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Company Overview

Lowe's (LOW) is a home improvement company that was founded in 1946. The company was then incorporated in 1952. Lowe started as insignificant hardware store to become the second largest home enhancement retailer in the world. Lowe's is ranked 54 Fortune's top 500 companies list. As of February 2012, 1,745 stores in the United States, Canada and Mexico were operational. The company's customer includes homeowners, renters, and commercial business customers. The company offers a range of products that include maintaining, repairing, remodeling, and home caring. In addition to offering appliances, the company also sells different companies products throughout the stores. These include tools, seasonal living materials, home fashions, storage, cleaning (Reuters Company Profile, 2012). The company's space accounts for an estimate of 197 million square feet of retailing space globally.

The company's customer support headquarters is in Mooresville North Carolina. The company also has a new corporate campus that was built next to Charlotte while the headquarters of the Subsidiary company is in Toronto Ontario. The company chair and CEO is Robert Niblock. The company's chief competitors include Home Depot Inc, Menard Inc, True Value Company, Wal-Mart Stores, Ace hardware Corporations, Sears, and Roebuck and Co and several other companies (Hoovers Report, 2012). According to Hoover Company's profile, the company had 248,000 employees. The employee growth rate was 6 percent. The company's sales for 2012 were 50,208.0 M that was a growth of 2.9 percent. The audited report for the month of May 2012 indicates the company had a total asset of \$37,208 with total

liabilities of \$ 10, 996. The total liabilities and the company's shareholders equity was \$ 37, 208 (About Lowe's. com, 2012).

Lowe's success as a retail company has not come easy. The annual report for the company indicates a company that has strived hard to satisfy its customers. For the last year, the company offered credit card for retail customers under a deal that the company signed with GE Money Bank. This deal offered credit for the section of the customers that owned commercial customers. The deal included aspects such as Lowe's Business account for small and medium size business, Lowe's account receivable for medium size businesses. In general, these deals accounted for about for 5 percent of the company's 5 percent discounts (Hoover. com, 20120).

Lowe's form 10- K report is an annual report that is required by the United States Securities and the Exchange Commission otherwise called (SEC). The 10k report summarizes the public company's performance. The 10-k report is distinct from the Annual report. While the annual report is a colorful document that the company sends to its shareholders when it holds its annual meeting to elect shareholders, the 10-k report that includes aspects such as the company's history, organizational culture, executive remuneration, equity subsidies, and audited financial statements.

Lowe's Financial Strength

Lowe's has had a P/E ratio of 18. 91 compared to the industry's P/E ratio of 11. 82 for the year 2011. The company's sales grew by about 1. 36 percent for the last five years with a dividend growth of 24. 11 for the last five years. In the year 2011, shareholders increased their earnings by 14. 3 percent, which was the highest since the company went public in 1961. In the year

2010, the total revenue for the company was \$ 48, 5815 billion with an operating income of \$ 3, 560 billion. The total assets were \$ 18, 112 billion and total equity accounted for \$ 18, 112 billion. Based on this figures, the company has good chances of doing good next year. Lowe's balance sheet looks better and stable compared to other players in the industry. For last three years, Lowe's inventory records a parentage return on assets of 6. 65% for 2012, 6. 58% for 2011 and 5. 98% for 2010.

FIFO and LIFO

Lowe's company switch to the he FIFO system would be several ramifications that include different in methodologies of calculating taxes. For example, IFRS requires that companies undertake their inventory at the lower cost of their value. However, GAAP calculates inventories at the lower cost of current earnings. This cost is subject to a ceiling of realizable value subtracting a floor of the net realizable value minus the nominal profit margin. Still, a change from LIFO could lead to a realistic positive income effect due to the accumulation of the previous year's costs in the beginning of the inventory. This only happens in the assumption that there is a turns over. Similarly, the transition from LIFO to FIFO will have an effect on the balance sheet as the income state in the year of effect. The LIFO reserve is a contra-asset or asset reduction account Lowes can use to adjust downward the cost of inventory under LIFO to FIFO (American Institute of Certified Public Accountants, 2012).

Using the example of Lowe's. We would assume that Lowe's switches from LIFO to FIFO as of Jan 2012 for both it financial and accounting income taxation. We would take a hypothetical value of \$ 20 million as inventory

under FIFO and LIFO reserve of \$ 4 million. Lowe's get the go ahead to spread the adjustment over four years.

1. The change from LIFO to FIFO must be applied retrospectively. The changes made for comparative purposes are adjusted. The changes reflect

An increase in the opening balance

Adjusted income tax

Increase in returned earnings

For the example, we assume an effective income tax rate of 35% with an estimated change of four years.

12-31-20X0

Dollar Value LIFO Reserve

Retained Earnings

Income Taxes Payable

Deferred Income Taxes Payable

Then following entries applies for the next three years:

12-31-20X1, 20X2, 20X3

Deferred Income Taxes Payable

Income Taxes Payable

2. Ratio Analysis

The inventory turnover ratio is an important financial ratio that gives important financial information to the firm. The Inventory turnover ratio

measures the efficiency of the business in managing and selling the inventory. It also gauges the liquidity as well as helping the managers of the firm to figure out ways of increasing the sales. The inventory turnover ratio is calculated by dividing net sales over inventory and it leads to the number of times.

For Lowe's company the inventory turnover ratio for 2012 was 3.5 x, 3.3 x for 2011 and 3.4 for 2010. A company like Lowe's has a high inventory turnover that means that the company is selling fast and has no obsolete inventory. This indicates the inventory is sellable, and the company can make profits (COHN, 2012).

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