Accounting Project

Financial Reporting Write-Up

**Company:** Coca-Cola Company ***(KO)***

**Year of Annual Report/10k:** 2024

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**1. Company Background**

The Coca-Cola Company, “KO” on the NYSE, is a total beverage enterprise with a global presence, offering a wide variety of drinks including soft drinks, hydration beverages, juices, plant-based drinks, teas, coffees, and energy drinks.

The Coca-Cola Company’s major operations include the production, marketing, and distribution of nonalcoholic beverages. The company owns and licenses more than 500 brands. Coca-Cola primarily focuses on brand development and production, while relying on a global network of bottling partners to manufacture, package, and deliver the finished products to retailers and consumers. Additionally, the company invests heavily in advertising and brand promotion to maintain its global market presence.

The company operates on a calendar fiscal year, ending December 31. As of December 31, 2024, the closing stock price was $62.26. During the fiscal year, Coca-Cola's stock peaked at $73.53 on September 3, 2024, before declining slightly in November. The stock reached its lowest point of $57.93 on April 15, 2024. Despite some fluctuations, Coca-Cola’s stock price demonstrated an overall slightly upward trend throughout the year. Coca-Cola follows GAAP standards, the standard practice for US-based companies.

**2. Understanding the Annual Report and 10-K**

**Net Income and Growth Rate**

Coca-Cola’s reported net income of $10.65 billion in 2024, slightly down from $10.70 billion in 2023, though significantly higher than $9.57 billion in 2022. The annual net income growth rates for the last four years are as follows:

* 2021: 26.21%
* 2022: -2.00%
* 2023: 12.00%
* 2024: -1.00%

***See Appendix B for more information***

While the most recent year saw a minor decline in net income, the trend over the last few years shows strong recovery and growth since 2022.

**Gross Margin Trends**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Fiscal Year | Net Operating Revenue | Cost of Goods Sold | Gross Profit | Gross Margin % |
| 2022 | $43,004 | $18,000 | $25,004 | 58.143% |
| 2023 | $45,574 | $18,520 | $27,054 | 59.363% |
| 2024 | $47,061 | $18,324 | $28,737 | 61.063% |

***See Appendix C: Table and Bar Chart - Gross Margin Analysis (Coca-Cola Co.)***

Based on the last three years, the gross margin percentage is seen with an upward trend in the gross margin, increasing from 58.143% (2022) to 61.063% (2024).

The improvement in gross margin percentage was due to this increase, which was primarily due to the impact of favorable pricing initiatives and the refranchising of our bottling operations in the Philippines, Bangladesh, and certain territories in India, partially offset by the unfavorable impact of foreign currency exchange rate fluctuations and higher commodity costs. (The Coca-Cola Company, 2025) (information found on page 47 of 10K)

**Stockholders’ Equity**

The total equity of Coca-Cola from 2023 to 2024 decreased 4.03%, down from 27,280 million to 26,372 million. Some possible reasons for this slight decrease are a decrease in the unit case volume and refranchising bottling operations, which can both lead to lower revenue. Another reason for the decrease could be higher dividends paid out in 2024.

**Operating Cash Flow vs. Net Income**

In 2024, cash flows from operating activities exceeded net income, indicating strong operational efficiency. This positive discrepancy is often due to non-cash expenses like depreciation and changes in working capital, showing that Coca-Cola is effective at converting its profits into actual cash flow.

**Capital Structure**

Approximately 42% of Coca-Cola’s total assets come from debt financing. This capital structure could potentially be dangerous for Coca-Cola given their high level of debt leverage and puts increased pressure on cash flows for upcoming years. However, they have a moderate level of financial leverage, and their capital structure relies both on debit and equity financing.

**Auditor's Assurance**

Ernst & Young LLP has served as Coca-Cola’s auditors since 1921. The purpose of the audit was to give an opinion on the company’s financial statements as a public accounting firm in accordance with the PCAOB.

As part of the audit, Ernst & Young evaluated the accounting principles and the overall presentation of the financial statements. Matters that concerned the auditing firm included accounts or disclosures that are material to the financial statements and involved in challenging judgments.

One such matter was the accounting for uncertain tax positions as described in Note 12 and Note 15 within the company’s consolidated financial statements. This matter related to income tax dealt with ultimate outcomes, which were uncertain based on a statutory note of deficiency issued by the IRS in 2015. In 2023, the U.S Tax Court sided with the IRS on this issue and issued a supplemental opinion.

