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Case Studies: A Study of Accounting Practices and Concepts

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CASE STUDIES: A STUDY OF ACCOUNTING PRACTICES AND CONCEPTS

by

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ABSTRACT

This accounting thesis includes multiple case studies on the topics of accounting principles, uses, and concepts. Throughout two semesters, research and contemplation have been conducted on various topics relating to accountancy. Case studies were conducted using different methods. Some were completed within a group, and the others were completed on their own. The methods were to reflect and enhance group work and conversation, as the accounting profession is a very social career.

The topics range from ethical decisions to a multiple-week case study performed with peers. The case study took place in the second semester, and I worked on a team of five students to produce research and analysis on our chosen company. At the end of the case study, we presented our findings and recommendations to a large group of professionals. These professionals followed the presentations with questions—counting as our defense. Within the two semesters where the research took place, professionals visited the class to give pointers on the different topics and guide us throughout our careers and theses.

CASE ONE: A TALE OF TWO CITIES

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Introduction

For this case, the objectives of the paper were to answer seventeen questions about my top two cities that I am considering when applying to internships and jobs. These questions are very specific and are meant to guide me to a conclusion of which city is more preferable. The data gathered is from government websites, blogs, realty applications, and more. This case requires picture examples and calculations.

My top two cities are New York City, NY, and Chicago, IL. These are my top two cities because I feel as though I would be missing something in my life if I were not to move into a large city. I chose these two in particular because New York City is one of the biggest economic hubs and Chicago is a place that I have visited many times. I chose not to consider a west coast city with the political, economic, and environmental changes that they are going through at the moment.

In this study, I answer many factual questions and other questions that are based off bias. What I have learned from the factual questions is that New York City has a much higher population and population density than Chicago, and New York City also has more public transportation options and locations than Chicago. In common, New York City and Chicago both have cold winters and hot summers, and both include rivers and a large body of water. There are more prevalent industries in New York City that I am interested in, such as media and trade. The biased questions show me that I prefer to live close to grocery stores, and that there are things I could get involved with in both cities.

When considering the mock budget that I lay out, New York City has a more favorable amount left after taxes and expenses. The tax rates are higher in New York City and the basic expenses are more than Chicago, but my preference to live with a roommate in New York City and not with one in Chicago greatly affected the outcome of the budget. Overall, New York City is more favorable than Chicago.

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

The population of New York City is 8.4 million people, and the population of Chicago is 2.7 million people. For New York City, there is a population density of 27 thousand people per square mile, and this is about 15 thousand over Chicago's population density of about 12 thousand people per square mile. The population shows that the crowding in New York is much larger than that of Chicago.

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

In both New York City and Chicago, the average temperature in the summer is around 75 degrees, but temperatures can reach into the 100-degree range. Also, in both cities, the average in the winter lies around freezing, but it can drop into the negatives. Chicago has, on average, 26.7 snow days a year—around 15 more than New York City. These temperatures are much colder than I am used to, so they would take a lot of getting used to.

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

New York City lies on the Atlantic Ocean, Hudson River, and East River. The closest mountains to the city are one and a half hours away. Central Park is New York's most famous park in the city, and Millennium Park is Chicago's most famous. Chicago borders one of the great lakes, Lake Michigan, and the Chicago River runs through the city. See Figure 1.1 for pictures.

Figure 1.1: On left- Central Park; Right-Millennium Park; Google Images

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

The total tax I would pay in New York City would be 27.01 percent of my salary—meaning I would receive 72.99 percent. The tax is broken into a federal tax of 11.27 percent, state tax of 4.67 percent, city tax of 3.23 percent, and total FICA and state insurance taxes of 7.83 percent (Smart Asset New York). Quantifiably, if I received a starting salary of $55 thousand a year, $14,855.50 would be taxed, and I would receive $40,144.50.

In Chicago, the total tax I would pay would be 23.66 percent of my salary, and I would receive 76.34 percent. The tax is broken down into a federal tax of 11.27 percent, state tax of 4.74 percent, and total FICA and state insurance taxes of 7.65 percent (Smart Asset Illinois). Quantitatively, of $55 thousand, I would be taxed $13,013.00, and I would receive $41,987.00. Chicago does not have a city tax. Both New York and Chicago have very small property taxes.

5. What transportation hubs are in the city?

New York City's largest transportation hubs are the subway, bus, taxi, and bike. The subway runs 24/7, and the price of a monthly pass is $127.00. There is a subway station about every eight to ten blocks. The pass used for the subway also covers bus fares. Most busses run 24/7, but a few do not run overnight. The bus stops are about every other block. Taxis are one of the more expensive transportation choices. A single ride has a base fee of $2.50 plus $0.50 every mile or minute, and the state charges a surcharge of $0.50 and another improvement surcharge of $0.30 per ride. Tip is also an extra fee. For the days that feel nice, there are bike-sharing stations all over the city, run by Citi Bike, and daily, weekly, and annual passes are available to use the service (NYCgo).

Chicago has a similar set up of transportation hubs. There are eight 'L' trains connecting throughout Chicago, consisting of 145 stations. Only two of the lines are 24/7. Busses do not run overnight, but some are night owl rides. There are 129 bus routes (Choose Chicago), and passes that cover the trains and busses are $105.00 monthly (CTA). Taxis are also available for about the same rates as in New York City. Chicago also has bike sharing locations, run by Divvy. There are many apps and websites to help find parking throughout the city (Choose Chicago).

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

New York City's most prevalent industries are finance, trade, healthcare, real estate, media, publishing, manufacturing, and information technology ("What are the Top Industries in New York City?"). New York City is one of the economic hubs of the world. The five largest companies in the city are IBM, Deloitte, PepsiCo, JPMorgan Chase, and PricewaterhouseCoopers by number of employees. In Chicago, the top industries are business services and professional services; food; transportation, distribution, and logistics; life sciences and health care; technology; and manufacturing ("Key Industries"). The five largest companies by number of employees are Boeing, United Continental Holdings, JLL, Grant Thornton, and Cushman & Wakefield.

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

New York City's hospitals are below the average quality of hospitals in the United States. 69 percent of the hospitals fall below average in safety of care, 97 percent fall below average in readmission, and 94 percent fall below average in patient experience (Robinson). The schooling in New York City has its extremes. Many of the both public and private schools have great ratings, but a few are known to be lacking in quality. Many public and private schools specialize in a certain activity or area. When considering what school to place my children in, I would have to consider their interests and my financial situation at that moment—private schools are very expensive if you do not receive financial aid.

In Chicago, the healthcare has a higher quality, as there are many colleges of medicine such as Northwestern, Rush, uChicago, and Loyola. This helps hold the standard of hospitals to the highest. The school systems in Chicago are similar to New York City's. There are fewer schools due to the difference in population, but public and private schools can be high or low quality. Like New York City, I would have to assess my financial situation and children's interests before choosing public or private—private schools are also very expensive in Chicago.

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

In New York City, Manhattan and Brooklyn have the highest concentration of crimes, followed by Bronx and Queens. Staten Island has the lowest concentration of crime ("NYC Crime Map"). Grand larcenies and felony assaults were the most frequently occurring crimes in the past year. Murder was the least (NYPD CompStat Unit). In Chicago, West Garfield Park, Washington Park, East Garfield Park, Englewood, and North Lawndale have the most crimes per one thousand people (ESTA). Theft and burglary were the crimes that occurred the most in the past year, and murders in Chicago—560— were over twice as many as those in New York City—230 (Chicago Police Department).

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

Based on my searches on Zillow, the typical monthly rent for a studio apartment in New York is about $1,500.00, and a two-bedroom is around $2,000.00. My focus was in the Upper East Side. These prices for listings at the moment are a few hundred dollars per month less than normal because of the impact of COVID-19, but with my internship soon, and graduation a couple years away, I do not see the rent increasing back to the original price before then. For these apartments, the square footage is not listed, but the spaces appear to be between 300—studio— and 700—two-bedroom— square feet. Each choice includes one bathroom and a stove top.

I found that it is hit or miss looking for an apartment with a microwave, dishwasher, or washer. In New York City, I would choose to live with one or more roommates. I would not bring a car, so I would not need parking. See Figure 1.2 for pictures.

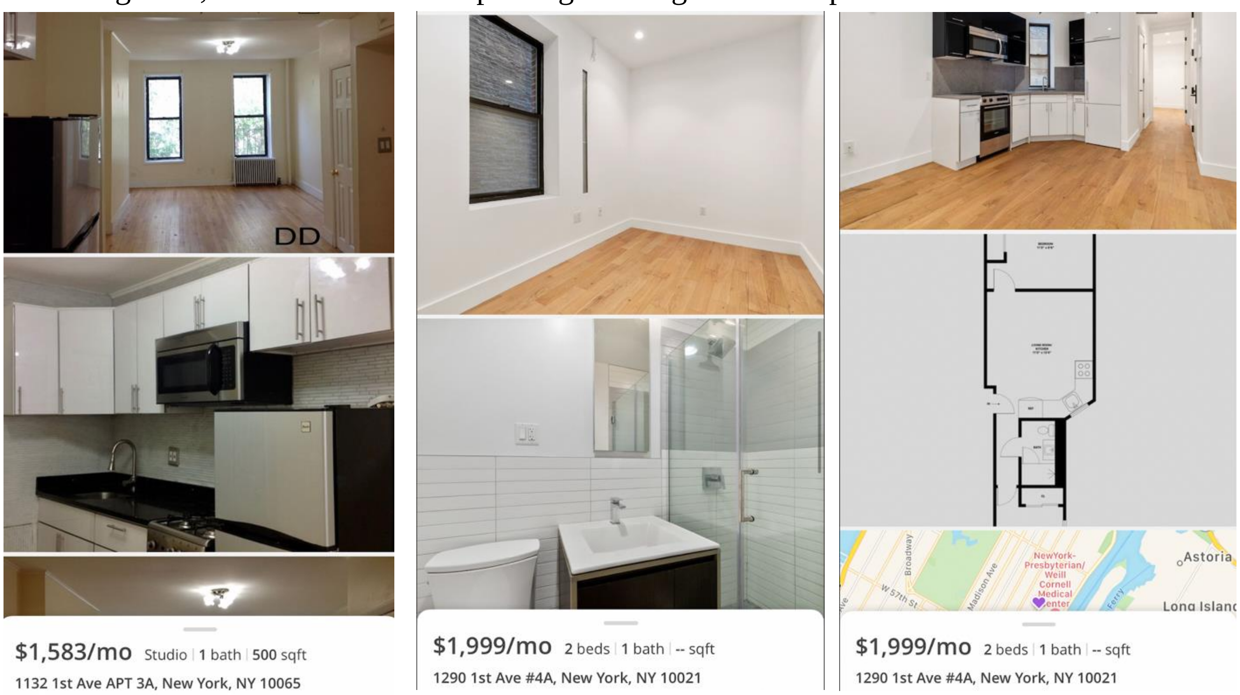

Figure 1.2: Listings from NYC studio apartment and two-bedroom apartment; Zillow

In Chicago, studio apartments run for around $1,400.00 a month, and a one-bedroom runs for around $1,600.00 a month. I am not sure if I would live with a roommate or not in Chicago, so I researched places where I would live solo. The square footage for apartments is about 700 to 800 square feet. The one-bedroom includes all the kitchen amenities, a pool, a gym, and a washer/dryer. See Figure 1.3 for pictures.

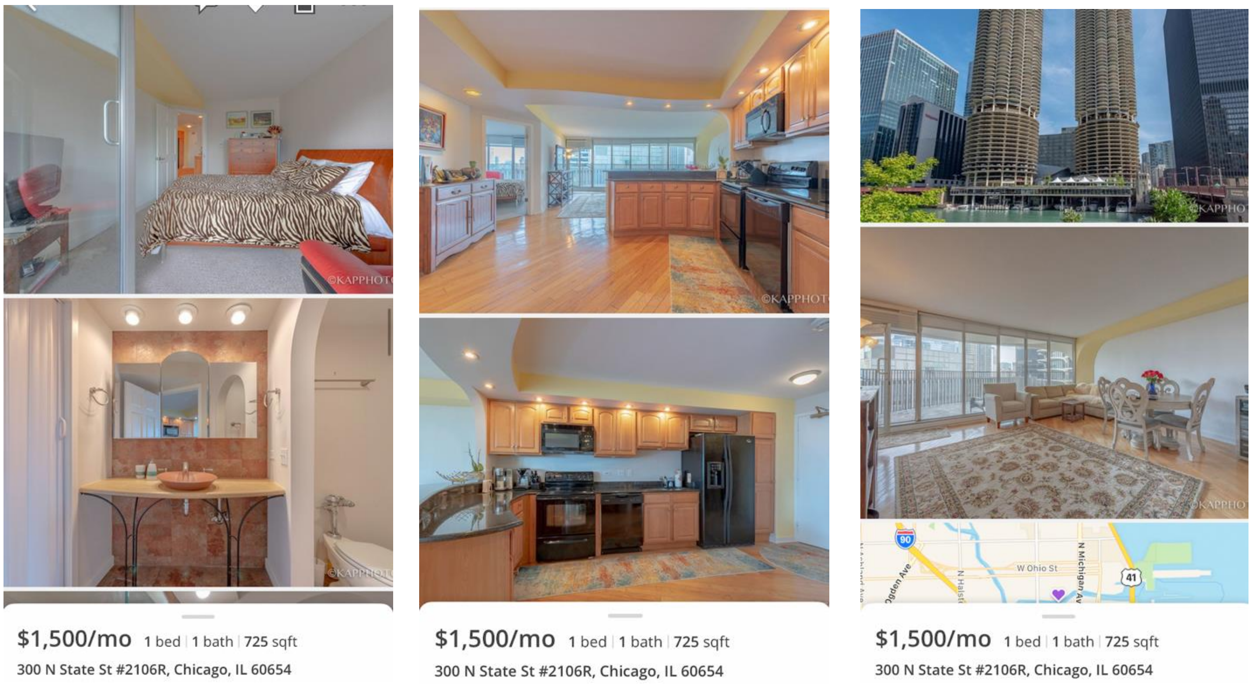

Figure 1.3: Pictures from one-bedroom Chicago listing; Zillow

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

In New York City, I would choose to commute by subway or bus. From the Upper East Side to PwC or KPMG, it is 15 minutes on the subway or 30 minutes on the bus. For Chicago, I would commute by the ‘L’ train or bus. From my preferred location off the Chicago River, my transit would be 16 minutes by train or 20 minutes by bus to KPMG, or it would be 12 minutes by train or 10 minutes by bus to Deloitte.

