A Case-by-Case Study of the Accounting Profession

By

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

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Approved By

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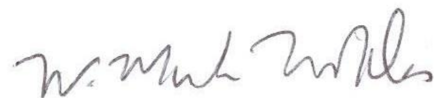

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Reader: Dr. Mark Wilder

Abstract

This thesis is the composite result of a year of guided study covering various areas of financial reporting. There are a total of twelve case studies included in this thesis. Five of the case studies relate to a case competition that was created by Dr. Victoria Dickinson for her Honors Accy 402 class. For the case competition, I worked with a group of four other honors accounting students to put together a case for the Coca-Cola Company. We did a thorough analysis of the company and prepared audit, tax, and advisory strategies that would benefit Coca-Cola. To conclude our case study, we presented our best strategies to accounting professionals representing a multitude of firms. This presentation gave us the opportunity to defend our work and make ourselves known to the firms.

The remaining seven case studies, assigned by Dr. Dickinson as part of her Honors Accy 420 class, cover a variety of topics that exposed me to the world of professional accounting and helped to prepare me for life after college. One case that stood out as particularly beneficial helped me to decide that Chicago is where I want to seek a full-time job, and it helped to prepare me for living there when the time comes.

Over the two semesters that Dr. Dickinson's Accy 420 class took place, I heard from many accounting professionals when they did presentations for the class. The firms represented include PwC, BDO, KPMG, EY, Deloitte, BKD, Crowe, and Whitley Penn. These presentations significantly helped me to learn about the firms including their cultures, their values, and their goals for the future. Being able to hear from these professionals was greatly beneficial for me when I was trying to figure out which companies I wanted to interview with for internships and future employment.

Overall, the Accy 420 class was instrumental in developing my plan for life as an accounting professional. I gained knowledge and skills that will help me to excel in my future career. This thesis is the product of my research and discoveries.

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Case Study 1: City Selection Case

Summary:

One of the first questions a recruiter will commonly ask is “Where do you want to work?” In the same vein, it is very common for internship applications to ask for the applicant’s top two or three cities that they want to work in. This question can be extremely daunting. For starters, a lot of students have never lived in the city they dream of working in. Adding to the pressure of the decision, it is recommended to intern in the same city that you want to pursue a career.

The objective of this City Selection Case is to get the writer to explore his or her top two cities on a deeper level than what they have previously done. The first city I am choosing to research is Chicago, IL. I absolutely fell in love with the city when I visited there in January 2019. Additionally, I know that manufacturing is a large industry in Chicago. I am minoring in manufacturing, so, naturally, I would like to work with that industry. The second city that I am choosing to research is New Orleans, LA. I was born and raised in Biloxi, MS which is about an hour away from New Orleans or, as I like to refer to it, NOLA. While it is not a necessity for me, working so close to home would be nice. Additionally, I am already familiar with the New Orleans area; I typically take day trips to NOLA multiple times a year.

This case definitely opened my eyes to aspects of living within each city that I did not previously consider. I think the neatest part about this was discovering how both cities are broken up into numerous named neighborhoods that each have their own cultures. I do not want to rush the college experience, but I cannot wait to live in these cities one day!

Question 1: What is the population?

Chicago: According to the US Census Bureau, the population is approximately 2,693,976 as of July 2019. It is the third-largest city in the United States; however, the population has been slowly declining over the past couple of years as is the current trend with midwest cities. This population is huge compared to what I'm used to! However, I think that I will really enjoy the diversity and action that a busy city offers.

*New Orleans***:** As of July 2019, the US Census Bureau reported a population of approximately 390,144 people. It is the largest city in Louisiana and the 51st largest city in the United States. This population is still significantly larger than that of my hometown, but it is much smaller than Chicago. The population dropped heavily right after hurricane Katrina and has been steadily growing since then. I experienced similar effects as my hometown is also located on the Gulf Coast.

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

Chicago: Chicago definitely has much, much colder winters than I am used to, but I can get all of the professional tips I need for dealing with snow from my family in South Dakota. The summers are temperate with average highs in the seventies (Fahrenheit); I will probably never sweat again in my life if I move to Chicago (Data.org 1). It rains a lot and Lake Michigan is blamed for causing bouts of humidity (Angel 1). That's not a problem for me because I love the rain, and I am very well acquainted with the effects of humidity.

New Orleans: I am very familiar with this climate as my hometown is only about an hour away. Speaking from personal experience, New Orleans gets extremely hot and humid in the summer. The winters can get chilly, but not too bad. Snow is basically unheard of. Let me put it this way,

Mardi Gras was in February this year. February is one of the coldest months of the year- it still wasn't cold enough to keep people from dressing in the typical Mardi Gras fashion. There is the threat of severe hurricanes and flooding, but that is something I am used to from growing up on the coast.

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

Chicago: The Chicago region, otherwise known as Chicagoland, is in the northeastern part of Illinois. Chicagoland extends from the northwest corner of Indiana into the southeast corner of Wisconsin (Bretz 11). Lake Michigan, as seen in figure 1.1, defines the east border of Chicago. The Chicago River, as seen in figure 1.2, is a system of rivers and canals that runs throughout the city. The topography is very flat, but the beautiful buildings make up for the lack of organic scenery. There is also a great park system including the famed Millenium Park (Chicago Central 3).

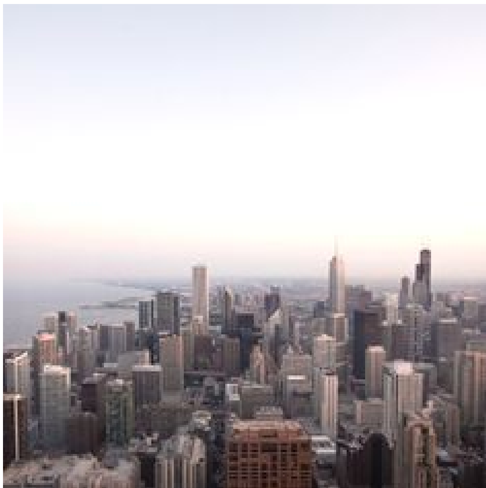

Figure 1.1: Photo of Chicago skyline and Lake Michigan

Figure 1.2: Photo of a branch of the Chicago River

New Orleans: The city of New Orleans is situated between the southern shore of Lake Pontchartrain on the north and the Mississippi River, which can be seen in figure 1.3, on the

south. “The heart of the city spreads around a curve of the Mississippi River which gives it the nickname ‘Crescent City’" (Geography 1). The majority of the city is actually below sea level and is protected by levees and seawalls. There are numerous marshlands, bayous, and lakes. New Orleans boasts the world’s longest over water highway bridge, the Lake Pontchartrain Causeway (Dunbar 1). Louisiana is divided into parishes, not counties. New Orleans consists of Orleans Parish and extends into multiple other parishes (Geography 1).

Figure 1.3: Photo of New Orleans with MS River in view

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

Chicago: Considering a federal income tax rate of 22 percent plus FICA at 7.65 percent, a state income tax rate of 4.95 percent, and no local income tax based on a $55,000 annual salary, total income taxes would be approximately $12,092. That would leave a take-home pay amount of $42,908. Sales tax is 10.25 percent. Fuel tax is $0.69 per gallon. The annual Vehicle Registration tax is $148. The Water and Sewer Utility Tax is $2.51 per 1,000 gallons of water used (Increases 1). The property tax rate is one of the highest in the nation but the exact amount depends on where exactly you live. The Cook County average property tax rate is 2.1 percent.

New Orleans: Considering a federal income tax rate of 22 percent plus FICA at 7.65 percent, a state income tax rate of four percent, and no local income tax based on a $55,000 annual salary, total income taxes would be approximately $11,001. That would leave a take-home pay amount of $43,999. Sales tax is 9.45 percent. Fuel tax is $0.20 per gallon. The average effective property tax rate is 0.52 percent.

Question 5: What transportation hubs are in the city?

Chicago: The O'Hare International Airport is one of the world's busiest airports. There are also multiple smaller commercial airports in the area. Chicago is the nation's predominant rail system. They actually use a commuter railroad called Metra. It has over 200 stations in Chicago. There is also an Amtrak station called Union Station. The Chicago Transit Authority (CTA) is second only to New York's. It has approximately 2,000 buses that serve more than 12,000 posted bus stops and operate 24 hours a day. Cycling is a common means of transportation in Chicago.
New Orleans: The Port of New Orleans is a huge transportation hub. The Louis Armstrong International Airport is the main airport in the area. The most touristy way to get around the city is the historic streetcars. There are 34 bus lines that operate almost 24 hours a day. The bus routes stretch beyond those of the streetcars. The New Orleans Regional Transit Authority also runs two ferries. Biking is also a common transportation method; there are over 100 miles of bike lanes.

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

Chicago: Manufacturing is the most prevalent industry in Chicago, but they have some of nearly every industry. The five largest companies headquartered in Chicago are Walgreens, Boeing, Archer Daniels Midland Co., Caterpillar Inc., and Allstate Corp. (Hariman 1).

New Orleans: NOLA has a large entertainment industry, but they also work heavily in the energy, healthcare, and manufacturing industries. The five largest companies headquartered in NOLA are Entergy, Globalstar Inc., the New Orleans BioInnovation Center, Hornbeck Offshore Services, and McIlhenny Company (the creators of Tabasco). There are many companies that have headquarters in Baton Rouge, LA which is right outside of New Orleans. Some of these companies are Community Coffee, Raising Canes, and Lamar Advertising.

Question 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?

Chicago: The quality of healthcare in Chicago depends greatly upon where you live. There's a large disparity between what is available to the monied and what is available to the poor. There are a few very good hospitals such as Northwestern Memorial, University of Chicago Medical Center, and Loyola University Medical Center. There seems to be a good bit of inequality between the Chicago Public School System and the private/selective enrollment schools. I believe that I would most likely send my child to a private school or a selective enrollment school if I were to raise a family in Chicago. I would reconsider that in a heartbeat, however, if the Chicago public school system were to make some improvements because I personally prefer public schools in general.

New Orleans: Healthcare is a huge industry in New Orleans. The quality is great there. When people have very serious conditions or injuries in Biloxi, they often go to New Orleans for surgery or treatment. There are 78 public schools in NOLA and 98 percent of them are charter schools. Overall, the K-12 education system in New Orleans is not the best (NOLA 1). If I have children, I probably would not raise them in New Orleans.

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

Chicago: Chicago is well known for having a high crime rate. It gets a lot of press attention for all of the murders there, but theft is actually the most common crime. The next most common crime is burglary. Chicago is broken up into 77 designated community areas. A few of the worst are West Englewood, Englewood, Riverdale, Fuller Park, and Grand Crossing. A general rule of thumb seems to be the further south, the more dangerous.

New Orleans: The vast majority of crimes in NOLA are property crimes as opposed to violent crimes. Assault is the most common violent crime with murder being the least. Theft is by far the most common crime in the city. New Orleans' crime rate is several times higher than the national average. The city of New Orleans consists of 73 neighborhoods. Some of the most dangerous ones are Tulane-Gravier, Florida, Treme' Lafitte, St. Roch, and Seventh Ward.

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

Chicago: I would likely be working in The Loop, so I would want to live in an area near there. Lincoln Park and Lakeview seem to be where most young professionals live. The commutes are short and the rent is decent (Where 1). Lakeview seems to be a little cheaper and has more of a nightlife, so that's the area I decided on. I want to live with a roommate, at least for the first few years, so I specifically chose two-bedroom apartments. The first apartment I found has laundry in the building. Heat and gas are included in the rent, and there is a dishwasher. It is two bedrooms

with one bath. There is a nice kitchen. There are 850 square feet, and rent is $1,300 a month. Figure 1.4 shows the outside of the building and figure 1.5 shows the floor plan.

Figure 1.4: Photo of Chicago Apartment 1

Figure 1.5: Floor Plan of Chicago Apartment 1

The second apartment I chose is a vintage garden apartment. Figure 1.6 shows the outside of the building and figure 1.7 shows the inside. There is laundry on-site, and it is cat friendly. It is two bedrooms with one bath. It appears to have a balcony. There are 900 square feet, and rent is $1,400 a month.

Figure 1.6: Photo of Chicago Apartment 2

Figure 1.7: Photo of Kitchen in Chicago Apartment 2

New Orleans: I would likely be working in the Central Business District (CBD). I would want to live in an area near there while also avoiding the nearby high-crime neighborhoods. I would live in Uptown, whether that be Uptown itself, Freret, or the Lower Garden District. As a young professional, I think the Warehouse District, a subset of the CBD, would be ideal. The first apartment I found has a nice kitchen and a washer/dryer. It is pet friendly. There is street parking.

