# Financial analysis of target corporation essay sample

Introduction:

This paper seeks to analyze the financial statements of Target Corporation (or Target) by conducting financial analysis using relevant financial information and ratios to answer given questions.  Target is chosen as it could one of this researcher targeted investment option as its name a determination to achieve goals set by the company. Questions include topics on accounting policies, the explanation of some of the changes in some financial information for the years 2007 and 2006, an analysis on whether it is good to lend or to invest to the company by supporting the same with relevant basis.

1. Questions and Answers

2. 1. What, if any, significant accounting policies were used by the organization. Describe in your own words 5 such policies.

Among the other significant accounting policies, the following policies on Inventory

Property and Equipment, Intangible, Goodwill and Impairment should be given special consideration since and wrong policy would affect the fair presentation of financial statements.

The company values its inventory and related cost of sales under the retail inventory accounting method using the last-in, first out (LIFO) method.  The company is governed by the US generally accepted accounting principles, hence its use of LIFO may still be deemed acceptable. Under international accounting standard (IAS) 2 LIFO[1] is no longer accepted. The company however, appears to have changed from LIFO to FIFO starting February 3, 2007 and the seeming conflict with IAS is deemed resolved (Target, 2008).

The company’ policy on property and equipment is record the assets at cost , less accumulated depreciation under the straight line method over the useful life of the asset or lease term of the asset, which ever is shorted.  The company records as assets leasehold improvements of property and equipment subject to lease.  The asset life of its assets ranges from 4 years to 39 years depending on the kind of assets. This policy is important because it could be material in determining the amount of expenses that would affect the amount income (Target, 2008).

The company has stated to have a policy of goodwill where it records the same within other non-current assets at lost less accumulated amortization (Target, 2008). This sounds contradictory with the company’s statement that goodwill is not subject to amortization but to impairment test. Perhaps the company would have wanted to state its goodwill at cost less accumulated impairment loss not accumulated depreciation. The intention however is negligible as the most important part is the intention to present assets at recoverable amounts.

Intangible assets are recorded by the company in almost the same way as good- that is record them at cost less accumulated depreciation (Target, 2008).. The company asserts to compute its amortization on intangibles with definite useful lives of three to thirty nine using straight line method. Since amortization is silent on intangible with indefinite life, the same may be considered subject to impairment test as the goodwill.

In relation with the last three company policies on asset, it would appear that the company has the related policy of impairment of its long-lived assets (Target, 2008) to bring said assets to their recoverable value. This must be very relevant since it would bring closer the normally historically based books values to closer to their market values and the resulting financial information could be more reflective of what is actually happening with company assets.

2. 2. What was the increase or decrease in total assets, net income and cash flow from operating activities comparing the current and preceding year. What are the Current and Price/Earnings ratios? Please show all formulas used and all calculations.

| Table I[2] | In Million Dollars | | Increase |
|---|---|---|---|
| | 2007 | 2006 | (Decrease) |
| Net Income | 2, 849. 00 | 2, 787. 00 | 3% |
| Total Assets | 44, 560. 00 | 37, 349. 00 | 19% |
| Total Cash Flow From Operating Activities | 4, 125. 00 | 4, 862. 00 | (15%) |

The above information are just taken from the company's financial statements; hence there is no need to compute to have the formulas except for getting the rate of increase by getting first the difference and then dividing by the base year of 2006. For the Price/Earnings ratio of the company, the latest from Yahoo Finance (2008) is 16. 37. The formula to get the same is to divide the price per share which varies every now and then by the latest net income per share on the latest 12-month it is made available. Net income per share is derived by getting the net income for the latest 12 month period and divide by the latest average outstanding share of stock.

The increase in assets is the result of the increase in income and increased borrowing hence asset increase is bigger than the net income increase. The decrease in total cash flow from operation is caused by the higher receivables and payable in 2007 compared to 2006 as a result of increase revenues for the same period.

2. 3. Do you consider the organization’s current position (ability to pay its current liabilities) strong? Would you lend this organization money? Explain and support your conclusion by using facts not opinions.

Based on the following information extracted from the company’s financial statement, the company has a strong current position as it both quick and asset ratios to be very much above 1. 0.

| Table 2[3] | 2007 | 2006 |
|---|---|---|
| Quick ratio | 1. 53 | 1. 06 |
| Current Ratio | 1. 60 | 1. 32 |
| Times Interest | 7. 91 | 8. 53 |

Earned

As to whether it is good to lend money to this organization, the answer is a resounding yes. This must be so since the company has all the money to pay its obligations on time based on liquidity ratios that are greater than 1. 0. In other words, 1. 53 quick assets ratio indicates that company has 153 US dollars in the form of cash and cash equivalent and higher receivables to match 100-US-dollar current obligation or liabilities. The company's liquidity ratios appear to have come from its operations which have very high profitability based on return on assets and return on equity (ROE) which average at not less than 15% for the years 2006 and 2007. Both returns have net income as numerator while the denominator for ROA is total assets while that of ROE is total equity.

2. 4. Would you make an investment in this organization? You must include (use) the actual closing price (within 7 days of submission) of the stock in your analysis. Explain and support your conclusion by using facts not opinions.

I would make an investment to this organization on the basis of profitability and liquidity of the company as explained in the preceding subsection. A precaution must be noted to company's increased debt to equity for 2007 at 1. 91 as compared to 1. 31 in 2006. This could indicate increased risk on the part of the company. The company' closing price as of this writing is $54. 60 and it appears that it could still increase in the near future and that would mean becoming wealthier with the company if one is an investor. The graph below would show how the stock price has behaved for the last five years.

Figure I. Target’s Graph of Stock Price –Five years for; Source: Yahoo Finance[4]

3. Conclusion:

Based on the foregoing, there is basis to rely from the company’s financial information after looking at some of its accounting policies which influence the preparation of the former in terms of compliance with the US GAAP. The changes in some financial information for the years 2007 and 2006 were fully accounted for and explained. There is also a strong ground to support any plan to lend to the company or to invest to the same company as supported with relevant evidence using its company’s profitability and liquidity with a slight precaution in terms of its solvency for the years 2007 and 2006.

Works Cited:

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Yahoo Finance (a) Financial Statement for 2007 and 2006, {www document} URL, http://finance. yahoo. com/q/is? s= TGT&annual, Accessed April 20, 2008

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[1] Deloitte Touché Tohmatsu (2008) Summary of IAS 2 {www document} URL http://www. iasplus. com/standard/ias02. htm

[2] Target (2008) Annual Report for 2007, {www document} URL, http://media. corporate-ir. net/media_files/irol/65/65828/reports/Target07AR_FINAL_OnlineVersion. pdf, Accessed April 20, 2008

[3] Financial information was taken primarily from Target's 2007 annual report but confirmed by Yahoo Finance (2008), Financial Statement for 2007 and 2006, {www document} URL, http://finance. yahoo. com/q/is? s= TGT&annual, Accessed April 20, 2008

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