# Practical GAAP Financial Statements for Investors

## An Analysis of the Relationship Between a GAAP Company's Current Ratio and Its Corresponding Stock Market Price

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## Abstract

GAAP financial statements are an excellent way of providing comparable information to both investors and creditors. A gradually changing world causes their applicability to everyday financial decisions to be questioned. The AICPA implies a necessity for more pertinent reported information, and others advocate a study into this topic. This paper intends to launch into this research and provides a case study with the current ratio, one of the most basic ratios derived from information given in GAAP financial statements, and its relationship to yearly stock price changes in the New York Stock Exchange. The study concludes that there is no apparent relationship between the current ratio and the change in stock price.

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## Introduction

In order for companies to function effectively in both their introverted (management) and extraverted (investor and creditor) relationships, it becomes obviously necessary to establish a set of rules or standards with which all must comply and to which all must adhere. Generally Accepted Accounting Principles, or GAAP, provides this service for company financial statements. According to Spiceland, Sepe, and Nelson (2011, p. 9), "Investors and creditors use financial information to make their resource allocation decisions. It's critical that they be able to *compare* financial information among companies."

GAAP has held its own for many years as a primary source for investors to rely on when making investment decisions. It does an excellent job in providing comparable means of information for its users. However, in this changing world many other factors are quickly coming into play that are not necessarily required nor included in GAAP-based financial statements. This presents a valid problem, because the financial statements of a company should prove to be a useful tool to outside investors and creditors. According to an article entitled *The Relevance of GAAP-Based Information: A Case Study Explo*, this issue is rapidly becoming more of a concern:

> Elliott (1992, 77) argues that this is a critical time for the accounting profession, as the world changes rapidly and becomes more complex. Decision makers are looking for new sources of information, many of them non-financial. He

> concludes that "GAAP must come to terms with this more complex world if it is to retain its relevance." The AICPA's Special Committee on Financial Reporting comes to a similar conclusion and warns that "if the financial reporting process fails to deliver the information that users need to make rational decisions, *that process is at risk*" (Deloitte & Touche 1993, 1, emphasis added; and 1995, p. 23).

The article goes on to state:

> The AICPA Special Committee on Financial Reporting (AICPA SCFR 1994, 16-17) issues a similar call and admonishes standard setters to aggressively sponsor research about how users make decisions and about the relative usefulness of various types of information in the decision making process. (1995, p. 23)

The article makes an excellent point in asserting that due to changing technology and changing business types and adoptions, it is becoming harder for investors and creditors to simply rely on GAAP financial statements as their primary means of research. They are likely becoming gradually forced to consult sources outside of GAAP statements. Due to GAAP's intention to provide useful information to its users, which primarily include investors and creditors, it could be helpful to research this topic in an effort to contribute to more applicable revisions of GAAP. In addition to investors and creditors, owners and managers using GAAP financial statement information to improve their company could benefit greatly from more investor and creditor-applicable revisions as well.

This paper intends to take a small step in pursuing this reasearch. Rather than analyzing the methods investors and creditors are currently using to obtain their research, it will focus instead on the current GAAP financial statements in an effort to determine the extent of their applicability to outside parties. Due to this extensive range, it will only focus on once aspect of GAAP financial statements, conducting a study on one of the most basic and well-known ratios provided by information given in GAAP fiancial statements: the current ratio. The current ratio, designed to evaluate the liquidity of the company, is often turned to by many individuals for a quick overview of a company's performance.

Due to the limited nature of this case study, it will not be able to reach any concrete conclusions, but speculation will be provided throughout the case and at its conclusion in an effort to tie it into perhaps an eventual greater effort to pursue this research further. Additionally, as mentioned earlier, due to the vast amount of information included in financial statements, this paper will cover only this one aspect of information provided in financial statements in an effort to determine its usefulness in the investment world. However, even narrowing the topic to the investment world becomes too broad. The investment world also offers a large range of possibilities, so this paper will limit its research to analyzing the yearly performance of a company's stock price. These limiting requirements therefore are not intended to produce results that can be generally applied to GAAP financial statements or even to the particular ratio studied within GAAP financial statements. This paper's research will only serve to provide a small dent into this enormous topic of GAAP financial statement applicability to investors in an effort to serve perhaps a greater, more general study in the future.

Throughout the case study, a vast amount of research will be conducted, recorded and analyzed in a rather repetitive fashion. The intended result of this detailed study is to determine whether or not a significant relationship between a company's current ratio and stock price actually exists and if so, to determine the nature of this relationship and discuss how it could possibly be used to more accurately predict a company's performance in the stock market.

Due to Walmart Corporation's incredible growth and success in both the stock market and in its industry, it will be the primary subject of this paper's case analysis. The Walmart analysis will be conducted by paralleling the company's financial statements and business activities during each year for a predetermined period of time with the company's stock market prices as quoted by a leading finance source.

