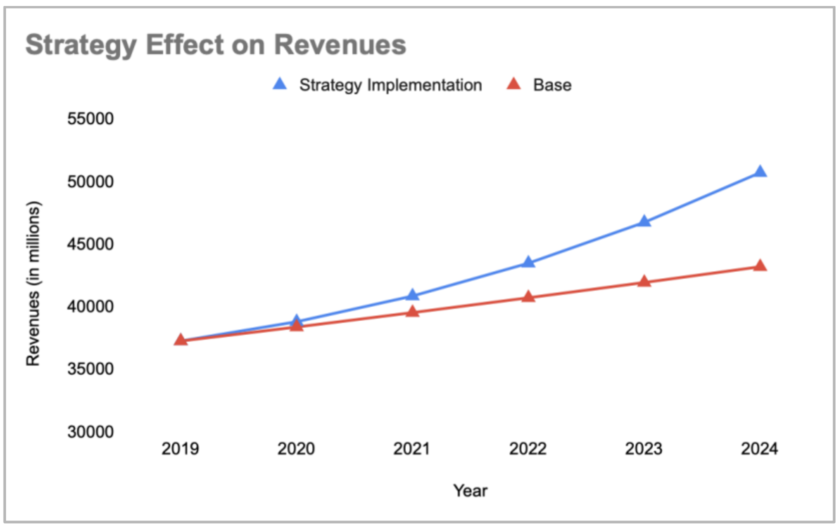

Figure 10: *Forecasted effects of the solution to Threat One on revenues over the next five years*

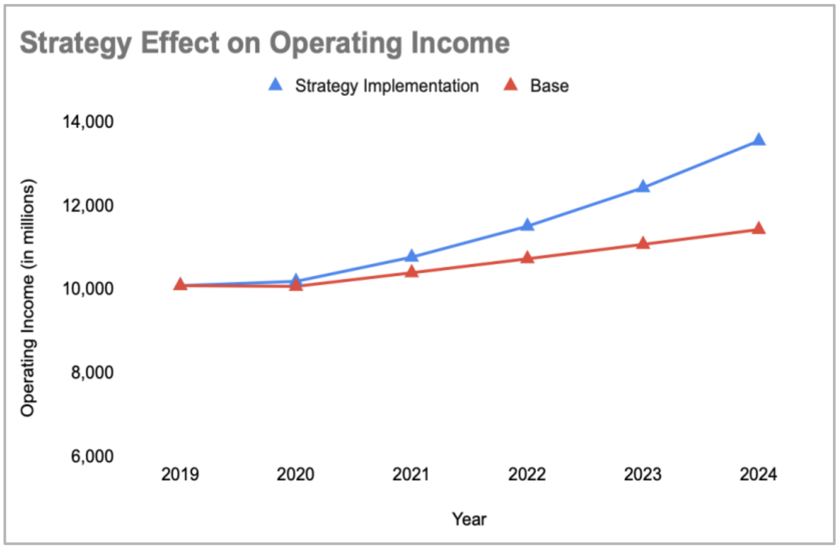

Figure 11: *Forecasted effects of the solution to Threat One on operating income over the next five years*

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

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.

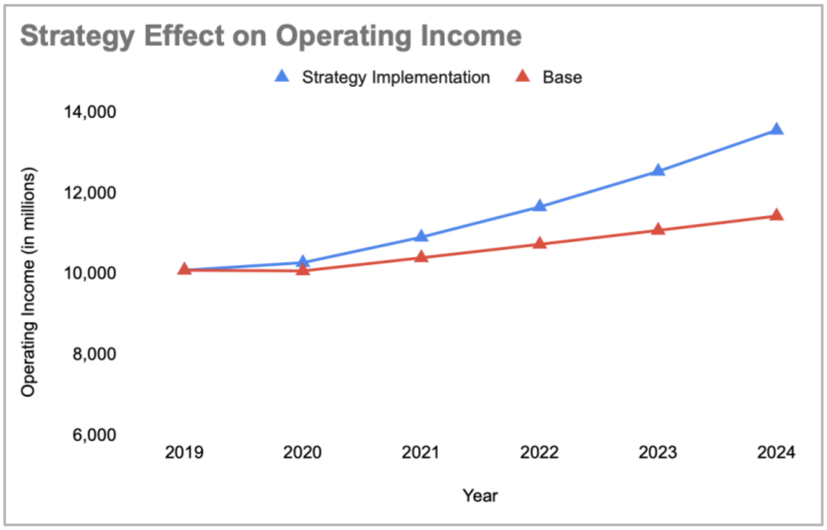

Figure 12: *Forecasted effects of the solution to Threat Two on revenues over the next five years*

