

# FINANCIAL ACCOUNTING: FOUNDATIONS



OKTAY URCAN



## Introduction to Financial Accounting

Overview



# COURSE OVERVIEW

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- Introduction to accounting
- Financial accounting information
- Balance sheet
- Income statement
- Cash flows statement



# FINANCIAL ACCOUNTING: FOUNDATIONS



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## Introduction to Financial Accounting

What Is Accounting?



# WHAT IS ACCOUNTING?

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**“THE MEASUREMENT, PROCESSING AND  
COMMUNICATION OF FINANCIAL INFORMATION  
ABOUT ECONOMIC ENTITIES.”**



# USERS AND INFORMATION

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- **Shareholders / investors:** Future cash flows of a firm
- **Creditors:** Liquidity, risk, and profitability of a firm
- **Employees:** Firm stability and employment contracts
- **Customers:** To cover a warranty
- **Management:** Decision-making and compensation



# FINANCIAL VS. MANAGEMENT ACCOUNTING

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- **Financial accounting** deals with measurement and communication of information for external users.
- **Management accounting** deals with measurement and communication of information for internal users.
- Financial and management accounting measure and communicate the same economic reality in different forms.



# FINANCIAL ACCOUNTING: FOUNDATIONS



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## Introduction to Financial Accounting

Financial Accounting Information



# FINANCIAL ACCOUNTING INFORMATION

**Walmart**  
announces Q4 &  
FY16 earnings

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# FINANCIAL ACCOUNTING INFORMATION

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- Balance sheet
- Income statement
- Cash flow statement
- Notes to financial statements



# BALANCE SHEET



## Consolidated Balance sheets

As of January 31

(Amount in millions)	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,135	\$ 7,281
Receivables, net	6,778	6,677
Inventories	45,141	44,858
Prepaid expenses and other	2,224	1,909
Current assets of discontinued operations	---	460
Total current assets	63,278	61,185
Property and equipment:		
Property and equipment	177,395	173,089
Less accumulated depreciation	(63,115)	(57,725)
Property and equipment, net	114,280	115,364
Property under capital leases:		
Property under capital leases	5,239	5,589
Less accumulated amortization	(2864)	(3,046)
Property under capital leases, net	2,375	2,543
Goodwill	18,102	19,510
Other assets and deferred charges	5,671	6,149
<b>Total assets</b>	<b>\$203,706</b>	<b>\$204,751</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST, AND EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$ 1,592	\$ 7,670
Accounts payable	38,410	37,415
Accrued liabilities	19,152	18,793
Accrued income taxes	1,021	966
Long-term debt due within one year	4,810	4,103
Obligations under capital leases due within one year	287	309
Current liabilities of discontinued operations	---	89
Total current liabilities	65,272	69,345
Long-term debt	41,086	41,771
Long-term obligations under capital leases	2,606	2,788
Deferred income taxes and other	8,805	8,017
Redeemable noncontrolling interest	---	1,491
Commitments and contingencies		
Equity:		
Common stock	323	323
Capital in excess of par value	2,462	2,362
Retained earnings	85,777	76,566
Accumulated other comprehensive income (loss)	(7,168)	(2,996)
Total Walmart shareholders' equity	81,394	76,255
Nonredeemable noncontrolling interest	4,543	5,084
Total equity	85,937	81,339
<b>Total liabilities, redeemable noncontrolling interest, and equity</b>	<b>\$203,706</b>	<b>\$204,751</b>

See accompanying notes.



