



ROTMAN SCHOOL OF MANAGEMENT

RSM 5201 Accounting 1

Assignment 2

Due Date: Monday, December 1 at 11:59pm

Submission: Please upload your document using the link provided on Quercus before the deadline. The deliverable must be submitted as a Word or PDF file. This assignment accounts for 25% of the overall course grade.

You are evaluating a potential investment in Walmart's common stock. Walmart, a leading global retailer, operates both physical stores and eCommerce platforms under various banners across multiple countries. The company's strategy emphasizes gaining market share through competitive pricing and high-volume sales of consumer goods. To make an informed investment decision, you will analyze Walmart's financial information. Refer to Walmart's 2021 Annual Report (Appendix), focusing on the financial statements and accompanying notes, to address the following questions.

REQUIRED:

1. Perform a common-size analysis of the selected balance sheet and income statement items for the fiscal years ending January 31, 2020, and January 31, 2021. Use net sales as the base for income statement items and total assets as the base for balance sheet items. Please note that since only a subset of financial statement items is provided, the calculated percentages may not sum to 100%.

(Amounts in millions, except per share data)	Fiscal Years Ended January 31,	
	2021	2020
Revenues:		
Net sales	\$555,233	\$519,926
Cost of sales	420,315	394,605
Operating income	22,548	20,568
Other (gains) and losses	(210)	(1,958)
Income before income taxes	20,564	20,116
Provision for income taxes	6,858	4,915
Consolidated net income	13,706	15,201

(Amounts in millions)	As of January 31,	
	2021	2020
Cash and cash equivalents	\$17,741	\$9,465
Prepaid expenses and other	20,861	1,622
Property and equipment, net	92,201	105,208
Other long-term assets	23,598	16,567
Accrued liabilities	37,966	22,296
Long-term debt	41,194	43,714
Total equity	\$87,531	\$81,552
Total liabilities and equity	\$252,496	\$236,495

2. Over the two-year period, how did the proportion of total liabilities change relative to shareholders' equity? What does this indicate about changes in Walmart's leverage?

3. How did consolidated net income as a percentage of net sales change from 2020 to 2021? Identify the two most significant contributors to this change.
4. Does Walmart achieve high or low profit margins? How do these profit margins align with the company's overall strategy?
5. What was Walmart's largest single use of cash during the three-year period from 2019 to 2021? How does this use of cash reflect the company's business strategy? What was Walmart's largest single use of cash for financing activities during the three-year period? What does this suggest about Walmart's financial position and performance?
6. Examine the change in retained earnings from \$83,943 million as of January 31, 2020, to \$88,763 million as of January 31, 2021. Keep in mind that Walmart operates a stock repurchase program in which repurchased shares are "constructively retired and returned to an unissued status" (as stated in the Form 10-K). This differs from most companies, where stock repurchases are recorded as a deduction within shareholders' equity under "treasury shares." Do not worry if your reconciliation is close but does not exactly match the \$88,763 million ending balance—companies often make minor adjustments not explicitly shown in the financial statements, which can be categorized as "other." *Hint: Some relevant details can be found in other financial statements – recall that financial statements are interconnected.*
7. Conduct a DuPont analysis of Walmart's return on assets (ROA) and return on equity (ROE) for 2021. Define ROE based on total equity, which includes both Walmart's shareholders' equity and non-controlling interests. In your analysis, clearly demonstrate how profitability, efficiency, and financial leverage contribute to these performance metrics.
8. Calculate the current ratio and liabilities-to-assets ratio for 2020 and 2021. Discuss the changes observed in these ratios over the two years.
9. Walmart makes substantial investments in operating capacity through property, plant, and equipment, as well as wholly and partially owned subsidiaries. The company also operates internationally. Did Walmart recognize any impairment of property, plant, and equipment or goodwill during the fiscal year ending January 31, 2021? Why is it important for us to understand this information? Hint: Performance Statement Geography – please refer to the class examples of Microsoft and P&G.
10. Identify who is responsible for preparing Walmart's financial statements and who serves as the auditor. Explain the auditor's responsibilities in conducting the audit and state the auditor's opinion on Walmart's financial statements. Finally, discuss the implications of this opinion for your evaluation of Walmart's financials?