

# [Target corporation financial analysis and interpretation](https://assignbuster.com/target-corporation-financial-analysis-and-interpretation/)

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Assignment Question: Determine the working capital and current ratios for 2004, 2005, and 2006 for the Target Corporation based on the information contained in the consolidated balance sheets in Appendix A. Did Target’s working capital and current ratio increase or decrease from 2004 to 2006?   
Solution:   
Current Assets ( million $)   
2004   
2005   
2006   
Cash and cash equivalents   
2245   
1648   
813   
Account receivables   
5069   
5666   
6194   
Inventory   
5384   
5838   
6254   
other current assets   
1224   
1253   
1445   
Total Current Assets   
13922   
14405   
14706   
  
  
  
  
Current Liabilities( million $)   
2004   
2005   
2006   
Accounts payable   
5779   
6268   
6575   
Accrued liabilities   
1633   
2193   
2758   
Income tax payable   
304   
374   
422   
Current portion of long term debt   
504   
753   
1362   
Total Current liabilities   
8220   
9588   
11117   
  
  
  
  
Working Capital   
5702   
4817   
3589   
Current Ratio   
1. 69   
1. 50   
1. 32   
For Target Corporation, the level of working capital and current ratio has been decreasing since 2004. The working capital has decreased from $5702 million to $3589 million while the current ratio has gone down from 1. 69 to 1. 32.   
Current ratio is a liquidity ratio that measures a company’s ability to pay short-term obligations. The ratio is mainly used to give an idea of the companys ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations. A ratio under 1 suggests that the company would be unable to pay off its obligations if they came due at that point. Target is 1. 32 suggesting that it would be able to pay its debt . 32 more than is owed. However, Wal-mart size require much more debt to finance it operations. Wal-Mart . 85 is not the best financial position, buy it may be because the company has a longer inventory turnover than Target. Wal-Mart is by its very nature a company with huge warehouse of inventory and other current asset. Target, on the other hand is a smaller operation.   
Based on the current levels of Assets and Liablities, it is recommended to invest in the company as it is expanding its inventory levels and can be believed to be on the growth trajectory in future.   
Asset Turnover reflects a company’s ability to use its assets to generate sales and is an important indication of operating efficiency. It tells the analyst how many dollars of sales a company generates for each dollar invested in assets. It is computed by dividing net sales by average total assets.   
Particulars ( million$)   
2003   
2004   
2005   
Net Sales   
40928   
45682   
51271   
Total Assets   
31416   
32393   
34995   
Average Total Assets   
--   
31904. 5   
33694   
Asset turnover   
  
1. 43   
1. 52   
As we can see, Asset turnover ratio for Target Corporation has gone up from 1. 43 to 1. 52 mostly due to increase in Net Sales. It is a good indicator of the efficiency in utilization of the assets and should be viewed positively by investors when comparing Target Corporation with its competitors like Wal-Mart etc.   
Reference:   
1. http://investors. target. com/phoenix. zhtml? c= 65828&p= irol-reportsAnnual