# INCOME STATEMENT

## Consolidated Statements of Income

		Fiscal Years Ended January 31		
	(Amount in millions)	2015	2014	2013
<b>Revenues:</b>				
Net sales		\$482,229	\$473,076	\$465,604
Membership and other income		3,422	3,218	3,047
Total revenues		485,651	476,294	468,651
<b>Costs and expenses:</b>				
Cost of sales		365,086	358,069	352,297
Operating, selling, general and administrative expenses		93,418	91,353	88,626
<b>Operating income</b>		27,147	26,872	27,725
<b>Interest:</b>				
Debt		2,161	2,072	1,977
Capital leases		300	263	272
Interest income		(113)	(119)	(186)
Interest, net		2,348	2,216	2,063
<b>Income from continuing operations before income taxes</b>		24,799	24,656	25,662
<b>Provision for income taxes:</b>				
Current		8,504	8,619	7,976
Deferred		(519)	(514)	(18)
Total provision for income		7,985	8,105	7,958
<b>Income from continuing operations</b>		16,814	16,551	17,704
<b>Income from discontinued operations, net of income taxes</b>		285	144	52
<b>Consolidated net income</b>		17,099	16,695	17,756
<b>Less consolidated net income attributable to noncontrolling interest</b>		(736)	(673)	(757)
<b>Consolidated net income attributable to Walmart</b>		\$ 16,363	\$ 16,022	\$ 16,999
<b>Basic net income per common share:</b>				
Basic income per common share from continuing operations attributable to Walmart		\$ 5.01	\$ 4.87	\$ 5.03
Basic income per common share from discontinued operations attributable to Walmart		0.06	0.03	0.01
<b>Basic net income per common share attributable to Walmart</b>		\$ 5.07	\$ 4.90	\$ 5.04
<b>Diluted net income per common share:</b>				
Diluted income per common share from continuing operations attributable to Walmart		\$ 4.99	\$ 4.85	\$ 5.01
Diluted income per common share from discontinued operations attributable to Walmart		0.06	0.03	0.01
<b>Diluted net income per common share attributable to Walmart</b>		\$ 5.05	\$ 4.88	\$ 5.02
<b>Weighted-average common shares outstanding:</b>				
Basic		3,230	3,269	3,374
Diluted		3,243	3,283	3,389
<b>Dividends declared per common share</b>		\$ 1.92	\$ 1.88	\$ 1.59

See accompanying notes.



# CASH FLOW STATEMENT



## Consolidated Statements of Cash Flows

(Amount in millions)	2015	2014	2013
	Fiscal Years Ended January 31		
<b>Cash flows from operating activities:</b>			
Consolidated net income	\$ 17,099	\$ 16,695	\$ 17,756
Income from discontinued operations, net of income taxes	(285)	(144)	(52)
Income from continuing operations	16,814	16,551	17,704
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	9,173	8,870	8,478
Deferred income taxes	(503)	(279)	(133)
Other operating activities	785	938	602
Changes in certain assets and liabilities, net of effects of acquisitions:			
Receivables, net	(569)	(566)	(614)
Inventories	(1,229)	(1,667)	(2,759)
Accounts payable	2,678	531	1,061
Accrued liabilities	1,249	103	271
Accrued income taxes	166	(1,224)	981
Net cash provided by operating activities	28,564	23,257	25,591
<b>Cash flows from investing activities:</b>			
Payments for property and equipment	(12,174)	(13,115)	(12,898)
Proceeds from the disposal of property and equipment	570	727	532
Proceeds from the disposal of certain operations	671	---	---
Other investing activities	(192)	(138)	(271)
Net cash used in investing activities	(11,125)	(12,526)	(12,637)
<b>Cash flows from financing activities:</b>			
Net change in short-term borrowings	(6,288)	911	2,754
Proceeds from issuance of long-term debt	5,174	7,072	211
Payments of long-term debt	(3,904)	(4,968)	(1,478)
Dividends paid	(6,185)	(6,139)	(5,361)
Purchase of Company stock	(1,015)	(6,683)	(7,600)
Dividends paid to noncontrolling interest	(600)	(426)	(282)
Purchase of noncontrolling interest	(1,844)	(296)	(132)
Other financing activities	(409)	(260)	(58)
Net cash used in financing activities	(15,071)	(10,789)	(11,946)
Effect of exchange rates on cash and cash equivalents	(514)	(442)	223
Net increase (decrease) in cash and cash equivalents	1,854	(500)	1,231
Cash and cash equivalents at beginning of year	7,281	7,781	6,550
Cash and cash equivalents at end of year	\$ 9,135	\$ 7,281	\$ 7,781

See accompanying notes.