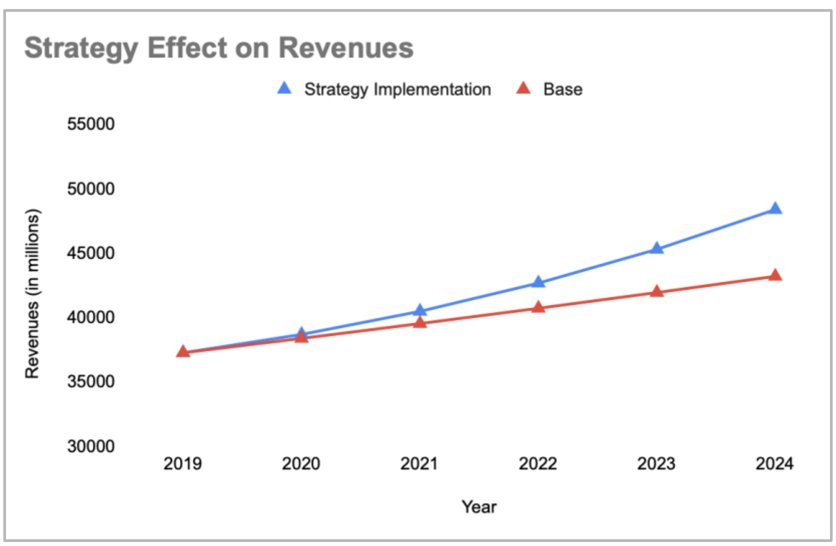

Figure 13: *Forecasted effects of the solution to Threat Two on revenues over the next five years*

IV. Ratio Recalculation

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

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

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Honor Code

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

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Case Competition: The Coca-Cola Company

Week 5 Report

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Introduction

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

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

Closing Price as of December 31, 2019:

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

Price-to-Earnings Ratio:

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

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

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

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

Beta:

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

Analyst Following:

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

Forecasted Growth:

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

Analyst Recommendations:

Currently, Coca-Cola's average recommendation across several analysts is a buy. For March 2021, the stock received four "strong buys", seven "buys", 13 "holds", and one "underperform". Analysts also give Coca-Cola an average price target of $57.37.

Effects of Advisory and Tax Recommendations:

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

Projected Earnings Per Share and Stock Prices:

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

Using the same formulas as the previous strategy calculation, our second advisory strategy projected the following 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 (return of assets) of 11.68 percent. Our advisory strategy projects this to increase to 14.56 percent by 2024. A significant increase such as this would look attractive to investors, leading to an appreciation in the stock price as well as a reduced cost of equity. This improvement in return, combined with other favorable changes in financial ratios, would offset the impact of additional leverage as reflected in our projected future stock price.

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Final Case

The Financial Crisis

Introduction

In this case study, I was tasked with analyzing various research materials related to the 2008 financial crisis and drawing connections from the crisis to my views on government, role in society, and how it relates to the current political and financial landscape. Before the case, I had a basic understanding of how the crisis unfolded. In short, financial institutions began grouping mortgages into collateralized securities known as mortgage-backed securities (MBBs). Rated investment grade by rating agencies, investors flocked to the seemingly low-risk, high-return securities. As the demand for MBSs began to rise, the supply of mortgages was growing smaller and smaller. As a result, credit was being granted to riskier borrowers, giving rise to a large number of subprime mortgages. Companies like AIG would then insure these MBBs with derivatives known as credit default swaps. When housing prices fell and borrowers began to default on loans, the entire system collapsed under itself.

The first research material in the case was an educational video on "crony capitalism" by PragerU. In this video, it is argued that limited government is the best solution to corruption and public distrust. I thought this was an interesting perspective, as limiting the scope of government would certainly limit the degree to which political figures could leverage their power for self-interest. The next video was a conversation with Dr. Thomas Sowell on the cause of the financial crisis. Here, Dr. Sowell suggests that the government had actually created the environment for the housing crisis to take place through government-sponsored mortgage programs. This made a lot of sense, as financial institutions are traditionally blamed for extending credit to less credit-worthy borrowers. In this case, the government was the entity extending the credit to more borrowers.