## Case Introduction: WMT

This case will be an analysis of Walmart's historical, consolidated GAAP-based financial statements and transactions and its corresponding stock market share values. Information will be presented and occasionally analyzed as clearly and concisely as possible. The analysis will be conducted over the entire course of Walmart's participation in the New York Stock Exchange, beginning in 1972 and ending with 2012. This allows for a greater amount of data over a vast period of time in order to fully gain enough information to make the necessary conclusions from this study. As already mentioned, the goal of this case analysis will be to determine the existence of a relationship between a company's current ratio and its stock performance in the New York Stock Exchange. In order to better understand the numbers involved in this study, a brief introduction into Walmart Corporation precedes the research and analysis.

### Historical Overview: WMT

Sam Walton opened his first Walmart Store in 1962, and from there he went on to build an American empire based on his efforts to create an affordable discount store for the American people ("Walmart history 1950-1990"). Walmart stores now provide jobs for approximately 2.2 million individuals at over ten thousand store locations across the globe (Walmart Corporate, 2012). The 1970s and 1980s were especially exciting periods of stock growth for the Walmart Corporation, with its entrance into the New York Stock Exchange in 1972 with only one hundred share certificates and its eventual expansion to 25,600 shares valued at over one million dollars by 1989 ("Walmart history 1950-1990"). Due to the corporation's basis in the United States, it complies with the GAAP requirements when preparing its financial statements.

**1972**

The year 1972 experienced an increase in stock market price from $32.00 to $34.50 over a period of approximately three months (Walmart's first official stock market price on the New York Stock exchange was listed on August 25, 1972, and its last monthly price for the year was listed on December 1) ("WMT Historical Prices"). Upon an examination of Walmart's consolidated financial statements for this year, its total current assets increased from $12,149,539 in 1971 to $21,068,884 in 1972, while its total current liabilities increased from $6,512,635 to $12,806,059 (Walmart, 1972). Therefore, an approximately eight percent increase in Walmart's stock market price was paralleled with a decrease in its current ratio, going from approximately 1.87 to 1.65. This year is hard to gather any concrete data from due to its lack of encompassing a full year. Therefore, its results, while duly noted, will not be calculated into the results of this study.

**1973**

The year 1973 underwent a decrease in stock market price to $13.38 in December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1973's total current assets at $32,787,057, compared to $21,068,884 in 1972, while they listed 1973's total current liabilities at $15,990,160, compared to $12,806,059 (Walmart, 1973, p. 9). Therefore, a significant sixty-one percent decrease in Walmart's stock market price was paralleled with a large increase in its current ratio, going from approximately 1.65 to 2.05. Interestingly enough, in this year there appears to be an opposite reaction between the current ratio and the stock price. The reaction is very large due to the extreme changes in both data calculations. This observation is taken into account as the study continues to seek a recurring trend in data. It is also noted that the decrease is in the stock market price, and the increase is in the current ratio.

**1974**

The year 1974 experienced yet another decrease in stock market price to $9.50 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1974's total current assets at $45,254,112, while they listed 1974's total current liabilities at $18,121,532 (Walmart, 1974). Therefore, a twenty-nine percent decrease in Walmart's stock market price was paralleled with a large increase in its current ratio, going from 2.05 to approximately 2.49. Once again, the reaction is opposite between the two items, and it is also quite extreme, and once again, the decrease is in the stock market price.

**1975**

In 1975, Walmart Corporation underwent an increase in stock market price to $13.13 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1975's total current assets at $55,860,480, while they stated 1975's total current liabilities at $26,189,775 (Walmart, 1975). Thus, a thirty-eight percent increase in Walmart's stock market price was adversely paralleled with a decrease in its current ratio, going from an approximated ratio of 2.49 to an approximated ratio of 2.13. In this year, an adverse reaction once again took place between the stock price and the current ratio, and it is significantly large. However, in this case, the increase is in the stock market price, perhaps implying that they are interchangeable.

**1976**

The year 1976 experienced an increase in stock market price to $15.50 by that December ("WMT Historical Prices"). Walmart's financial statements recorded 1976's total current assets at $76,070,000, while recording 1976's total current liabilities at $32,945,000 (Walmart, 1976). Thus, an eighteen percent increase in Walmart's stock market price occurred with an increase in its current ratio, going from approximately 2.13 to approximately 2.31. Surprisingly, this year displays different data than previous years. However, the change in stock price is a smaller percentage. The change in the current ratio is also quite small at only eight percent. This change is once again noted for future reference and reflection.

**1977**

The year 1977 went through an additional increase in stock market price to $20.25 by that December ("WMT Historical Prices"). Consolidated financial statements displayed 1977's total current assets at $99,493,000, while they showed 1977's total current liabilities at $41,929,000 (Walmart, 1977). Thus, based on calculations, an approximately thirty-one percent increase in Walmart's stock market price was experienced in correlation with an increase in its current ratio, going from approximately 2.31 to an estimated 2.37. Once again, a change in data appears. However, the change in the current ratio is not entirely drastic. On the other hand, the stock market price has changed quite significantly.

