Case study: analyzing walgreen's financial statements

Business

Please discuss the following: Review the Balance sheet of the latest Walgreen Co. Ask Filing. Select two of the following questions to review/discuss: 1 . Which current assets are the most significant? 2. Which non-current assets are the most significant? 3.

Asset the level of debt and risk that Walgreen has by looking only at the balance sheet. 4. Evaluate the creditworthiness of Walgreen based on the balance sheet 5. Does Walgreen use off-balance sheet financing?

Explain your answer. 6.

Compute the current ratio and debt ratio for the past two years. 1 . Which Walgreen current assets are the most significant? In 2011, Inventories were the most significant current asset ($8, 044 million). The Inventories section of Note 1, Notes to Consolidated Financial Statements, advises Enlarger Co. Valued 2011 inventories with the last-in, first-out (LIFO) cost method. Had Walgreen elected to use the first-in, first-out (FIFO) cost basis for the 2011 inventories would have been greater by $1, 587 million.

GAP permits companies to elect which inventory accounting method they will use to report inventories (LIFO or FIFO). Companies must state the method selected in the financial statement notes. Most companies calculate the value for both methods and select the method with the lower tax liability. For the past couple of decades, costs have risen (inflation). LIFO has been a popular choice as it produces the largest cost of goods sold expense, the greater the expense deduction the lower the taxable income. 5.

Compute the current ratio and debt ratio for the past two years. Current Ratio

With a debt ratio of 1. 52, Walgreen appears very health. Of concern, is the decrease from a 2010 debt ratio of 1. 60.

Further investigation is Narrated. If this trend continues it could indicate mismanagement of company assets. A look at the notes gives a clue into the reason for the decline. Note 4, Notes to Consolidated Financial Statements, state in 2011 Walgreen completed several acquisitions. Through the acquisitions, Walgreen assumed additional debt.

The increase in liabilities explains the decrease in current ratio.

With this in mind, current ratio is within acceptable limits. Debt Ratio indicates the percentage to the company financed by De bat. It measures solvency, an indicator of a company’s ability to pay back long term debt when due. A low debt ratio indicates less financial risk and strong solvency. Debt ratios greater than 100% indicate a company has too much debt and will have trouble paying back principal with interest.