# NOTES TO FINANCIAL STATEMENTS

## Notes to Consolidated Financial Statements

### 6 Short-term Borrowings and Long-term Debt

Short-term borrowings consist of commercial paper and lines of credit. Short-term borrowings outstanding at January 31, 2015 and 2014 were \$1.6 billion and \$7.7 billion, respectively. The following table includes additional information related to the Company's short-term borrowings for fiscal 2015, 2014 and 2013:

(Amount in millions)	Fiscal Years Ended January 31,		
	2015	2014	2013
Maximum amount outstanding at any month-end	\$11,581	\$13,318	\$8,740
Average daily short-term borrowings	7,009	8,971	6,007
Weighted-average interest rate	0.5%	0.1%	0.1%

The Company has various committed lines of credit, committed with 23 financial institutions, totaling \$15.0 billion as of January 31, 2015 and with 24 financial institutions, totaling \$15.4 billion as of January 31, 2014. The committed lines of credit are summarized in the following table:

	Fiscal Years Ended January 31,		
	2015	2014	
	Available	Drawn	Undrawn
Five-year credit facility (1)	\$ 6,000	\$ ----	\$ 6,000
364-day revolving credit facility (2)	9,000	----	9,000
<b>Total</b>	<b>\$ 15,000</b>	<b>\$ ----</b>	<b>\$ 15,000</b>

(1) In June 2014, the Company renewed and extended its existing five-year credit facility, which is used to support its commercial paper program.

(2) In June 2014, the Company renewed and extended its existing 364-day revolving credit facility, which is used to support its commercial paper program.

The committed lines of credit mature at various times between June 2015 and June 2019, carry interest rates generally ranging between LIBOR plus 10 basis points and LIBOR plus 75 basis points, and incur commitment fees ranging between 1.5 and 4.0 basis points. In conjunction with the lines of credit listed in the table above, the Company has agreed to observe certain covenants, the most restrictive of which relates to the maximum amount of secured debt.

Apart from the committed lines of credit, the Company has trade and stand-by letters of credit totaling \$4.6 billion and \$4.7 billion at January 31, 2015 and 2014, respectively. These letters of credit are utilized in normal business activities.

# FINANCIAL ACCOUNTING: FOUNDATIONS



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## Introduction to Financial Accounting

### Balance Sheet Overview



# BALANCE SHEET

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- Financial position of a firm at a particular point in time
- Summary of assets and financing of those assets (liabilities and shareholders' equity)
- Fundamental accounting equation:

Assets = Liabilities + Shareholders' Equity



# BALANCE SHEET



## Consolidated Balance sheets

As of January 31,

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# FINANCIAL ACCOUNTING: FOUNDATIONS



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## Introduction to Financial Accounting

Balance Sheet: Assets



# BALANCE SHEET: ASSETS

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## Resources

- Controlled by a firm
- Probable economic benefits
- Sufficient reliability to estimate these benefits

**Examples:** Cash, inventories, production machines



# BALANCE SHEET: ASSETS (CONT.)

- **Current assets:**
  - Assets with relatively short life
  - Examples: cash, inventories, accounts receivable
- **Long-term assets:**
  - Assets with relatively long life
  - Examples: buildings, equipment



# BALANCE SHEET: ASSETS (CONT.)

## IN-VIDEO QUESTION

Please identify the values of the following accounts on Walmart's 2015 balance sheet (page 37 of the 2015 Walmart Annual Report):

- Cash
- Receivables
- Inventories
- Prepaid expenses
- Property and equipment, net





# BALANCE SHEET: ASSETS (CONT.)

## Consolidated Balance sheets

As of January 31

(Amount in millions)

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See accompanying notes.