**1978**

The year 1978 underwent yet another increase in stock market price to $22.75 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 1978’s total current assets at $150,986,000, while they listed 1978’s total current liabilities at $73,083,000 (Walmart, 1978). Therefore, an approximately twelve percent increase in Walmart’s stock market price was experienced with a decrease in its current ratio, going from approximately 2.37 to 2.07. This adverse reaction agrees once again with the majority of the data accumulated up to this point. A note is made, however, that the change in stock price is much smaller than previous occurrences of this type of reaction (stock price increases and current ratio decreases, and vice versa). Perhaps this could be due to the fact that the increase is taking place within the stock market price, and the decrease is taking place within the current ratio. Despite the fact that this was not the case in 1975, this thought will be especially taken into further account throughout the remainder of this study.

**1979**

The year 1979 experienced a significant increase in stock market price to $33.25 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 1979’s total current assets at $191,860,000, while they listed 1979’s total current liabilities at $98,868,000 (Walmart, 1979). Therefore, a large forty-six percent increase in Walmart's stock market price was paralleled with a decrease in its current ratio, going from approximately 2.07 to 1.94. This very large increase in stock market price and corresponding decrease in current ratio corresponds with the previous speculation that an adverse effect is more likely to occur between stock prices and current ratios. However, it is noted that the decrease in current ratio is not significantly large.

**Hypothesis Interjection**

At this point in the paper, a hypothesis is made that perhaps there exists an adverse relationship between the change in current ratio and the change in the corresponding stock price of a GAAP adhering corporation. This hypothesis will continue to be analyzed in order to either confirm or deny its accuracy.

**1980**

The year 1980 observed a decrease in stock market price to $30.25 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1980's total current assets at $266,617,000, while they listed 1980's total current liabilities at a comparably larger $170,221,000 (Walmart, 1980). Therefore, a nine percent decrease in Walmart's stock market price was paralleled with a decrease in its current ratio, going from approximately 1.94 to 1.57. Upon examination, this decrease is due largely to the significant increase in Walmart's current liabilities. Once again, this data correlates ideally with the hypothesis that a possible adverse relationship might exist between a company's stock market price and its current ratio. Both changes are large as well.

**1981**

The year 1981 observed an increase in stock market price to $42.50 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements reported 1981's total current assets at $345,204,000, while they reported 1981's total current liabilities at $177,601,000 (Walmart, 1981). Therefore, a large forty percent increase in Walmart's stock market price paralleled with an increase in its current ratio, going from approximately 1.57 to approximately 1.94. This data is not consistent with this paper's developing hypothesis (based solely on observation of previously analyzed data material) that the current ratio and a business's stock price performance are adversely related. In fact, both increases are quite substantial, creating a necessary doubt that there is an adverse relation, if any, between the current ratio and the performance of a company's stock.

**1982**

During the year 1982, Walmart observed an increase in stock market price to $49.88 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1982's total current assets at $589,161,000, while they listed 1982's total current liabilities at $339,961,000 (Walmart, 1982). Therefore, a seventeen percent increase in Walmart's stock market price experienced with a decrease in its current ratio, going from 1.94 to approximately 1.73. This data once again corresponds with the adverse hypothesis. However, this hypothesis is under serious doubt due to the gradually accumulating evidence of different relationships based on a growing number of years' performances.

**1983**

The year 1983 experienced a sharp decrease in stock market price to $39.00 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 1983’s total current assets at $720,537,000, while they listed 1983’s total current liabilities at $347,318,000 (Walmart, 1983). Therefore, a twenty-two percent decrease in Walmart’s stock market price paralleled with an increase in its current ratio, going from approximately 1.73 to 2.07. This adverse relationship is quite large, consistent with the majority of the accumulated data collected thus far. However, there still remains a growing reason to question the hypothesis of a relationship between the data.

**1984**

By December of year 1984, Walmart experienced another decrease in stock market price, going from $49.88 to $37.88 (“WMT Historical Prices”). Walmart’s consolidated financial statements reported 1984’s total current assets at $1,005,567,000, while they listed 1984’s total current liabilities at $502,763,000 (Walmart, 1984). Therefore, a three percent decrease in Walmart’s stock market price occurred simultaneously with a decrease in its current ratio, going from approximately 2.07 to 2.00. Interestingly, the decrease in current ratio was approximately three percent as well, but both changes are so small that this study determines them to be insignificant.

**1985**

By December of 1985, Walmart experienced a decrease in stock market price to $31.87 (“WMT Historical Prices”). Walmart’s consolidated financial statements put 1985’s total current assets at $1,303,254,000, while they listed 1985’s total current liabilities at $688,968,000 (Walmart, 1985). Therefore, a sixteen percent decrease in Walmart’s stock market price matched with a decrease in its current ratio, going from approximately 2.00 to 1.89. This once again goes against the study's current hypothesis based on the data through the 1970's.

