

Coca cola vs pepsi

[Business](#), [Company](#)



The Coca-Cola Company versus PepsiCo, Inc. Andy Berg Ufuoma Omosebi
Intermediate Accounting III ACC305 19 November, 2011 Coca Cola and Pepsi are the two most popular and widely recognized beverage brands in the United States. Pepsi and Coca Cola contrast each other on their taste, its associated colors and themes, and ingredients. Even the pension plans and funding status are a competitive comparison. 1. Compare the pension plans of Coca-Cola and PepsiCo, including type of plan and funded status at 2007 year-end. PepsiCo, Inc. as a voluntary defined benefit pension plan that includes all full time U. S. employees and some international employees. This plan is a noncontributory plan; the employer is the only contributor funding the plan therefore they bear the entire cost of the plan. This plan is a qualified pension plan allowing tax incentives for employer contributions which are calculated based on employees years of service or a combination of service and income. In addition, PepsiCo offers medical and life insurance benefits and a retiree medical plan that are only funded on a “ pay as you go” basis.

These plans are not generally funded by the employer since they do not fund plans where no tax benefits are received. A specific dollar amount is assigned as a “ cap” for employer payments the remaining funds are received from the retiree. Coca Cola has a defined contribution plan that includes all U. S. employees and some international employees. This is a contributory plan; both the employer and the employee make contributions. This plan offers substantial tax benefits for the contributions made by the employer. In addition, Coca Cola also has a defined benefit pension plan.

This plan is considered a nonqualified, unfunded plan primarily for the organizations officers, most U. S. employees, and some international employees. This plan offers no tax benefits for contributions made by the organization. In 2007, Coca Cola amended this plan to reduce exposure. Each organization offers and sponsors 401K pension plans as well as medical and life insurance benefit plans for their employees or associates. Not all employees are eligible for participation in all plans. 2 . Calculate the relevant rates that were used by Coca-Cola and PepsiCo in computing their pension amounts.

Coca-Cola reported “ net periodic benefit cost” of \$108 million in 2007. PepsiCo reported “ pension expense” of \$329 million in 2007 for U. S. plans. All of the relevant rates used by Coca Cola and PepsiCo are shown in the notes of the financial statements listed in the comparative analysis. These rates are disclosed so that users of the statements can assess the reasonableness of the assumptions made when calculating pension expenses and liabilities. The discount rate, expected rate of return on plan assets, and rate of compensation are the relevant rates needed to make the necessary assumptions.

The rates below have been taken from the Wiley Companion Website. The discount rate influences pension expense. Coca Cola’s discount rate used to compute pension information for December 31, 2007 is 5. 5% for pension benefits and 6% for other benefits. PepsiCo’s discount rate used to compute pension information for December 31, 2007 is 5. 8% for U. S. pensions, 5. 2% for international pensions, and 5. 8% for other benefits. The expected rate of

return on plan assets determines how much funding the plan assets will earn for the plan.

This information is crucial for the company because it indicates how much additional funding will have to be provided to the plan above earnings to meet obligations. Coca Cola's expected rate of return used to compute pension information for December 31, 2007 is 7.75%. PepsiCo's expected rate of return used to compute pension information for December 31, 2007 is 7.8%. Pension benefits are determined by considering the employees compensation level at retirement. Therefore, the rate of compensation or expected increase percentage is necessary to determine future compensation levels.

Coca Cola's rate of compensation or "rate of increase in compensation levels" percentage used to compute pension information for December 21, 2007 is 4.25%. PepsiCo's rate of compensation or "rate of increase in compensation levels" percentage used to compute pension information for December 21, 2007 is 4.7%. 3. Determine which company you would rather invest in if you were a potential shareholder. Justify your answer. PepsiCo, Inc. is also a large company that has been around since 1898. They are also a leader in the beverage market but have diversified into another area; snacks.

The diversity is pretty impressive. They also indicate stability and liquidity with favorable ratios. They have a 53.15% gross profit margin for 2007 and less than 40% of their net operating revenue comes from operations outside the U. S. Coca Cola is a large company that has been around since 1886.

They are primarily marketing and selling one product; beverages. They have a 63.9% gross profit margin for 2007 and show reasonably good ratios indicating stability. For the 46th consecutive year dividends have risen. About 74% of their net operating revenue comes from operations outside of the U.

S. Coke and Pepsi trade in the No. 10 and No. 9 positions at 13.31 and 16.67. This may be explained by the relative growth and return on capital positions of the companies. Coke has a ROIC of 23.91% annually for the last five years, and growth of revenue per share of 9.29% per year. Pepsi's ROIC was 19.96% and revenue per share growth of 13.43%. Assessing how the market assigns value to Pepsi and Coke may come down to a view that the foods division of Pepsi is more exposed to potential inflation and therefore requires a higher cost of capital to compensate for this risk.

I would invest in Coca-Cola if I were a potential shareholder. The company generates significant return for shareholders. Fundamentally, Coke has generated 16-19% return on assets; 27-40% percent return on equity; and between \$1.6 billion and \$3.2 billion in free cash flow, with all three metrics peaking in 2010. Coke has returned to shareholders \$27.4 billion in cash the last four years in the form of dividends and share buybacks. The stock has provided a total return of 83.81% from 2006 to 2010. 4. Determine which company you would rather work for if you were a potential employee.

Justify your answer. If I had to choose a company to work for it would be PepsiCo. Benefits are important in any job selection and initially it seems that Coca Cola's benefits are better however, after my review PepsiCo is a

much better company. There is something more important than benefits; it is a feeling of belonging and being cared for in an organization. The entire time I was reading PepsiCo's statements I got a feeling that they really cared about their employees, the community they serve and the environment.

At one point, they even mentioned they cherished their employees and encouraged personal as well as professional growth. They speak of product innovations; that they want to nourish consumers and reinvent brands to produce more healthy products for consumers. They speak of partnerships with the FDA, The World Health Organization, and Alliance for a Healthier Generation for better focus on these innovations. They have given foundation grants internationally to battle chronic diseases and encourage physical fitness through exercise and dance.

They even have plants in Arizona that use solar power to produce products. It just seems like a friendlier more positive company. References Kieso, D. E. , Weygandt, J. J. , & Warfield, T. D. (2010). Comparative Analysis Case; The Coca-Cola Company versus PepsiCo, Inc. Intermediate Accounting III, 13th Edition, 1072-1074 & 1111. Kennon, Joshua (2011). Adjusting Pension Assumptions to Manipulating Earnings, How to Spot Signs of Aggressive Accounting, Retrieved August 13, 2011, from the website: <http://beginnersinvest.about.com/od/gaap/a/aa090704.htm>