It has two bedrooms and two bathrooms. There are 915 square feet, and rent is $2,000 a month. Figure 1.8 shows the outside of the building and figure 1.9 shows the inside.

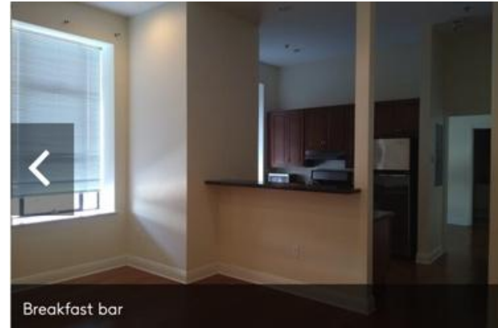

Figure 1.8: Photo of New Orleans Apartment 1

Figure 1.9: Photo of Kitchen in New Orleans Apartment 1

The second apartment I chose is on the 18th floor above a hotel. Figure 1.10 shows the outside of the building and figure 1.11 shows the floor plan. It has a washer/dryer, walk-in closets, and a nice kitchen. It is pet friendly, and there is valet parking. It has two bedrooms and two bathrooms. There is a pool and a fitness center. There are 1,165 square feet, and rent is $1,842 a month.

Figure 1.10: Photo of New Orleans Apartment 2

Figure 1.11: Floor Plan of New Orleans Apartment 2

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

Chicago: The “L” rapid transit system would be my main means of transportation. I would sell my car if I moved to Chicago. I made sure the two apartments I picked were near the Belmont L stop in Lakeview. My commute from Lakeview to The Loop would be approximately 20

minutes. The Purple line is used during rush hour, and the brown line is used in between and on the weekends. There are a good number of activities within walking distance. Most things can be reached within 20 minutes if I take the L. A 30-day CTA Pass is $105.

New Orleans: Since I would ideally live in the CBD, I would be able to walk to work in about 15 minutes. I could take the streetcar line if I needed to. That would probably also take around 15 minutes. A one-day bus and streetcar pass is $3. Since parking is metered in a lot of places, it may sometimes be more convenient for me to use public transportation if I cannot walk to a location. There is a multitude of stores and shops within walking distance. Although the work commute is very simple, I would still need a car in New Orleans.

Question 11: Where will you do your grocery shopping?

Chicago: There is a Walmart and multiple Wholefoods nearby.

New Orleans: There is a Farmer's market and a Rouses within walking distance of the apartments I selected.

Question 12: How will you do your laundry?

Chicago: All of the apartments I viewed had laundry facilities on site.

New Orleans: All of the apartments I viewed had washing machines and dryers.

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

Chicago: I would like to volunteer with Chicago Food Bank; I am currently a registered volunteer for Grove Grocery. I would also like to volunteer with Save-A-Pet; they rescue animals from "kill" shelters. Lastly, I would like to work with Open Books as a bookstore volunteer or reading coach.

New Orleans: I would like to volunteer with the Humane Society of Louisiana. I would like to join the Rotary Club of New Orleans Riverbend. Lastly, I would like to volunteer with the Second Harvest Food Bank.

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

Chicago: Lakeview surrounds Wrigley Field, home of the Chicago Cubs, so baseball will probably become a large part of my life. It's not my favorite sport, but I think I could grow to love it. The Belmont Theater District is a prominent source of entertainment in Lakeview as well. It has over 30 theaters and live performance venues. I love live music, so I will be attending as many concerts in Chicago as I can afford. Chicago Blackhawks hockey & Chicago Bulls basketball are both located in nearby United Central Park. I love basketball, and I've been meaning to get more invested in hockey so that will be lots of fun! There are a lot of museums in Chicago that I would like to explore. I've been to the Art Institute of Chicago before, and it was amazing. I would love to visit again.

New Orleans: New Orleans Saints football would definitely consume the majority of my Sundays during the season. The Smoothie King Center always has great artists performing live. I have been to multiple concerts there, and I plan for that to continue. The New Orleans Pelicans basketball team also plays in the Smoothie King Center. As I said, I love basketball, so I will probably go to a few of their games on occasion. Bowling is one of my favorite pastimes, so I will do that wherever I live. NOLA has a few pretty awesome bowling alleys including Fulton Alley and Rock 'n' Bowl. I like to believe that I would finally buy a kayak and go kayaking when the weather is nice.

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

Chicago: I could drive home; it definitely would not be the longest road trip I have taken. However, I do not plan on keeping a car in Chicago, so I would have to fly home and get a rental car. A roundtrip flight from Chicago O'Hare International Airport to Gulfport International Airport is currently going for $188. A nonstop flight takes about two hours and fifteen minutes. A compact rental car from Enterprise costs about $30 per day on average.

New Orleans: I would drive home. It takes about an hour and a half. It would probably cost around $25 in gas.

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

Table 1.1: Estimated Annual Budgets for Chicago and New Orleans

	Chicago	New Orleans
Annual Salary	$60,000	$60,000
Annual Salary After Taxes	46,178	47,361
Rent and Utilities	(1,524)	(2,074)
Public Transportation/Parking	(1,278)	(300)
Gas and Fuel Tax	0	(390)
Groceries	(5,000)	(4,800)
Cellphone	(1,600)	(1,600)
Subscriptions	(132)	(132)
Car Insurance, Maintenance, and Repairs	0	(1,700)
Car Payment	0	(3,900)
Health Insurance	(3,500)	(4,800)
Dental Insurance	(500)	(500)
Eye Care, Prescriptions, and Other Medical	(350)	(350)
Hair, Nails, and Wardrobe	(2,000)	(2,000)
Eating out, Entertainment, Travel, and Misc.	(16,000)	(14,000)
10% Savings	(4,600)	(4,700)
Excess Income	$9,694	$6,115

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

After researching the cities of Chicago and New Orleans in depth, I have decided that I prefer Chicago. I still want to live in NOLA, but I think it would be best for me to move straight to Chicago after Graduate School. Chicago seems to have a great environment for young people; I don't think I will be able to appreciate Chicago as much if I move there as a middle-aged adult. The idea of not having to worry about taking care of a car seems great while I am young; however, I think that when I am old, I will want a car. I do not expect that my cost of living calculations are 100 percent correct, but it seems that living in Chicago will be the right move fiscally as well. For now, I will make plans to move to Chicago and then relocate back to the south when I am older. I am excited to experience Chicago's Midwestern culture and the diversity that comes with living in a large city!

Case Study 2: Financial Statement Concepts

Summary:

The Financial Statement Concepts Case is the second case that we will complete for ACCY 420 as a part of the Sally McDonnell Barksdale Honors College Thesis at the University of Mississippi. In this case study, we were asked to analyze suggested changes to the Generally Accepted Accounting Principles (GAAP) and decide which suggestions we were most in agreement with.

The first question in this case study had two different viewpoints discussing the primary goal of financial reporting. The first viewpoint states that the proper valuation of assets and liabilities is the primary goal of financial reporting, with income concepts occurring as the result of changes in asset and liability values. The second viewpoint states that the determination of revenues, expenses, and especially earnings is the primary goal of financial reporting, with asset and liability values being updated by changes in the income statement accounts. After analyzing both of these statements we were easily able to choose which one we agreed with.

The second question in this case study gave us two more viewpoints, this time about how assets should be valued. Viewpoint One states that assets should be measured as "value-in-exchange." This differs from Viewpoint Two which states assets should be measured as "value-in-use." While analyzing these viewpoints, our group had to take into account the different types of assets and their uses. Choosing a viewpoint for question two proved to be substantially more difficult than for question one.

The final question of the case required us to make journal entries implementing the suggestions from each viewpoint we selected. We made these new journal entries by changing either the account used or the amount used in each entry in accordance with these new principles.

Throughout this case, our group was made to evaluate the current rules of accounting as entailed by GAAP and contrast them against the suggestions proposed by the viewpoints in the case. As we were going through this process, our group learned that the governing bodies of accounting, namely the Financial Accounting Standards Board (FASB), must consider a variety of factors when writing and reevaluating the rules of accounting.

Question 1

Viewpoint 1

Question One of this case asked us to analyze two different viewpoints regarding the FASB's focus on promulgating new standards. Viewpoint One states that firms are essentially "asset greenhouses." This viewpoint believes that the growth of assets represents the earnings for the company and that the company should focus on acquiring and growing its assets. Listed below are some pros and cons of this viewpoint.

Arguments For

Acquiring, storing, and growing assets are critical to compensating for liabilities. Additionally, storing assets such as PPE is necessary for the expansion of companies. These two points line up well with the "asset greenhouse" concept of Viewpoint One. Analysts and investors often rely on financial ratios when evaluating a company. A large portion of financial ratios depend on the measurement of a company's assets and liabilities; therefore, it would be prudent to make sure that the way we measure assets and liabilities remains consistent and does not change the meaning of these ratios. We believe Viewpoint One would allow that.

Arguments Against

First, this viewpoint basically sounds like the definition of a balance sheet. While that is not necessarily a bad thing as a goal of financial reporting is to give a picture of where the

company stands at a point in time, there should be a major emphasis on the operating ability and going concern aspects of a business. We don't believe that Viewpoint One portrays that emphasis. Second, since periodicity is one of the primary assumptions of financial reporting, we believe that it should be thoroughly incorporated into GAAP standards. This viewpoint does not account well for periods of time which makes it not ideal. Third, Viewpoint One states, "where the primary mission of the firm is to *earn* money by *acquiring* assets, *storing* and *growing* them, and earnings represents the realized or unrealized growth in these assets". This statement is only partially true because one must first pay or trade with another party before acquiring an asset, which is not the primary goal of a firm. Generating earnings in this manner gives the impression that we are talking strictly in terms of an investment agency or a bondholder corporation. Growth in assets is great, but without certainty that the assets will increase in value, there should be some source of regular income that can help counterbalance unpredictable losses and spontaneous liabilities.

Viewpoint 2

Viewpoint Two states that firms are essentially "asset furnaces." This viewpoint believes that assets should be continually transformed for a larger goal of producing revenue and earnings, whether they are acquired assets or internally created.

Arguments For

During our discussion, it seemed that the group immediately developed a strong conclusion that this viewpoint more closely aligns with the primary goal of financial reporting. Our group is equally divided into those that hope to pursue a career focusing on audit and those that are looking into tax. From our group members who shared an audit perspective on the

matter, it seemed like this viewpoint also aligns more closely with audit objectives and acceptable audit risk. If an auditor tries to determine which viewpoint has greater significance in terms of materiality, Viewpoint Two contains the most important aspects. When performing an audit, one is less concerned with the labeling and balance-related misstatements than those concerning income, trends in cash flows, and targets set by the firm. Just like the difference between a balance sheet displaying a “point-in-time” and an income statement displaying a “period of time”, the users of financial statements are more concerned with a period of time due to its reliability and inferential data. At the end of the day, where you stand at a point in time can only be backed up by what actions were taken during the preceding period of business operations. Additionally, we like that Viewpoint Two paints the picture of an “asset furnace” which depicts assets as something a firm makes use of, rather than holding them for future use or sale. This better captures the big picture of a business’s mission and encapsulates the basic assumption of going concern. Firms acquire assets, so they can use them to generate earnings and retain the consideration exchanged over time. This goes for both long-term and current assets. Long-term property and equipment is used and worn over time in the hopes that the assets achieve the goal of allowing the firm to profit from their usage. Supplies on hand are also to be used in business operations for that same function. Viewpoint Two adds emphasis on earnings. This is important because it highlights how you made use of your assets over a period of time to generate revenues and minimize expenses, once again relating to the asset furnace view of firms.

Arguments Against

A drawback to this viewpoint that our group considered is that it regards assets as tools that should be “sacrificed or transformed” in order to generate revenue for the firm that owns the asset. This view of assets is difficult to apply to long-term assets such as land and patents

because these assets are helpful to the firm without being sacrificed or sold. These assets are critical to continuing the business operations of the firm that owns them, but under this viewpoint, it is presumed that they would be valued strictly by the revenues they generated and be subjected to changes in the income statement. Yes, it is important to realize some value provided directly from the use of an asset, but it is difficult to quantify the earnings with so many other factors affecting the earnings made. If sales revenues slightly drop, does this mean that a business should automatically assume that assets designated for assisting in the production of merchandise sold become less valuable to the firm?

