Target corporation financial analysis and interpretation

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