11. Where will you do your grocery shopping?

In New York City, there are grocery stores in the Upper East Side about every three to four blocks. Grocery shopping would not be an issue because of the close proximity to stores. In Chicago, there is only one grocery store about six to seven blocks from the location I looked at. This might pose an issue, as I would prefer not to drive to the store to get groceries.

12. How will you do your laundry?

Because of the lack of washer/dryers in New York City apartments I would have to take my clothes to a laundromat. Luckily, there are laundromats about every four to six blocks in the Upper East Side. Monthly, laundry would cost be about 30 dollars, if I hung some of my clothes to dry. In Chicago, there are washer/dryers in the apartments or apartment buildings, so laundry would not be an issue.

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

In New York City, I would try and get involved with a Baptist church. Also, I would want to help with Citymeals on Wheels, an organization that delivers food to the elderly, and I would also get involved with Grow NYC, a group that distributes fresh food and assists in cooking demonstrations (Hoeffner). In Chicago, I would also look for a Baptist church to attend. In addition, I would get involved with Operation Santa, an organization that responds to children’s letters to Santa, and Live like Roo Foundation that organizes gifts for dogs and owners who are struggling with cancer (Lauren).

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

In New York City, I would join DiscNY, a group of people who play Ultimate Frisbee recreationally. Also, I would attend concerts at Madison Square garden, go to comedy clubs, shop farmers markets, and practice ice skating at Rockefeller. In Chicago, I would get involved with their Ultimate Frisbee group, Ultimate Chicago. Also, I would try and ice skate by the bean, attend concerts, shop at farmers markets, and root for the Chicago Cubs.

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

When I were to travel back to my hometown, I would fly home due to the distance. A roundtrip plane ticket from New York City to Nashville goes for around $250.00, and the flight time is two and a half hours. From Chicago, roundtrip flights are around $120.00, and the flight time runs from two to four hours, depending on connections.

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

For my model, I am considering income tax, taxes on bonuses, rent, utilities, groceries, laundry, subscriptions, travel expenses, and transportation. I based my bonus amount off the general guideline that seven and a half percent of salary is added as a bonus. I used two websites to calculate the salary taken home after taxes (Smart Asset New York, Smart Asset Illinois). The travel expense is derived from the idea that I would travel home twice a year, and the cost is split between twelve months. I am not including insurance, phone bills, or other bills because as a second year I would still be under my parent's insurance, and they would still pay my miscellaneous bills.

For New York City, my salary is $55,813.95, and my bonus is $4,186.00. After taxes on both, I receive $45,721.00. This breaks down into a budget of $3,810.08 per month. If I were to live in a two-bedroom and split the rent, the cost would be $1,000.00 a month. Expenses would be the following: $208.32 utilities; $471.34 groceries; $30.00 laundry; $30.00 subscriptions; $50.00 travel; and $127.00 transportation (Wallace). After these expenses, I would be left with $1,893.41 to divide into savings and miscellaneous expenses.

For Chicago, my salary is $55,813.95, and my bonus is $4,186.00. After taxes on both, I receive $46,506.00. This breaks down into a budget of $3,875.50 per month. If I were to live by myself in a one-bedroom, the cost would be $1,500.00 a month. Expenses would be the following: $191.00 utilities; $327.00 groceries; $30.00 subscriptions; $300.00 travel; $50.00 parking; $90.00 gas; and $105 transportation (Josephson). After these expenses, I would be left with $1,282.50 to divide into savings and miscellaneous expenses.

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

Based on my full analysis, New York City is my preferred city. I want to be surrounded by many people, so the population is preferable. The crime is at lower rates than Chicago, and the weather is a little nicer in my opinion. The amount of money I would have left after expenses is more favorable. The transportation covers a larger expanse, and the proximity of grocery stores is great. Living with a roommate would drastically cut down the high costs of renting in New York City. Overall, these small parts put together make New York City more favorable.

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

Signature:

CASE TWO: FINANCIAL STATEMENT CONCEPTS

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Honors Accounting 420

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INTRODUCTION

For this case study, we were given three questions covering various financial statement concepts and asked to consider how the FASB would regulate these concepts for financial reporting. Included in this analysis of the case study is a transcribed dialogue of our discussion on the questions. The dialogue is included to show how we approached the prompts and came to our conclusions. Any ideas not expressed in the dialogue were addressed outside of the class discussion period in a Zoom or group message environment.

Covering financial statement concepts in this case study challenged the intellect and really forced us to think outside the box. As students, we have become accustomed to memorizing accounting definitions and concepts in the classroom, while not applying our knowledge to real life scenarios. However, this case study allowed us to do just that, in turn widening our understanding of financial reporting. While placing ourselves into the shoes of the FASB was no simple task, being able to bounce ideas off of each other in a group setting helped us to look beyond the surface value and uncover ideas that we had previously never thought about. The first question taught us that the focus of a business—either on revenues and expenses or assets and liabilities— greatly affects operations and furthermore, the value of a company. In question two we learned about the valuation of assets and its effect on financial statements, creating a push and pull between comparability and firm-specific value. Lastly, question three forced us to dig even deeper on question two and consider how these different methods of asset measurement require different financial reporting. Although this case study was conceptually challenging and even frustrating at times, we've come out of it with a much deeper understanding of financial statement concepts and how we, as future accounting professionals, can contribute to the conversation about accounting regulations.

DIALOGUE

Lele: From just reading these two, I would agree with Viewpoint One. This is my initial choice

because I read something about it in the accounting textbook today. There was an example of a company that did not have any cash flow, but they had net income. The company still went bankrupt. You can still have an income, but that does not necessarily control how well your business is operating.

Coleman: The way I read this, Viewpoint One involves long term growing of your assets rather

than Viewpoint Two— which is selling assets or trading them in, continuously increasing revenue and earnings. I think I would probably go with Viewpoint Two. It is a faster paced approach.

Anna: I also think I would go with Viewpoint Two. I do not like the description in Viewpoint

One where it is compared to a greenhouse, storing and growing assets. You need to move around your assets. To actually do anything, there has to be some movement.

Michael: Lele when you were talking about what you read today, were you saying that the company had net income but did not have cash flows?

Lele: Yeah, and they still went bankrupt.

Anna: As I'm interpreting it—I might be a little off, correct me if I am— it says that the assets are sacrificed or transformed for the larger goal. Viewpoint Two focuses on revenues and expenses, but there are still transformations of their assets.

Lele: That's definitely what they are saying. The determination of the revenues and expenses is

the primary goal, with asset and liability values being updated by changes and other accounts. It is still saying your asset and liability accounts are changing.

Lele: Let's talk about the other parts. I have written down a lot about the pros of Viewpoint Two.

Michael: Let's talk about why not Viewpoint One.

Coleman: So, Viewpoint One is more sitting on your assets and waiting for them to grow throughout time. You do not have the inflow of cash or as many transactions.

Anna: I think there is a lot of risk in that—just sitting on them.

Coleman: Your money is not as fluid. It could potentially not be in cash equivalents, and it could

lead to a company going bankrupt because they cannot access the funds when they need them.

Anna: The ability to operate in a way of Viewpoint One depends a lot on whether a company is

holding short-term or long-term assets—what kind of asset it is.

Coleman: Especially where it says a company will store the assets and grow them, I assume it is

for a long period of time. Companies with more short-term assets might have difficulty with Viewpoint One.

Michael: I feel like Viewpoint One is referring to long-term assets and investments as opposed to short-term.

Anna: Also waiting for the assets to grow, the company might miss out on a larger gain or net

income through getting rid of one asset and gaining another.

Coleman: We should probably talk pros on Viewpoint One and cons on Viewpoint Two for a

more holistic approach. Now, we should think of real-world businesses run this way. I think that Viewpoint One is like how Tesla is run. They put a lot of their money into specific business assets that did not have much return on for a long time, and they are just now seeing some significant returns.

Lele: Since we know a few things about companies on our own, I think we should include that,

without researching outside of this paper.

Michael: A trading firm might also be an example of Viewpoint One. If a company invested in

stocks for a long period of time, they do not really acquire revenues or expenses. Really, they just realize gains.

Coleman: What about a company for Viewpoint Two?

Anna: An example might possibly be a service company. A lot of the time they are composed of

a lot of revenues and expenses, and they do not have so many assets or things they hold on to. I cannot think of a specific one. Should we go over the pros of Viewpoint One?

Coleman: A pro of Viewpoint One is that if a company has the initial capital to acquire the

assets and the capital to maintain a period of losses or zero-sum gain, then I guess you could potentially see the benefits long term.

Anna: Some of the assets could potentially be good when considering Viewpoint One. If you

were in the land-owning business, that would most likely increase over time if you were capable of waiting for the increases.

Michael: We should talk about the cons of Viewpoint Two.

Anna: I feel like what Lele said earlier is a con.

Lele: Yes, so with the focus being mainly on revenues and expenses, it could harm a company if

they did not have any cash flows. Also, where it says the assets are continuously acquired and transformed—that could be a con. The assets lose the possibility of gaining more if held longer.

Michael: Let's move on to Question Two.

Coleman: What is everyone thinking about it? Should asset value be measured in the value based on other companies or by its own individual company? That's how I see the difference in the two options. In Viewpoint One, the value of an asset is based on how it is exchanged or how other firms would value it. For Viewpoint Two, the value used would be how it is valued based on how your individual firm views it. Should value be measured based on an industry standard or should it be based on each individual company's value for each asset?

Lele: I could see Viewpoint Two getting a little messy.

Coleman: Especially in the context of federal standards. In this case because it is based on

federal standards, Viewpoint One would be the right way to go. That way it is uniform throughout an industry and makes the firms much more comparable.

Michael: I agree. It is more material and easier to put a value on assets in Viewpoint One than in

Viewpoint Two. Pros for Viewpoint Two would be that it would be closer to the value your firm puts on it. The cons would be that the valuation gets messy, and it is harder to standardize it. A con for Viewpoint One would be the opposite of the pro for Viewpoint Two in that it would be a less accurate valuation for the individual company.

Anna: Can we think about some examples that would be affected by the viewpoints? I think we

will have to eventually talk about this in Question Three.

Lele: It reminds me a lot of what we talked about in Chapter 2 in Intermediate—in regard to the

topic on faithful representation and comparability. An outside user can compare your financial statements with another company, and they can feel as though the comparison is correct.

Anna: The assets are valued at the same level and degree.

Lele: Yes, one company might have a million dollars in assets and one might have one thousand dollars. With Viewpoint One, they are valued at the same level. If we were to use Viewpoint Two, one that has one thousand dollars in assets might say, “Oh, well mine is actually valued at one hundred thousand dollars!”

Anna: It would affect a lot of the fundamental concepts of accounting. You could almost say it

would appear to be biased to any outsider looking to analyze the financial statements and use them to make decisions.

Michael: Wouldn’t Viewpoint One be the same thing as net present value?

Coleman: Yeah, I think so.

Lele: One pro of Viewpoint Two is that it could show your managers or stockholders that are

already part of the firm how successful the company is. That’s one benefit of Viewpoint Two.

QUESTION ONE

Question one had two viewpoints concerning the approach the FASB should take when regulating reporting of financial statements. Both Viewpoint One and Viewpoint Two contain components that enhance and diminish the primary goal of financial reporting for a business. Viewpoint One focused primarily on long-term benefits, with assets and liabilities being the primary goal of financial reporting. If a company has the ability to survive periods of no income and thrive off its assets and liabilities, then this viewpoint would create higher financial success for a company in the long run. Viewpoint One has a limited number of characteristics that would be helpful to a company for financial reporting in the long-run, but Viewpoint Two, however, has characteristics that triumph over Viewpoint One, specifically in terms of short-term benefits. The financial flexibility of a company is higher in the short-term, which allows companies to quickly adapt to any changes or issues. Viewpoint Two also focuses primarily on the components of net income, which is how most businesses operate today. The FASB should follow Viewpoint Two to strengthen and clarify the primary goal of financial reporting for industries and companies throughout the United States.

QUESTION TWO

The two viewpoints discussed in question two refer to how assets are to be measured, value-in-exchange or value-in-use. Viewpoint One refers to looking at assets as value-in-exchange, this means that the value reported for assets is the value that an entity outside the firm would reasonably value it as. This is very useful for outside sources such as auditors and investors to use to be able to better understand the realistic value of a firm, and its assets. The negative of this would be that individual firms would not be able to use the data that they compile for their official company financial accounting statements as effectively for determining value of specific assets in the context of their firm. Viewpoint Two refers to assets as value-in-use, meaning that firms should report assets as the value that they will expect to get out of the asset from either being used directly or in combination with other assets. This would be a fairly beneficial way of reporting from a firm perspective because it would allow them to report their assets essentially at whatever value they feel is most useful. However, there is the big issue that companies will be able to manipulate their financial statements to present their company in a potentially better situation that is reality in an attempt to increase investor confidence. Also, it makes it harder to compare companies in similar industries that could be easily compared in a value-in-exchange to assist business decisions. Under the circumstances of the question, we concluded that for the purposes of the FASB financial reporting standardization Viewpoint One would be more beneficial. The main reason for our decision was because being that this is in the context of setting federal standards it is important to have comparability between companies in similar industries.

QUESTION THREE

In order to accommodate the measuring of assets as “value-in-exchange”, current accounting will have to change in relation to the recording of land, receivables, depreciable assets, and restricted cash. Under the current accounting standards, land is not depreciated because of its unlimited useful life, and, therefore, it is stated on the balance sheet at its historical cost. However, under this new value definition land will be recorded at its fair value with the increase or decrease in value being recorded into an unrealized holding gain/loss account. An increase in market value will be recorded as an unrealized holding gain under the other comprehensive income section of the income statement while a decrease will be recorded as an unrealized holding loss for the period. The reason for the change in market value will be disclosed in the notes. Furthermore, companies are currently given the option to value their receivables under the fair value option, but under Viewpoint One they will be forced to in order to ensure comparability. Also, instead of debiting interest receivable and crediting interest revenue, the original receivable account (bonds receivable, notes receivable, securities receivable, etc.) will be debited along with the same credit to interest revenue in order to ensure a more accurate measurement of the asset account. Moreover, depreciation to assets such as supplies, equipment, or buildings will be journalized with a debit to depreciation expense and a credit to the asset account. This will maintain a constant fair value measurement for these assets. Lastly, the restricted cash balance will be put back into the cash account at year end before replenishing the restricted cash account on January 1st, giving a more accurate representation of our cash account in terms of “value-in-exchange”.

