Interpeting financial statements

Finance

ASSIGN
BUSTER

1) Profit margin. Coca-cola: Pepsi: (2) Asset turnover. Coca-cola: Pepsi: (3) Return on assets. Coca-cola: Pepsi: (4) Return on common stockholders' equity.

Coca-cola

Pepsi:

Coca Cola has a better profit margin of 22. 1% compared to Pepsi's profit margin of 14. 4%. The profit margin is different because of the difference in the pricing strategies of the two companies. Pepsi may have offered a lower price to the customers, which has resulted in a low profit margin but a high net sales figure as compared to Coca Cola. Pepsi has a higher asset turnover ratio of 1. 05 times as compared to Coca Cola's asset turnover ratio of 0. 7 times. This indicates that Pepsi has used its assets more productively in generating the sales than Coca Cola.

Pepsi and Coca Cola have a similar return on assets of around 15% indicating that both the companies have a similar profitability position and both companies are using their assets productively to generate profits.

Both the companies have a higher return stockholders' equity than their respective return on the total assets. This indicates that Pepsi and Coca Cola may have made effective use of leveraging (Weygandt, Kieso, & Kimmel, 2008).

In conclusion, both companies have a similar profitability position. However, the pricing strategies used by the two companies are different. Pepsi has a lower margin on its sales compared to Coca Cola, but this results in a higher dollar sales of Pepsi.

Reference

Weygandt, J., Kieso, D., & Kimmel, P. (2008). Accounting Principles (8th ed.). USA, NJ: John Wiley & Sons, Inc.