

Auditing research paper

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Auditing Research Paper A Research on GameStop Introduction This research paper is on the company called GameStop to find about the company's financial strength, and its quality of earnings. This will also find how the capital market responded to the company during last year and where the company stands with regard to some important liquidity ratios in comparison to the others in their industry.

GameStop is the world's largest retailer of multichannel video game.

GameStop achieved record sales of \$9.47 billion and net earnings of \$408 million (up by 8.1%) in the last year of 2010. The first quarter results in 2011 did show encouraging results. The digital sales increased by 53% over last year and net earnings increased by 6.9% to \$80.4 million. Earnings per share went up by 17%. (GameStop Reports...)

Due to previously announced planned investments and due to some strategic initiatives the earning per share in second quarter is likely to decline by \$0.04 per share. The full year diluted earnings per share is estimated at \$2.82 to \$2.92 that is a rise of 6.4% to 10.2% over the last year of 2010. That means net earnings will be in the vicinity of \$440 million to be up by almost 8-9% in comparison to last year of 2010. (GameStop Reports...)

On the matter of quality of earnings, it will be pertinent to state that GameStop achieved record sales of \$9.47 billion and net earnings of \$408 million (up by 8.1%) in the year 2010. The last year's earnings in the difficult market condition should be considered good as it shows increase in earnings by almost 8%. Net earnings to sales ratio is 4.3% that is also commendable. GameStop could generate \$590 million of operating cash flow and reduced debt by \$200 million that truly displays the quality of its earnings.

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(Brightman 2011)

In view of the solid earnings performance, BB&T Capital Markets upgraded GameStop from hold to buy ratings with a \$32 price target. The main reason for upgrading cited by BB&T is declining competition in the high margin used game market. Overall capital market's response to the company was quite encouraging last year (Wilcox, 2010). Lazard Capital Market analyst commented stating that this is a notable achievement. He further stated that even assuming slow growth, digital will promise more than 0.5 billion revenue to GameStop in next two years.

(Brightman 2011)

The company is certainly financially robust and displaying better liquidity ratio compared to its rival competitor Gamefly. com.

Some of the important liquidity ratios are tabulated as per the following:

Important Ratios

GameStop

Gamefly. com

Industry

Quick Ratio (MRQ)

0.30

Not Available

0.50

Current Ratio (MRQ)

1.3

1.68

1.30

Total Debt to Equity (MRQ)

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0.08

13.41

0.39

Interest Coverage

20.20

Not Available

3.80

Source: [http://www.reuters.com/finance/stocks/financialHighlights?](http://www.reuters.com/finance/stocks/financialHighlights?symbol=GFLY.OQ)

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GameFly is a new entrant in the capital market hence it will take some time to have full-fledged financial data of the company; however, when compared with industry average it is found that GameStop is a low debt company that certainly displays its strength. Even new initiatives taken recently did not increase the debt of the company. In fact, the company reduced the debt by \$200 million last year. That is the reason why interest coverage is very good at 20.2 against industry average of 3.80

Even the current ratio of 1.3 matches with the industry standards that show company's capacity to pay current liability through current assets with ease; however, quick ratio does not match with the industry standards, perhaps it is due to some of the recent project initiatives taken by the company.

Conclusion

Above findings indicate that GameStop is certainly financially a robust company and holds a great future in the video game industry for the years to come. Capital Market is also watching the company for its new initiatives with great excitement.

References

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