Decrease in value of land:

Unrealized holding loss	2,000	
Land		2,000

Increase in value of land:

Land	3,500	
Unrealized holding gain		3,500

Accumulated yearly interest on a note:

Notes receivable	1,000	
Interest revenue		1,000

Accumulated yearly interest on a bond:

Bonds receivable	4,250	
Interest revenue		4,250

Accumulated yearly interest on securities:

Securities receivable	800	
Interest revenue		800

Adjusting entry for restricted cash:

Cash	5,000	
Restricted cash		5,000

Reversing entry for restricted cash:

Restricted cash	5,000	
Cash		5,000

Depreciation expense on supplies

Depreciation expense-supplies	2,125	
Supplies		2,125

Depreciation expense on equipment

Depreciation expense-equipment	10,500	
Equipment		10,500

Depreciation expense on buildings

Depreciation expense-building	50,000	
Building		50,000

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

Signature:

CASE THREE: THE PRESIDENTIAL DEBATE

by

Anna Brock

Dr. Dickinson

Honors Accounting 420

7 October 2020

Introduction

For this case, I was asked to watch the first presidential debate between President Donald Trump and Vice President Joe Biden. There were three requirements to approaching this case study. The first one asked for an explanation of what unites the country, both legally and socially. This was asked to be done before watching the debate. The second requirement focused on the content of the debate. I was asked to explain each candidate's speech about the economy and how that would impact unemployment, wages, manufacturing, and overall financial health. Also, I included how each president is planning on dealing with the impact of COVID-19 on America's economy. The third requirement was to explain how I could see the two sides come together and how I would function as an agent of positivity after the results of the election. Because of the nature of the debate and the messiness of the dialogue, I chose to bring in another resource to add information. The information was a straight-forward, non-biased explanation of each candidate's platform on the economy and trade.

From this case, I have analyzed how each candidate will affect the future of our economy. Donald Trump plans on continuing his present plan, which has increased jobs and wages. He also plans on reopening the economy and businesses without much regard to the safety measures needed for COVID-19. Joe Biden's economic plan is more future based and focused on building a foundation for a prosperous future economy. His COVID-19 plan includes focusing on safety and providing resources to smaller companies before reopening. I am concerned that Joe Biden's plan will not address the current situation of our economy well enough to bring it back to life, but I am also concerned that Donald Trump's plan to reopen the economy will cause another shutdown if the virus spreads due to the reopening. My plan to be an agent of positivity includes encouraging both sides to explore each other's views and accept the presidential winner. When they accept that they cannot change who won the election, they will be able to focus their energy to be heard by other forms of government.

Requirement One: *What Unites Us?*

As an American, I can see many things that unite our country and bring all citizens together. Legally, we are united by a common law and legal systems that protect and serve the United States. We are bound within the law, and every citizen shares the limits that the law sets out. Even more, we are united by common values and culture. As Americans, citizens share similar values and ethics. Moral right and wrong is distinguishable to an extent, as we are conditioned by society and interactions to see what is acceptable.

America is united through the upbringing of children. Public schools throughout the country raise children in an environment where the Pledge of Allegiance is chanted every day. The Golden Rule is preached over and over again to highlight what an acceptable behavior is. Every child is raised to believe that their next step in life is to go to college. This exemplifies another factor that unites us—our goals. Americans are goal driven towards the "American Dream." This dream is found at the roots of our country, as thousands immigrated here to pursue their individual dreams. We are success-driven people who each want to succeed in life and will work their hardest to achieve success.

As the "boiling pot" of the world, we hold hundreds of cultures within our borders, but we accept and praise each one for being unique in itself. Americans respect each individual culture and try to understand each culture. We are united through the acknowledgement that we are not all the same, and we hold different aspects of culture valuable. During political elections—especially presidential ones—Americans divide and unite, forming groups driven to see politics reflect what they believe. These groups are united by different beliefs, but in the end, they are united in the drive to be heard and win an election.

Requirement Two: *The Presidential Debate*

President Donald Trump: If President Donald Trump were to be re-elected as President of the United States, he would continue making changes to and running the economy as he has over the past four years. In his presidency, Donald Trump has generated six million new jobs with his pro-growth stance on the economy (BallotPedia). The economy has been hurt by the impacts of COVID-19 on all businesses. Trump takes the stance of pro-growth and revitalizing the economy to combat COVID-19. Before COVID-19, the unemployment rate fell to the lowest it has been in 50 years (BallotPedia). During the debate, the moderator Chris Wallace pointed out that "the economy is recovering much faster than expected after the shutdown. The unemployment rate fell to 8.4 percent last month. The Federal Reserve says the hit to growth which is going to happen is not going to be nearly as big as they had expected" (2020 Presidential Debate). The effects of COVID-19 on the economy and how Donald Trump approaches the problem can be shown through what has been done in the past months. The economy has not been hit as hard as economists were expecting.

As for jobs, Donald Trump promises to reopen the economy, and with that, the economy will be flooded with new jobs. The job market has been relatively stable up until the pandemic hit, and if Donald Trump were to be re-elected, there is an assumption that after the impact of the pandemic was over, the job market would fall back into place as it was before. President Trump plans to keep his "Trump Tax" in place, and he states that any kind of increase in taxes will hurt the economy coming out of a recession. During his presidency, wages have "grown at more than three percent for 10 months in a row" (BallotPedia). Wages are expected to continue growing if he were to be re-elected.

Early in his presidency, Donald Trump cracked down on trade and made moves to protect against "trade cheaters and to promote fairer and equal trade for all Americans" (BallotPedia). He has focused opening up the right to trade for Americans and protecting businesses within our borders. The manufacturing industry—specifically in steel and aluminum—has been a specific industry Donald Trump has made an effort to protect. His internal focus has been to protect the manufacturing sector, jobs, and expand fair trade. Overall, Donald Trump's plan for the economy is to continue his practices and platforms that have benefited the country over the past four years.

Vice President Joe Biden: If Vice President Joe Biden were to win the 2020 Presidential Election, he would focus on reversing the impacts of COVID-19 on the economy and unite countries to improve trade. Joe Biden is running on his platform of the Build Back Better economic recovery plan. This plan is based on the four pillars to,

"Mobilize American manufacturing and innovation to ensure that the future is made in America, and in all of America. Mobilize American ingenuity to build a modern infrastructure and an equitable, clean energy future. Mobilize American talent and heart to build a 21st century caregiving and education workforce which will help ease the burden of care for working parents, especially women. Mobilize across the board to advance racial equity in America" (BallotPedia).

The first pillar expresses Joe Biden's plan to protect manufacturing and innovation in America. One of Biden's plans to save manufacturing and innovation jobs is to unite countries to enforce aggressive trade restrictions on China and other countries practicing unfair trade policies.

The second pillar of his plan is to improve modern infrastructure and lean towards clean energy. This pillar might not see immediate effects, but would eventually pay off in the future. The third pillar is to improve in the education sector, which would also see positive effects in the future. The final pillar works towards improving equality in the work sector, which can benefit many other facets of society. As for jobs, these improvements might not see an increase in jobs right away, but they are designed to create sustainable and impactful jobs in the future. Compared to Donald Trump's economic plans, these pillars are well rounded and cover many sectors of America's economy, as well as planning for the future.

Joe Biden's response to COVID-19 is that the government has, "to provide businesses the ability to have the money to reopen with PPE as well as with sanitation they need" (2020 Presidential Debate). His plan is to keep the economy closed until the businesses can safely reopen without the possibility of COVID-19 having another big impact. This will most likely stagnate job growth until the economy reopens. Biden also runs on the platform of raising minimum wage to $15.00. This would help the middle and lower classes function in their day-to-day lives. After the economy recovers from the pandemic safely, Joe Biden states that his “economic plan would create seven million more jobs than [Trump’s] in four years, [and] it would create an additional $1 trillion in economic growth” (2020 Presidential Debate). Vice President Joe Biden’s economic plan focuses on the safety of Americans and the long run improvements to boost our economy.

<u>Requirement Three</u>: *The Aftermath*

After the election is over, the two political sides will need to come together. The election drives many people apart, but when the polls are in and we have elected a president, there is nothing else that either side can do. The laws in America make the election permanent—except under extreme circumstances. Whoever wins will enforce their platform, and the only way people can have a chance at seeing changes is voting officials that hold similar views into the Senate or House of Representatives. The people of America will come together to make whichever plan is put into place effective, and anyone who tries to hurt the economy or any other aspect will be isolated from the united front. Every American wants the country to succeed, and when a president is elected, they would not try and go against what is supposedly helping our country. People will have to come together and discuss how we will change with the new presidency.

Personally, I intend to support whoever is elected president, whether it be who I support before the election or not. There is nothing that I can do to change the results, and I will not hinder their plans from going into place. If there is something I disagree with, I will use all the power I have as an American citizen to voice my thoughts—such as voting for representatives or speaking about the topics with others. If Donald Trump were to get elected, I would benefit from the immediate economic boom that he runs for, but I may not agree with some of his stances on social issues. These I can influence by voting for representatives who share the same outlook on certain issues. If Joe Biden were to be elected, I would not immediately see an economic boom, and that might hurt my future job search. On the other hand, his hesitation to open the country back up with safety precautions might save the country from another negative hit if we were to open back up too soon and increase the spread of COVID-19. Joe Biden's economic plan might not pay off immediately, but I believe that his plan could build a foundation for a better future economy. With how each candidate is planning on responding to COVID-19 and the economy, we will need an economic boost immediately or else the economy might not ever recover.

My plan to be an agent of positivity centers around acceptance. For whoever wins, I will encourage those around me to accept that the candidate has won, and that we cannot change that. I will plead with those who see their favored candidate win to not rub it in the faces of those on the opposing side, and I will encourage them to talk with others to try and understand their point of view. I understand that right now, it is difficult to persuade others out of their views on certain topics, but after the election, I will try and get others to view both sides of the issues.

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

Signature:

Anna Burk

CASE FIVE: TAX RATES

by

Anna Brock

Dr. Dickinson

Honors Accounting 420

28 October 2020

Introduction

For this case, I was asked to read two articles pertaining to the Tax Cuts and Jobs Act and watch a documentary focusing on offshoring wealth. First, I read the articles to learn about the impacts of lower taxes on large corporations, then I watched the documentary to discover what offshoring wealth was and how it was linked to higher taxes on large corporations. To structure my case, I individually highlight the articles and the documentary. After I highlight the three, I explain how they affect my opinion on what the corporate tax rate should be. The last section of this case deals with my personal opinions and interests as they pertain to the public tax sector of accounting. I highlighted my interests before this case and how they have changed after this case.

When looking at offshoring wealth, the negative effects that the companies are having on our country's economy stick out to me. The loophole that they take to get out of paying full taxes leads to a decrease in money the government has to spend in the United States. This factor influences my choice of lower corporate taxes because I see that it is important to make it more favorable for large corporations to pay taxes to our country. The Tax Cuts and Jobs Act shows me that a lower corporate tax rate leads to increased benefits to the economy in the United States. This straightforward analysis also supports my choice of lower corporate taxes.

My interest in the tax sector of public accounting did not change with this case. Initially I had no interest in tax accounting, and after this case, I think I have even less interest. I have a sort of distaste for tax accounting now because of my observations on the documentary and articles. The documentary showed me that tax accountants are part of the equation when it comes to large corporations offshoring their income to safe havens. The Tax Cuts and Jobs Act shows me that I would become frustrated with the continuous changes by the government in tax rates, and I would take the impacts of tax rates on clients much too seriously. This case refined my opinions on tax rates and my interests in tax accounting.

<u>Question One:</u> *What do you think the optimal corporate tax rate should be and why?*

To be able to answer this question, I will look at the effects of high corporate taxes on the largest companies in the United States and their actions. After that, I will look at the effects of lower corporate tax made possible by the Tax Cuts and Jobs Act.

The effects of high corporate taxes on the United States can be seen by first looking at the actions of the largest corporations when faced with high tax rates. One of the most hurtful actions to the economy is the offshoring of wealth used by these large corporations to benefit from low to no income tax. Offshoring wealth consists of companies using tax havens to minimize the amount of tax they have to pay on their profits. Companies do not have to pay income tax on foreign profit until it arrives in the United States. This makes it more favorable to large companies to keep their profit oversees in the tax havens—countries or areas with little to no corporate taxes. One of the most notable estimations of the amount of wealth offshored in 2010 was $22 to $32 trillion, two-third coming from developed countries (VPRO). This vast sum of wealth is not being taxed at the normal rate of our country and not going towards the economy. These large firms that are offshoring end up having to lend money to the government who is hurting because of the offshoring, meaning the large firms are lending money because of the problem they have made (VPRO). This continuous cycle hurts the economy over and over again, leading to consequences for individuals and small businesses.

Examples of companies that offshore wealth are Walmart and Starbucks. Walmart has multiple entities in the Netherlands, but the company does not have one store in the country. The financial entities are used to funnel income into the country because of its low tax rate (VPRO). This example shows how the system is manipulated to favor large corporations and outrun taxes in the United States. Starbucks also has a hand in offshoring profit. The company holds a variety of patents and trademarks in a safe haven (VPRO). This means that as a company pays a fee for using a trademark, the profit of those fees goes directly into an account at the safe haven. There, the company has made a confidential agreement stating a lower tax rate than in the company’s home country. Both of these companies have used the offshoring system to get out of paying higher taxes on their profits, thus taking away the income tax from their government.

Bankers, lawyers, and accountants are also responsible for maintaining this system. They build the financial structure of the companies and manage their capital flows, making the financial side flow smoothly. Those involved are equally as guilty as the company for choosing the evasion path. In almost all cases, accountants working with a company are legally bound to not share any information about the company’s financial structure and how they allocate their income (VPRO). This makes it difficult for governments to trace and call out large corporations for their offshoring actions. In the EU, the government passes financial laws written by Big 4 accounting firms—those with the most knowledge on financial situations—about how to regulate accountants (VPRO).

This system provides accounting firms with the power to run operations and help larger corporations as easily as they please.

Recently under Donald Trump's administration, the corporate tax rate was lowered from 35 percent to 21 percent with the Tax Cuts and Jobs Act (the TCJA). One of the outcomes hoped to be achieved with the tax cuts is to decrease the amount of offshoring to safe havens by large corporations. After the act was implemented, there were many positive effects on the economy that could be seen from the tax cut. The number of job openings increased dramatically, and the unemployment rate fell to the lowest level seen in half of a century. More and more manufacturing jobs are being created (U.S. Department of the Treasury). Manufacturing jobs had previously been continuously threatened and decreased by the threat of China's cheap labor and manufacturing prices. The increase in manufacturing jobs has a large positive effect on the economy because the sector had previously been so weak.

