**Liquidity** refers to a company's ability to quickly and easily convert its assets into cash to meet its short-term obligations.

In simpler terms, liquidity indicates how efficiently a business can cover its immediate expenses, such as paying suppliers or handling other debts that are due soon.

It determines how quickly a company can convert the assets and use them for meeting the dues that arise.

The higher the ratio, the easier is the ability to clear the debts and avoid defaulting on payments.

To measure liquidity, businesses often use financial ratios such as the current ratio, quick ratio, and cash ratio. These ratios help assess the ease with which a company can handle its immediate obligations based on its most accessible assets.

We will concentrate on the following key liquidity ratios to provide a thorough analysis:

Current Ratio

Quick Ratio

Cash Ratio

**Next slide**

The **current ratio** is a key financial metric that helps determine a company’s ability to meet its short-term financial obligations by using its short-term assets. To calculate the current ratio, divide the total current assets by the total current liabilities:

Current Ratio=Current Assets/Current Liabilities

**Important Insights**

* A **higher current ratio** generally signifies strong liquidity, suggesting that the company is well-positioned to handle its short-term liabilities.

A current ratio of 1 or above is typically considered good, as it suggests that assets are at least equal to liabilities. Ratios below 1 indicate potential liquidity issues.

PEPSI: Had a lower current ratio than Coca-Cola, starting at 0.98 in 2020, dropping to 0.83 in 2021, 0.80 in 2022, and slightly rising to 0.85 in 2023.

COCA-COLA: Maintained a higher ratio, starting at 1.32 in 2020 and decreasing gradually to 1.13 by 2023.

Summary: Coca-Cola's Current Ratio consistently higher than PepsiCo's, indicating that Coca-Cola can better meet its short-term obligations.

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**quick**, also known as the acid-test ratio, is a financial measure used to evaluate a company's ability to pay off its short-term liabilities with its most liquid assets. Unlike the current ratio, the quick ratio excludes inventory from current assets, focusing only on assets that can be quickly converted to cash. This makes it a more stringent test of liquidity.

**Formula**

The quick ratio is calculated as:

Quick Ratio=Current Assets−Inventory \ Current Liabilities

**Key Points**

* A **higher quick ratio** implies a stronger liquidity position, indicating that the company can cover its immediate obligations without relying on inventory sales.
* A quick ratio **above 1** suggests that liquid assets exceed short-term liabilities, which is generally favorable. Ratios below 1 may signal liquidity issues.
* This ratio is especially useful for businesses with slow-moving inventory, where relying on inventory for quick cash may not be feasible.

PEPSI: Had a lower quick ratio than Coca-Cola, starting at 0.77 in 2020, dropping to 0.56 in 2021, slightly rising to 0.58 in 2022, and 0.66 in 2023.

COCA-COLA: Maintained a higher ratio, starting at 0.96 in 2020 and decreasing gradually to 0.72 by 2023.

Summary: Coca-Cola's Quick Ratio consistently higher than PepsiCo's, indicating that Coca-Cola can better meet its short-term obligations.

**NEXT SLIDE**

The **cash ratio** is a financial metric that measures a company's ability to pay off its short-term liabilities using only its cash and cash equivalents, without relying on other current assets like receivables or inventory. It is considered the most conservative liquidity ratio, as it only takes into account the assets that are immediately accessible as cash.

**Formula**

The cash ratio is calculated as:

Cash Ratio=Cash and Cash Equivalents + current investment / Current Liabilities ​

**Key Points**

* A **higher cash ratio** means the company has a strong cash position relative to its short-term debts, reflecting high liquidity.
* A cash ratio **above 1** suggests that the business has enough cash on hand to cover its immediate liabilities entirely, which is generally viewed as favorable, though not always necessary.
* Since most companies don’t need to keep all their liabilities covered by cash, an excessively high cash ratio may suggest inefficient use of assets, while a very low ratio could indicate liquidity risk.

PEPSI: Had a lower cash ratio than Coca-Cola, starting at 0.41 in 2020, dropping to 0.23 in 2021, 0.2 in 2022, and slightly rising to 0.32 in 2023.

COCA-COLA: Maintained a higher ratio, starting at 0.75 in 2020 and decreasing gradually to 0.58 by 2023.

Summary: Coca-Cola's Cash Ratio consistently higher than PepsiCo's, indicating that Coca-Cola can better meet its short-term obligations

**NEXT SLIDE**

**Overall Liquidity Ratios Comparison**

**PEPSI vs COCA-COLA**

conclusion

The **current ratio**, **quick ratio**, and **cash ratio** provide insights into Coca-Cola and PepsiCo's ability to meet short-term obligations. Coca-Cola consistently has higher ratios than PepsiCo, indicating stronger liquidity. This suggests Coca-Cola is better positioned to cover its short-term liabilities, even without needing to sell its inventory quickly.

Moreover, Coca-Cola's current ratio has remained above 1 over the past four years, implying it could cover its short-term debts if they all became due at once. Overall, from 2020 to 2023, Coca-Cola's liquidity appears more robust than PepsiCo's, highlighting a greater capacity to manage immediate financial commitments.