Financial analysis of coke and pepsi

Business

Financial Analysis Synopsis In this paper, you will find financial comparisons on bothPepsicoand the Coca-Cola Corporation. Some increases in certain areas of one company and some decreases in areas of another company. There are vertical analysis, horizontal analysis, and ratios of both the industries. These are still the two leading soft drinks in the industry, and most like will remain the leaders in the upcoming years. Financial Analysis The purpose of this paper is to provide a financial analysis comparison between PepsiCo and the Coca-Cola Cooperation.

Many companies are forever finding ways to improve market value to increase sales, and income. Consumers will always look for deals or special buys to not only save them money but also, give them better quality. Companies are always looking for ways to make profits when marketing their products. This paper analyzes the financial statements of the two leaders in the soft drink industry. Looking at the Consolidated Statements of Income and the Balance Sheets of both companies, one might determine which would be the better company to invest their money.

One of these companies has a greater increase in sales, profit gain, net cash, and income than the other one. Using calculations of Ratios, Horizontal Analysis and Vertical Analysis will show why one company would be the better choice in investing than the other. Performing a Vertical Analysis or Common Size, A method of financial statement analysis in which each entry for each of the three major categories of accounts (assets, liabilities and equities) in a balance sheet is represented as a proportion of the total account. The main advantage of vertical analysis is so that the balance sheets of businesses of all sizes can easily be compared. It also makes it easy to see relative annual changes within one business (http://www.

investopedia. com/terms/v/vertical_analysis.). The Vertical Analysis is represented as a percentage of a base amount. Each category has a different way to determine the base amount. To come up with the base amount for assets, one would look at the total current assets, which for PepsiCo are $10, 454, or $10, 454, 000 since it has to be in the millions.

These current assets were for the year 2005. The total current assets for 2004 totaled $8, 639 or $8, 639, 000. The base for liabilities and stockholder's equities are the total liabilities and stockholder's equities which for 2005 were $9, 406 or $9, 406, 000 because it has to be represented in the millions and $6, 752 or $6, 752, 000 for 2004 the final base amount would be the Income Statement Account which are net sales or net revenues. The net revenue for 2005 was $32, 562, 000 and $29, 261, 000 for 2004. The Vertical Analysis I conducted on PepsiCo gave me 30.

87 or 31 percent for 2004 and 32. 95 or 33 percent for 2005. This shows a slight increase from one year to the next. The Vertical Analysis I conducted on Coca-Cola gave me 35 percent which was done by dividing 10, 250, 000 by 29, 427, 000 or 10, 250, 000/29, 427, 000 = 35% for 2005 and I received 39 percent for 2004 which was done by dividing 12, 281, 000 by 31, 441, 00 or 12, 281, 000/31, 441, 00 = 39%. I then chose to conduct a Horizontal Analysis or Trend Analysis as it is sometimes referred as. This Analysis is the comparative study of a balance sheet or income statement for two or more

accounting periods, to compute both total and relative variances for each line item(www.

usinessdictionary. com/horizontal-analysis). The calculations I received from performing this analysis were done by dividing 2005's current liabilities 17, 476, 000/ 2004's current 14, 464, 000 which equals 1. 20824 The liabilities part calculates to 139% that's from dividing 2005's current liabilities 9, 406, 000/ 2004's 6, 752, 000 which gives me 1. 39307 or 139%. The purpose of the Horizontal Analysis is to examine the decrease or increase of the financial statements that has occurred of a certain period.

This determination can be expressed in a percentage or a dollar amount. Looking at all of the financial statements for both PepsiCo and the Coca-Cola Corporation, the companies do show an increase in everything from income, to cash flow, and operating sales. PepsiCo however had a greater increase in all aspects, although their current assets did not increase at the same rate as their current liabilities, which may have been due to the current ratio decrease from 2004 to 2005. The ratio for 2004 was 1. 1.

The way that was computed was by dividing 10, 454, 000 by 9, 406, 000 for 2005 and 8, 639, 000 by 6, 752, 000. The Coca-Cola Corporation had a decrease in current assets for $2, 031, 000. This was because in 2004, the amount of current assets was $12, 281, 000 and in 2005, the amount of current assets was $10, 250, 000. By subtracting 2005 from 2004 you get the difference. The liabilities for the Coca-Cola Corporation also decreased from 2004 to 2005.

The liabilities for 2004 were $11, 133, 000. The liabilities for 2005 were $9, 836, 000 making a difference of $1, 297, 000. Another increase that could be considered favorable to investors and shows an improvement, would be the inventory reports. PepsiCo had an increase in their inventories from 2004 to 2005. The amount of the increase was $152, 000.