"Evidence shows that of the different types of taxes, the corporate income tax is the most harmful for economic growth" (Hodge). Directly corresponding with this statement, the tax cut would have an opposite effect of a higher corporate income tax and therefore help the economy. Capital is very responsive to tax changes, and companies look to move their capital somewhere where they receive more benefits from a lower tax. Corporate tax income does not affect the corporation itself, but rather it is divided between workers and owners of the corporation (Hodge). Workers are hurt by lower wages, and the income of individual families lowers. This effect shows the impact of higher taxes on corporations and how it affects individuals. Corporations that are affected by higher taxes have less income to spread between capital—human and non-human. The

TCJA has the benefit of giving corporations a larger net income, and therefore they can allocate their net income towards more capital.

The TCJA is formed to produce the most effects in the long run. Short run effects will be seen, but not to the extent of long run effects. The Tax Foundation Taxes and Growth model is used to measure the total effects of the TCJA. The new act will result in a, “1.7 percent larger economy, leading to 1.5 percent higher wages, a 4.8 percent larger capital stock, and 339,000 additional full-time equivalent jobs in the long run” (Hodge). The effects shown in the model are all huge positive effects on the economy. Not only does the lower corporate income tax benefit large corporations in the United States, but it also attracts large corporations from all over the world to make investments in the United States (Hodge). In the long run, more jobs and capital will result in new investments. This will boost the economy even more.

One flaw of the TCJA is that many of the major parts of the act will eventually phase out, leading to a decrease in the benefits seen with the act. One of the portions of the act is the 100 percent bonus depreciation section. This allows for businesses to enact 100 percent bonus depreciation, and it helps remove the tax code’s bias against specific capital investments (Hodge). This provision is only in effect for five years, then it will start being phased out. The phasing out of this provision will lead to the reversing of positive outcomes of the act. As with all of the other provisions that are phased out, the benefits of the act will decrease and not provide as many positive impacts on the economy.

These two observations on offshoring income and the effects of the Tax Cuts and Jobs Act shape my personal opinion on what the optimal corporate tax should be. When looking at offshoring income, it is easy for me to say that our corporate income tax should be lower. That initial observation is supported by the actions of large corporations to offshore income when income tax is high for them in the United States. Also, I can look at the effects of lower corporate taxes through the impacts of the Tax Cuts and Jobs Act. This act shows that with lower corporate taxes, the economy ultimately benefits overall. Between these two observations it seems almost blatant that a lower corporate tax income would be preferred.

The only drawback that I see to a lower corporate tax income is that companies many initially take the lower tax and move income back into the United States, but what happens when they realize that they can still offshore and evade more taxes? I think lower tax rates in the United States would be enticing, but over time, the even lower rates in safe havens would convince the larger corporations to continue offshoring wealth. Even though this might happen, there are still more benefits to lowering corporate tax than not. So, it is my opinion that the corporate tax rate should be lower like that of the tax rate under the Tax Cuts and Jobs Act.

<u>Question Two:</u> *Did this case increase or decrease your interest in pursuing a career in the tax service line of public accounting?*

Previously, I had no interest in pursuing a career in the tax service line of public accounting. After this case, I still have no interest in the tax sector, and I might even have less interest now. I say this because of personal preferences of mine and the effects of taxes that I have seen in this case. Personally, I am drawn to more structured and problem-solving situations, which I have been told to believe is what audit accounting is like. From the information I learned about offshoring income, this decreases my interest in the tax service line of public accounting. From what was said in the documentary, accountants are painted as villains when it comes to helping large corporations offshore. I think that if I was a part of helping these corporations offshore and I could not legally do anything to stop them, I would not be very happy with my job. I see the consequences of those kind of actions and do not think that it seems right to help the system continue.

On the other hand, the observations on the Tax Cuts and Jobs Act show me that the tax rates are continuously changing and being disputed among the government. The ever-changing tax rates would not be fun to continuously recalculate and change. If I was working with smaller clients who were affected negatively by a tax rate, I would feel for their situation, and I think I would take their situations too personally. This might affect how I get my job done. Overall, I have no more interest than I did when I started this case in pursuing the tax sector of public accounting.

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

Signature:

Anna Burk

CASE SIX: INTERVIEW

by

Anna Brock

Dr. Dickinson

Honors Accounting 420

19 January 2021

Introduction

For this case, I was asked to choose someone I know in the accounting or business community to interview. During the interview I had to ask a set questions to get to know about my interviewee more in depth. This helped me created a biography of their life, and it also helped me reflect on my own future career goals. I chose to interview my mother, Carol Brock, for this case. She has been a role model to me for as long as I can remember. I also chose to interview my mother because I knew the interview would be less formal than any other. Because I was able to do a less formal interview with someone I trust, I know her answers were honest and not glamorizing any part of accounting. I learned things that I did not know about her. Along with the eleven questions given in the case overview, I added two of my own that revolve around my knowledge of my mother's career. The first section of this case is the biography, followed by direct quotations from the interview corresponding with the questions asked. The last section is my reflections on both the biography and interview.

From this case, I have learned more than I initially thought I would have learned. For instance, I had never thought to ask my mother about her early career, and instead I had only ever thought about where she is working now and how that affects her. The questions I asked were questions that I had never thought to ask her before. For instance, I knew in the back of my mind that my mother had been in pharmacy before accounting, but I never thought to ask her about it in depth. I always focused on what she ended up doing and not how she got there. Some questions I asked her were about topics that I knew some people would not answer truthfully. Everyone always talks about the good and positive traits of accounting, but no one wants to or will show the negative aspects to the field. Asking my mother about the negative side gave me the heads up to what I might experience in my career. Also, advice was given during the interview that she had never given before. I knew finances and saving money were important, but I never realized how much of an impact it has on someone's life. I learned many new things through the interview, and I got to know my mother's career side of her life better.

Biography

Born in 1962 in Hattiesburg, MS, Carol Brock is the oldest child of Joe and Mary Hasson. She has two younger brothers. During her childhood, she moved around a lot, living in Hattiesburg, New Orleans, Jackson, Indiana, and Clinton. She graduated high school in Clinton and started her college career at Hinds Community College. She initially majored in pharmacy, but she changed her major to business during her time and studies there. She continued her studies at Ole Miss where she started in pharmacy. After much consideration, she changed her major to accounting. At Ole Miss, Carol Brock was involved in the ROTC. Before graduation, she began dating her soon-to-be husband, Tyler Brock. After graduation, they married and moved to Jackson, MS.

Carol Brock first began her career in the military reserves where she worked in a special intelligence unit. Following her passion, Carol switched into a finance unit with the National Guard. After her time with the military was over, she went and worked for Eastover Bank, and there she worked in a forensics branch. Carol and Tyler Brock moved to Atlanta in 1989. There Carol worked for many different accounting firms primarily in analysis related positions. In 1995, she quit working in the accounting field to take care of her first daughter. In 2005, she and Tyler moved to Madison, MS. Three years later, she began as an Operations Specialist at Pinnacle Trust. In 2012, Carol took a year and a half off to focus on her family. During that time, she worked part-time as a wedding planner's assistant and substitute teacher. In 2013, Carol resumed her position at Pinnacle Trust and has worked there until the present date. Over her time at Pinnacle Trust, she has held positions including Operations Specialist, Trust Operations Officer, Internal Auditor, Compliance Officer, Director of Operations, and Director of Compliance. The company is now changing its name and function, and the company will soon be a registered investment advisor (RIA) and renamed Pinnacle Wealth. At this new company, Carol will hold the title VP Director of Operations and Compliance.

Carol has four daughters: Rachel Luther, Katherine Hamrick, Meredith Brock, and Anna Brock. She is also the grandmother to four grandchildren. Outside of work, she sings in her local church's praise team and listens to sermons every Sunday. She uses her extensive knowledge of plants and gardening to shape up her front and back yard, and she grows her own plants year-round. When she gets the time, she travels to her family in Georgia, Florida, Alabama, and Tennessee.

<u>Interview</u>

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

"I was the oldest of three kids from a poor family. My mother was a teacher, and my father was a preacher. That meant we did not have much money. I worked in a pharmacy in high school and thought I wanted to be a pharmacist because I did well in that job. I actually got a music scholarship offer from Southern Miss, but I turned that down because there was no money in music.

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

"The first college I went to was Hinds because I could pay for it. I worked forty hours a week and went to school. I initially started in pharmacy and took classes like chemistry, botany, and other basic things. Then I decided that maybe I did not want to do pharmacy, so I changed over to business. I did well in business. I liked economics and accounting a lot. I met my boyfriend working at the pharmacy in high school, and he was eventually going to the law school at Ole Miss. I got grants and student loans to go to Ole Miss and followed him there. When I first got to Ole Miss, I didn't know a soul, and I stayed in Isom which was the oldest dorm on campus and didn't have air conditioning. I changed back to pharmacy when I transferred to Ole Miss. Eventually, I met your dad through a mutual friend, and he taught me how to live a little and enjoy college. While at Ole Miss, I joined ROTC, and that helped me pay for my tuition and expenses."

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

"I didn't know I wanted to go into accounting when I first went to college. My first semester at Ole Miss I took organic chemistry and physics, and I made a C in both. That helped change my mind. I was really good with numbers, so I changed my major to accounting. There was one class I struggled in and almost quit accounting, but I had a good teacher who was very patient with me in that class and helped me learn the material. Getting through that class furthered my interest in accounting."

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

"I got commissioned in military intelligence with the Army Reserves, but originally I was in the finance unit with the National Guard. When they had another opening in the finance unit, I switched back after I graduated. After that, I went to work for Eastover Bank. I didn't work in accounting very long there. They had a big conversion, and a lot of things were messed up, so they formed a different department. I ended up working in the new department focusing on analytics, and that's pretty much what I've been doing my whole life. I haven't done much basic accounting, but I've worked in more forensic accounting. Forensic accounting involves more analysis than normal accounting. I worked at the bank until we moved to Atlanta. There I worked for a couple different firms in accounting. One of the places I worked for was Nationwide Credit which was the third largest collection agency in the United States. I started in the accounting department there, and then I moved over to the analysis side of it all. I stopped working in accounting firms when your oldest sister started kindergarten. I didn't do any real job for a while. I worked for your dad, doing the books for his company for a little bit. After not doing anything for a while, I finally got back into accounting related work. In 2008, I started at Pinnacle Trust as Operations Specialist, and I worked there until 2012. I took a year and a half off to help with your grandfather. During that time, I worked with a wedding planner and subbed at the local schools. I went back to Pinnacle Trust in 2013, and I have been there ever since. One of the things I learned that helped me most and steered what I liked to do was working at the bank and being placed in the special department. It taught me how to analyze and dig for mistakes. I learned a lot working at the bank. Working there helped form my foundation of controls and policies that help mitigate risk. It showed me that there was more than just plain accounting in the world of accounting."

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

"It's been exciting. It's also been stressful. Having four daughters has been a mix of both exciting and stressful. Being able to support your dad and show you and your sisters things outside of our little bubble has been really important to me. It's been good, but not all life is perfect or easy. The good times have far outweighed the bad."

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

"It was when I went to Thailand. I went to visit your oldest sister and her family because they were living in India at the time. The people were so friendly, and the food was incredible. The scenery is unbelievable, and there are things there that you just don't see anywhere else. Where else do you ride down the road and see elephants and monkeys on the side of the road? It was definitely outside of my comfort zone. Just seeing a part of the world that most people will never see was pretty incredible."

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

"I would have been more financially conscious of decisions we made. It's easy to spend money when you have it and sometimes when you don't have it. I wish we had planned better, but also, your dad always says that we're going to live life and enjoy it. Another thing I wish I would have done was learn a new skill. I wished I would have learned how to fix a car or something like that. I know about plants, but knowing something else in depth would have been nice."

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

"Save money now. Have a plan and invest. The younger you start, the more it grows. That's something I wish someone had told me back then. Don't go blow it all because you have the money. One thing I would say to your classmates is to enjoy life. Don't get so wrapped up in your career that you let the little things pass by. Also, don't get stuck on what your degree says because there is so much more than that. It's not all just debits and credits.

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

"My girls. That's it. I'm proud of my girls. Y'all are smart, strong, and independent."

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

"I think it will be retirement. I think a lot about having enough money for retirement to live comfortably. Also, there's the possibility that social security might be going away. That would also pose a huge challenge."

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

"Learning to live with the choices that our society and my generation makes will be tough. My generation has made some choices that will leave your generation with problems to struggle with. Whether it's political, environmental, or economic, there are things that we have done that can't be undone. I think your generation will have to make some tough decisions. I grew up fearing the Russians, and I think some of the political decisions being made are going to bring a whole new round of some kind of threat of war, whether it's internal or external. We get lax in our strength as a country and other countries see that and take advantage of it to use against us."

Question 12: *What is something negative that you have learned from or experienced in accounting?*

"In corporate accounting, sometimes the focus is so much on the bottom line or margin that there gets to be some creative accounting that I don't agree with. I left a company one time because they asked me to make entries that were not ethical. It's the ethical questions in companies and accounting that make it really hard."

Question 13: *As someone who has been involved in reviewing resumes before hiring, what is one of the most important things you look for in a candidate? What is something that is not good?*

"Poor grammar is a huge no. That's the biggest thing that makes me immediately put a resume in the no stack. People who apply for a job that do not know what they are applying for is another bad sign. I can tell if a person is sending their resume to every available job opening. Concise job descriptions are very important. I hate wordy resumes. A good resume has good bullet points and a good history that works with the job they are applying for. As someone who looks at resumes a lot, I can tell right off the bat how much time a person has put into their resume."

<u>Reflections</u>

I have learned a lot from my mom, and how she has lived her life. Many of the things that I asked her about she answered with things I did not know. It gives me strength to think how hard she worked in college and out of college, and to see her success gives me a sense of calmness. I worry a lot about being stuck in a job and not being able to escape it, but hearing that she held many positions in many jobs was reassuring. I also worry that I will not be able to have a life outside of my job. She showed me through her accomplishments and pride that I will be able to make a life outside of my career. Hearing her words of advice to not get stuck and save my money gives me a good stable foundation to start on once I begin in the accounting field.