Conclusion

Our group came to the consensus that Viewpoint Two better captures the main objective of financial reporting. This viewpoint won the debate for reasons concerning the use of an asset and the overall mission of a business entity. Assets should not be acquired with the notion that they have an indefinite life span. Most acquired assets are expected to be used in regular business activities and should be considered expendable if liquidation were to occur. The overall mission of a business is to provide value to its consumers and the economy whilst maintaining a steadily realizable profit for its shareholders. In order to retain some sort of return from purchases, assets must be used, replaced, updated, and transformed so the consideration transferred in the acquisition of such assets is not wasted. If a firm wants to provide value to its consumers, it must first create the object of value through the use of an asset.

Question 2

Viewpoint 1

In Question Two we were asked to analyze and evaluate two more viewpoints. These viewpoints discussed how assets should be measured and valued. Deferring the topic to an

emphasis on how to *value* an asset, rather than what an asset's *role* is in the objective of financial reporting, posed more difficult and tedious discussions within the group. Viewpoint One conveys the idea that assets are valued on a standalone basis in exchange for cash, or other liquid assets. Their use in combination with other firm assets generates little or no incremental firm-specific value. Listed below are some arguments for and against this viewpoint.

<u>Arguments For</u>

Our group brought up many key aspects when considering the justification for this viewpoint. For one, this viewpoint is similar to current accounting principles. It states that assets are recognized at a specific point in time, which is how assets are valued on the balance sheet. The historical cost principle is not compromised by this viewpoint, and the argument considers specified dollar amounts that are recognized in the exchange of an asset that may be more or less valuable than the other. This viewpoint also supports having assets held for sale and predicts that the user will look to principles of historical cost and current market values when determining what gain or loss is to be recognized in the exchange of an asset.

<u>Arguments Against</u>

The members of our group also disliked aspects of this viewpoint. One major point of discussion in our group was about the statement, "use of assets in combination with other firm assets generates little or no incremental firm-specific value". While thinking of examples of using combinations of assets, there may be instances where one asset can help slow the deterioration of another asset. Assets can generate incremental value through the prevention of deterioration (lengthening the life and use of an asset). Assets also can create incremental value in manufacturing or adapting parts of the firm or another asset which can create new value.

Viewpoint 2

Viewpoint Two conveys the idea that assets realize their contribution to firm value by being consumed or used in combination with other assets. The use of these assets in combination is expected to generate firm-specific value incremental to the sum of the assets' individual values-in-exchange. Listed below are some pros and cons of this viewpoint.

Arguments For

When considering this viewpoint, our group liked that it recognized the value of assets over a period of time rather than only during a moment in time. This would allow for a firm following this viewpoint to account for gains in the value of an asset through improvement or other increases in valuation. A firm following this viewpoint would focus on planning for future events and valuing its assets based on predictions of what could happen in the future. This viewpoint supports the use of short-term assets, such as prepaid expenses, that are expected to be used up in operations.

Arguments Against

When considering this viewpoint, our group thought of drawbacks that would make it difficult to implement. One drawback is that this viewpoint does not give consideration to assets that are held strictly for sale. Assets such as debt securities or available-for-sale securities are not held for continuous use, and as such, it would be very difficult to value these assets from the perspective of Viewpoint Two. Another drawback from this viewpoint is that it is difficult to quantify the potential value of assets in combination with other assets. While it is possible to rely on depreciation, market valuation, or other trends to predict the future value of an asset, there is not an objective way to find the potential value of an asset. The use of the historical cost

principle allows for a clearer measurement of the value of an asset than an estimation of the hypothetical use of an asset can.

Conclusion

Our group came to the conclusion that Viewpoint One better captures how assets should be measured. This viewpoint won the debate for reasons concerning the valuation of assets and the feasibility of future valuation. Assets on the balance sheet are valued at a specific time rather than by their potential value, and this viewpoint was in agreement with the balance sheet presentation of assets. Viewpoint One gives consideration to assets that are held for sale, and the idea of "value-in-exchange" is consistent with the historical cost measurement when valuing assets. While it does not give consideration to the potential value of assets or the value of assets when used in combination with each other, this viewpoint provides a feasible view of assets as standalone items that can be easily transferred within and between economic entities. Viewpoint One allows for a clear valuation of assets that is objective and reliable rather than a prediction of the potential value of an asset in a hypothetical situation.

Question 3

For this question, our group decided to implement the suggestions from Viewpoint One of Question 2. Current accounting would hardly have to change to accommodate the "value-in-exchange" valuation of assets, due to the fact that current accounting standards clearly define principles like historical cost and revenue recognition which aid a firm in determining the appraisal and gain/loss that would be recognized in an acquisition or sale of an asset. However, this viewpoint disregards the notion of manpower value and potential value created by combining the value of assets as they are used in combination with one another. The examples below illustrate the changes that could be suggested in terms of journal entries, values placed on

abstract assets, and values assumed to be gained or lost when using assets alongside others. Each example gives a scenario and then displays sample journal entries in general compliance with current accounting standards followed by the adjustment to the entries that would be made in conjunction with the adapted valuation methods.

Journal Entries: Examples

Example 1: An At&t service representative is installing a cable box for a consumer.

Current method:

Account	Debit	Credit
A/R	600	
Service Revenue		600
COGS	400	
Inventory		400

Adapted method:

Account	Debit	Credit
Aggregate Accounts Receivable	600	
Service consideration		600
COGS	400	
Inventory		400
Manpower Expense	50*	
Field Labor		50*
Receivables Yield	150	
Material Revenue		150

*Estimates based on economic opportunity forgone.

Example 2: A firm maintains a production line machine by using internally-owned power tools to clean and preserve the machine.

Current Method:

Account	Debit	Credit
Machine	100	
Accumulated Depreciation-Machine	100	
Depreciation Expense		100
Miscellaneous Maintenance		100

Adapted Method:

Account	Debit	Credit
Machine	200	
Accumulated Depreciation-Machine	100	
Depreciation Expense		100
Miscellaneous Maintenance		100
On-Sight Labor		50*
Gain On Repair		50**

* Assumes that manpower and labor costs are considered in terms of opportunity cost as the laborer could have spent his time making the product.

** Assumes that the firm recognizes a gain on the value from the prolonging of the life of the machine in comparison to what they would have sacrificed for a third party to repair the asset.

Example 3: A firm purchases a trademark for its slogan.

Current Method:

Account	Debit	Credit
Accounts Payable- Trademark Registration Fees	500	
Cash		500

Adapted Method:

Account	Debit	Credit
Trademark	300*	
Accounts Payable-Trademark Registration Fees		500
Cash	500	
Unrealized Gain-Establishment of Trademark		300

*This estimate is based on the current value the trademark presents to us by preventing it from being stolen while also solidifying the assumption that the slogan directly correlates to more sales.

Case Study 3: Presidential Debate Analysis

Summary:

When I think about the current state of society, it reminds me of a popular refrain from *Hamilton: An American Musical*. It goes, “Look around, look around at how lucky we are to be alive right now! History is happening” (Hamilton). It is incredible to be alive and old enough to understand the implications of what is going on right now, specifically in reference to the upcoming presidential election. Our country is very divided at this time, and many people blame President Trump for that. There is a lot of anxiety and fear about what the results of this election will mean for our country.

Among many other things, the results of the 2020 presidential election will greatly impact the future business environment of America. That is the same business environment that my generation will be graduating into and starting our careers in. Our futures are being determined right in front of our eyes, and this case will help us prepare for that future, regardless of who wins the election.

This case is centered around the October 7th, 2020, presidential debate between former Vice President Joe Biden and President Donald Trump. While that debate quickly descended into barely controlled chaos, there were a few snippets of relevant information uttered between all of the unprofessional interruptions and personal attacks. The changes to the technical business environment will be critical to understand, but I believe that the most important focus immediately following the election should be on how we choose to interact with each other and how that will affect the social side of the business environment.

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

Settlers came to America centuries ago to seek out a new way of life and to form a government for the people, by the people. People are still immigrating to America every day to live out these ideals. Unlike a lot of countries, the majority of people here do not have the same skin color, they do not have the same accents or sometimes even speak the same language, and they do not have the same religious beliefs. As our population is so diverse, these obviously cannot be the things that unite us (we also cannot let them be the things that divide us, but that is another topic). The determination to make this great experiment of democracy and capitalism work is what unites us.

As Americans, we are united by our belief in the importance of the rights to life, liberty, and the pursuit of happiness as well as the freedoms guaranteed to us by the first amendment. We are bound by the belief in individual opportunity, initiative, and creativity- that if we work for it, we can rise up; that if we work for it, we can make a lasting positive change in our communities. We are united by our love for the fact that we do not have to be united. Everyone who is here, for the most part, chooses to be here; you are free to leave at any time. We have no dictator or despot controlling our actions and forcing us to believe one thing and one thing only. We are allowed to voice our opinions, our disagreements, and our resentments, and that freedom actually brings us together more than it drives us apart. More recently, our demand for economic and social justice has been growing as a uniting factor. The prevailing feelings of conflict and tension in our country right now only serve to prove how dearly people hold to their hearts the ideas of liberty and freedom, which are, in essence, the ideas of America.

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

As an aspiring tax accountant with a desire to work with manufacturing companies, the policy decisions made in regard to outsourcing, manufacturing, taxes, and regulations will all be very important to my work. The first topic of relevance was in relation to COVID-19. Trump wants to reopen the economy and schools as much as possible, as fast as possible. Biden has been much more reluctant. The longer kids cannot attend in-person school, the more strain will be put on parents. They are struggling to work full-time with kids at home all day. When people cannot work, they cannot spend money, and that is not good for the business environment. Additionally, when many of the places people work at and spend money at are closed down, that slows down the economy which is, once again, no good.

Vice President Biden will eliminate the Trump tax cuts and raise corporate taxes. This will mean a change in the tax code. It also has the potential to undo Trump's efforts to recruit manufacturing firms back to the US. Many of the manufacturing companies I work with may move more of their holdings and operations overseas as a result of Biden's plan. On the other hand, Trump will continue his free-market approach, lower taxes, and encourage more deregulation. The Republicans will allow for more freedom in research and development and encourage less government oversight and more accountability to businesses and shareholders; whereas, the Democrats will impose more regulations and controls on big business and demand more accountability to the government.

The energy sector may also be an industry I work with. Biden's plans will place limits on fracking and gradually end the use of fossil fuels to generate electricity. In order to do this, he will have to place large restrictions on businesses in the energy sector and make big changes in the way businesses in the energy sector do business. Trump wants to improve the environment, but in a way that doesn't negatively impact big business, which would likely mean fewer changes to the business side of energy. Additionally, Biden's other plans regarding climate change will cost the economy a lot and probably result in either higher taxes or more national debt. One concrete change to the tax code that Biden would implement is the adoption of tax incentives for people who weatherize.

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

After the results of the election are compiled- a process that will take longer than usual due to allowances put in place to accommodate for COVID-19- and announced, the first critical step for our country will be a peaceful transition of power. Washington set the precedent for a peaceful transition of power and it has come to be one of the great functional tenets of our democracy. Through a peaceful transition, an effective leader will work to unite the country, and the party that is stepping down will encourage individuals to rally around their new leader. It is very worrying that Trump has alluded to the possibility that he will not abide by this precedent.

People will fight this change, hard. It will be challenging but we must give each other grace and we must try to be understanding and open-minded. A positive attitude and a desire to make the best of the next four years will go a long way. All in all, the world will continue, and democracy will prevail. We can remind people that even if the party they disagree with won, they are still living in one of the greatest countries in the world. They still have their basic freedoms and their beloved ideals. If they do not like certain decisions that are made under the new president, at least they have the right to peacefully protest those decisions.

A key component to easing resentments post-election will be encouraging people to listen to others and to really hear and understand their points of view. As Biden said during the debate "People have to be made aware of what other people feel like, what insults them… It's important that people know they don't want to, many people don't want to hurt other people's feelings… In fact, we're all Americans. The only way we're going to bring this country together is to bring everybody. There's nothing we cannot do, if we do it together" (Read 1).

We should encourage people to understand that the best way to find win-win situations is by acquiring knowledge, by compromising, and by understanding. Also, we should emphasize that win-win solutions are possible and ideal. We should discourage people from relying on the point of view of others and instead encourage them to research all sides and angles of a problem, immerse themselves in it, and from there formulate their own consensus. You can still stand by your beliefs while working to understand the values and belief systems of others. On the opposite side of that, it is okay to change your mind and change your beliefs as you learn more.