**1986**

By December of the year 1986, Walmart experienced a significantly large increase in stock market price to $46.50 ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1986's total current assets at $1,784,275,000, while they listed 1986's total current liabilities at $992,683,000 (Walmart, 1986). Therefore, a staggering forty-six percent increase in Walmart's stock market price paralleled with a decrease in its current ratio, going from approximately 1.89 to 1.80. In this case, the change in the current ratio is rather small, only six percent. However, this adverse effect is duly noted as supporting the hypothesis made earlier. Despite this agreement, however, there is slowly becoming more evidence that there could possibly be no relationship between the current ratio and the stock market price.

**1987**

The year 1987 then experienced an even greater decrease in stock market price to $26.00 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1987's total current assets at $2,353,271,000, while they listed 1987's total current liabilities at $1,340,291,000 (Walmart, 1987). Therefore, a large forty-four percent decrease in Walmart's stock market price paralleled with a decrease in its current ratio, going from approximately 1.89 to 1.76. Once again, more evidence is found that the preliminary hypothesis may be in error.

**1988**

During the year 1988, Walmart experienced an increase in stock market price to $31.37 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements reported 1988's total current assets at $2,905,145,000, while they reported 1988's total current liabilities at $1,743,763,000 (Walmart, 1988). Therefore, a twenty-one percent increase in Walmart's stock market price contrasted with a decrease in its current ratio, going from 1.76 to approximately 1.67. However, this adverse effect is not sufficient to support the hypothesis made previously due to the large amounts of accumulating data proving otherwise.

**1989**

The year 1989 also went through an increase in stock market price to $44.88 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1989's total current assets at $3,630,987,000, while they listed 1989's total current liabilities at $2,065,909,000 (Walmart, 1989). Therefore, a forty-three percent increase in Walmart's stock market price paralleled with an increase in its current ratio, increasing from approximately 1.67 to approximately 1.76.

**1990**

The year 1990 experienced a decrease in stock market price to $30.25 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 1990's total current assets at $4,712,616,000, while they listed 1990's total current liabilities at $2,845,315,000 (Walmart, 1990). Therefore, a thirty-three percent decrease in Walmart's stock market price paralleled with a decrease in its current ratio, going from approximately 1.76 to 1.66. This data once again does not support the previous hypothesis. Rather, it joins the vastly accumulating ranks of data that oppose it.

**Revised Hypothesis**

Based on the overwhelming data evidence during the 1980's showing a complete lack of adverse effects sufficient to support the hypothesis made earlier, a revised hypothesis is made stating that there appears to be no significant relationship between a GAAP company's current ratio and stock market performance. This hypothesis already has accumulated a substantial amount of evidence from the 1970s and 1980s supporting it. However, in order to assure that this is an accurate assumption, the study will continue. Due to stock splits, adjustments, and other factors, there may be the occasional data year that does not accurately portray its results in a neutral way as the majority of the data years should. Therefore a complete study will be performed, concluding in the year 2012, in order to ensure an acceptable amount of data to support this paper's current hypothesis. Due to the repetitive nature of the observations made, only certain extreme cases or oddities will be focused on, especially if the study takes another turn and another revision of the hypothesis is needed.

**1991**

The year 1991 experienced a sharp increase in stock market price to $58.88 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements reported 1991's total current assets at $6,414,775,000, listing 1991's total current liabilities at $3,990,414,000 (Walmart, 1991). Therefore, a ninety-five percent increase in Walmart's stock market price paralleled with a decrease in its current ratio, going from approximately 1.66 to 1.61. Due to its abnormal size, the ninety-five percent increase is noted. It is also noted that the current ratio change is rather small (only three percent), supporting the current hypothesis that there is no significant relationship between the two items.

**1992**

The year 1992 underwent an increase in stock market price to $64.00 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 1992’s total current assets at $8,575,423,000, reporting 1992’s total current liabilities at $5,003,775,000 (Walmart, 1992). Therefore, a nine percent increase in Walmart’s stock market price paralleled with an increase in its current ratio, going from approximately 1.61 to 1.71.

**1993**

The year 1993 experienced a drastically sharp decrease in stock market price to $25.00 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 1993’s total current assets at $10,197,590,000, while they listed 1993’s total current liabilities at $6,754,286,000 (Walmart, 1993). Therefore, a sixty-one percent decrease in Walmart’s stock market price paralleled with a decrease in its current ratio, going from approximately 1.71 to 1.51.

**1994**

By December of the year 1994, Walmart experienced an additional decrease in stock market price to $21.25 (“WMT Historical Prices”). Walmart’s consolidated financial statements reported 1994’s total current assets at $12,114,602,000, while they reported 1994’s total current liabilities at $7,406,223,000 (Walmart, 1994). Therefore, a fifteen percent decrease in Walmart’s stock market price paralleled with an increase in its current ratio, going from approximately 1.51 to 1.64.