Aside from her answers, I was able to talk with her about my fears and things I am excited about that are coming up. I had never thought too much about the things she is fearful about for our generation, but now I have something to look out for and brace myself for. Knowing what she is fearful for in her generation makes me look at how I can structure my life to not have those same fears when I get to her point in life. My mom has been one of the people I look up to and respect in business. I worked with her at Pinnacle Trust in high school, and she set my foundation for how I should act and work in a professional setting. With this interview, I got to see her be completely honest with me about my future and see what she hopes for me.

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

Signature:

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CASE COMPETITION: THE COCA-COLA COMPANY

Week One

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Honors Accounting 420

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Introduction

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

Annual Reports Key Findings

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

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

Articles and Key Events

Coke with Coffee:

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

Discontinued Products:

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

Profits Drop 32 Percent:

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

Restructuring:

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

IRS vs. Coke Dispute:

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

Industry Summary

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

Blogosphere

Across the blogosphere, Coca-Cola has caught the attention of many as the company plans to launch new beverages and as the fluctuations in the stock market over the past year have affected share prices. Recently, Coca-Cola has been making news as they prepare to produce a new hard seltzer in the United States. CEO of the company, James Quincy, believes that to keep up with the ever-changing consumer tastes, the company needs to take the opportunity to enter the industry. Currently leading the industry are Mike's Hard Lemonade's White Claw and Boston Beer's Truly. 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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"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 Two

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Honors Accounting 420

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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 accessing different scenarios that could create the potential for fraud. Through this week, our team was able to grow and learn so much about the strategy behind auditing a manufacturing company.

Cash and Cash Equivalents

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

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

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

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

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

Test 1: Auditors can verify bank accounts by directly contacting the banks where Coca-Cola frequents and requesting a list of all the accounts Coca-Cola holds and their related balances be sent directly to the auditors.

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

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

Inventories

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

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

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

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

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

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

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

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

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

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

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

Accounts Payable and Accrued Expenses

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

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

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

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

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

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

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

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

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

Long Term Debt

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

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

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

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

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

Test 1: Our team can compare Coca-Cola's revenue to industry averages and historical company data. 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 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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"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study."

Signed:

CASE COMPETITION: THE COCA-COLA COMPANY

Week Three

by

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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 of Coca-Cola's taxable income. The equity method investment account is comprised mostly of investments that come from a common business activity that falls under Coca-Cola's operating group: Bottling Investments Group, or BIG. The activity involves buying bottling plants with poor operating performance and implementing systems to improve performance and overall efficiency before reselling the plants while maintaining a partnership with them.

Coca-Cola is currently working on the process of refranchising all of their bottling operations. This means that they are returning ownership of all bottling operations to local business owners while maintaining partnerships so that their bottling operations act as a coordinated, but local and independent, system. They have completed their refranchising efforts in all of their geographical sectors except for Southeast and Southwest Asia and parts of Africa. If Coca-Cola were to continue this activity and sell off their remaining equity method investments, they would reduce their taxable income by over $1 billion. President Biden's plan to increase the corporate income tax rate from 21 percent to 28 percent should serve as a key factor in motivating Coca-Cola to lessen their taxable income before President Biden enacts his proposed tax rate. The following table (Table 2) illustrates the potential tax savings if the corporate tax rate is increased to 28 percent.

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

Table 2: Equity Investment Divestiture information

Strategy Three: Relocation of Select Operations

Our third tax strategy involves relocating concentrate and finished product operations to take advantage of more promising tax environments. For this specific case, we propose moving some of Coca-Cola's current United States-based production operations and combining them into a single factory in Nevada. By moving operations into Nevada, the company would be able to benefit from lower property taxes, no corporate tax, and many other state incentives, including competitive air cargo costs. One final upside to relocating to Nevada is that the state offers workforce development programs meant to provide enrichment to workers and the company alike, so finding skilled employees 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, n.d., 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", n.d., 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.

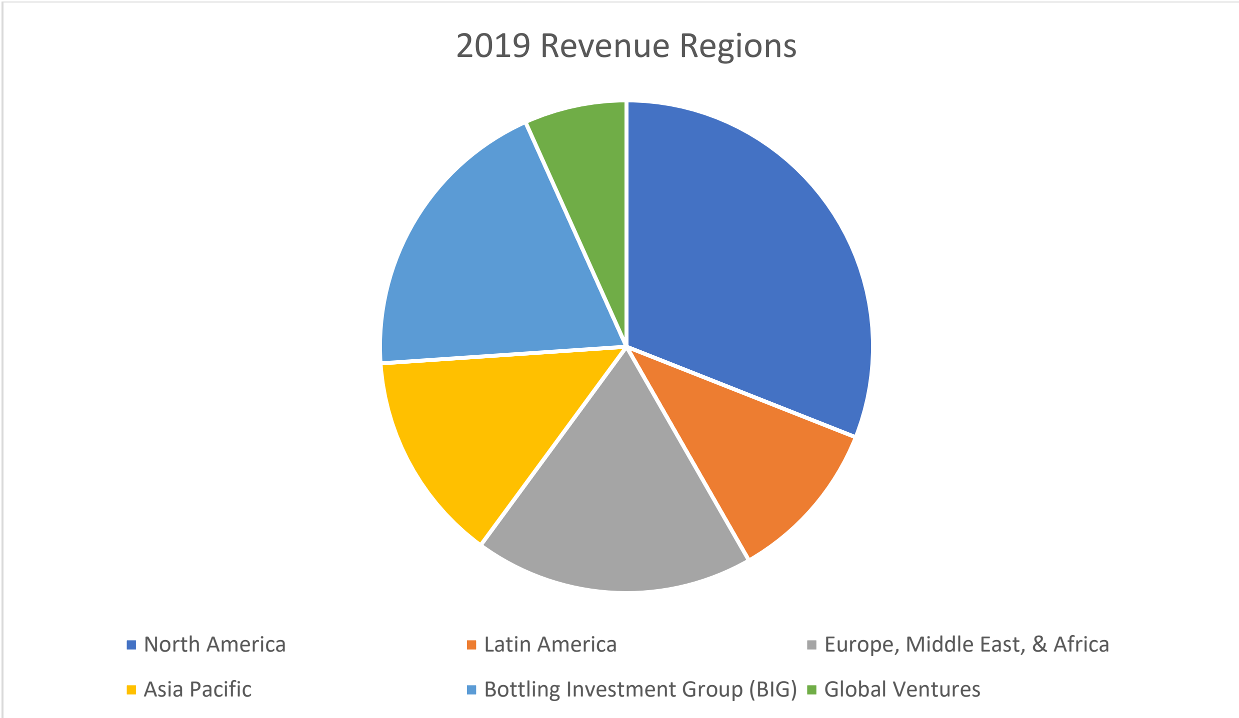

Figure 1: 2019 Coca-Cola Revenue Regions

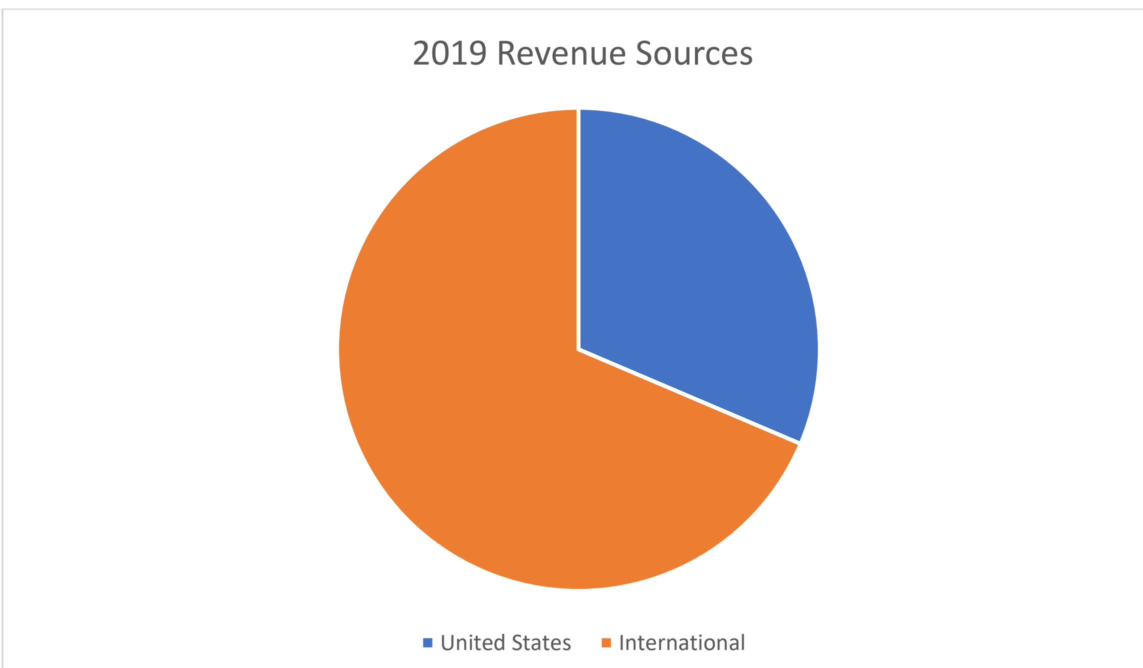

Figure 2: 2019 Coca-Cola revenue sources

In Millions	Foreign Subsidiary Relocation					Revenue Growth:
Year	**2021**	**2022**	**2023**	**2024**	**2025**	
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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"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case study."

Signed: Caitlyn Henry

CASE COMPETITION: THE COCA-COLA COMPANY

Week Four

by

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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, n.d.). Coca-Cola's number one strategy right now is Disciplined Portfolio Growth. They are trying to become a total beverage company ("Growth", n.d., 1). Coca-Cola started as a predominantly sparkling soft drink company and now they offer a diverse array of products across categories. Their strategy is very customer-centric, as their constant focus on innovation, mergers and acquisitions, revenue growth management, and improved execution are all supported by greater brand-building.

c. Demand and Supply Analysis

Today, Coca-Cola maintains strong demand for its core products, as the classic Coca-Cola soft drink makes up the majority of its sales. However, shifts in consumer preferences and rising health awareness have slowed demand for this market segment, especially in the United States. The COVID-19 pandemic has also significantly reduced demand in 2020, although this will likely rebound relatively quickly as the global economy recovers. Unlike its traditional business, Coca-Cola's newer markets are experiencing rising demand trends. According to IBIS World, the ready-to-drink tea, juice, sparkling water, and energy drink markets are currently in the growth stage of their industry life cycles (Jaura, IBIS, n.d.). 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, n.d., 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, n.d., 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, n.d., 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, n.d., 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, n.d., 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, n.d., 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, n.d., 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, currently holds a 14.2 percent market share, whereas Coca-Cola holds a strong 59.4 percent market share in syrup and flavoring production (Jaura, 2020). In soda production, however, PepsiCo holds 31.9 percent of the market (Hiner, 2020). In the year of 2019, PepsiCo produced a total revenue of $67.2 billion, while Coca-Cola only reported an annual revenue of $37.3 billion (Jaura, 2020). Although at first glance it may appear that PepsiCo is the leading beverage competitor, one will see that the numbers are slightly misleading after further investigation. Coca-Cola serves as the industry-leading producer of hot and cold beverages, whereas PepsiCo also owns and produces Frito Lay's snack food and Quaker Foods which generate a significant amount of revenue, contributing to that impressive $67.2 billion in revenue.

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

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

II. Historical Horizontal and Vertical Analysis

a. Revenue

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

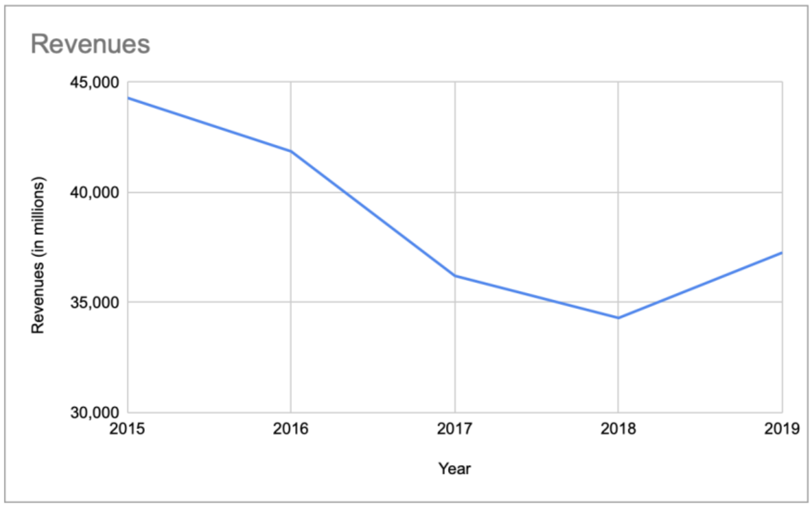

Figure 1: *Revenues over the past five years for Coca-Cola Company*

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.

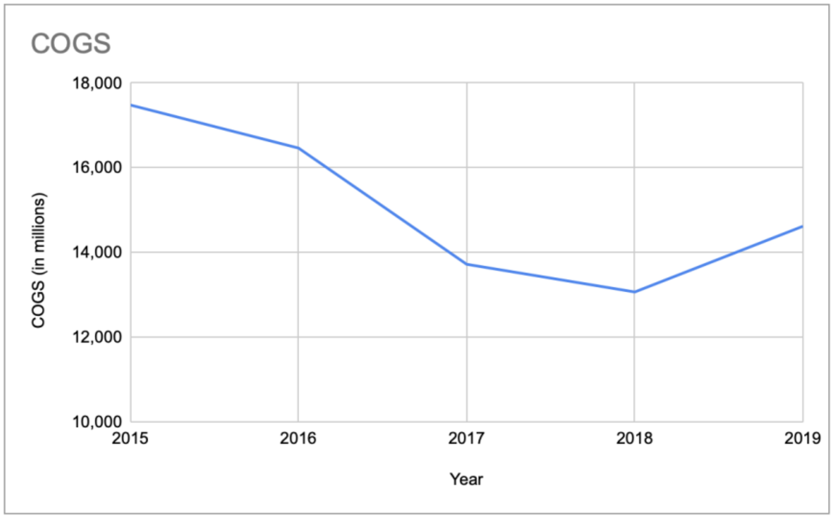

Figure 2: *Cost of Goods Sold over the past five years for Coca-Cola Company*

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.