On the whole, I believe peace will be achieved by individuals just continuing with their normal routines as much as possible and incorporating new policies into their existence with open minds. For a while, it might be best to focus conversations on non-inflammatory topics

while people adjust and come to terms with what they are feeling. Most importantly, just try to focus on how lucky you are to be alive right now.

Case Study 4: Excel Certification

Summary:

For this case study, we were asked to complete the Corporate Finance Institute's Excel Crash Couse- Spreadsheet Formulas for Finance. This course granted 3 CPE credit hours as well as a certificate of completion which can be seen in figure 1.12. This course was very useful as it exposed me to excel tools and shortcuts that I was unfamiliar with. I am sure that the excel knowledge I gained from this course will aid me with my future accounting coursework as well as my accounting career.

Figure 1.12: Photo of Course Certificate

Case Study 5: Taxodus

Summary:

This case required students to read two articles about the Tax Cuts and Jobs Act (TCJA) and watch a documentary about tax avoidance. The TCJA is an historic tax reform package, and it was signed into law by President Donald Trump at the end of 2017. Its evident purpose was to lower the statutory federal corporate income tax rate from 35 percent to 21 percent, therefore making the U.S. tax code more competitive. For a long time, the United States had the highest corporate income tax rates out of all the countries in the Organization for Economic Co-operation and Development (Hodge 1). Capital is very sensitive to taxation because it is so easily moveable, so the hope was that lowering the domestic tax rate would encourage corporations to move their full operations back to the U.S. or at least encourage them to move some of their capital back into the U.S. Additionally, the TCJA was designed to disincentivize the use of tax avoidance strategies such as off-shoring profits and corporate inversions.

The TJCA was necessary because when large corporations defer their taxes, it forces domestic firms and American workers to pay higher taxes than they would if those corporations would pay their share. It is unfair because those corporations have operations in the U.S. and rely on public services as much as anyone; by not paying taxes, they are not paying their fair share for U.S. infrastructure, schools, public safety, and legal systems. They instead pay very low tax rates to countries where they do not operate at all and only have entities for fiscal reasons. For example, the Netherlands, specifically Amsterdam, is a global hotspot for multinational corporations because they have the most tax treaties in the world and very low intellectual property taxes. Eighty-one out of the hundred largest companies reduce their tax burdens by letting their revenues flow through the Netherlands.

Most people believe that the passage of the TCJA ended up contributing to an economic boom that, according to the New York Times, is unofficially the longest economic expansion on record. The economic renewal specifically benefited blue-collar workers as businesses started hiring new workers, increasing wages, and issuing bonuses. In 2018, just a decade after the Great Recession of 2008, job openings in the United States reached historic highs and the Unemployment Rate reached a fifty-year low. In 2019, the stock market reached a record high, and another record was broken with 105 straight months of job gains (More 1). Another neat thing about the TCJA is that it simplifies the tax filing process for individuals which may lead to more people complying and filing their taxes correctly. Even though the simplification, along with lowered individual tax rates, will expire after 2025, low-, middle-, and upper-middle-income taxpayers are still expected to see higher after-tax incomes than they would without the act (Hodge 1).

However, it could be possible that the economic boom is not as highly correlated to the passage of the TCJA as people think. According to the Tax Foundation, it can take years for economic growth to occur as a result of tax reform; whereas, these results occurred almost immediately (Hodge 1). It is also possible the economic boom is not as sustainable as it has been made out to be. Major portions of the act are set to phase out before the end of the first ten years. These temporary aspects make the act look great now as they encourage faster growth in the years before the provisions expire, but they lessen its long-run impact as the provisions expire and growth slows back down.

Overall, it is difficult to determine the effects of passing the Tax Cuts and Jobs Act because some aspects will take years to fully take effect and introduce economic growth while other aspects will create immediate economic growth but expire and not lead to long-term

growth. Despite this, the Tax Foundation's Taxes and Growth model still predicts that the TCJA will lead to a positive long-run impact- there will just be a noticeable slow down after the temporary provisions expire in 2026. In fact, the Tax Foundation predicts that the total effect of the TCJA will be a 1.7 percent larger U.S. economy.

This case opened my eyes to the link between government and big business in a new way. Corporations almost seem to have more power than the government; the government may feel a need to raise taxes, but they know that if they do, corporations will leave, and then the economy will then suffer. With the passing of the Tax Cuts and Jobs Act, the United States is trying to reverse the effects of many years of turning a blind eye to global tax avoidance schemes by incentivizing corporations to pay at least some taxes. It is possible that the TCJA is just the beginning of the government's attempts to minimize tax offshoring, but it seems like a very difficult task. These large corporations hire lawyers and experts to make sure that they are doing everything in a seemingly legal way, so getting corporations to sacrifice their profits and pay taxes is going to be very difficult.

Question 1: What do you think the optimal corporate tax rate should be and why?

Given that the tax rate before the Tax Cuts and Jobs Act was thirty-five percent, and tax avoidance schemes were so common that the passage of an act was needed, I feel confident in saying that thirty-five percent is definitely too high. Given that the tax rate enacted by the TCJA is twenty-one percent, and the economy is breaking multiple positive records, I believe that the optimal corporate tax rate could be a little higher than twenty-one percent.

The negative impact of high corporate tax rates is felt most by laborers (Hodge 1). As corporations move their operations to places with long tax holidays or move their taxable assets to offshore accounts in response to the high taxes, laborers suffer pay cuts and time cuts and

possibly layoffs. It is relatively easy for corporations to escape high taxes, but the same cannot be said for individuals as they would have to pack up their lives and move to an area with lower taxes. Because of that, corporations are more sensitive to changes in tax rates than individuals, so a lower corporate income tax rate is best for the economy (Hodge 1). Lower corporate taxes lead to companies pursuing more projects. These projects increase their capital stock and increase their output levels. These increases, in turn, fund raises for employees and new hires. When individuals earn more, they can spend more and invest more. Those actions then expand the economy.

Personally, I think that the optimal corporate tax rate probably does not exist. Optimal is not a concept that usually applies to something so complex. However, if I had to make an estimate after taking all of that into consideration, I would estimate that the optimal corporate tax rate would be around twenty-five percent.

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

I was leaning toward tax accounting before, but this case left me feeling conflicted about pursuing a career in tax accounting. On one hand, it eased my worries about tax being boring. This case made tax look scandalous and full of intrigue! Also, every time a new tax code is passed, tax accountants basically have to relearn parts of their job, and that continual learning seems like something I would enjoy. On the other hand, this case made me feel a little wary about joining a profession in which we have to use specific language for things to put ourselves at ease- things that if looked at another way, would be unseemly or borderline unethical. As former UK Chancellor Denis Healy said, “The difference between [tax] evasion and avoidance is

the width of a prison wall" (Arctree). I am not sure that I am comfortable working in such a morally grey environment.

The Big Four accounting firms (PWC, Deloitte, E&Y, and KPMG) are the constant features of tax havens. The rules are very flexible, so companies can get away with a lot in regard to offshore tax-havens. The Big Four along with lawyers and bankers advise multinational corporations on how best to take advantage of the different tax rates all over the world. By assisting corporations with setting up in places like Africa where they are only setting up to collect as much natural resources as they can within the ten-year tax holiday and then leaving, these accountants are basically helping these corporations commit extortion. My plan has been to try to get a job with one of the Big Four after graduation. That would put me working in direct association with these tax avoidance agendas. It seems as though the Big Four firms are achieving an almost untouchable status according to Richard Murphy (Arctree). They are considered the experts, so they provide input when making the laws. Therefore, the laws tend to favor their business activities.

In regards to the Tax Cuts and Jobs Act and other government policies, it will be interesting to be on the front lines of tax accounting for all the changes that will take place as policies phase in and out. I can only hope that as people become more aware of what is happening, governments will begin to crack down on tax avoidance schemes. Working as a tax accountant could potentially put me in a position where I could advocate for better corporate tax rates and better corporate tax policies, but seeing as the Big Four accounting firms probably profit greatly off of these global tax schemes, I find it doubtful that anything will change anytime soon.

It is very intriguing to see how one can work within the gaps in the law to operate legally but also make the biggest profit possible. It is tempting to try to beat the system. I think after completing this case, I still want to be a tax accountant, but my perspective on it has definitely changed. It is no longer a typical, sometimes boring, desk job. Now, I am aware of the power accountants have, and the responsibility we have to use that power in an ethical way and for the benefit of our society.

Case Study 6: Interview

Summary:

For this case, students were instructed to interview someone in the business community. The only requirements were to follow Covid-19 guidelines and that the person should be well established in their career. When I read the prompt for this case, I knew immediately who I wanted to interview. This woman has been such an inspiration to me and a strong motivator towards success for my whole life. My mother, Sandra Sekul, fell into the world of business in her late thirties. She embraced the change and made it work for the lifestyle she wanted. As a business owner, Ms. Sekul achieved work flexibility that she never could have had in her original occupation as a nurse. That flexibility allowed her to dedicate more time to things outside of the workforce. In particular, it allowed her to be an active participant in the raising of her family. A lot of women struggle with the idea of balancing work-life and family-life, and I think owning a business is a great way to ease that struggle. It allows individuals to continue earning an income and expand their career horizons while also granting them the autonomy and flexibility that they require.

This interview really brought into sharp relief some messages I have heard from various sources. For example, it was great to hear a more personal explanation of why communication is the absolute best tool in any field. It was also interesting to see how she combined her different backgrounds and experiences to form a broad knowledge base that helped her achieve success. It is often said that being well-rounded is one of the main keys to success, and Ms. Sekul has shown that to be true. I hope that I can put the things I learned from this interview to beneficial use, so that I, too, can someday pass on our familial tradition of generational wealth building. As they say, Thanks, Mom!

Interview/Biography:

The first question of the interview was designed to get an idea of the interviewee's life as they were growing up- the time before their college career began. Ms. Sekul grew up on undeveloped country land, accessed only by dirt roads in the Biloxi/D'Iberville, MS area. I refer to it as Biloxi/D'Iberville because both cities laid claim to the land at separate times. Her father, Thomas Greiczek, bought this land with the intent to build an "empire" of land and rental units in his name and under his control. As a family, they cleared the heavily wooded lots, dug the septic tanks and wells, prepared to run the electricity, poured the concrete slabs, and over many years, added mobile homes one by one to the vacant lots they forged. In addition to this family work, Mr. Greiczek also worked as a contract builder. He built many of the subdivisions and apartments in their hometown area and worked as far North as Columbus, MS (a four-hour drive in today's times). Starting early on, Mr. Greiczek trained his two daughters as construction laborers and taught them how to prepare new construction units for sale. Ms. Sekul's childhood was spent working and playing outdoors (personal computers were not a thing yet, but even if they were, I do not think her upbringing would have changed much). Along with teaching his kids about construction, he also taught them about money. Mr. Greiczek was a frugal man out of necessity; he wanted his kids to learn the ways of money early on, so they could build more affluent lives for themselves. He paid his kids for the work they did, so they learned early on to manage their finances. To Ms. Sekul, money management was one of the most important lessons she ever learned, and she continues to study the subject to this day.

The second and third questions ask about the interviewee's college years. There was still quite the stigma at that time about what careers were acceptable for women, and construction definitely was not on the society-approved list. Ms. Sekul had always enjoyed studying biology

and other sciences, and the ADN (Associates Degree in Nursing) program was perceived to be an excellent (and affordable) choice for girls in the area at that time, so chose to study nursing. She had little counseling, and while both of her parents had some college classes and technical training, neither had full degrees. As she was not familiar with the financial aid processes and how to apply for scholarships, she did not take advantage of the opportunities provided by the school. College is a struggle enough just dealing with classes, but Ms. Sekul had the added struggle of being financially independent. She had to learn to manage rent, car payments, and the cost of classes and how to balance her time between school and working as a Nursing Technician. On the bright side, working as a Nurse Tech. gave her the benefit of great experience working in the field.

Question number four aims at getting a picture of the interviewee's career journey, including all of the jobs they had before and the important things they learned that led them to where they are now. Ms. Sekul's first jobs were stressful and difficult. She had a license as a Registered Nurse (RN) by the time she was 20 years old, but she had poor coping skills to manage the stress of that field. She was actually terminated from her first job. She switched fields and found a much better fit in psychiatric nursing. It took time for her to learn that the biggest strategy to maintain success as a nurse, or in any job, is to communicate everything to everybody! While Ms. Sekul did not stay in nursing, she believes that the lesson of communication helped her immensely in her ongoing endeavors as a property owner and developer.