This calculation was determined by subtracting 2004’s inventories of $1, 541, 000 from 2005’s inventories of $1, 693, 000. An increase in inventory is used to meet the demands of a company’s product. In this case, there was a higher demand for PepsiCo products in 2005 than in 2004. This could be due to the sales amounts increases for this company. The Coca-Cola Corporation also had increase in inventory, but it was not as much of an increase as the PepsiCo. Coca Cola‘ s increase in 2004 was $1, 420, 000. Their increase in 2005 was $1, 424, 000. That is a difference of $4000, which was not as much of an increase. This means that the demand for the Coca-Cola Corporation products was not as high as the demand for the PepsiCo products. This could be due to the sales that were being made on each product.

Coca-Cola may not have been selling as much of their products as Pepsi. Looking at the cash flow for both companies, you can see that there was an increase in one company and a decrease in the other company. PepsiCo had an increase from 2004 to 2005. The amount of the PepsiCo cash flow in 2004 was $1, 280, 000. The cash flow for 2005 was $1, 716, 000.

The difference is $436, 000. The Coca-Cola cash flow actually decreased from 2004 to 2005. The amount of the cash flow for Coca-Cola in 2004 was $6, 707, 000 and was $4, 701, 000 in 2005. The difference was $2, 006, 000.

PepsiCo had a better increase in cash flow than Coca Cola’s decrease. Both companies’ did have an increase in Accounts receivables though.

The Accounts Receivable for PepsiCo in 2004 was $2, 999, 000. The Accounts receivable in 2005 was $3, 261, 000. This was an 8. 74 or 9 percent increase. The Accounts Receivable for the Coca-Cola Corporation in 2004 was $2, 244, 000.

The amount in 2005 was $2, 281, 000. This was an 8. 2 or 8 percent increase. The decrease in the Coca-Cola Corporation could be due to marketing they have or lack of proper marketing. PepsiCo is leading when it comes to marketing. They are always finding new and improved ways to market their many products.

I believe if the Coca-Cola Corporation improved their arketing skills and developed new ways to target its clients and customers, their sales would increase; they would have a higher demand for inventory. Looking from the outside as a consumer just purchasing both products you would think that they are both doing exceptionally well when it comes to income, demand, inventory, cash flow and sales. But being an auditor for both companies looking at all of the financial statements such as consolidated income, consolidated cash flow, consolidated balance sheets, and consolidated statements of common shareholder’s equity, one would see who has the higher increase in everything. PepsiCo would be the leader in that aspect. Both companies are still leading when it comes to the soft drink industry.

Their variety of products and creativity to gain its consumers, not to mention the taste is something that everyone seems to love whether it is the sweetness of the Pepsi, or the way Coca Cola quenches one's thirst, cause them to remain the two top soda companies in the industry. Finding ways to improve the financial status can sometimes be easier said than done, especially when you already have a stable market. Because the sales of soft drinks are so consistent, the drop in the economy has not really affected it. This is a good thing, but there are always things upgrades to be completed in order to keep the market at a stable increase if not a little bit higher. Both companies have dealt with repurchasing stock plans that aids in increasing the earnings per share. The current amount of shares is lower which can be considered positive seeing that there was a decline in the stock market in the previous years.

Lower share prices would bring in more investors which means more profit for both of these companies. Another way for both companies to improve would be to have decrease their debt so the shareholders interests are kept safe. The Coca-Cola Corporation can look to their rivals PepsiCo and not duplicate or copy, but see how they use their creativity and marketing to bring in more consumers each year. Marketing and Advertising is a key factor when trying to increase sales in a certain product. The right marketing and advertising techniques can make turn a penny company into a million dollar industry. It just takes time, effort, hard work and determination.

Both of these companies have proved that throughout the years. Each year both Pepsi and Coke have come up with strategies to keep their audience/consumers interested. When consumers are interested or curious about a product, the only thing better than word of mouth is experiencing things for one's self. In conclusion, investing in either company would be a financial gain to any stockholder. One company would cause an investor to gain a little bit more of a profit than the other company, but any increase is positive.

The soft drink industry does not look as if they are leaving anytime soon, so sales will always be a plus in the stock market instead of a minus. And with the Coca-Cola Corporation and PepsiCo being rivals the consumers will always be interested in their products. America loves challenges and competitions. This is what these two companies provide, not only products but also friendly and sometimes not so friendly competition to each other. The commercials these two companies supply their audiences with, keep sales up, revenue increasing, profit gains high and consumers happy. I am still biased though because I choose Pepsi over Coca-Cola.

I believe that before taking the time to look at the financial statements on both of these companies, I would still choose Pepsi. But that is just my preference. References Investopedia ULC. (2011). Retrieved from http://www. investopedia.

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