# Case 1: Wal-Mart

The questions pertain to Wal-Mart’s (NYSE: WMT) 2016 annual report, which is attached.

1. Show that Stockholders’ Equity equals Assets net of Liabilities for the year ending January 31, 2016 (please include nonredeemable noncontrolling interest in total equity),

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Assets | - | Liabilities | = | Equity |
| 199581 | 115970 | 83611 |

1. Assuming that the name Wal-Mart is valuable, explain why it is not shown as an asset on the company’s balance sheet.

It’s acquisition (ownership) is not based on a passed transaction or event.

1. Determine the *total* (current and non-current) amount of Debt and Obligations Under Capital Leases as of January 31, 2016. (NOTE: Short-term borrowings are a form of debt.)

Total amount of Debt and Obligations Under Capital Leases =

Short-term borrowings + long term debt due within one year + Capital lease and financing obligations due within one year + Long-term debt + Long-term capital lease and financing obligations = 2708 + 2745 + 551 + 38214 + 5816 = 50034

1. Determine the total “contributed capital” from Wal-Mart shareholders (i.e., ignore non-controlling interests) as of January 31, 2016.

Contributed capital = common stock + capital in excess of par value + retained earnings +

Accumulated other comprehensive income (loss) = 317 + 1805 + 90021 – 11597 = 80546

1. Please calculate the current ratio (total current assets divided by total current liabilities) January 31, 2016. Did this ratio increase and decrease relative to the ratio calculated as of January 31, 2015?

Current ratio = total current assets / total current liabilities = 60239 / 64619 = 93.22%

2015 current ratio = 63278 / 65253 = 96.97%

The current ratio of 2016 decreased compared to that of January 31, 2015

1. Show that the difference between the ending and beginning balances of cash and cash equivalents on the company’s balance sheet corresponds to the net change in cash and cash equivalents on the cash flow statement for the fiscal year ending January 31, 2016 by filling in the following two tables (please note, in accounting financial statements parenthesis indicate that the number is negative).

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Net cash provided by operating activities |  | Net cash used in investing activities |  | Net cash used in financing activities |  | Effect of exchange rates on cash and cash equivalents |  | Net Change  (Cash Flow Statement) |
| 27389 | + | -10675 | + | -16122 | + | -1022 | = | -430 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| End. Balance of cash  (Balance Sheet) | - | Beg. Balance of cash (Balance Sheet) | = | Net Change  (Cash Flow Statement) |
| 8705 | - | 9135 | = | -430 |

1. Indicate whether sufficient cash is provided by the company’s operating activities for the fiscal year ending January 31, 2016 to cover cash used in investing activities.

Net cash provided by operating activities = 27389

Net cash used in investing activities = 10675

27389 – 10675 > 0

There is sufficient cash provided by operating activities to cover cash used in investing activities.

1. Using the bottom of the cash flow statement please indicate the amount of cash paid for interest during the year ending January 31, 2016.

Interest paid = 2540

1. Calculate the gross margin for the fiscal year ending January 31, 2016 (Net sales less Cost of Sales divided by Net sales). (NOTE: do not include Membership and other income in the Net Sales amount.[[1]](#footnote-1))

Net sales = 478614

Cost of sales = 360984

Gross margin = (net sales – cost of sales) / net sales = 24.58%

1. Interest income is earned on cash and cash equivalents. Please estimate the rate Wal-Mart earned using the 2016 income statement and the 2016 and 2015 balance sheets. Please hazard a guess of why it is so low.

Interest income = 81

Interest rate = interest income /[(beginning cash and cash equivalents + ending cash and cash equivalents) / 2]

= 81 / [(9135 + 8705) / 2] = 0.908%

There may be easy monetary policy during that year to stimulate the economy and lower the unemployment rate.

1. Using the summary of significant policies, the General comment, please indicate what is Wal-Mart main line of business and what is Wal-Mart business strategy.

Wal-Mart main line of business:

To help people around the world save money and live better – anytime and anywhere – in retail stores or through the Company’s e-commerce and mobile capabilities.

Strategy:

The Company’s strategy is to lead on price, invest to differentiate on access, be competitive on assortment and deliver a great experience.

1. Please indicate whether the auditor’s opinion is qualified or unqualified (p. 61).

The auditor’s opinion is unqualified.

“*our report dated March 30, 2016 expressed an unqualified opinion thereon.*”

1. From management’s discussion and analysis (MD&A), identify which segment, Wal-Mart U.S., International, or Sam’s Club, had the highest net sales growth during 2016 (p. 20).

Wal-Mart U.S. had the highest net sales growth of 3.6%, compared to International of -9.4% and Sam’s club of -2.1%

1. Also from the MD&A, determine the new *quarterly* dividend per share to be paid in fiscal ***2017*** (p. 27).

The new quarterly dividend per share is $0.5 in fiscal 2017

1. From the notes to the financial statements, identify when Wal-Mart’s income statement shows revenue from merchandise sales and when it shows revenue from gift cards (referred to as “shopping cards” in the note) (Revenue Recognition note, p. 42).

Merchandise sales:

The Company recognizes sales revenue, net of sales taxes and estimated sales returns, at the time it sells merchandise to the customer.

Gift cards:

Customer purchases of shopping cards are not recognized as revenue until the card is redeemed and the customer purchases merchandise using the shopping card.

16) Also from the notes, determine membership fees received in cash during 2016 (p. 42).

Cash received from members during 2016: $1333

1. While there are no black-and-white rules about whether to include this sort of line item in net sales, a gross margin measure *typically* uses the primary sales total and cost of sales *typically* only pertains to the product sales included in the Net sales line. [↑](#footnote-ref-1)