The fifth and sixth interview question asks about the interviewee's life outside of work. Throughout her time as a nurse, Ms. Sekul maintained an interest in property and rental management, and it eventually turned into a career for her. When her father passed away in 2003,

Ms. Sekul took over his empire and shortly thereafter decided to quit nursing, so she could focus her efforts. The empire was now a business named Tower Mobile Homes after the giant cable tv tower that could be seen from the property. To combine both of her backgrounds, Ms. Sekul returned to school to obtain a Master's Degree in Public Health Administration from Southern Miss. She wanted to learn how to better address the poverty and problems she witnessed in the low-income rental markets. During all of this, Ms. Sekul was raising a young daughter, and in 2011 she became a single mother. The best vacation Ms. Sekul claims to have ever had was a trip to Germany and the surrounding areas. Her favorite parts were skiing and taking her daughter to see the “Cinderella” castle in Schwangau, Germany.

The seventh question asks what two things the interviewee would change about their life if they could. Ms. Sekul says that she would have obtained her master's degree earlier. She also wishes that she would have become more politically involved. Ms. Sekul reads a lot about spirituality and tries to practice it in her daily life. One of the big teachings that she tries to follow is to not regret the past.

Question eight asks what the interviewee wishes they would have known when they were twenty-one years old about life and career pursuits and if they have any advice they would like to share. Ms.Sekul wants to stress the importance of not waiting to start saving for retirement. It may seem like it is ages away, but time passes faster than people often expect. Plus, it is harder to work long days at fifty-five than at twenty-five; work and save now, so you can relax later in your career and life when you need it more. Pay attention to social security and make sure you stay on track to retire at a reasonable age. Also, never forget about the power of interest; the earlier you start saving, the more time that money has to build interest. Ms. Sekul also wants to encourage people to read every bit of financial planning information possible. She loves her

monthly subscription to Money Magazine and believes that publications like that can help people achieve and maintain success. When you hear people say that it is not about the money- do not believe them!

The ninth question asks what the interviewee is most proud of. Ms. Sekul is most proud of the financial security she managed to achieve and keep despite changing career paths, going back to school, and becoming a widower and raising a child on her own. She is proud of the empire that she will be able to leave for her child and that she will be able to continue the pattern of generational wealth-building that was taught to her.

The final two questions ask the interviewee what they think will be the biggest challenge for their own generation and for the interviewer's generation. Ms. Sekul falls at the tail end of the Baby Boomer generation. She believes that it is the duty of her generation to try to clean up the political system and make strides to repair the debt left for the next generations. She worries that Generation Z will be expected to work longer and longer hours and that the majority of this work will be indoors and on computers. She believes that the absence of physical labor and outdoor work will be detrimental to the mental health of the next generation. She fears that the next generation will be working for forces they do not understand and will forget that ultimately, they should only be working for themselves. The biggest challenge for Generation Z will be to overcome the increasing expectations of more, more, more in the workforce.

Case Study 7: Case Competition- Overview

The Coca-Cola Company

By

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

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 it does. After our initial background research, we explored 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 its 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. It owns 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. Its finished product operations consist primarily of company-owned or controlled bottling, sales, and distribution operations. Coca-Cola produces a myriad of beverage products, all of which fall under these categories: sparkling soft drinks; water, enhanced water, and sports drinks; juice, dairy, and plant-based beverages; and tea and coffee. The company is currently trying to expand its product offerings to include value-added dairy and plant-based

beverages, which are beyond its traditional range of beverage products. It has also recently moved into the energy drink sector, despite its relationship with the popular energy drink brand Monster. Lastly for product expansions, it is now releasing 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. It is subject to income tax in the United States and numerous other jurisdictions in which it generates profits. The company is in a current dispute with the Internal Revenue Service. There have been a few court rulings on the matter, but the issue has not yet been resolved. Coca-Cola does not typically raise capital through the issuance of stock; instead, it relies on debt financing to lower its overall cost of capital and increase its return on shareowners' equity. It believes its ability to generate cash flows from operating activities is one of its greatest financial strengths, and it believes its current liquidity position is strong and will continue to be sufficient to fund its operating activities and cash commitments for investing and financing activities for the foreseeable future.

Articles and Key Events

Coke with Coffee:

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

Coca-Cola Company). To launch the product, the company plans on utilizing digital, outdoor, radio, and TV advertising as well as digital and traditional sampling (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 drink brands. A few discontinuations, 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" (Garber). 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 it will cut 2,200 jobs in its global workforce as a part of its restructuring plan. The restructuring plan was previously announced but has been sped up due to COVID-19. The announcement of the cuts comes shortly after the company announced that it is planning on reducing its number of brands to 200. The company says it 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 its 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 its standards, thereby changing an agreement it had with Coca-Cola, and are now trying to retroactively apply that interpretation 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 it prepares 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 industry leaders 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 (The Coca-Cola Company). 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 discontinues 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 give its long-term viability a positive outlook

Case Study 8: Case Competition- Audit Phase

The Coca-Cola Company

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 the risk for Coca-Cola, a multi-billion-dollar manufacturing company that is a resounding market leader in the world of nonalcoholic beverages, and learned how to develop strong reasoning skills when assessing different scenarios that could create the potential for fraud. Through this week, our team was able to grow and learn so much about the strategy behind auditing a manufacturing company.

Cash and Cash Equivalents

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

Audit Failure Risk: The cash account is important for determining the liquidity of the company, and material misstatements could give financial statement users an unreliable view of the

company's liquidity. Internally, having a misstated cash account could cause a liquidity crisis if cash were to unexpectedly run out.

Internal Control 1: **Access Controls**: There should be select authorized signers on the Coca-Cola Company's bank accounts. Those signers should be selected after a background check or similar evaluation is completed by a review board. Additionally, the number of people on the signature card should be kept 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 has accounts and requesting a list of all the accounts Coca-Cola holds and for their related balances to 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 it 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 for 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 that 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.

<u>Long-Term Debt</u>

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 the reliability of that information.

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 should be 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 would be implemented. Policies for how to process a returned check would also be standardized.

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

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

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

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

Selling, General, and Administrative Expenses

Materiality: Like revenues, expense accounts directly impact net income. The selling, general, and administrative expenses (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.

Case Study 9: Case Competition- Tax Phase

The Coca-Cola Company

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 its 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 is 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 requires 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 the 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 Federal Investment Tax Credit, 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, 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 of carbon emissions, this strategy will greatly benefit Coca-Cola. Table 1, which can be found below, shows projections for total lifetime tax savings that could result from this strategy. The table is interactive, and the values in blue can be changed to accommodate any number of variable factors that could impact the expected tax savings.

Table 1: Renewable energy information regarding costs and savings

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

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

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

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

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

Strategy Two: Reduction of Equity Investments

Our second tax strategy involves selling off equity method investments to reduce taxable income. Currently, equity method investments account for over $1 billion dollars of Coca-Cola's taxable income. The equity method investment account is comprised mostly of investments that come from a common business activity that falls under Coca-Cola's operating group: Bottling Investments Group, or BIG. 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 re-franchising all of its bottling operations. This means that it is returning ownership of all bottling operations to local business owners while maintaining partnerships so that its bottling operations act as a coordinated, but local and independent, system. Coca-Cola has completed its re-franchising efforts in all of its geographical sectors except for Southeast and Southwest Asia and parts of Africa. If Coca-Cola was to continue this activity and sell off its remaining equity method investments, it would reduce its 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 its taxable income before President Biden enacts his proposed tax rate. The following table (Table 2) illustrates the potential tax savings if the corporate tax rate is increased to 28 percent.

Table 2: Equity Investment Divestiture informatio

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				

Strategy Three: Relocation of Select Operations

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

workforce development programs meant to provide enrichment to workers and the company alike, so finding skilled employees would not be an issue.

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

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

Our fourth strategy relates to President Biden's proposed tax plan. He intends to increase the corporate income tax rate to 28 percent, implement a 10 percent offshoring penalty surtax, and increase the Global Intangible Low Tax Income rate on foreign profits to 21 percent. Coca-Cola's foreign subsidiaries and profit margins stand to be significantly affected by these tax ramifications (Mengle, 1). In order to promote American prosperity, President Biden has proposed a "Made in America" tax credit of 10 percent to encourage multinational corporations to "reshore" and bring back American jobs, to revitalize closing manufacturing plants, to expand current manufacturing facilities on American soil to boost employment, and to pursue other activities that would create American jobs (The Biden-Harris Plan, 1). Coca-Cola Company

should consider relocating some of its European, Middle Eastern, and African plants, which made up 17.3 percent of its 2019 revenue, or its Latin American manufacturing plants, which made up 11 percent of its 2019 revenue as shown in Figure 1. Overall, 69 percent of Coca-Cola's revenue is generated from international production and distribution, as can be seen in Figure 2. Coca-Cola Company owns six principal concentrate and syrup plants in Europe, the Middle East, and Africa and owns an additional six plants in the Asian-Pacific region (The Coca-Cola Company, 2019, 24). It also owns five plants in Latin America (The Coca-Cola Company, 2019, 24). Even if Coca-Cola was to consider moving just one of these 17 foreign concentrate plants back to the United States, it would create American jobs, stimulate the economy, take advantage of a potential 10 percent tax credit, and avoid the 10 percent offshoring surtax.