**1995**

The year 1995 experienced a slight increase in stock market price to $22.25 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements stated 1995’s total current assets at $15,338,000,000, while they stated 1995’s total current liabilities at $9,973,000,000 (Walmart, 1995). Therefore, a five percent increase in Walmart’s stock market price paralleled with a decrease in its current ratio, going from approximately 1.64 to 1.54.

**1996**

During the year 1996, Walmart Corporation experienced another slight increase in stock market price to $22.75 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements showed 1996’s total current assets at $17,331,000,000, while they displayed 1996’s total current liabilities at $11,454,000,000 (Walmart, 1996). Thus, there was a two percent increase in Walmart’s stock market price and a decrease in its current ratio, which went from approximately 1.54 to 1.51.

**1997**

During the year 1997, Walmart went through a large increase in stock market price to $39.44 by that December (“WMT Historical Prices”). Walmart Corporation’s consolidated financial statements listed 1997’s total current assets at $17,993,000,000, while they listed 1997’s total current liabilities at $10,957,000,000 (Walmart, 1997). Therefore, a seventy-three percent increase in Walmart’s stock market price paralleled with an increase in its current ratio, going from approximately 1.51 to 1.64.

**1998**

The year 1998 experienced a jump in stock market price to $81.44 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 1998’s total current assets at $19,352,000,000, while they stated 1998’s total current liabilities at $14,460,000,000 (Walmart, 1998). Therefore, a one hundred six percent increase in Walmart’s stock market price occurred simultaneously with a larger decrease in its current ratio, going from approximately 1.64 to 1.34. This portion of data is rather interesting due to the significant increase in price that parallels with a suddenly sharper decrease in the current ratio (eighteen percent). The last time a change this large in the current ratio occurred was in 1983. However, this paper’s research is analyzing consistency of results, not extreme cases. Therefore, unless this becomes a consistent pattern, there is nothing to conclude from this unique occurrence.

**1999**

During 1999, Walmart underwent a decrease in stock market price to $69.12 by December of that year (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 1999’s total current assets at $21,132,000,000, while they listed 1999’s total current liabilities at $16,762,000,000 (Walmart, 1999). Thus, a fifteen percent decrease in Walmart’s stock market price matched a decrease in its current ratio, dropping from approximately 1.34 to 1.26.

**2000**

During the year 2000, Walmart Corporation experienced a decrease in stock market price to $53.13 by that December (“WMT Historical Prices”). The corporation’s consolidated financial statements reported 2000’s total current assets at $24,356,000,000, reporting 2000’s total current liabilities at $25,803,000,000 (Walmart, 2000). Therefore, a twenty-three percent decrease in Walmart's stock market price paralleled with a drastic decrease in its current ratio (due to the current liabilities outnumbering the current assets), going from approximately 1.26 to 0.94.

**2001**

In the year 2001, Walmart Corporation went through an increase in stock market price to $57.55 by December of that year ("WMT Historical Prices"). Walmart's consolidated financial statements stated 2001's total current assets at $26,555,000,000, while they stated 2001's total current liabilities at $28,949,000,000 (Walmart, 2001). Thus, an eight percent increase in Walmart's stock market price adversely occurred with another decrease in its current ratio, going from approximately 0.94 to 0.92.

**2002**

By December of 2002, Walmart experienced a decrease in stock market price to $50.51 ("WMT Historical Prices"). Walmart's consolidated financial statements stated 2002's total current assets at $28,246,000,000, while they listed 2002's total current liabilities at $27,282,000,000 (Walmart, 2002). Therefore, during this year a twelve percent decrease in Walmart's stock market price adversely paralleled with an increase in its current ratio, going from approximately 0.92 to 1.04.

**2003**

The year 2003 experienced an increase in stock market price to $53.05 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 2003's total current assets at $30,483,000,000, while they listed 2003's total current liabilities at $32,617,000,000 (Walmart, 2003). Therefore, a five percent increase in

Walmart's stock market price paralleled with a decrease in its current ratio, going from approximately 1.04 to 0.93.

**2004**

In 2004, Walmart Corporation underwent a decrease in stock market price to $52.82 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements stated 2004's total current assets at $34,421,000,000, while stating 2004's total current liabilities at $37,840,000,000 (Walmart, 2004). Therefore, a 0.4 percent decrease in Walmart's stock market price paralleled with a decrease in its current ratio, going from approximately 0.93 to 0.91.

**2005**

By December of 2005, Walmart experienced a decrease in stock market price to $46.80 ("WMT Historical Prices"). Walmart's consolidated financial statements listed 2005's total current assets at $38,491,000,000, while it showed 2005's total current liabilities to be at $42,888,000,000 (Walmart, 2005). Thus, an eleven percent decrease in Walmart's stock market price paralleled with a decrease in its current ratio, going from 0.91 to approximately 0.90.