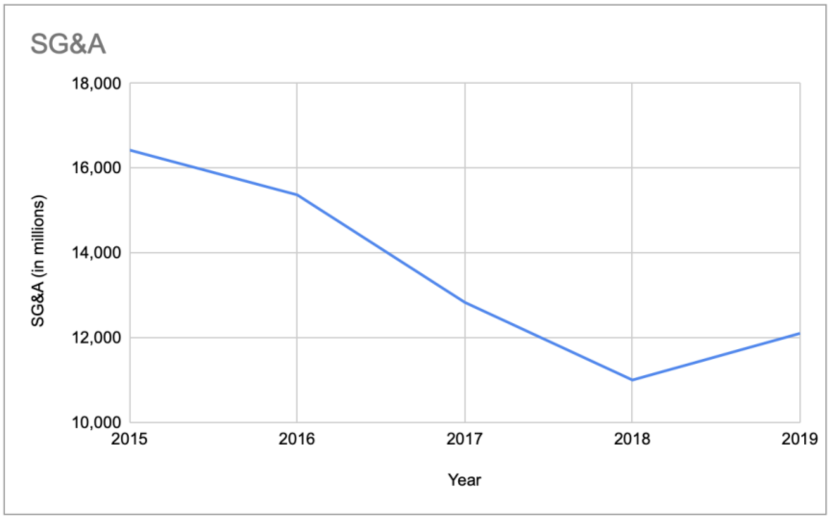

Figure 3: *Selling, General, and Administrative expenses over the past five years for Coca-Cola Company*

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.

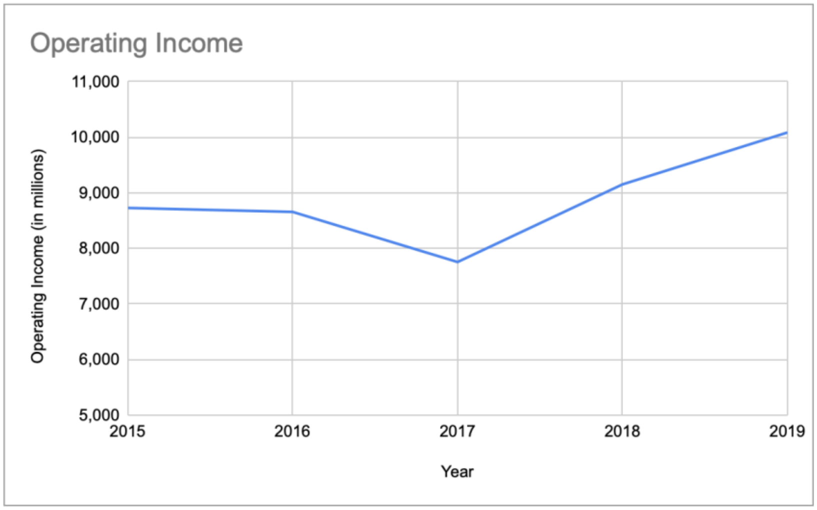

Figure 4: *Operating Income over the past five years for Coca-Cola Company*

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.

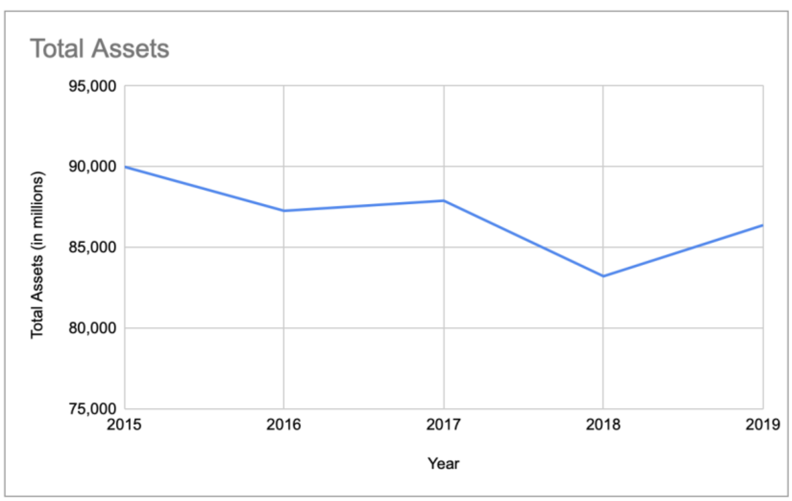

Figure 5: *Total Assets over the past five years for Coca-Cola Company*

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.

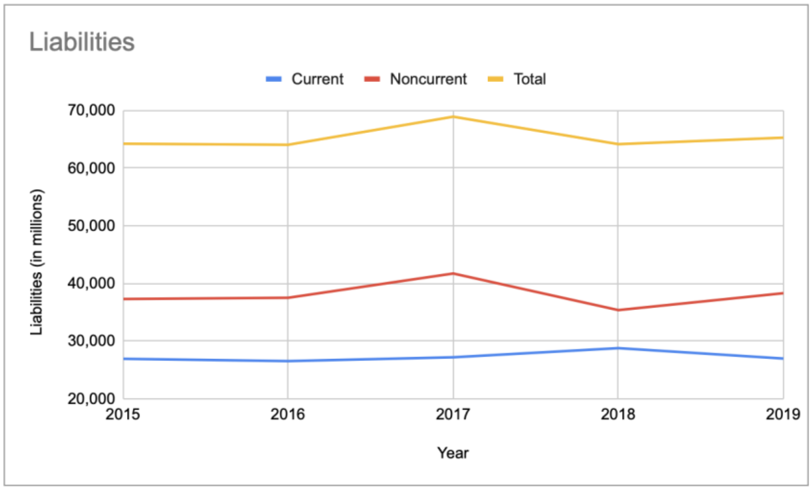

Figure 6: *Liabilities over the past five years for Coca-Cola Company*

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.

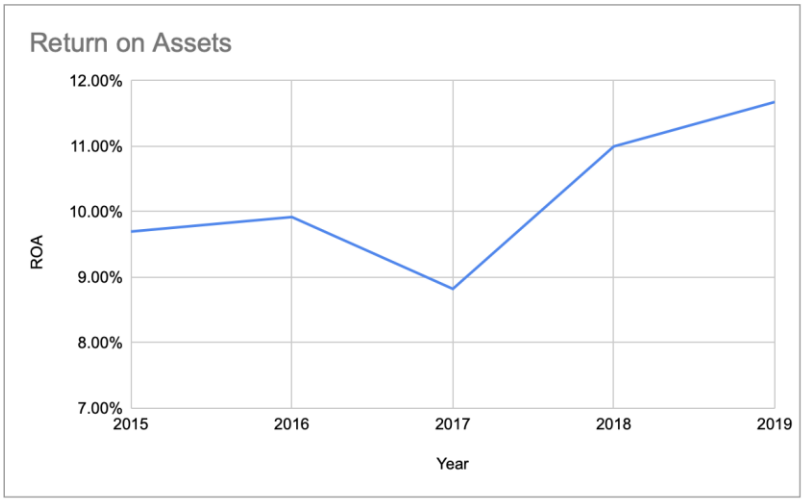

Figure 7: *Return on Assets over the past five years for Coca-Cola Company*

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.

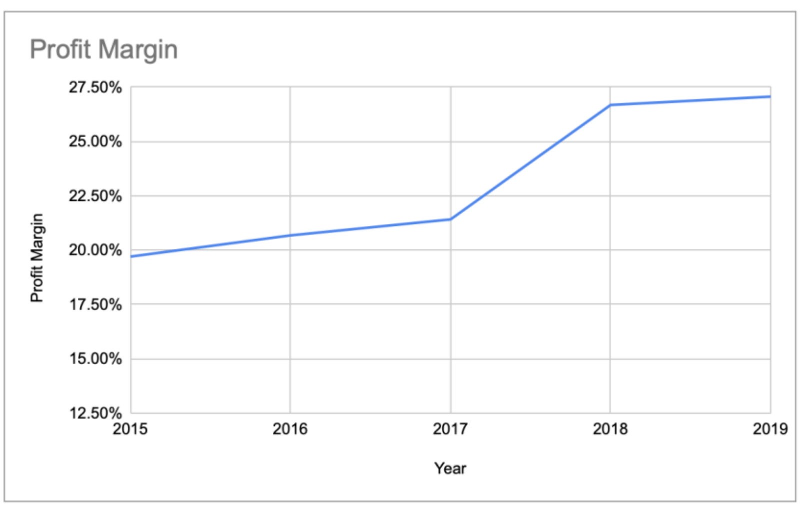

Figure 8: *Profit margin over the past five years for Coca-Cola Company*

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.

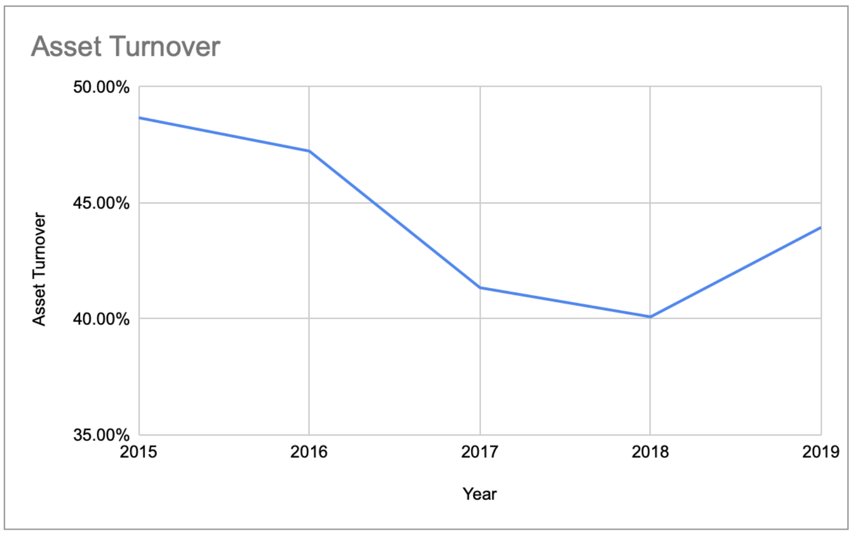

Figure 9: *Asset Turnover over the past five years for Coca-Cola Company*

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, n.d., 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, n.d., 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, n.d., 13). If Coca-Cola cannot continue to accurately predict consumer preferences and new product trends, the company could risk falling behind to other competitors or losing market share.

Solution: New Product Line

Part One: Ready-to-Drink Spirits Product Line

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

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

Part Two: Coca-Cola Freestyle Cocktail Mixer and Dispenser

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

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

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

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

Projections:

Based on previous successful market expansions, we project for Coca-Cola to secure 20 percent of the RTD Mixed Spirit market by 2024. This will add over $3.4 billion in revenue compared to the base case in the span of five years. For the Freestyle machine expansion, we project Coca-Cola to achieve a five percent share in bar and club revenues by 2024, yielding over $3.8 billion in added revenue. Between both expansions, Coca-Cola can expect a revenue increase of over $7.2 billion in five years, as seen in Figure 10.

Overall, in terms of cost of goods sold, we expect this margin to be comparable to Coca-Cola’s existing business. We do not foresee large expenses associated with expansion as existing production and distribution capabilities can be utilized. We argue that because of Coca-Cola’s launch into the world of alcoholic seltzers, there will not be a major increase in research and development expenses when creating this new ready-to-drink cocktails line. SG&A expenses will increase slightly as the company works to capture a market share in the alcoholic beverage space. Fortunately, Coca-Cola has successfully traversed market boundaries many times before, so that corporate expertise can be applied here as well. Following these projections, we expect operating income will improve by over $2 billion in five years, as seen in Figure 11.

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

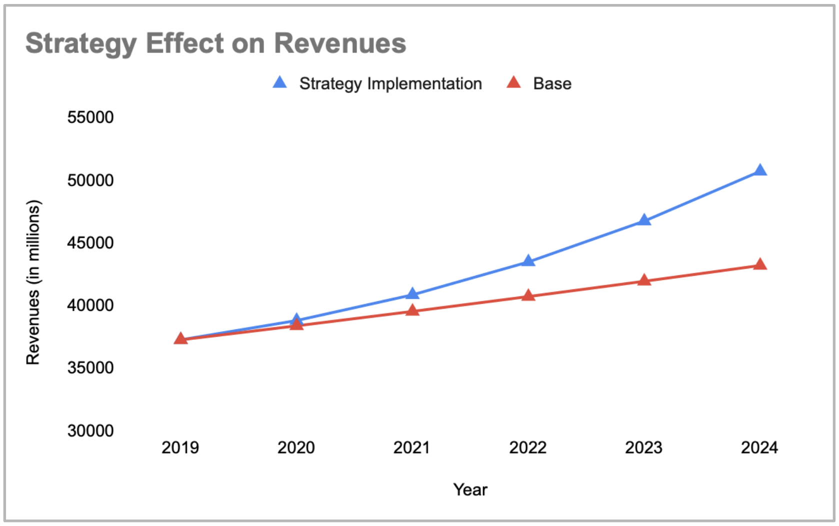

Figure 10: *Forecasted effects of the solution to Threat One on revenues over the next five years*

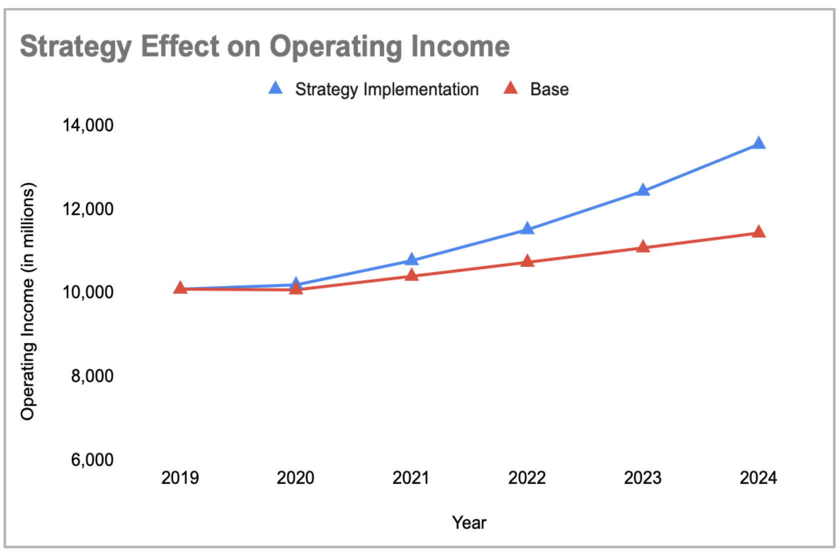

Figure 11: *Forecasted effects of the solution to Threat One on operating income over the next five years*

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, n.d., 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, n.d., 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, n.d., 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.