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

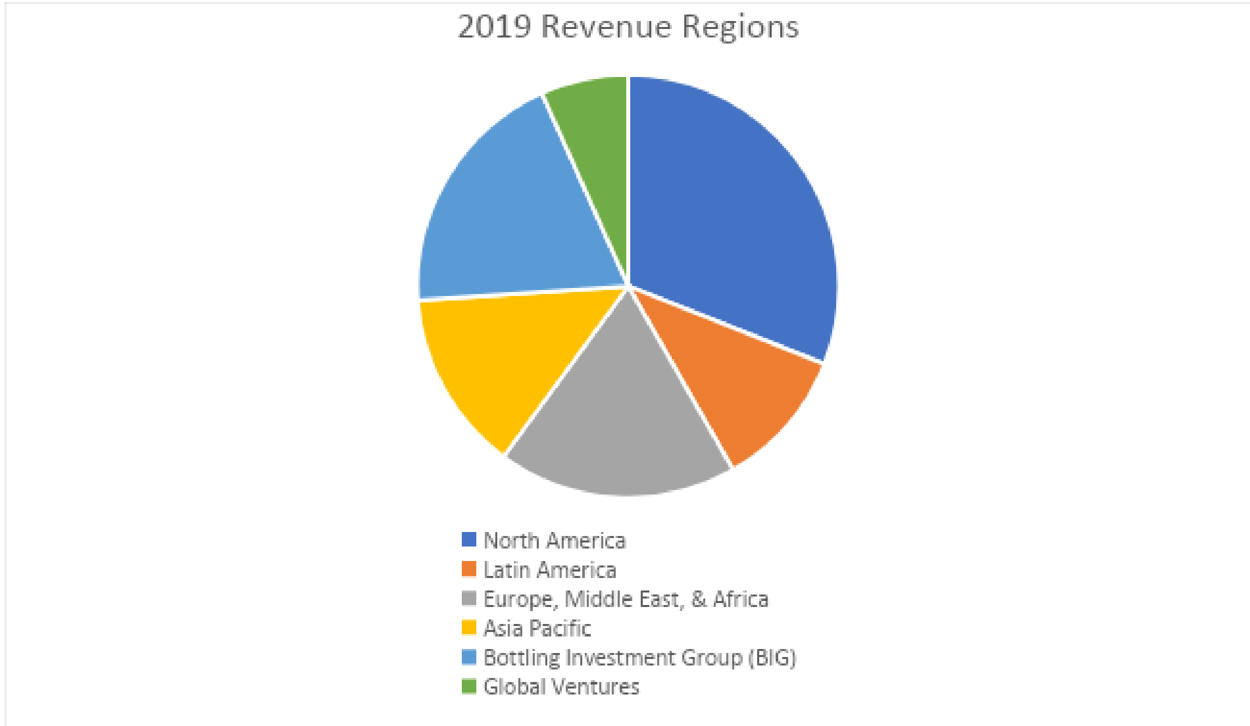

Figure 1: 2019 Coca-Cola Revenue Regions

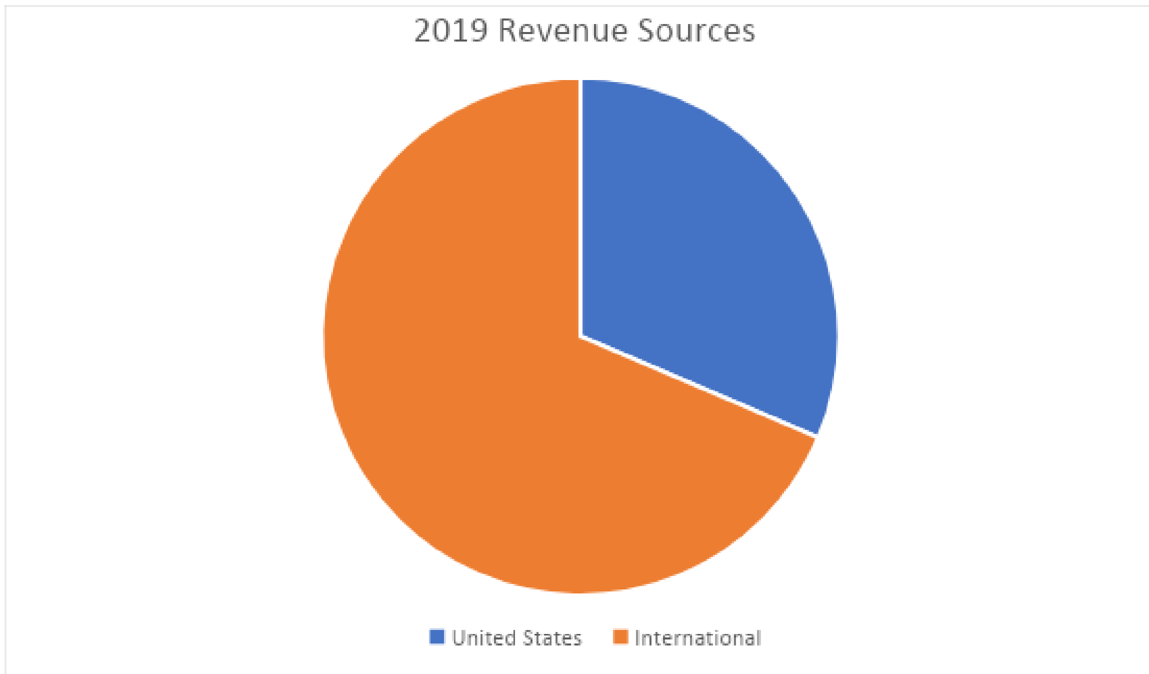

Figure 2: 2019 Coca-Cola revenue sources

Table 3: Foreign subsidiary relocation tax implications

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

Table 4: Data for concentrate and finished product operations

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

Case Study 10: Case Competition- Advisory Phase

The Coca-Cola Company

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 its success of building new brands by heavily investing in 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 expenses over recent years. We also noticed several changes in various ratios during this same period. Upon further analysis, we determined the company's re-franchising 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; it has 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, its purpose or mission is, "to refresh the world and make a difference" ("Our Purpose," The Coca-Cola Company). Coca-Cola's number one strategy right now is disciplined portfolio growth. It is trying to become a total beverage company

("Growth" 1). Coca-Cola started as a predominantly sparkling soft drink company, and now it offers a diverse array of products across categories. Its strategy is very customer-centric, as its constant focus on innovation, mergers and acquisitions, revenue growth management, and improved execution is all supported by greater brand-building.

c. Demand and Supply Analysis

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

The company's raw material inputs include commodities such as water and, "principal non-nutritive sweeteners" such as, "aspartame, acesulfame potassium, sucralose, saccharin, cyclamate, and steviol glycosides" (The Coca-Cola Company, 7). Coca-Cola notes that it has not had any issue receiving these raw materials through its suppliers. High fructose corn syrup is the "principal nutritive sweetener in the US", and sucrose, commonly known as table sugar, is the most common "principal nutritive sweetener" used in production in international territories (The Coca-Cola Company, 7). Because these are commodities, supply is vast and mostly affected by changes in the macro-environment. This is true across all of Coca-Cola's beverage segments.

Coca-Cola also requires juice and juice concentrate from various fruits, especially oranges, for its juice and juice drink products (The Coca-Cola Company, 15). Coca-Cola's primary orange juice and orange juice concentrate supplier is "Cutrale Citrus Juices U.S.A., Inc." which sources its oranges primarily from Florida and Brazil (The Coca-Cola Company, 8). Supply is typically not a problem here, but the citrus industry is impacted by "greening disease", which is reducing the number of viable trees and increasing selling prices. The citrus industry is also greatly dependent upon weather conditions such as hurricanes and freezing weather (The Coca-Cola Company, 8).

Coca-Cola's bottling and finished product operations use other raw materials including, "polyethylene terephthalate resin, preforms and bottles; glass and aluminum bottles; aluminum and steel cans; plastic closures; aseptic fiber packaging; labels; cartons; cases; post-mix packaging; and carbon dioxide" (The Coca-Cola Company, 8). Once again, because these products are commodities, supply is vast and mostly affected by changes in the macro-environment.

As of December 31, 2019, Coca-Cola employed approximately 86,200 people (The Coca-Cola Company, 11). Labor inputs are composed of factory workers, managers, and other production staff as well as employees who support Coca-Cola in the corporate sector. Increasing automation will likely continue to decrease the role of labor inputs over time. The company's main labor supply is made up of manufacturing laborers. The largest threats to Coca-Cola's labor supply are labor strikes from unions and other labor unrest.

d. Competitors

Coca-Cola's strongest competitor is PepsiCo Incorporated, which, from 2020 to present, holds a 14.2 percent market share, whereas Coca-Cola holds a strong 59.4 percent market share

in syrup and flavoring production (Jaura). In soda production, however, PepsiCo holds 31.9 percent of the market (Hiner). In the year 2019, PepsiCo produced total revenue of $67.2 billion, while Coca-Cola only reported annual revenue of $37.3 billion (Jaura). 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 contributed 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., 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., 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., 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 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 re-franchising its bottling operations. These trends can be seen in Figure 1.

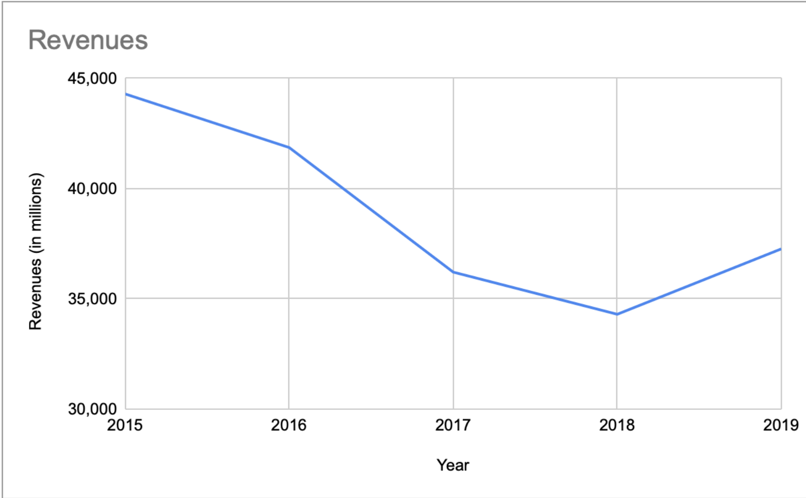

Figure 1: *Revenues over the past five years for Coca-Cola Company*

b. COGS

Coca-Cola's COGS has followed the same general trend as its revenues. The decrease in Coca-Cola's COGS can also be attributed to the company's re-franchising efforts. These trends can be seen in Figure 2.

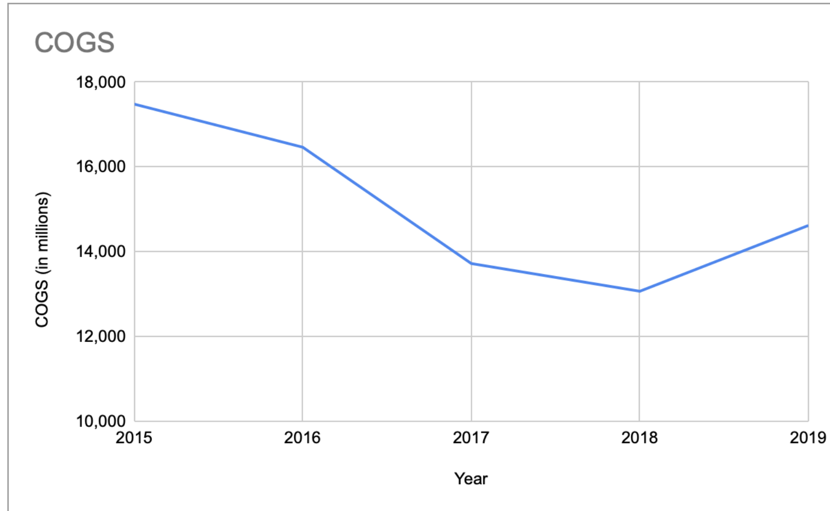

Figure 2: *Cost of Goods Sold over the past five years for Coca-Cola Company*

c. Selling, General, and Administrative (SG&A) Expense

Coca-Cola's Selling, General, and Administrative expense account has followed the same general trend as its revenues and Cost of Goods Sold. The decrease in SG&A can be attributed to divestitures and a reduction in expenses related to its bottling operations. These trends can be found in Figure 3.

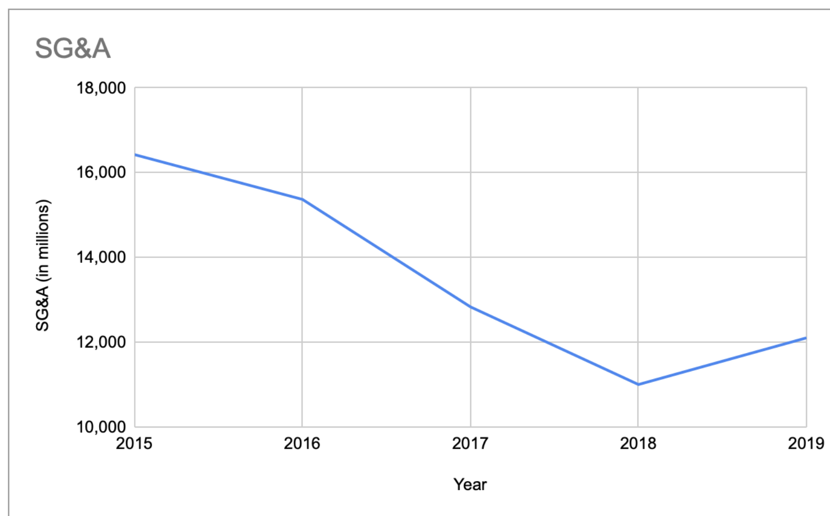

Figure 3: *Selling, General, and Administrative expenses over the past five years for Coca-Cola Company*

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.

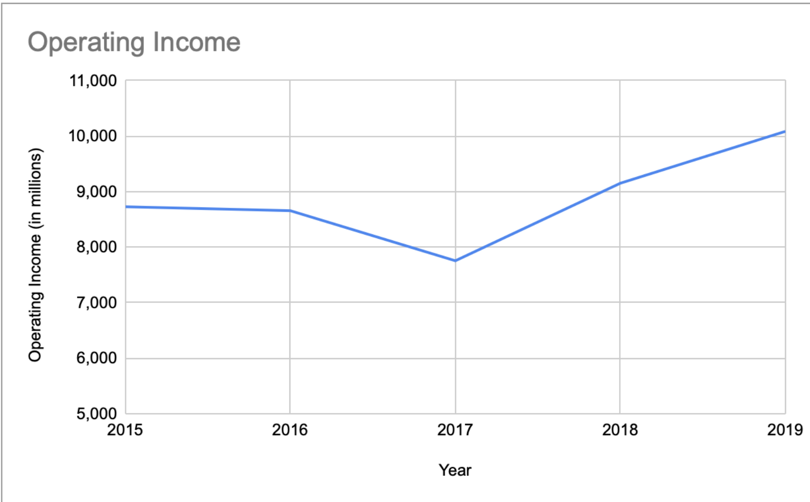

Figure 4: *Operating Income over the past five years for Coca-Cola Company*

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.