**2006**

The year 2006 experienced a decrease in stock market price to $46.18 by that December ("WMT Historical Prices"). Walmart's consolidated financial statements listed 2006's total current assets at $43,825,000,000, while they listed 2006's total current liabilities at $48,825,000,000 (Walmart, 2006). Therefore, a one percent decrease in Walmart's stock market price paralleled with a relative stability in its current ratio, remaining at 0.90.

**2007**

The year 2007 experienced an increase in stock market price to $47.53 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 2007’s total current assets at $46,588,000,000, while they listed 2007’s total current liabilities at $51,754,000,000 (Walmart, 2007). Therefore, a three percent increase in Walmart’s stock market price paralleled with a relative stability in its current ratio, remaining at 0.90. Interestingly, both items of data remain immovable, producing nearly identical results to 2006. Upon an examination of the monthly prices for both years, it is found that even the monthly price varies very little during this time period (“WMT Historical Prices”).

**2008**

By December, the year 2008 experienced an increase in stock market price to $56.06 (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 2008’s total current assets at $48,020,000,000, while reporting 2008’s total current liabilities at $58,478,000,000 (Walmart, 2008). Therefore, an eighteen percent increase in Walmart’s stock market price occurred at the same time as a sudden drop in its current ratio, which decreased from 0.90 to 0.82.

**2009**

The year 2009 experienced a decrease in stock market price to $53.45 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 2009’s total current assets at $48,949,000,000, while they reported 2009’s total current liabilities at $55,390,000,000 (Walmart, 2009). Thus, a five percent decrease in

Walmart’s stock market price paralleled with an increase in its current ratio, going from 0.82 to 0.88.

**2010**

The year 2010 experienced a very slight increase in stock market price to $53.93 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 2010’s total current assets at $48,032,000,000, while they listed 2010’s total current liabilities at $55,543,000,000 (Walmart, 2010). Therefore, a one percent decrease in Walmart’s stock market price paralleled with a slight decrease in its current ratio, declining from 0.88 to 0.86.

**2011**

During the year 2011, Walmart experienced an increase in stock market price to $59.76 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements reported 2011’s total current assets at $51,893,000,000, while reporting 2011’s total current liabilities at $58,484,000,000 (Walmart, 2011). Therefore, an eleven percent increase in Walmart’s stock market price occurred simultaneously with a slight increase in its current ratio, increasing from 0.86 to 0.89.

**2012**

The year 2012 went through an increase in stock market price to $68.23 by that December (“WMT Historical Prices”). Walmart’s consolidated financial statements listed 2012’s total current assets at $54,975,000,000, while it listed 2012’s total current liabilities at $62,300,000,000 (Walmart, 2012). Thus, a fourteen percent increase in Walmart’s stock market price paralleled with a slight decrease in its current ratio, declining from 0.89 to 0.88.

## Conclusions Drawn from the Case Study

A regression analysis on the variables was performed which also concludes from the resulting p-value of 0.415064 that there is no correlation between the change in current ratio and the change in stock price. The p-value is too high to be even remotely considered statistically significant. Based on the extensive research provided in this paper, it appears that there is no apparent relationship between a GAAP company's current ratio and its stock market price. There is a nearly fifty-fifty ratio between the years that experienced an adverse effect and the years that did not. It would seem that investors interested in yearly stock market prices would be unable to glean any useful information from a GAAP company's current ratio as provided by the information given in its financial statements. This is not to say that an investor may or may not be able to gain some insight through the components of this ratio (current assets and current liabilities). However, this study did not explore that aspect and can only confirm a possibility of such a relationship. This study's limited nature does not allow this paper to either confirm or deny that GAAP financial statements are declining in importance to investors, despite the complete coverage of years during which Walmart was a participant in the New York Stock Exchange. However, the study has hopefully provided some useful information for a larger study of this sort in the future. Several full, detailed charts of additional data based on this study are provided within the appendix of this paper.

## Conclusion

Regardless of this study's results or the possibility of a declining use for GAAP financial statements to investors, GAAP remains essential to the accounting and investing worlds. The consistency provided by the rules and statements it enforces allows for more effective and reliable comparison of business financial statements. This paper intends to support GAAP by aiding in research that could eventually provide means of better applicability of GAAP financial statements to both investors and creditors in this increasingly complex and changing world.