The next piece of research material was the documentary *Inside Job* (2010), which told the story of the financial crisis in a narrative format with interviews from important individuals involved in the crisis. The documentary presented the information in a format that I had not seen before. By telling the story through the individuals involved, the information was significantly easier to understand and connections could be identified between the major players. Finally, I read two articles on the crisis from Wired and Rolling Stone. In the Wired article, the root of the crisis is described as a complex mathematical equation developed to simplify the calculation of risk for new securities. Unfortunately, the flawed equation would lead many to make incorrect assessments about the associated risks, setting the stage for disaster. In the Rolling Stone article, Goldman Sachs is criticized as "... a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money (Taibbi)." Although comical at times, the article raised valid questions about the fairness of Goldman's success during a period in which so many suffered losses.

By the end of the case, I had gained a much deeper understanding of the causes and effects of the 2008 financial crisis. Much of the information affected the way I view powerful institutions and the government. After consuming the research material, I am more skeptical of governing structures and less likely to blindly trust information presented to me. I was also able to reevaluate my role in society on both personal and professional levels. I drew several connections between political conditions during the financial crisis and those of today. And finally, I presented the biggest lessons I believe society can take away from the financial crisis to avert future crises.

Trust

For most of my life, I have held a positive view of large institutions and the government. They represent extraordinary feats of human society in the form of enormously complex systems that determine the division of labor, resources, and power. In the case of American society, the idea of a meritocracy is championed, where the most competent and capable are rewarded resources and power in exchange for labor. In an ideal capitalist society with no humanistic frictions, this would create the most wealth at optimal efficiency. This is largely how I viewed institutions and the government. Executives and political figures work to fill their roles in the most effective manner. In the case of corporate executives, this may mean returning the greatest value to shareholders. For political figures, it may mean successfully advocating the interests of constituencies. In a meritocracy, each of these powerful societal roles should be occupied by individuals of the highest competence and capability, at least, in theory.

Unfortunately, this perspective is naive, as it underestimates the significance of human nature. In a society where wealth and power are the key indicators of success, individuals may be willing to undermine the very system they champion to secure their interests. The results are market inefficiency and corruption. For me, the various materials in this case reinforced those realities. More importantly, they allowed me to deeply examine my preconceptions about corporate and political governance in the context of one of the most consequential periods in recent history, the global financial crisis.

The documentary *Inside Job* did an excellent job of illustrating the deep connections between the perpetrators of the crisis and those whose job was to fix it. For example, the Treasury secretary appointed by President George W. Bush, Hank Paulson, was the former CEO of Goldman Sachs, a powerful financial institution involved in the crisis. On an earlier occasion, President Ronald Reagan appointed the CEO of Merrill Lynch as Treasury secretary, preceding a period of extensive financial sector deregulation. Again, in the 1990s, former Goldman Sachs co-chair Robert Rubin directed the National Economic Council under Bill Clinton and eventually became Treasury secretary.

These occasions certainly raise questions about possible conflicts of interest with government officials and the financial institutions they previously served. However, I found myself rejecting the documentary's narrative on this issue to an extent. While it may appear flawed in the eyes of the general public, I would argue the appointment of business insiders can actually improve the effectiveness of government regulators, especially in an industry where financial derivatives and other securities have become increasingly complex. This is especially evident in the Wall Street Journal article on quantitative finance. Without question, the individuals who best understand the complexities are those who have built entire careers around them. Of course, safeguards should be in place to ensure the independence of these individuals, and transparency should be of the utmost importance. Whether those safeguards were actually in place during the crisis, however, is questionable. In summary, the presented materials did not significantly change the level of trust I have in institutions or the government, but they did reinforce a degree of healthy skepticism I have for corporate and political institutions.

My Role in Society: Professional

An important takeaway throughout this case was the role I will be stepping into upon entering public accounting. As an auditor, I will be tasked with providing reasonable assurance that financial information is fairly stated by management. Before that is possible, however, the public must be confident that auditors are independent, both in fact and appearance. In the documentary, it was quite clear that the parties involved lacked independence in appearance.

When top executives meet behind closed doors to discuss possible government bailouts for their companies, the public is justified in criticizing their objectivity. While every regulator involved may have been independent in fact and competent in their decisions, the failure to appear independent in the eyes of the public quickly became a problem. Before long, the narrative of Wall Street escaping accountability on the backs of American taxpayers became the new reality, no matter the extent of its truth. As an accounting professional, independence and objectivity will need to be a priority. Without the existence and appearance of these, the trust between auditors, clients, regulators, and the public would evaporate.