In 2024, Coca Cola appealed the tax court’s decision to issue an additional federal income tax of $2.7 billion and with interest, $6 billion. As of December 31st, 2024, the decision regarding this appeal is uncertain.

Another matter for the purpose of this audit includes an issue of the valuation of trademarks with indefinite lives and goodwill. Auditing the values involved in this issue proved complex due to the significant estimation required to determine the fair value involved with this type of trademark. They were sensitive to serious assumptions dealing with future market and economic conditions.

**3. Ratio Analysis**

Key financial ratios for Coca-Cola compared to PepsiCo:

|  |  |  |
| --- | --- | --- |
| Ratio | Coca-Cola | PepsiCo |
| 1. Net Profit Margin | 0.23 | 0.1 |
| 2. Return on Equity | 0.38 | 0.52 |
| 3. Earnings per Share | 2.47 | 7.0 |
| 4. Receivables Turnover | 13.19 | 8.89 |
| 5. Inventory Turnover | 3.88 | 7.87 |
| 6. Current Ratio | 1.03 | 0.82 |
| 7. Quick Ratio | 0.84 | 0.65 |
| 8. Debt to Equity Ratio | 2.5 | 4.47 |
| 9. Times Interest Earned | 8.9 | 14.0 |
| 10. Price-to-Earnings Ratio | 25.19 | 21.74 |

***See Appendix D: Key Financial Ratios (Coca-Cola vs. PepsiCo)***

**Profitability**

**Net Profit Margin:** 23% (Coca-Cola) vs. 10% (PepsiCo)

Net profit margin is the proportion of a company's total sales income left as profit after all costs are subtracted. The figures indicate that Coca-Cola keeps more of its income as profit after all costs in 2024. Operating expenses, interest, and taxes help to further shape final profitability, as we see by also considering the gross profit margin (previously covered) and contrasting it with the net profit margin. While controlled operating expenses help to turn more of that gross profit into net income, Coca-Cola's strong brand power supports a relatively high gross margin. This high margin indicates more pricing power than PepsiCo and better cost control.

**Return on Equity:** (ROE): 38% (Coca-Cola) vs. 52% (PepsiCo)

Return on Equity represents how effectively a company is using their shareholders’ equity to generate net income. Although Coca-Cola generates strong returns on shareholder equity, PepsiCo outperforms Coca-Cola when it comes to return on equity. This indicates PepsiCo may be using its equity more efficiently to drive returns.

**Turnover**

**Receivables Turnover:** 13.19 (Coca-Cola) vs. 8.89 (PepsiCo)

The receivables turnover ratio tells us how efficiently a company can convert its total accounts receivable into cash over a given period. For the year ended in 2024, Coca-Cola’s receivables turnover ratio was 13.19, meaning the company collected their average accounts receivable about 13.19 times throughout the year. Coca-Cola is more efficient at collecting payments from customers, suggesting strong credit management.

**Inventory Turnover:** 3.88 (Coca-Cola) vs. 7.87 (PepsiCo)

Inventory turnover tells us how many times a company sells and replaces its inventory during a period. An inventory turnover rate of 3.876 means that Coca-Cola sold and replaced its inventory almost 4 times this year. In fact, PepsiCo moves inventory more than twice as fast as Coca-Cola. This is a below average turnover rate, meaning that the company could possibly have too much product in inventory.

**Liquidity**

**Current Ratio:** 1.03 (Coca-Cola) vs. 0.82 (PepsiCo)

The current ratio tells us how well a company can cover their current liabilities with their current assets. A ratio above 1 indicates that a company holds short-term financial stability. Coca-Cola just covers its short-term obligations with current assets, indicating minimal liquidity cushion. Still, it performs better than PepsiCo, which falls below the ideal threshold of 1.0.

**Quick Ratio:** 0.84 (Coca-Cola) vs. 0.65 (PepsiCo)

The quick ratio helps determine how well a company can meet its short-term liabilities using its most liquid assets, while excluding inventory. A ratio above 1 indicates that a company can meet their short-term liabilities based on some of their specific liquid assets. With a quick ratio of 0.84, Excluding inventory, Coca-Cola may still face challenges covering immediate liabilities but is in a stronger short-term liquidity position than PepsiCo (quick ratio 0.65).

**Solvency**

**Debt to Equity Ratio:** 2.50 (Coca-Cola) vs. 4.47 (PepsiCo)

The debt-to-equity ratio shows the proportion of debt used to finance assets relative to equity. A higher ratio indicates greater financial leverage and risk. Based on their debt-to-equity ratios, Coca-Cola uses $2.50 of debt for every $1 of equity, a high leverage ratio, but PepsiCo relies much more heavily on debt.