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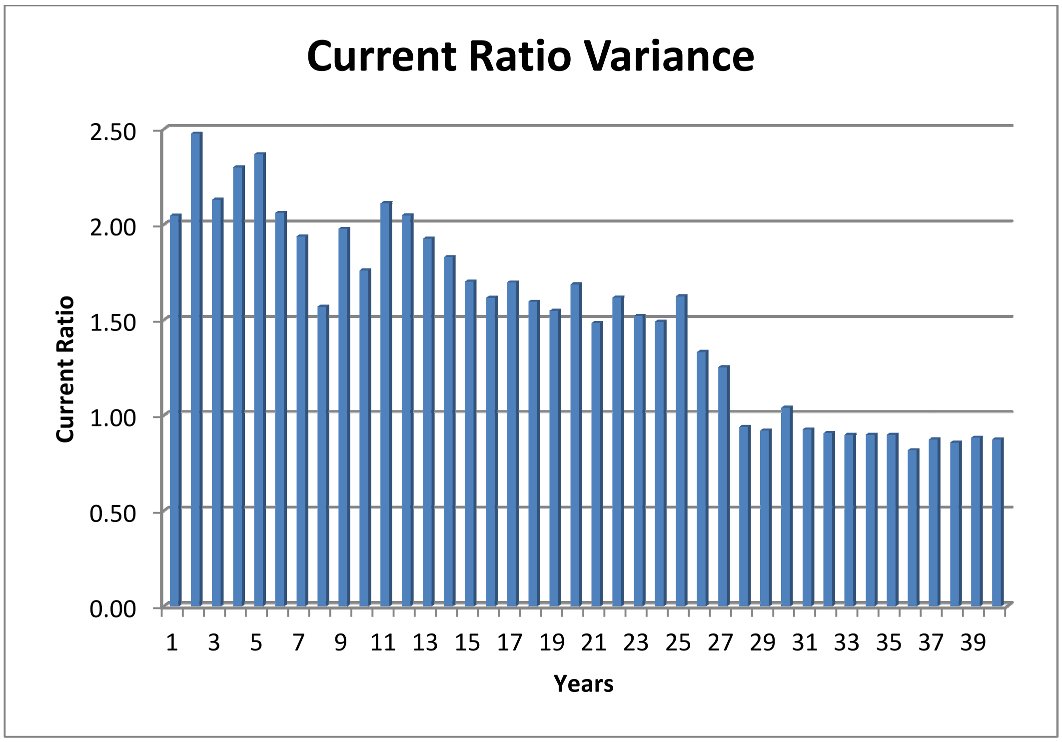
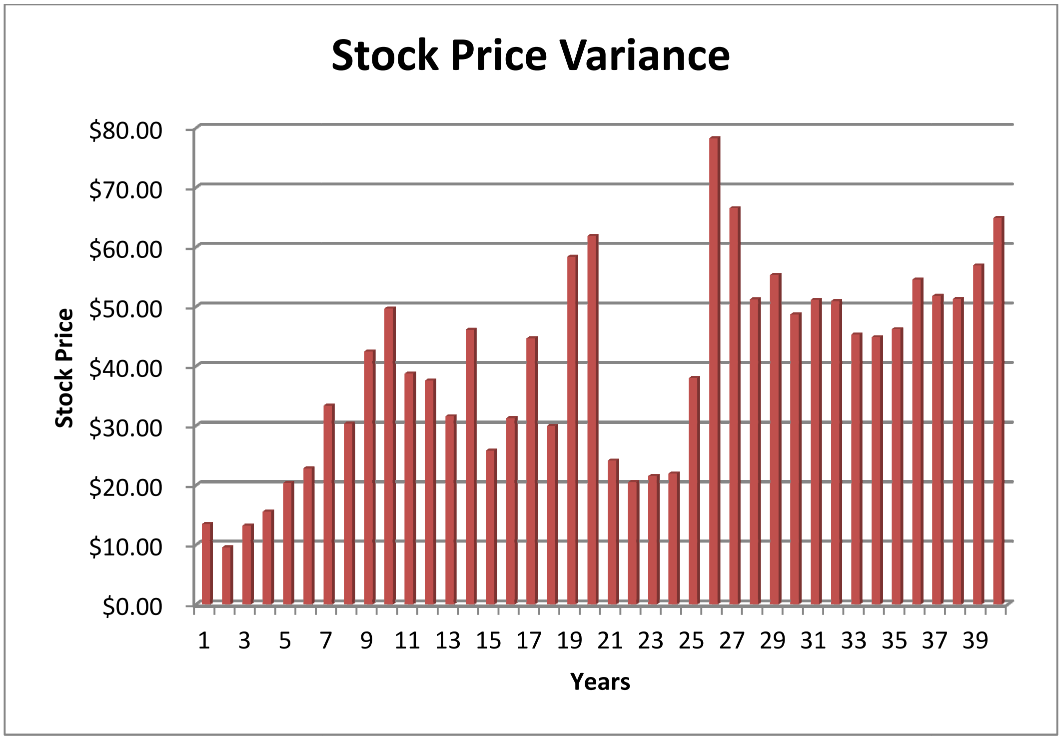
# Appendix