# WALMART'S ASSETS 2015

## Consolidated Balance sheets

As of January 31

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# FINANCIAL ACCOUNTING: FOUNDATIONS



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## Introduction to Financial Accounting

Balance Sheet: Liabilities



# BALANCE SHEET: LIABILITIES

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## Obligations

- To transfer economic benefits
- Measurable
- Benefit which creates the obligation received

Examples: Accounts payable, wage payable, debt



# BALANCE SHEET: TYPES OF LIABILITIES

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- **Current liabilities**
  - Amounts due within a year (e.g., accounts payable, wage payable)
- **Long-term liabilities**
  - Amounts due after one year (e.g., 15-year bank loan)
- **Provisions**
  - Amounts where there is at least reasonable certainty that an obligation will be incurred on some future date (e.g., settlement of environmental hazards)



# BALANCE SHEET: LIABILITIES (CONT.)

## IN-VIDEO QUESTION

Please identify the values of the following accounts on Walmart's 2015 balance sheet (page 37 of the 2015 Walmart Annual Report):

- Short-term borrowings
- Accounts payable
- Long-term debt due within one year
- Long-term debt



# BALANCE SHEET: LIABILITIES (CONT.)

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See accompanying notes.



# WALMART'S LIABILITIES 2015

## LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST, AND EQUITY

### *Current liabilities:*

Short-term borrowings	\$ 1,592	\$ 7,670
Accounts payable	<b>38,410</b>	37,415
Accrued liabilities	<b>19,152</b>	18,793
Accrued income taxes	<b>1,021</b>	966
Long-term debt due within one year	<b>4,810</b>	4,103
Obligations under capital leases due within one year	<b>287</b>	309
Current liabilities of discontinued operations	---	89

Total current liabilities	<b>65,272</b>	69,345
Long-term debt	<b>41,086</b>	41,771
Long-term obligations under capital leases	<b>2,606</b>	2,788
Deferred income taxes and other	<b>8,805</b>	8,017
	---	1,491

### Redeemable noncontrolling interest

### Commitments and contingencies



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Total current liabilities

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69,345

### Long-term debt

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### Redeemable noncontrolling interest

### Commitments and contingencies



# FINANCIAL ACCOUNTING: FOUNDATIONS



OKTAY URCAN



## Introduction to Financial Accounting

Balance Sheet: Shareholders' Equity



# BALANCE SHEET: SHAREHOLDERS' EQUITY

- Investment of shareholders
- The difference between total assets and total liabilities

(Shareholders' equity =  
Assets - Liabilities)



# BALANCE SHEET: SHAREHOLDERS' EQUITY

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- **Common stock:** Nominal (par) value of the shares\*Number of shares issued
- **Additional paid-in capital:** Excess cash received during share issuance
- **Retained earnings:** Profits accumulated over the years and not distributed to shareholders



# BALANCE SHEET: SHAREHOLDERS' EQUITY

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## IN-VIDEO QUESTION

Please identify the values of the following accounts on Walmart's 2015 balance sheet (page 37 of the 2015 Walmart Annual Report):

- Common stock
- Capital in excess of par value  
(i.e., additional paid in capital)
- Retained earnings