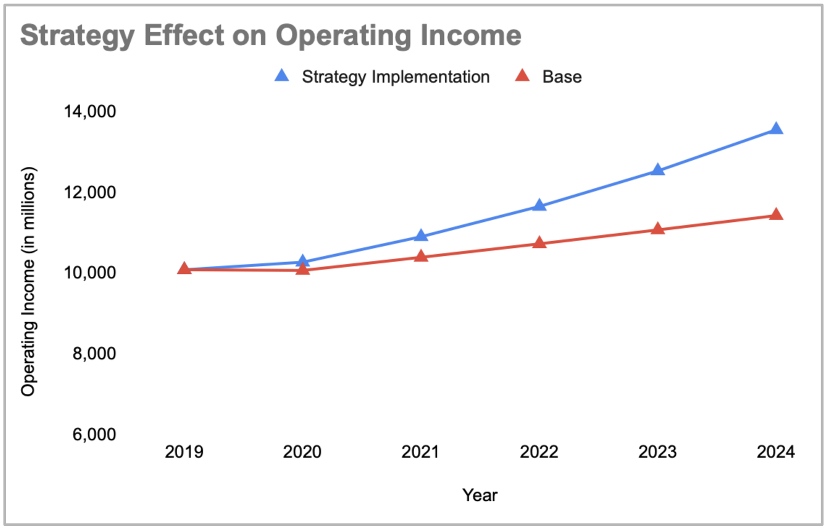

Figure 12: *Forecasted effects of the solution to Threat Two on revenues over the next five years*

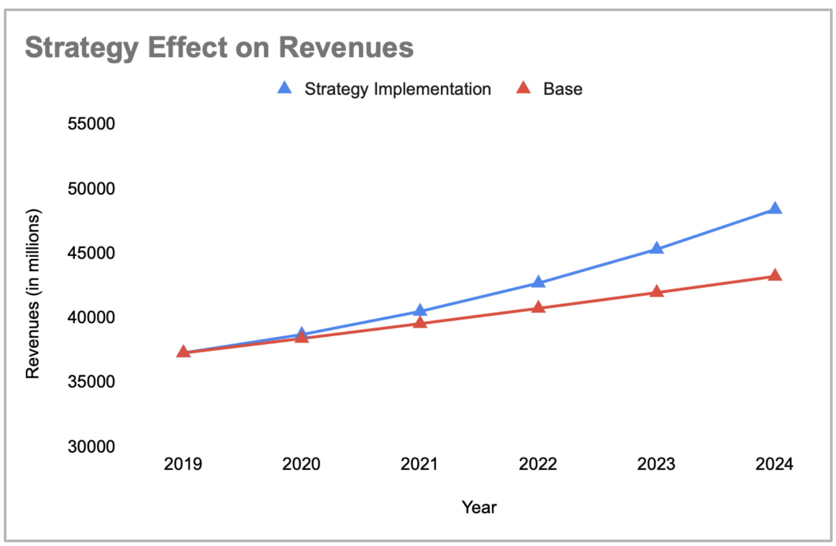

Figure 13: *Forecasted effects of the solution to Threat Two on revenues over the next five years*

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

Signed: Caitlyn Henry

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CASE COMPETITION: THE COCA-COLA COMPANY

Week Five

by

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Dr. Dickinson

Honors Accounting 420

February 24, 2021

Introduction:

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

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

Closing Price as of December 31, 2019:

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

Price-to-Earnings Ratio:

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

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

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

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

Beta:

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

Analyst Following:

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

Forecasted Growth:

Coca-Cola's forecasted growth rate for the current quarter (March 2021) is -2 percent, and for the next quarter (June 2021), it is 31 percent. For the current year (2021), the growth rate is 9.7 percent, and for the next year (2022), it is 8.4 percent. The forecasted growth rate for the next five years is 5.24 percent.

Analyst Recommendations:

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

Effects of Advisory and Tax Recommendations:

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

Projected Earnings Per Share and Stock Prices:

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

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

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

Return on Assets and Risk:

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

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

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"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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The Coca-Cola Company

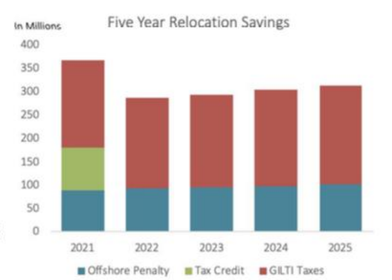
Anna Brock, Caitlyn Henry, Adam Lalejini, Jack McInnis, & Francena Sekul

Audit

- Three of Coca-Cola's Riskiest Accounts:
  - Cash & Cash Equivalents
  - Inventories
  - Accounts Payable & Accrued Expenses
- Implement Viable Internal Controls, Testing, and Data Analytics Tools to Mitigate Risks.

Tax

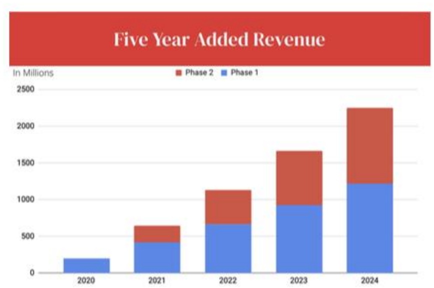
- Strategy One: Implementation of Renewable Energy
  - Advise Coca-Cola's Capitalization on the Tax Credit for Investment in Commercial Solar Photovoltaics.
  - $156 million initial tax credit
  - $281 million lifetime tax savings
- Strategy Two: Relocation of a Foreign Subsidiary to the U.S.
  - Recommend Moving One of Seventeen Foreign Concentrate Plants in Anticipation of President Biden's Proposed Tax Plan.
  - $4.76 billion revenue relocated to U.S. over five years
  - $1.57 billion five-year total tax savings



Tax projections from Strategy Two

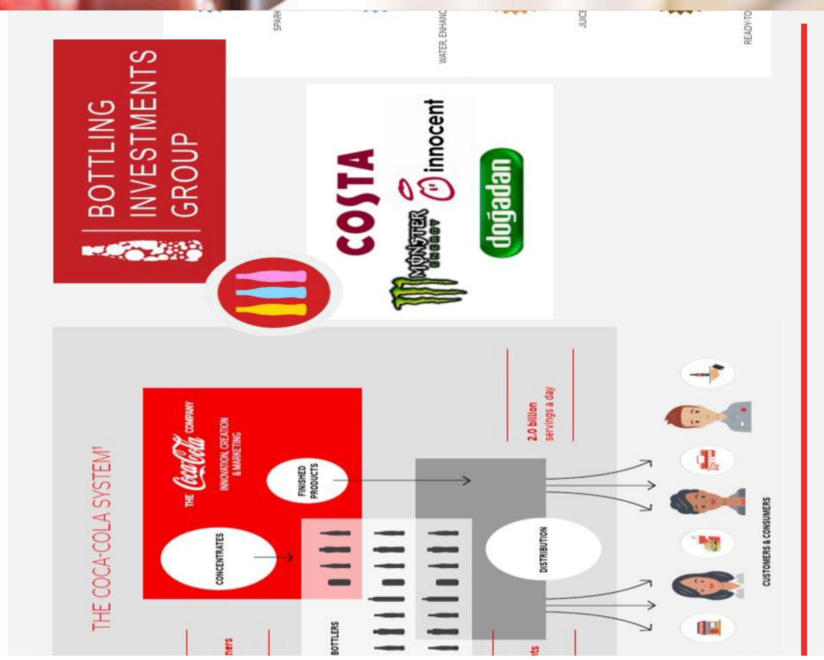
Advisory

- Threat: Evolving Consumer Preferences
- Solution: New Product Line
- Phase I - Development of Ready to Drink Spirits
- Phase II - Expansion of Freestyle Machines
  - $7.2 billion in added revenue by 2024 (Phase I & II)
  - $2 billion increase in operating income by 2024 (Phase I & II)
- Phase III - Implementation of Data Collection Software & Leveraging Data Production



Advisory projections from Phase I & II

PRESENTATION



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Equivalents
2
Inventories
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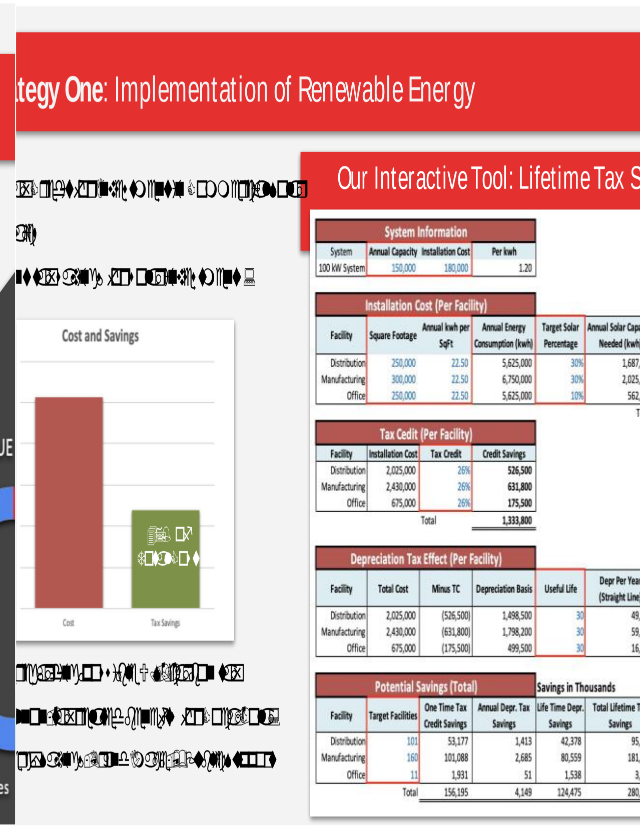


System Information			
System	Annual Capacity	Installation Cost	Per kwh
100 kW System	150,000	180,000	1.20

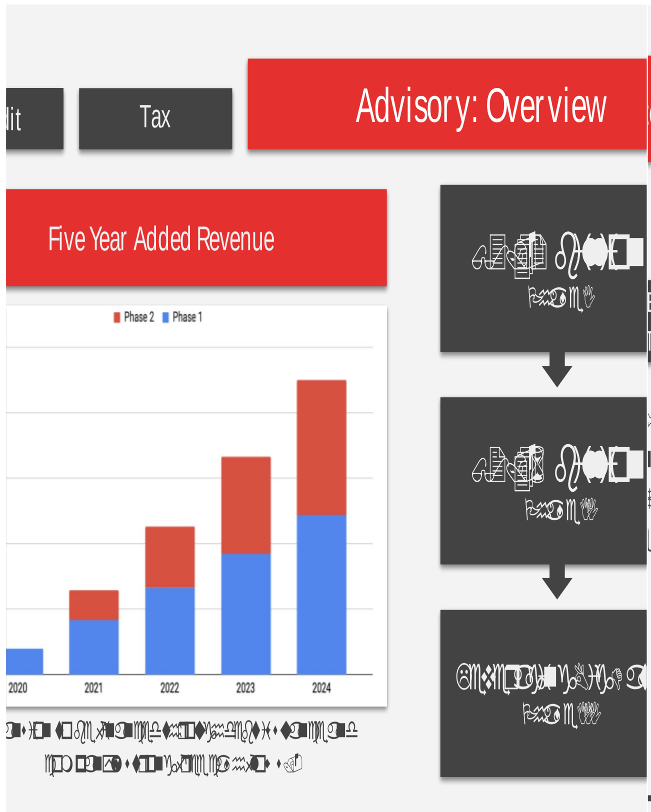
Installation Cost (Per Facility)				
Facility	Square Footage	Annual kwh per SqFt	Annual Energy Consumption (kwh)	Target Solar Percentage
Distribution	250,000	22.50	5,625,000	30%
Manufacturing	300,000	22.50	6,750,000	30%
Office	250,000	22.50	5,625,000	10%

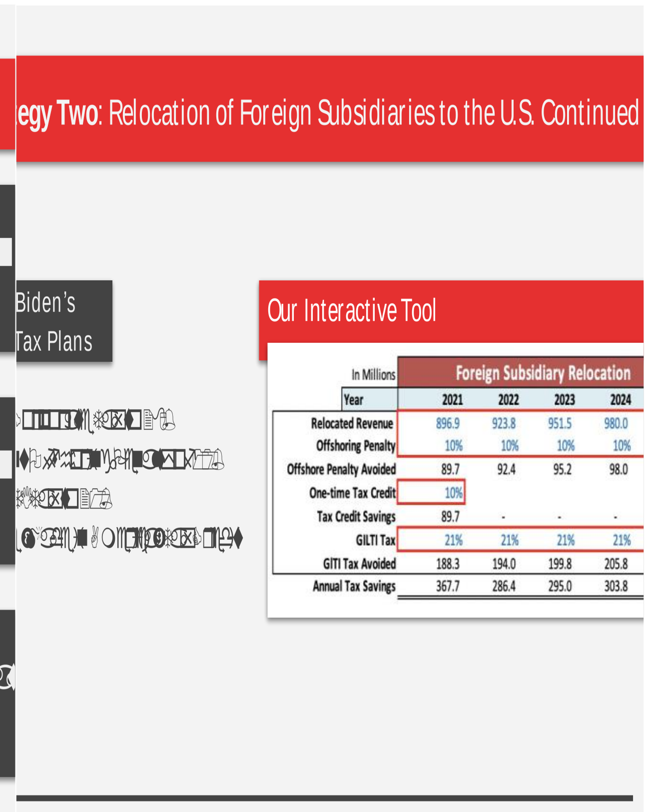
Tax Cedit (Per Facility)			
Facility	Installation Cost	Tax Credit	Credit Savings
Distribution	2,025,000	26%	526,500
Manufacturing	2,430,000	26%	631,800
Office	675,000	26%	175,500
		Total	1,333,800

Depreciation Tax Effect (Per Facility)				
Facility	Total Cost	Minus TC	Depreciation Basis	Useful Life
Distribution	2,025,000	(526,500)	1,498,500	30
Manufacturing	2,430,000	(631,800)	1,798,200	30
Office	675,000	(175,500)	499,500	30

Savings in Thousands

Potential Savings (Total)				
Facility	Target Facilities	One Time Tax Credit Savings	Annual Depr. Tax Savings	Life Time Depr. Savings
Distribution	101	53,177	1,413	42,378
Manufacturing	160	101,088	2,685	80,559
Office	11	1,931	51	1,538
	Total	156,195	4,149	124,475





In Millions	Foreign Subsidiary Relocation			
Year	2021	2022	2023	2024
Relocated Revenue	896.9	923.8	951.5	980.0
Offshoring Penalty	10%	10%	10%	10%
Offshore Penalty Avoided	89.7	92.4	95.2	98.0
One-time Tax Credit	10%			
Tax Credit Savings	89.7	-	-	-
GILTI Tax	21%	21%	21%	21%
GITI Tax Avoided	188.3	194.0	199.8	205.8
Annual Tax Savings	367.7	286.4	295.0	303.8

on: New Product Line

ase I:

ly to Drink Spirits Product Line

ght of Coca-Cola's recent transition to the total beverage industry with a newly released zer, we recognize great market potential to expand into the ready to drink cocktail line.

