

# [Understanding the notes to the balance sheet](https://assignbuster.com/understanding-the-notes-to-the-balance-sheet/)

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UNDERSTANDING THE S TO THE BALANCE SHEET INSTRUTOR A company’s debt structure gives a historical window into its liabilities, pointing out to potential investors the corporate debts’ maturity dates. It shows if the company has money to settle the debts and how soon it does so. Debt is an obligation that a company must settle in lump-sum payments or through periodic installments.
A capital lease has an effect on both the income statement and the balance sheet. This implies that each lease payment is allocated partly to interest expense and partly to lessen the outstanding liability. Therefore, information included in the income statement may not be found in the balance sheet as far lease obligations are concerned.
We need to sum up all the necessary information in order to arrive at the correct debt structured for Target Corporation. The company has entered into future lease obligations; such information must be added to the current balance sheet totals.
Total liabilities= current liabilities + long term debt+ other liabilities + total future lease obligation
=$11, 782 + 15, 126 + 2, 345 + $3694 + $127
= $33074
Debt structure= total liabilities/ total assets
= (33074/44560)100
= 74. 22%
The company is, therefore, considered to be highly leveraged, and it could be in danger in case the creditors were to insist abruptly on their loans’ repayment. This justifies that Tom’s claim that the company is very risky to invest in because a large proportion of its revenue is directed at settling its obligations.
The financial statements only include current obligations, but not future obligations that are likely to affect the company in the near future.
Reference
Weil, R. L., Schipper, K., & Francis, J. (2014). Financial accounting: An introduction to concepts, methods, and uses. Mason, OH: South-Western, Cengage Learning.