# BALANCE SHEET: SHAREHOLDERS' EQUITY



## Consolidated Balance sheets

As of January 31,

	2015	2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,135	\$ 7,281
Receivables, net	6,778	6,677
Inventories	45,141	44,858
Prepaid expenses and other	2,224	1,909
Current assets of discontinued operations	---	460
Total current assets	<b>63,278</b>	61,185
Property and equipment:		
Property and equipment	177,395	173,089
Less accumulated depreciation	(63,115)	(57,725)
Property and equipment, net	<b>114,280</b>	115,364
Property under capital leases:		
Property under capital leases	5,239	5,589
Less accumulated amortization	(2864)	(3,046)
Property under capital leases, net	<b>2,375</b>	2,543
Goodwill	18,102	19,510
Other assets and deferred charges	5,671	6,149
<b>Total assets</b>	<b>\$203,706</b>	\$204,751
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST, AND EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$ 1,592	\$ 7,670
Accounts payable	38,410	37,415
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Deferred income taxes and other	8,805	8,017
Redeemable noncontrolling interest	---	1,491
Commitments and contingencies		
<b>Equity:</b>		
Common stock	323	323
Capital in excess of par value	2,462	2,362
Retained earnings	85,777	76,566
Accumulated other comprehensive income (loss)	(7,168)	(2,996)
Total Walmart shareholders' equity	<b>81,394</b>	76,255
Nonredeemable noncontrolling interest	4,543	5,084
<b>Total equity</b>	<b>85,937</b>	81,339
<b>Total liabilities, redeemable noncontrolling interest, and equity</b>	<b>\$203,706</b>	\$204,751

See accompanying notes.



# WALMART'S SHAREHOLDERS' EQUITY 2015

<b>Equity:</b>		
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See accompanying notes.



# FINANCIAL ACCOUNTING: FOUNDATIONS



OKTAY URCAN



## Introduction to Financial Accounting

Income Statement



# INCOME STATEMENT

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- **Financial performance over a period**  
(generally a year or a quarter)
- Summarizes firm's revenues, expenses, gains, and losses over a period of time



# COMPONENTS OF INCOME STATEMENT

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- Sales (or revenues, turnover)
- Cost of sales (or cost of goods sold)
- Operating expenses
- Other income
- Income taxes
- Extraordinary gains/losses



# INCOME STATEMENT

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## IN-VIDEO QUESTION

Please identify the values of the following accounts on Walmart's 2015 income statement (page 36 of the 2015 Walmart Annual Report):

- Total revenues
- Cost of sales
- Operating income
- Net interest income



# INCOME STATEMENT



## Consolidated Statements of Income

Fiscal Years Ended January 31

(Amount in millions)	2015	2014	2013
<b>Revenues:</b>			
Net sales	\$482,229	\$473,076	\$465,604
Membership and other income	3,422	3,218	3,047
Total revenues	485,651	476,294	468,651
<b>Costs and expenses:</b>			
Cost of sales	365,086	358,069	352,297
Operating, selling, general and administrative expenses	93,418	91,353	88,626
<b>Operating income</b>	27,147	26,872	27,725
<b>Interest:</b>			
Debt	2,161	2,072	1,977
Capital leases	300	263	272
Interest income	(113)	(119)	(186)
Interest, net	2,348	2,216	2,063
<b>Income from continuing operations before income taxes</b>	24,799	24,656	25,662
<b>Provision for income taxes:</b>			
Current	8,504	8,619	7,976
Deferred	(519)	(514)	(18)
Total provision for income	7,985	8,105	7,958
<b>Income from continuing operations</b>	16,814	16,551	17,704
<b>Income from discontinued operations, net of income taxes</b>	285	144	52
<b>Consolidated net income</b>	17,099	16,695	17,756
<b>Less consolidated net income attributable to noncontrolling interest</b>	(736)	(673)	(757)
<b>Consolidated net income attributable to Walmart</b>	\$ 16,363	\$ 16,022	\$ 16,999
<b>Basic net income per common share:</b>			
Basic income per common share from continuing operations attributable to Walmart	\$ 5.01	\$ 4.87	\$ 5.03
Basic income per common share from discontinued operations attributable to Walmart	0.06	0.03	0.01
<b>Basic net income per common share attributable to Walmart</b>	\$ 5.07	\$ 4.90	\$ 5.04
<b>Diluted net income per common share:</b>			
Diluted income per common share from continuing operations attributable to Walmart	\$ 4.99	\$ 4.85	\$ 5.01
Diluted income per common share from discontinued operations attributable to Walmart	0.06	0.03	0.01
<b>Diluted net income per common share attributable to Walmart</b>	\$ 5.05	\$ 4.88	\$ 5.02
<b>Weighted-average common shares outstanding:</b>			
Basic	3,230	3,269	3,374
Diluted	3,243	3,283	3,389
<b>Dividends declared per common share</b>	\$ 1.92	\$ 1.88	\$ 1.59

See accompanying notes.