Usage of Coke products as "mixers" with people's choice beverage is already a common practice
- Examples include: Coca-Cola, Sprite, Topo Chico, Simply Orange Juice, etc.

Potential to partner with prominent liquor brands to create Ready-to-Drink Spirits
- Examples of Partnerships: Crown Royal Whisky & Cola Canned Cocktail

Targets a young adult to middle age consumer group

Projections
- 20 percent market share secured by 2024
- $3.4 billion addition to revenue through 2024

Threat: Evolving Consumer Preferences

oca-Cola recognizes that it must continue to anticipate ever-evolving consumer pre

nd trends in order to be successful

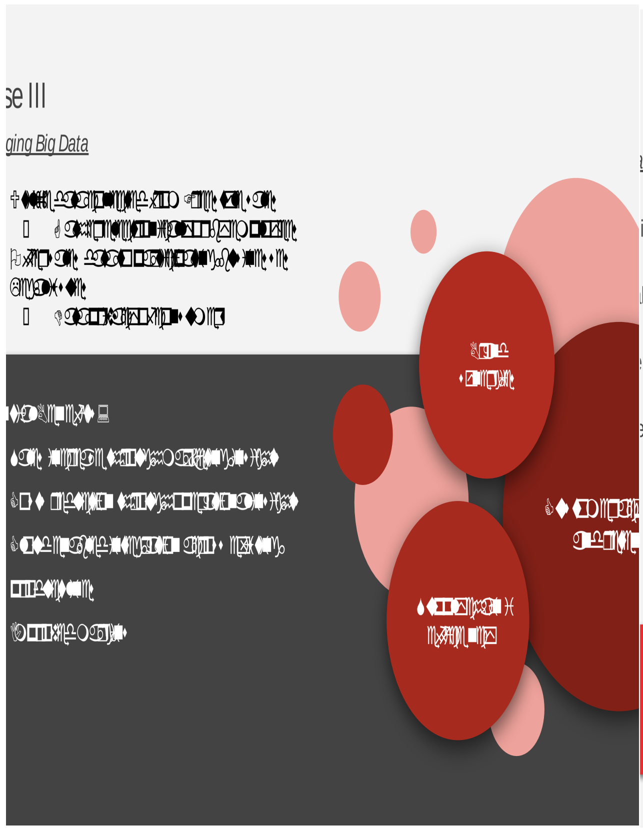
oca-Cola's goal is to continue to improve existing products and to successfully deve

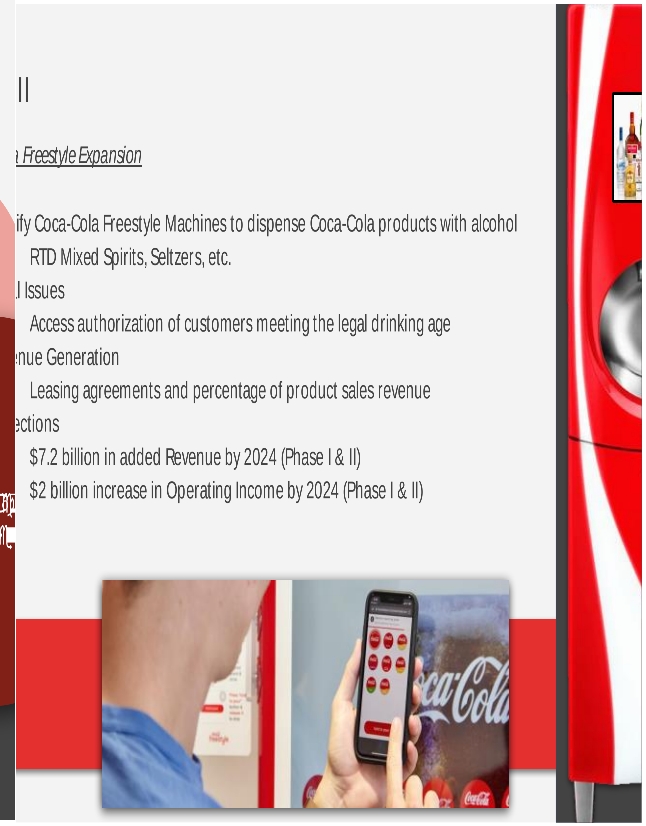
arket new beverage products

Coca-Cola does not continue to accurately predict trends, the company will risk fall

ehind and losing its dominant market share to other major competitors such as Pe

c. and Keurig Dr Pepper Inc.


se III
ging Big Data


II
a Freestyle Expansion
ify Coca-Cola Freestyle Machines to dispense Coca-Cola products with alcohol
RTD Mixed Spirits, Seltzers, etc.
l Issues
Access authorization of customers meeting the legal drinking age
enue Generation
Leasing agreements and percentage of product sales revenue
ections
$7.2 billion in added Revenue by 2024 (Phase I & II)
$2 billion increase in Operating Income by 2024 (Phase I & II)

FINAL CASE: THE FINANCIAL CRISIS OF 2008 AND ITS LEADING CAUSES

by

Anna Brock

Dr. Dickinson

Honors Accounting 420

April 4, 2021

Introduction:

For this case, I was asked to watch two videos on YouTube— "What is Crony Capitalism" and "Cause of the 2008 Financial Crisis - Dr. Thomas Sowell". After the videos, I rented and watched the movie *Inside Job* directed by Charles Ferguson. Finally, I was asked to read "Recipe for Disaster: The Formula That Killed Wall Street" by Felix Salmon and "The Great American Bubble Machine" by Matt Taibbi. While I watched and read these materials, I took notes on the main points and my thoughts. After I finished, I processed the information presented to me and my reactions to it for a day. For the body of this paper, I answer the three questions posed in the prompt. For the questions, I arrange my analysis in the order of materials watched.

During this case, I was confronted with many ideas and emotions regarding institutions and government that I had not encountered before. Watching the first two videos, I was introduced to the concepts and ideas that would be expounded on in the movie and articles. The movie gave a dramatic look into the cause of the financial crisis of 2008 and the opinions associated with the events that took place. These events ranged from the first mistakes made to the consequences after the crisis. The articles gave a deeper look into the formula mentioned in the movie and one of the corporations responsible for the financial crash. Overall, I was shocked by what I learned from the material. My preconceived notions about what had happened turned out to be completely different from what had happened between the companies and the government. My level of trust in institutions and the government decreased dramatically, and I was recognized many ways that I need to change my role in society. I cannot sit back and believe what information is given to me, and I have to weigh the risk of every action I take. Further analyzing the material, I was able to see a parallel between the political state in the past two decades and the environment now. There are many ways that our government is the same as it was then, and because of that, there are actions that will have to be taken to prevent another crisis.

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

The first two videos assigned for us to watch were the first things that sparked my distrust in institutions and the government. The first video on crony capitalism brought a new idea to my attention (Prager University). I have always gone for the cheaper option in a grocery store, but hearing that the government will pay more for items because of the money received from lobbyists and companies upset me. When you think about the government, one of the first things you think of is how they represent their constituents, but in the case of crony capitalism, the government is swayed by money and not the needs of those who elect them. The second video gave a brief overview of the financial crisis of 2008 (Sowell). For as long as I could remember, I believed that the crisis was caused by the nature of the economy, but this video was a smack in the face telling me that it was due to the behaviors of companies and the government. After the video, I was ready to learn more in the following movie and articles.

The movie heavily affected my trust in institutions and the government. The flow of the movie laid out how institutions and the government were not only liable for the cause of the financial crisis of 2008, but it showed that they also handled the economic meltdown poorly and did not attempt to drastically change after their mistakes and the crisis (Ferguson). The movie decreased my trust in the motivations of the government and showed how easy it is to sway officials. Person after person, the movie linked officials put in high government positions to companies that were constructing the groundwork for the financial crisis. Many times, the officials had incentives to pass or block bills that would hurt the company they left or decrease any compensation they might receive. The blatant ignorance of officials who were warned time after time leads me to believe that the government should not have my full trust. One part of the movie pointed out the actions of professors to push economic ideologies that furthered big corporations and profit maximization. This makes me wary of what I am currently being taught in my economic classes and how it might have consequences in the future.

The articles were the last pieces of information that decreased my trust in institutions and the government. The first article "Recipe for Disaster: The Formula That Killed Wall Street" gave a deeper look into what the large corporations used without acknowledging the consequences and possible flaws (Salmon). Although many people, including the author himself, warned that there were flaws and time needed to understand the formula more in-depth, the money-hungry corporations took the formula without regard to any of the warnings. This showed that there really is no power held by anyone who stands between large companies and their money. Not only that, but the government also never stepped in to regulate the use of the formula after the warnings. This shows that the government and institutions that handle money do not care to keep the interests of anyone but themselves in mind.

The second article "The Great American Bubble Machine" showed how Goldman Sachs sunk its teeth into the government and for the past century has been able to survive after facing major financial crises (Taibbi). It upset me that the consequences of Goldman

Sachs' actions were only a tiny fraction of their profits and compensations. When the government has laws and regulations in place that limit the consequences given to large corporations, the companies never see true consequences and continue making decisions that hurt millions of people. This was shown by illustrating each bubble Goldman Sachs created and operated. Each time, Goldman Sachs has a connection to government officials in high positions that could continue pushing out actions that benefited the company. When each bubble burst and hurt millions, Goldman Sachs only received a slap on the back. Seeing how connections between people with money and the government make for a ridiculous amount of power greatly decreases my trust in those involved.

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

My beliefs about my role in society were greatly affected by all the materials presented. In the first video on crony capitalism, I realized that lobbying is a key factor in hurting the economy. I have steps I can take to voice my opinion, and I have never taken them before. In my future career, I will have opportunities to support opinions voiced loudly to the government by accounting firms, and I will make sure to take advantage of this professional advantage. In the second video, I was shown that what I have always believed is not always true. I had believed that the financial crisis of 2008 was caused by the nature of the economy, but after watching the video (Sowell), I know that there was more to the story than what I had chosen to spend time reading about. I believe it is my role now and, in the future, to read more about important events instead of accepting what I hear.

While watching the movie, I began thinking of ways that I can change my actions to morph my role in society. Like the previous videos, I cannot merely accept what I hear anymore. In my professional career, I cannot jump towards the quickest and closest profit without thinking of the consequences of my actions. In the movie, the directors of the large companies were blamed for the crisis because of the actions they took to forward their profits, and only one employee was mentioned that quit when realizing the negative impacts their actions would have on others (Ferguson). The large corporations had thousands of employees who made the transactions and moved the money. As an accountant, it will be my role to review my actions and how they might be affecting others. I cannot simply accept what work is given to me, and I will have to make tough decisions if I am put into a situation that is profitable but has negative consequences to others.

The first article on the formula that helped cause the financial crisis of 2008 affected my beliefs about my professional role in society. When given this revolutionary formula, workers took off with it without imagining the negative impacts (Salmon). In my professional career, I will be presented with many new technologies. It will be up to me to research what I am given and not accept anything without questioning all aspects of it. If the workers had questioned the formula more, there might have been more attention paid to how the formula worked and the drawbacks of it. The second article on the bubbles of Goldman Sachs reminded me that I must take information presented to me with a grain of salt. In the article, the increases in oil prices are mentioned, and the author states that to cover what was really happening, people repeatedly blamed lower supplies of oil and stressed the need of hybrid cars (Taibbi). They forced these ideas into the heads of Americans when oil was actually in high supply. Since the spike in oil prices, I have always believed that prices spike when supply runs low. Now it is my role to investigate if the supplies are truly low or if another factor is influencing the prices.

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

There are many parallels between the political landscape that brought on the financial crisis and our current political environment. With the things that I do know and see in our government, I can confidently say that there are parallels between the present and past. There are also things we will need to do to prevent more crises. In the past two decades, the levels of lobbying have not decreased. If anything, lobbying has become more and more prevalent. From all of the materials, I see how lobbying leads government officials to make decisions that do not benefit the people they represent. The presence of heavy lobbying in government allows the idea of crony capitalism to perpetuate.

Looking at the examples given in the movie of the government officials and college professors that received money for writing a paper or consulting, I can draw a parallel to today. Officials are placed under a higher level of scrutiny today because of the increased levels of political activism in the recent years. Still, major investigations have to take place to draw out more information regarding services of officials to companies. Our government needs to place a higher emphasis on transparency if we are going to overcome the consequences of the repeating actions of officials favoring companies they receive large sums of money from. In our education system, articles written by professors need to clearly state if they are funded or not. In the movie, many professors were asked why they did not include their funding in their papers, and their answers were that they did not see it necessary (Ferguson). To completely understand the motives behind papers, professors need to be held accountable for including funding. If not, the professors are able to write papers funded by an organization that are designed to influence large groups of people.

As automation and technology is advancing every day, we are going to be faced with more and more decisions and problems. A decade ago financial professionals were given a formula to help measure default correlation. Without questioning the formula, they grabbed the opportunity for profit and ran with it. As we are being introduced to new innovations, it will be our responsibility as a nation to question all the effects of the technologies. We will need to take a step back and look at the larger picture before we jump towards profit. Another parallel that I can see is in the changing of tax rates. In the article discussing Goldman Sachs, the author explained that the company paid an extremely small amount of taxes by keeping revenues and profits in countries with low tax rates (Taibbi). I saw in a previous case that when tax rates are higher, companies tend to offshore their profits, and as Joe Biden steps into office, we will see tax rates increase. This will make offshoring increase and therefore give large corporations more money in their pockets. As the tax rates increase, we will have to pay attention to the actions of companies taken to avoid paying the full amount of their taxes.

Conclusion:

In conclusion, there are many factors revolving around the financial crisis of 2008 that I had not considered before. After considering these factors, my trust in institutions and the government has gone down because of the repeated actions made by government officials in favor of large corporations and not the people they represent. The crisis was a result of professional hunger for profit and disregard to consequences. The problem was not unrecognized, and many people warned of the negative impacts of the actions of companies and the government. As there are parallels between the government and institutions two decades ago and today, there are many steps that will have to be taken to make sure we do not make the same mistakes of the past.

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

Signed: Anna Burk