

# Pepsico evaluation paper



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## Company Evaluation Paper – PepsiCo University of Phoenix Company

Evaluation Paper – PepsiCo. This paper provides calculated ratios of liquidity, activity, debt and profitability of Pepsi Co for the fiscal years 2007-2008. This information was obtained from the financial statements. Liquidity The current ratio is considered to be the most simplified liquidity test.

It essentially signifies a company's capacity to satisfy its short-term liabilities utilizing its short-term assets. A current ratio which is larger than or equal to one shows that current assets should have the ability to satisfy its short-term obligations. A current ratio that is less than one may entail that the company has issues with its liquidity. Pepsico's current ratio in 2007 was 1.3. In 2008 the current ratio was 1.

2. As such, Pepsico's current assets should have had the ability to satisfy its short-term obligations for both years. Current Ratio = (Current Assets) / Current Liabilities 2007 = 10,151.0 / 7,753.

0 = 1.3 2008 = 10,806.0 / 8,787.0 = 1.

2 Activity Accounts receivable turnover is computed by AR/Total daily sales credits. The daily credit sales was not available on the income statements for Pepsi Co, only one line for revenue; therefore, we can assume that all sales are performed through credit, meaning no cash sales. The total Revenue for Pepsi Co is reflected below:

2008 Total Revenue	43252	2007 Total Revenue	39474
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The total receivable for Pepsi Co is reflected below:

2008 Total A/R	0	2007 Total A/R	4683.0
	4389.		

$0.43252 = 11.0$                        $39474 = 11.0$  Total Receivable Net (or total sales) divided by the Total Revenue for both years is 11%. This equates to 40.15 days sales outstanding; meaning customers generally pay for product purchased on credit in 40 days.

Accounts Receivable turnover can answer questions whether or not collecting on sales after providing credit to customers is happening within an acceptable timeframe. The formula is dividing sales made on credit by average accounts receivable. I discovered that many companies do not disclose total sales on credit; therefore there is a shortcut one can use by using “total sales” instead. When comparing with other companies it is important that the process remains consistent figuring ratios.

In other words, comparing credit based with total sales would be misleading. It is also important to know if the firm operates on a cash basis only or not. A high ratio implies either that a company operates on a cash basis or that its extension of credit and collection of accounts receivable is efficient. A low ratio implies the company should re-assess its credit policies. The Accounts Receivable Turnover ratio for Pepsi Company for both 2008 and 2007 was 11.0.

This ratio reflects that Pepsi Co turns its receivables 11 times per year which indicates good management of credit and collections. Inventory Turnover for 2008 was 17.15 and 17.24 for 2007. It is calculated by taking the total revenue and dividing it by the total inventory. For Pepsi Co the calculations for 2007 and 2008 are reflected as follows:  $43252 / 39474 = 11.0$

15            2290= 17. 24 When a product is sold for the equal to the amount of money invested in the product, we have “ turned” on inventory. The inventory turnover rate measures the total times we turned over the inventory during a 12 month period. Here is an example: (process only; not related to Pepsi) | AnnualPepsi Company had a high turnover for both 2008 at 17. 15 and 17.

24 in 2007. Their total inventory for 2008 was 2522 and 2290 in 2007.

Inventory is moving in and out of their warehouse at a consistent basis at a high ratio. This reflects effective management of the company’s inventory. Debt Debt ratio indicates how much debt is used to finance a firm’s assets. To see the profitability a firm has to compare the difference between debt-to-equity mixes.

The company should evaluate how do they finance their assets, do they use debt? There two types of debt, short-term and long-term debt, realizing the remaining percentage must be financed by equity. The amount of debt a firm uses depends on its proven income record and the availability of assets that can be used as collateral for the loan — and how much risk management is willing to assume. When a company borrows money to finance business there is a certain requirement that the company pay off the interest on debt. The company should increase debt relative to equity, but only up to the point when it doesn’t hazard the company’s financial position. The basic issue to acknowledge is the use of debt versus equity, financing the assets by debt or financing by equity. Debt Ratio of Pepsi Corporation was 0.

66 in 2008 and 0.50 in 2007. Debt Ratio = Total Liability / Total Assets 2008  
 Debt Ratio = 23,888.0 / 35,994.0 = 0.66  
 2007 Debt Ratio = 17,394.0 / 34,628.0 = 0.50

Profitability The return on assets (ROA) for Pepsi in the year of 2008 was 14% and in 2007 it was 16%. Because the ROA was still profiting, the managers at Pepsi are utilizing their assets available to them within the company. The managers may need to consider revising their sales goals in order to make sure that there is not another decline in sales for the year of 2009.

Return on Assets is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. Sometimes this is referred to as "return on investment".

The return on equity (ROE) for Pepsi in the year of 2008 was 42%, and in 2007 it was 33%. ROE is a term to define how well a company managed reinvested earnings to generate additional earnings. Firms earning a return on investment greater than the cost of the debt; then the higher its return on equity will be. Pepsi Co has a 66% debt ratio for 2008 with a 42% R.

O. E., and a 50% debt ratio with a 33% R. O.

E. for 2007. The ratios reflect that when the debt ratio increased so did the R. O. E.

for both years; therefore, it can be possible that the higher return is coming from the use of debt financing. Return on Assets (R. O. A)= Net Income Total Assets 008 5, 142 = 0. 1428 35, 994.

0 2007 5, 658 = 0. 1633 34, 628. 0 Return on Equity (R. O. E.

)= Net Income Total Equity 2008 R. O. E. 5142 = 0.

42 12, 106 2007 R. O. E. 5658 = 0. 33 17, 234 Conclusion Pepsi Co's current assets should have had the ability to satisfy its short-term obligations for both years.

They show effective management of the credit and collections and inventory. The return on equity and debt ratio suggests they are using debt financing to increase the return on retained earnings. ROA although still profitable could be higher. The decline in sales from 2007 to 2008 could be the contributing factor to the low ROA. References Keown, Arthur J.

, Martin, John D. , Petty, J. William, and Scott, David F..

Financial Management: Principles and Applications, 10th ed.. copyright © 2005 Pearson Prentice Hall, Inc. MSN Money, Pepsico Inc: Financial Statement, retrieved August 2009 from moneycentral. msn. com/investor <http://moneycentral.msn.com/investor/invsb/results/statemnt.aspx?Symbol=pep&lstStatement=Balance&stmtView=Ann> Website: Investopia <http://www.investopedia.com/terms/r/receivableturnoverratio>.

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