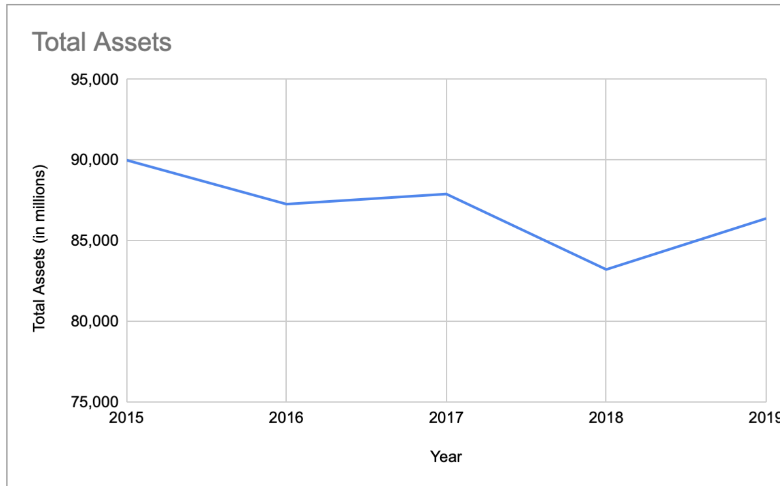

Figure 5: *Total Assets over the past five years for Coca-Cola Company*

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.

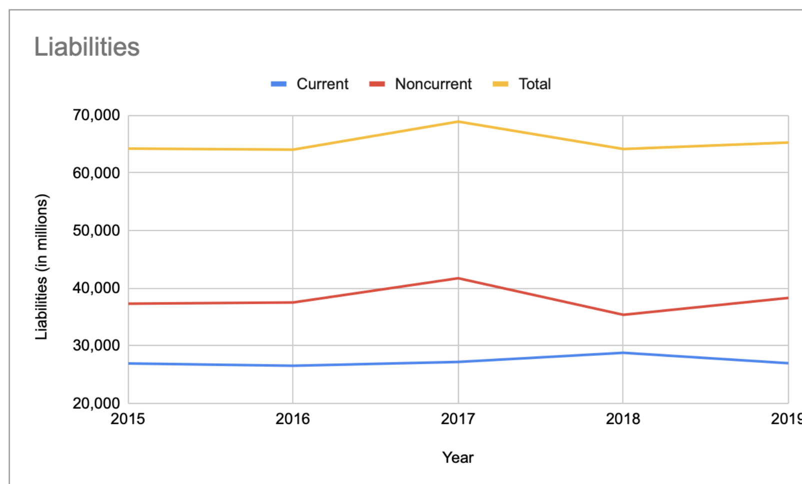

Figure 6: *Liabilities over the past five years for Coca-Cola Company*

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 in previous years. The increase in Return on Assets shows that Coca-Cola is mostly using its assets efficiently to generate earnings. Figure 7 shows these trends.

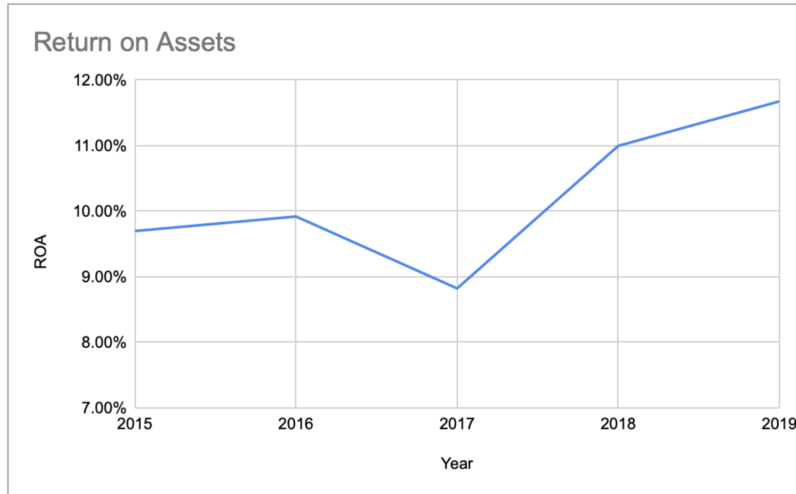

Figure 7: *Return on Assets over the past five years for Coca-Cola Company*

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.

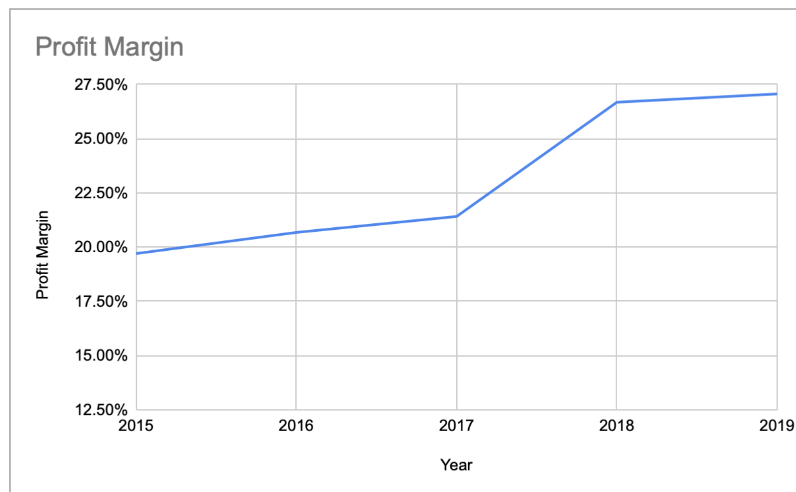

Figure 8: *Profit margin over the past five years for Coca-Cola Company*

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 in previous years. These trends can be seen in Figure 9.

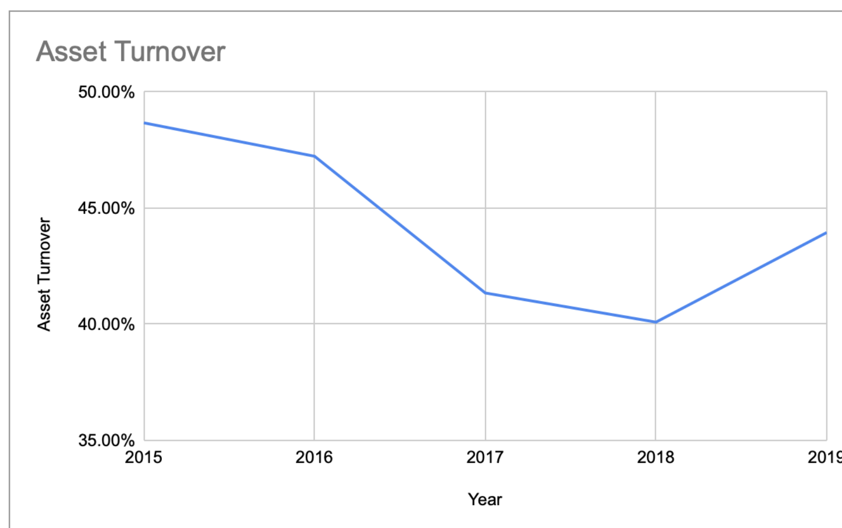

Figure 9: *Asset Turnover over the past five years for Coca-Cola Company*

Statement on Financial Analysis and Stated Strategy

As seen by Coca-Cola's stated strategy, the company has been working to build its 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 of the

company's introduction into the complete hot and cold beverage market have evened out, the company has been able to increase its asset turnover in the most recent years.

III. Company Threats and Solutions

Threat One: Evolving Consumer Preferences:

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

Additionally, we would like to acknowledge Crown Royal's newly released, as of December 2020, ready-to-drink (RTD) 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.

<u>Part Two: Coca-Cola Freestyle Cocktail Mixer and Dispenser</u>

Coca-Cola can also partner with top alcohol brands to build upon its 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 the existing site infrastructure, the company could easily add an "alcoholic" option.

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

customers a card or wristband with a scannable QR code that grants customers access to purchase alcohol from the Freestyle dispensers.

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

Projections:

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

Overall, in terms of Cost of Goods Sold, we expect this margin to be comparable to Coca-Cola's existing business. We do not foresee large expenses associated with expansion as existing production and distribution capabilities can be utilized. We argue that because of Coca-Cola's launch into the world of alcoholic seltzers, there will not be a major increase in research and development expenses when creating this new ready-to-drink cocktails line. SG&A expenses will increase slightly as the company works to capture a market share in the alcoholic beverage space. Fortunately, Coca-Cola has successfully traversed market boundaries many

times before so that corporate expertise can be applied here, as well. Following these projections, we expect operating income will improve by over $2 billion in five years, as seen in Figure 11.

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

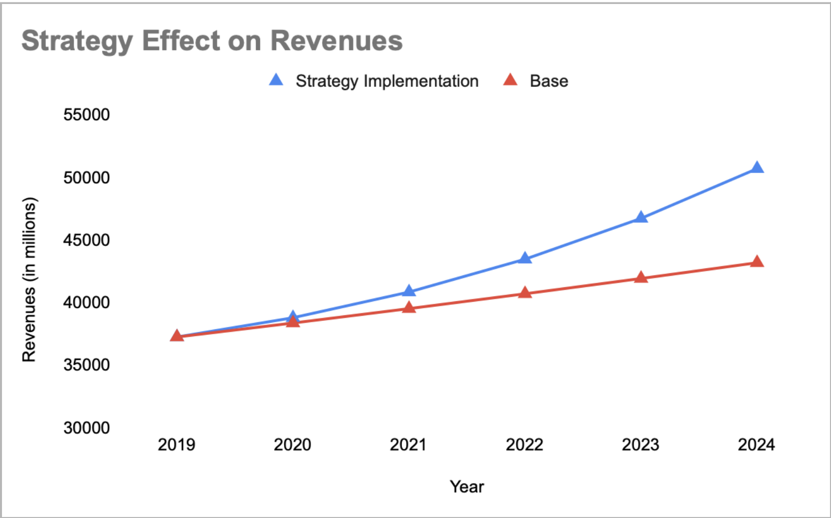

Figure 10: *Forecasted effects of the solution to Threat One on revenues over the next five years*

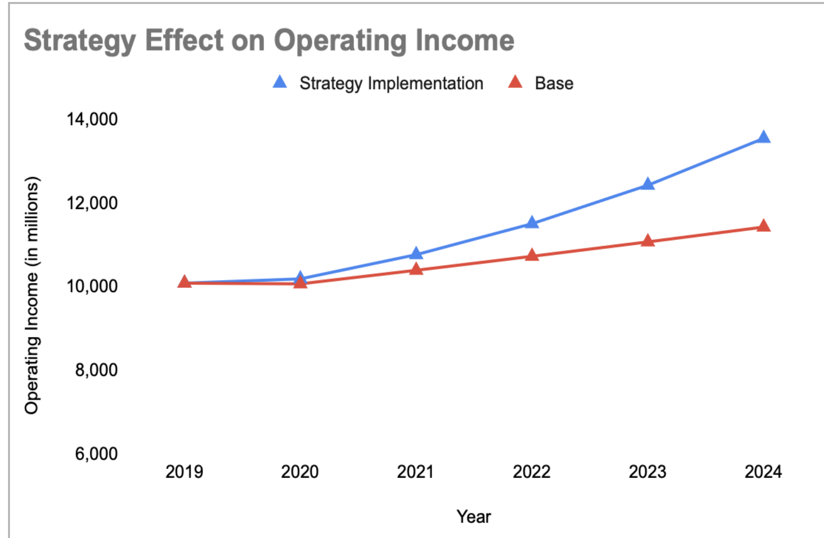

Figure 11: *Forecasted effects of the solution to Threat One on operating income over the next five years*

Threat Two: The Digital Evolution

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

Solution: Data Mining Customer Databases

Coca-Cola has huge undiscovered potential within its Coca-Cola Freestyle drink dispensers. Coca-Cola should update these machines to include valuable data-gathering technology, then push them to market more than it currently does. Coca-Cola should not only use the gathered information for its 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 his or her 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 its Freestyle drink dispensers. In this scenario, the staff of the business where the Freestyle is in place would be required to provide customers with 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 the implementation of systems to collect vast amounts of data, Coca-Cola introduces new innovation into its 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 its new alcoholic beverage brands as it becomes 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 by 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.