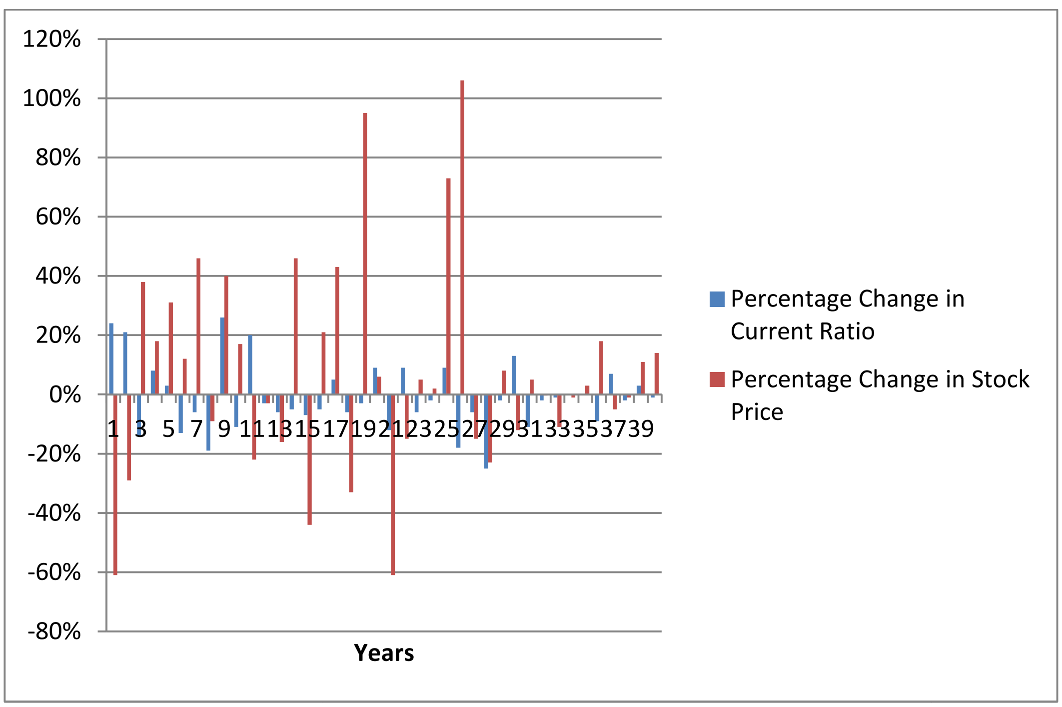
| Year | Current Ratio | Stock Price |
|---|---|---|
| 1973 | increase, 24% | decrease, 61% |
| 1974 | increase, 21% | decrease, 29% |
| 1975 | decrease, 14% | increase, 38% |
| 1976 | increase, 8% | increase, 18% |
| 1977 | increase, 3% | increase, 31% |
| 1978 | decrease, 13% | increase, 12% |
| 1979 | decrease, 6% | increase, 46% |
| 1980 | decrease, 19% | decrease, 9% |
| 1981 | increase, 26% | increase, 40% |
| 1982 | decrease, 11% | increase, 17% |
| 1983 | increase, 20% | decrease, 22% |
| 1984 | decrease, 3% | decrease, 3% |
| 1985 | decrease, 6% | decrease, 16% |
| 1986 | decrease, 5% | increase, 46% |
| 1987 | decrease, 7% | decrease, 44% |
| 1988 | decrease, 5% | increase, 21% |
| 1989 | increase, 5% | increase, 43% |
| 1990 | decrease, 6% | decrease, 33% |
| 1991 | decrease, 3% | increase, 95% |
| 1992 | increase, 9% | increase, 6% |
| 1993 | decrease, 12% | decrease, 61% |

| Year | Current Ratio | Stock Price |
|---|---|---|
| 1994 | increase, 9% | decrease, 15% |
| 1995 | decrease, 6% | increase, 5% |
| 1996 | decrease, 2% | increase, 2% |
| 1997 | increase, 9% | increase, 73% |
| 1998 | decrease, 18% | increase, 106% |
| 1999 | decrease, 6% | decrease, 15% |
| 2000 | decrease, 25% | decrease, 23% |
| 2001 | decrease, 2% | increase, 8% |
| 2002 | increase, 13% | decrease, 12% |
| 2003 | decrease, 11% | increase, 5% |
| 2004 | decrease, 2% | decrease, 0.4% |
| 2005 | decrease, 1% | decrease, 11% |
| 2006 | decrease, 0% | decrease, 1% |
| 2007 | decrease, 0% | increase, 3% |
| 2008 | decrease, 9% | increase, 18% |
| 2009 | increase, 7% | decrease, 5% |
| 2010 | decrease, 2% | decrease, 1% |
| 2011 | increase, 3% | increase, 11% |
| 2012 | decrease, 1% | increase, 14% |

Based on the data above, these charts represent an approximated variance of each recorded measurement. There is also a side-by-side comparison of the percentage changes of both the current ratio and the corresponding stock price.




Stock Price Variance
Stock Price
$80.00
$70.00
$60.00
$50.00
$40.00
$30.00
$20.00
$10.00
$0.00
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39
Years


120%
100%
80%
60%
40%
20%
0%
-20%
-40%
-60%
-80%
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39
Years
Percentage Change in Current Ratio
Percentage Change in Stock Price