

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

[Finance](https://assignbuster.com/essay-subjects/finance/)

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
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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