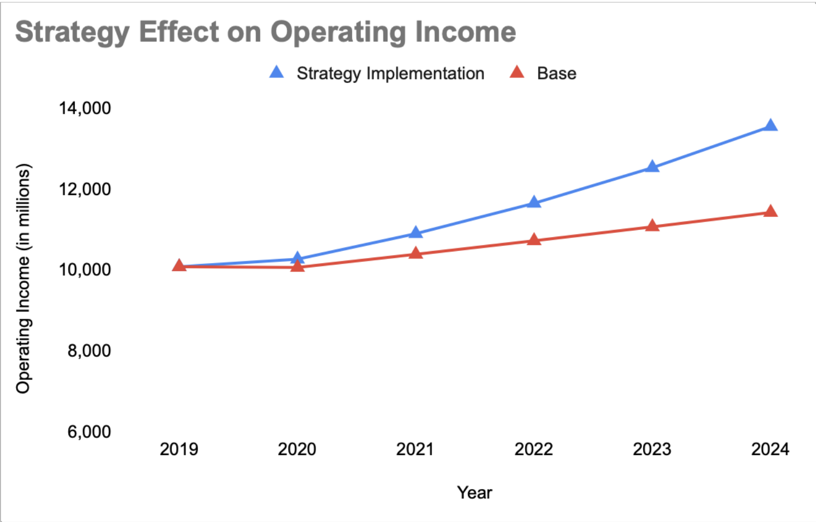

Figure 12: *Forecasted effects of the solution to Threat Two on revenues over the next five years*

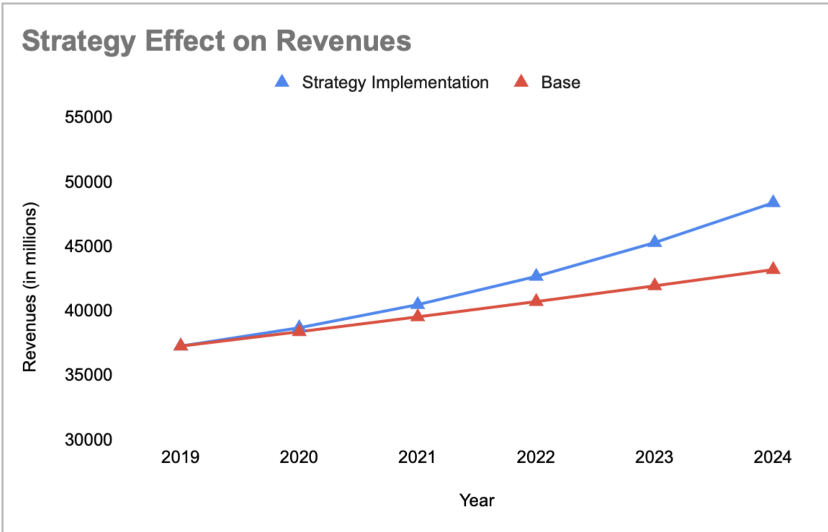

Figure 13: *Forecasted effects of the solution to Threat Two on revenues over the next five years*

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 in 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 the implementation of proprietary technology. Profit margins receive a considerable boost to 28.02 percent by 2024. Asset turnover also improves to 50.73 percent by 2024, since Coca-Cola is able to generate higher revenues without much increase in physical assets.

Case Study 11: Case Competition- Earnings, Stock Price, and Analysis

The Coca-Cola Company

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 a 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.and efficient within its particular industry.

Closing Price as of December 31, 2019:

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

Price-to-Earnings Ratio:

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

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

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

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

Beta:

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

market average. For example, if the overall market were to decline 10 percent, Coca-Cola should theoretically decline 6.2 percent over the same period.

Analyst Following:

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

Forecasted Growth:

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

Analyst Recommendations:

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

Effects of Advisory and Tax Recommendations:

In neither our tax nor our advisory recommendations do we recommend for Coca-Cola to finance its expansion through additional equity issuance. Issuing additional equity would reduce Earnings-per-Share, increase expected dividend payments, and send negative signals to investors. Instead, we recommend Coca-Cola utilize its impressive cash flows to internally fund projects where possible and leverage its strong balance sheet to fund additional expenditures through debt financing. The company's investment-grade bond rating allows Coca-Cola to borrow at low rates and benefit from an interest tax shield. Issuing debt also signals to investors that management

expects future performance to justify additional leverage. These factors enable the company to return greater value to shareholders. The company should utilize the additional cash flows generated from our advisory and tax recommendations to either fund additional growth opportunities or continue its long-term trend of repurchasing shares in order to return earnings to shareholders.

Projected Earnings-per-Share and Stock Prices:

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

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

Implementation of our tax recommendations would have similar effects on Earnings-per-Share across both strategies. Our first tax strategy involving federal solar credits would improve Earnings-per-Share by an average of $0.01 each year over the next five years. Our second tax strategy would reduce Earnings-per-Share by an average of $0.17 per year. This is due to the effect that eliminating equity income would have on net income. In our third tax strategy of relocating various manufacturing locations, the effect on Earnings-per-Share would

be highly variable and dependent on the specifics of relocation. Our fourth tax strategy of relocating foreign earnings would improve projected Earnings-per-Share by an average of $0.07 per year. Where Earnings-per-Share increases in strategies one and four, the projected stock price would appreciate proportionately; strategy two's reduction in Earnings-per-Share would reduce the projected stock price proportionally. However, it should be noted that Price-to-Earnings valuation does not consider numerous other factors that would positively affect the stock price. In the case of strategy two, Coca-Cola would receive large amounts of funds for selling its equity investments that would strengthen the assets account on the balance sheet, and the company may be better positioned to focus on its core competencies. These factors could actually lead to an increase in stock price perhaps not reflected by Price-to-Earnings ratios alone.

Return on Assets and Risk:

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

In 2019, Coca-Cola saw an actual Return on Assets of 11.68 percent. Our advisory strategy projects this to increase to 14.56 percent by 2024. A significant increase such as this

would look attractive to investors, leading to an appreciation in the stock price as well as a reduced cost of equity. This improvement in return, combined with other favorable changes in financial ratios, would offset the impact of additional leverage as reflected in our projected future stock price.

Case Study 12: The Financial Crisis of 2008

Summary:

This case requires students to review a selection of materials and then use our newly gained knowledge to put together our own thoughts on the trustworthiness of institutions and government, our beliefs about our roles in society, and how we can use what we learned to analyze the current political atmosphere and avert future crises. The materials that this case is based on include the videos “What Is Crony Capitalism?” by political historian Jay Cost and “Cause of the 2008 Financial Crisis” by economist Dr. Thomas Sowell, the film *Inside Job* (2010) narrated by Matt Damon, and the articles “Recipe for Disaster: The Formula That Killed Wall Street” by Felix Salmon and “The Great American Bubble Machine” by Matt Taibbi.

I have personally held a healthy amount of wariness towards big business, financial institutions, and our government for a while now, so what this case revealed was not necessarily surprising; however, it was still shocking to see my skepticism so factually justified.

Crony capitalism is the term for when a government spends the public’s money, but not for the public interest. Instead of allowing free markets and the nature of capitalism to determine who receives money from the government, politicians support whoever best supports their own personal agendas. This often leads to the government paying more for goods and services than necessary. We place trust in Congress to spend our tax revenue on behalf of our general welfare, but they violate that trust when they participate in crony capitalism. Because true capitalism is based on voluntary exchange, it creates value for everyone and therefore possesses an inherent morality. Politicians not only violate that morality but they also violate their own morality when they participate in crony capitalism. These behaviors often lead to fraud as politicians get increasingly comfortable with the idea of using public funds for their personal gains. Among numerous other instances, the post-2008 financial crisis bailout and continuously lax sanctions

on Goldman Sachs make the government's refusal to let the company fail seem a lot like crony capitalism.

Since the 1980s, with widespread financial deregulation beginning under the Reagan administration, the rise of the US financial sector has led to a series of increasingly severe financial crises. By the early 2000s, the way loans are repaid had evolved drastically from the traditional direct relationship between homebuyers and lenders. Traditionally, mortgages were considered a safe investment, and many people invested heavily in mortgage-backed securities. As long as people kept making their mortgage payments, mortgage-backed securities looked great. However, the government interfered with the free market in order to boost homeownership and create affordable housing by prescribing rules about lending. Loan repayments began to follow what is called the securitization food chain where the people who make the loan are no longer at a direct risk if there is a failure to repay, and there is overall very little accountability.

With securitization, home buyers secure loans from lenders who sell the mortgages to investment banks who combine various loans into complex derivatives called collateralized debt obligations (CDOs). The investment banks pay rating agencies, who suffer no liability for faulty ratings, to evaluate the CDOs. The investment banks then sell the CDOs to investors so that a homeowner’s mortgage payments actually go to investors all over the world. This system led to riskier loans being made, called subprime loans, which happened to carry higher interest rates which benefited the investors.

Eventually, people started to work out that this system was not sustainable, and there were numerous and repeated warnings about the impending crisis. However, this system was so profitable and the logic behind it was so complex, that no one wanted to listen. As Andri Magnason said, “nothing comes without consequence” and by 2008, “home foreclosures were

skyrocketing and the securitization food chain imploded" (Ferguson). The government's new, more lenient lending rules and the resulting riskier loans had led to a widespread failure of mortgage repayments which led to the securities collapse. The popular CDOs were filled with mortgages, so the sensitivity to house prices was huge. When house-price appreciation turned negative on a national scale, a lot of bonds that had been rated triple-A, or risk-free, by copula-powered computer models blew up. Lenders could no longer sell their loans to the investment banks, and as the loans went bad, dozens of lenders failed. The government's interference is ultimately what led to the crash of the real estate market and the 2008 financial collapse.

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

The things I learned from the research for this case have exponentially heightened my distrust of institutions and the government. There are good people out there, but the greedy and powerful yet incompetent people seem to vastly outnumber them. I previously did not realize the extent of corruption in our government and the amount of conflict of interest. Our government is deeply intertwined with wall street, and it seems that this has not done the general American populace any favors. It is baffling how many people knew that the way Wall Street was doing business in the early 2000s was not sustainable, that the housing bubble was going to burst, and that people were being cheated, lied to, and deceived. And yet, it was not enough to change the minds of government officials or Wall Street executives or to prevent economic collapse.

Additionally, it is absolutely infuriating to see how little remorse these people show for the global chaos and devastation they have caused and how little they have learned from it all. Instead, they just pay the measly penalty and move on to looking for a new bubble to inflate. They make so much profit during the inflation of these bubbles that the sanctions are worth it.

Institutions are still fighting against government regulations, rating agencies hide behind the technicality that their reports are only “opinions”, and there are so many things that should be considered mandatory disclosures that are not. A lot of these financial institutions and politicians are not acting with good intent, they are acting out of greed and they will exploit loopholes and do everything in their power to ensure the maximization of their personal profits. The financial industry should act as a service industry that serves others before it serves itself. We need reform.

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

In a way, this information is very disheartening and makes me feel almost powerless to combat the immorality that is so prevalent in our most powerful systems. But at the same time, it has motivated me to become a more diligent, educated, and socially conscious businessperson. On a personal level, I can vote for better people in government. On a professional level, I can stick to a strong ethical framework, ask questions when unsure about something and keep asking questions until I can confidently endorse my work, use my common sense, and actually listen when alarm bells ring.

The majority of the managers who made the actual big-asset allocation decisions leading to the 2008 financial crisis lacked the mathematical and economic knowledge to understand the complex financial models they were using. When people are looking at the numbers behind these complex transactions, it is easy to get caught up in the numbers and forget to take real-life uncertainty, variability, and long-term history into consideration. Sometimes things are so complex or theoretical that executives and officials either do not know how to apply common sense checks, or they simply do not take the time to do so. One thing everyone did understand,

however, was that they were making huge amounts of money, so they were not too inclined to ask questions or listen to warnings. I will not fall into this trap.

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. Mainly because as a society we did not seem to fully learn from our mistakes. Enacted after a prolonged period of corporate scandals to restore investors' confidence in the financial markets and close loopholes that allowed public companies to defraud investors, the Sarbanes-Oxley Act (SOX) of 2002 has helped a lot. However, regulations are still much laxer than they were after the Great Depression and before the Reagan and Clinton administrations.

According to Forbes, the "top 1% of US households hold 15 times more wealth than the bottom 50% combined" and inequality of wealth is higher in the US than in any other developed country. We are still seeing massive private gains at the expense of public loss. We still have people from Wall Street working in the White House.

The 2008 financial crisis was born out of the 2006 housing bubble, but the housing bubble actually had the path paved for it by the internet bubble in the late 1990s and the stock market bubble which had led to the great depression even before that. Replacing the housing bubble was the commodities bubble (namely oil), and now a new commodity bubble that focuses on carbon credits may be forming. We may also be seeing the formation of a student loan debt bubble.

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