Liabilities of PepsiCo

[Enter your name here]

[Enter name of institution here]

The liability section shows that short term obligations have decreased by 26.6% from 2017 to 2018. The accounts payable and other current liabilities have increased by 20.6% from 2017 to 2018. Total current liabilities have increased by 7.97% from 2017 to 2018. Long term debt and obligations have decreased by 16.27%. Deferred income taxes have increased by 7.93%, whereas, other liabilities have decreased by 19.22% over one year period. The preferred stock has seized to exist from 2017 to 2018. The company has an authorised capital of 3600 million shares which means that the company cannot issue more than this number of shares. There is a slight decrease in issued number of shares from 2017 to 2018 where the company had issued 1420 million shares in 2017, and 1409 million shares in 2018. Par value is $ 1.67 per share. The row showing capital in excess of par value shows the share premium that is attached to the shares of the company. There is a decrease of 1.07% in the excess over par value from 2017 to 2018 and a considerable increase in retained earnings for the company showing a 13.45% increase in it from 2017 to 2018. Comprehensive loss has increased 15.8 from the year 2017 to 2018. There has been a considerable increase in overall equity of the company showing 32.97% increase from 2017 to 2018. The company has paid dividends for the last three years and there has been a consistent increase in dividends paid. From the year 2016 to 2017, there was an increase of 5.79%, whereas, there has been an increase of 10.24% from the year 2017 to 2018.

Current and non-current liabilities are the major categories used by the company. Short-term debt obligations are due within one year of their issuance. Accounts payable arise from the normal operations of the company, especially the purchases made by the company on account. Deferred income taxes are those which have been postponed by the company for one reason or another. Long term debt obligations are those which are due after a period of more than one year. If we see the breakdown of short-term liabilities, we observe that they include current maturities of long term debt taken up by the company. A decrease in short term debt obligations can be seen due to a change in commercial paper value from the year 2017 to 2018. As far as long term debt obligations are concerned, there are no notes due in the current year. The company had a debt of $ 62 million from various external parties and lines of credit which pertain to normal banking terms and conditions. A cash tender offer for certain notes issued by the company, was completed for $ 1.6 billion. An arrangement has been made where the company can borrow up to $ 3.75 billion from a 364-day credit line which can be extended to $ 4.5 billion if required. There were no outstanding borrowings under any settlement on December 29, 2018. The long-term debt has a variety of maturity dates from 2018 till 2023. Then there is a long-term debt from 2024 till 2047. Another long term debt has been shown from the year 2018 till 2026. The interest rate is the lowest on the debt from 2018 to 2026.

**Total Debt /Total Assets**

The debt to asset ratio is a leverage ratio which is used to calculate the amount of total assets financed by creditors instead of investors. In other words, this ratio shows the percentage of assets which are funded by borrowing funds from outside sources instead of investors. The way in which assets of a company are grown over time is shown by this ratio. There are many ways in which PepsiCo can finance its assets; by increasing the interest of investors, produce profits to buy own assets, or by taking debt. The table below shows the ratio for PepsiCo for the year 2017 and 2018. There is a decrease in this ratio which shows that company has decreased its reliance on debt to finance its assets. Investors want to see if the company will be able to pay reasonable returns on their investments (myaccountingcourse). Creditors have to see how much debt the company has already taken, and how timely the company pays its debts back. This ratio is not meant to be very low for a company like PepsiCo because no business can be run without taking a certain amount of loan.

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| --- | --- | --- |
|  | **2018** | **2017** |
| Total Debt | 63046 | 68823 |
| Total Assets | 77648 | 79804 |
| **Debt to Assets** | **81.2%** | **86.24%** |

**Total Debt/ Total Equity**

This ratio compares the total debt of company to total equity. The result of this ratio is a number, or expressed as debt number of times against equity. The table below shows the calculation of debt to equity ratio for PepsiCo which has improved from the year 2017 to 2018. Although the ratio is still not very bright but it has improved over a year showing that the debt is 4 times the equity in 2018 which was 6 times in the year 2017. A high ratio shows that creditors have more claims on company assets as compared to the owners. A ratio of more than 1 will mean that the company has taken more loans than the funds it has accumulated from investors.

|  |  |  |
| --- | --- | --- |
|  | 2018 | 2017 |
| Total Debt | 63046 | 68823 |
| Total Equity | 14602 | 10981 |
| **Ratio** | **4.32** | **6.27** |

**Long Term Debt/ Total Assets**

This ratio provides a sense of what percentage of total assets is financed by long term debt. A higher percentage will mean that the company owns less of the assets shown on its balance sheet. The position of PepsiCo has improved in this regard over the period from 2017 to 2018. This will mean that more assets on the balance sheet are owned by the company in 2018 as compared to 2017. The company will have to generate less amount of cash flows in order to pay off the debt. Investors will not like a higher ratio on this measure because that will show that the company may not be able to pay them the return on their investments. Creditors will favour higher ratios as these will show their increased control in the business. A ratio of 0.5 will mean that there will be 2 to 1 ratio between long term debt and total assets.

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| Long term Debt | 28295 | 33796 |
| Total Assets | 77648 | 79804 |
| **Ratio** | **36.44** | **42.34** |

**EBIT / Interest Expense**

This ratio is also called the interest coverage ratio and calculates the number of times a company can safely pay off its interest expense. The ratio has improved for PepsiCo from 2017 to 2018, as the company has almost doubled the ratio from 2017 to 2018. The interest payments are considered a long-term expense and this ratio is thus seen as a measure of long-term solvency (myaccountingcourse). A ratio of 8 means that PepsiCo will be able to pay interest 8 times in a year. Creditors will favour companies having higher ratios because this will show that companies will be able to make interest payments a greater number of times. A credit risk is depicted in lower ratios maintained by companies.

|  |  |  |
| --- | --- | --- |
|  | **2018** | **2017** |
| EBIT | 12559 | 4908 |
| Interest Expense | 1525 | 1151 |
| **Times Interest Earned** | **8.23** | **4.26** |

# **References**

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