All of the materials highlighted the importance of professional ethics in decision-making. Just because it is possible to do something in one's self-interest without consequence does not mean one should. In the PragerU video on "crony capitalism," scenarios of unethical actions taken by politicians are presented. The video argues that the size and scope of government are to blame for unethical behavior. This is an interesting perspective that I had not deeply considered before. Before this case, I would have exclusively placed the blame for this behavior on the individuals themselves. However, without the opportunity to make the decisions in the first place, the possibility of that unethical behavior could be eliminated. So, perhaps at least some of the blame is on the institution itself that facilitates the behavior. Regardless, the individual is ultimately responsible for his or her actions. In my career, I may face scenarios where the institutional structure surrounding my work would allow for unethical decisions to be made for my own benefit. But as a professional, it will be critical to deeply appreciate and fulfill the ethical expectations of my role.

My Role in Society: Personal

While my professional role is important in relation to society, so is my personal role outside of a work environment. Responsibilities to myself and those around me go further than merely the pursuit of wealth. In the documentary, an obsession over greater and greater profits drove the financial system to near collapse. A narrow focus without regard for the consequences levied high costs on everyone, whether directly involved or not. I think this is a powerful lesson for one's personal life. Goals, while important to have, should be considered within the context of the totality of circumstances. If the goal is to maximize wealth, major expenses such as a new home or children can be strategically funded ahead of time to achieve the goal of wealth while fulfilling other important societal responsibilities.

The various case materials also made me realize the importance of having my voice heard in society. In a democratic system, this is achieved through the act of voting. Whether I agree or disagree with any of the opinions offered in the case materials, voting offers one of the most effective and accessible methods of exercising my own opinions. After all, elected officials are ultimately a reflection of the constituencies that they serve. If I am concerned about corruption in the political system, then I should vote for candidates that support policies against said corruption. Through this case, I have realized that I am not nearly as politically involved as I should be. The current political climate has largely discouraged me from participating in the political process, but, by doing so, I forfeit my fundamental obligation as a member of a democratic society.

Political Landscape: Then and Now

When comparing the political environment leading up to and after the financial crisis to that of today, unsettling similarities emerge. The widening gap between the rich and poor sowed distrust and disdain. That trend has only accelerated in recent years, and its effects are far-reaching. During the housing crisis leading up to 2008, millions of Americans lost their homes while massive government bailout packages were being paid to the very institutions responsible. During the Covid-19 pandemic, government lockdowns forced many low-income workers out of work while wealthier Americans had the luxury of working from home. In both cases, government action had unequal impacts on upper- and lower-income groups.

Leading up to the crisis, investors lacked the necessary skepticism for the securities they were investing in. The securitization of mortgages through collateralized debt obligations and other derivatives such as credit default swaps erected a veil between the final investor and the contents of the original security. Due to this lack of transparency, investors continued to blindly trust the securities as being good investments. This same reality can be seen today with the broader population, especially in regards to social media. Information is consumed immediately, often with no regard for skepticism. Many simply trust the influencer's words at face value. Recently, this has made its way into financial markets with wild events like the GameStop stock rally, other astronomical stock valuations, and the rush to volatile cryptocurrencies.

Lessons Learned

From the financial crisis, many lessons can be learned. For one, regulators must understand the danger of leverage in financial markets. While some degree of leverage is beneficial to capital markets, the financial crisis proved that excessive leverage can have dire consequences. Through the use of derivative securities, financial institutions were able to achieve highly leveraged returns in short time periods. Unfortunately, the volatility goes both ways, exposing everyone involved to extreme downside risks. When the underlying housing market tanked, the derivatives market for mortgages collapsed, sending trillions of dollars with it. Today, regulators and investors need to understand the risks associated with leveraged positions and exercise extreme caution.

Additionally, due diligence when it comes to investment strategies is a critical component of responsible asset management. This is especially true when managing the assets of others, as many institutions were doing during the financial crisis. By simply accepting the investment ratings as fact, pension funds, mutual funds, and other institutional investors had invested their capital in assets they did not truly understand. Likewise, the rating agencies failed to perform sufficient due diligence in understanding the risk associated with the complex securities being sold at the time. Greater transparency is needed for investors to understand the risks associated with their investments. This enables a more efficient market by allocating true risk to those who wish to bear it.

To conclude, the financial crisis threatened the very structure of our capital markets and broader democratic society. The effects of which can still be seen today, as public distrust in the government reaches dangerously high levels. While mistakes have been made, society must understand the systemic problems at the core of the crisis. This way, we might be better prepared to prevent the next, possibly more severe crisis.

Honor Code

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