**Times Interest Earned (TIE):** 8.90 (Coca-Cola) vs. 14.00 (PepsiCo)

Times interest earned shows how many times a company can cover its interest expense with its earnings before interest and taxes. A higher number indicates a company is better at paying off debts. PepsiCo covers its interest payments more comfortably with a times interest earned ratio of 14, while Coca-Cola maintains a ratio of 8.90, showing it can handle its debt obligations.

**Market Ratios**

**Earnings Per Share (EPS):** $2.47 (Coca-Cola) vs. $7.00 (PepsiCo)

Earnings Per Share (EPS) measures how much profit is allocated to each outstanding share of common stock. PepsiCo generates significantly more earnings per share, which could appeal to income-focused investors.

**Price-to-Earnings (P/E) Ratio:** 25.19 (Coca-Cola) vs. 21.74 (PepsiCo)

Price-to-Earnings (P/E) Ratio tells us how much investors are willing to pay per dollar of earnings. A higher ratio suggests higher growth expectations. Coca-Cola trades at a higher multiple, indicating greater investor confidence or a perceived growth premium despite lower EPS.

**4. Recommendations**

**a. Short-Term Credit Recommendation:**

Coca-Cola demonstrates stronger short-term liquidity, with a current ratio of 1.03 compared to PepsiCo’s 0.82, suggesting it is better positioned to meet near-term obligations. Coca-Cola also has a higher receivables turnover (13.19 vs. 8.89), reflecting more efficient cash collection. Although both companies have quick ratios below 1, Coca-Cola’s performance provides more reassurance to creditors in the short term.

**b. Long-Term Credit Recommendation**

While both companies can cover their interest expenses (TIE: Coca-Cola 8.90x, PepsiCo 14.00x), Coca-Cola has a significantly lower debt-to-equity ratio (2.50 vs. 4.47). PepsiCo’s higher leverage raises long-term risk, even with strong earnings. Coca-Cola’s global diversification, long-standing creditworthiness, and lower relative financial risk make it the comfortable choice for long-term lending with their more conservative debt management.

**c. Investment Recommendation**

Coca-Cola’s strong net profit margin (23%), stable earnings, and global brand loyalty make it a compelling long-term investment. Though PepsiCo has a higher EPS ($7.00 vs. $2.47) and better inventory turnover, Coca-Cola’s higher P/E ratio (25.19 vs. 21.74) suggests greater investor confidence and growth potential. Coca-Cola’s global brand power and earnings stability also support a favorable long-term investment. In conclusion, Coca-Cola is the better overall investment for reasons including its profitability, brand stability, and investor confidence, though PepsiCo remains attractive for those prioritizing earnings per share and operational efficiency.

**Appendices**

**Appendix A: References**  
The Coca-Cola Company. *Form 10-K Annual Report for the Fiscal Year Ended December 31, 2024*. U.S. Securities and Exchange Commission, 2025, <https://www.sec.gov/Archives/edgar/data/21344/000002134425000011/ko-20241231.htm>.

**Appendix B: Net Income Trend (Coca-Cola Co.)**

This bar chart represents Coca-Cola’s net income trend between 2021 and 2024. It clearly shows Coca-Cola having a very healthy upward trend over the last four years, despite their negative growth rate in 2024.

**Appendix C: Table and Bar Chart Gross Margin Analysis (Coca-Cola Co.)**

This table presents Coca-Cola’s gross margin performance over the last three fiscal years. It shows the company’s revenue, cost of goods sold (COGS), gross profit, and the resulting gross margin percentage. The consistent increase in gross margin reflects improved pricing strategies and operational efficiency.

Gross margin percentages over the past three years:

Note: Gross Margin = (Gross Profit / Net Operating Revenues) × 100

Coca-Cola 2024: ($47,061 - $18,324) / $47,061 = 61.063%

Coca-Cola 2023: ($45,574 - $18,520) / $45,574 = 59.363%

Coca-Cola 2022: ($43,004 - $18,000) / $43,004 = 58.143%

|  |  |  |  |  |
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**Appendix D: Key Financial Ratios (Coca-Cola vs. PepsiCo)**

This table compares Coca-Cola and PepsiCo across ten key financial ratios. These metrics span profitability, efficiency, liquidity, solvency, and market valuation, providing a snapshot of each company’s financial health and performance.

|  |  |  |
| --- | --- | --- |
| Ratio | Coca-Cola | PepsiCo |
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