# WALMART'S INCOME STATEMENT 2015



## Consolidated Statements of Income

Fiscal Years Ended January 31

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# FINANCIAL ACCOUNTING: FOUNDATIONS

OKTAY URCAN



## Introduction to Financial Accounting

Cash Flow Statement



# CASH FLOW STATEMENT

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- Cash inflows and outflows over a time period (generally a year or a quarter)
- Summarizes how cash changes over a time period
- It has three parts:
  - Operating
  - Investing
  - Financing



# WALMART'S CASH FLOW STATEMENT 2015



## Consolidated Statements of Cash Flows

(Amount in millions)

		Fiscal Years Ended January 31		
		2015	2014	2013
<b>Cash flows from operating activities:</b>				
Consolidated net income		\$ 17,099	\$ 16,695	\$ 17,756
Income from discontinued operations, net of income taxes		(285)	(144)	(52)
Income from continuing operations		16,814	16,551	17,704
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:				
Depreciation and amortization		9,173	8,870	8,478
Deferred income taxes		(503)	(279)	(133)
Other operating activities		785	938	602
Changes in certain assets and liabilities, net of effects of acquisitions:				
Receivables, net		(569)	(566)	(614)
Inventories		(1,229)	(1,667)	(2,759)
Accounts payable		2,678	531	1,061
Accrued liabilities		1,249	103	271
Accrued income taxes		166	(1,224)	981
Net cash provided by operating activities		28,564	23,257	25,591
<b>Cash flows from investing activities:</b>				
Payments for property and equipment		(12,174)	(13,115)	(12,898)
Proceeds from the disposal of property and equipment		570	727	532
Proceeds from the disposal of certain operations		671	---	---
Other investing activities		(192)	(138)	(271)
Net cash used in investing activities		(11,125)	(12,526)	(12,637)
<b>Cash flows from financing activities:</b>				
Net change in short-term borrowings		(6,288)	911	2,754
Proceeds from issuance of long-term debt		5,174	7,072	211
Payments of long-term debt		(3,904)	(4,968)	(1,478)
Dividends paid		(6,185)	(6,139)	(5,361)
Purchase of Company stock		(1,015)	(6,683)	(7,600)
Dividends paid to noncontrolling interest		(600)	(426)	(282)
Purchase of noncontrolling interest		(1,844)	(296)	(132)
Other financing activities		(409)	(260)	(58)
Net cash used in financing activities		(15,071)	(10,789)	(11,946)
Effect of exchange rates on cash and cash equivalents		(514)	(442)	223
Net increase (decrease) in cash and cash equivalents		1,854	(500)	1,231
Cash and cash equivalents at beginning of year		7,281	7,781	6,550
Cash and cash equivalents at end of year		\$ 9,135	\$ 7,281	\$ 7,781

See accompanying notes.



# WALMART'S CASH FLOW STATEMENT 2015



## Consolidated Statements of Cash Flows

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Dividends paid to noncontrolling interest		(600)	(426)	(282)
Purchase of noncontrolling interest		(1,844)	(296)	(132)
Other financing activities		(409)	(260)	(58)
<b>Net cash used in financing activities</b>		<b>(15,071)</b>	<b>(10,789)</b>	<b>(11,946)</b>
Effect of exchange rates on cash and cash equivalents		(514)	(442)	223
Net increase (decrease) in cash and cash equivalents		1,854	(500)	1,231
Cash and cash equivalents at beginning of year		7,281	7,781	6,550
<b>Cash and cash equivalents at end of year</b>		<b>\$ 9,135</b>	<b>\$ 7,281</b>	<b>\$ 7,781</b>

See accompanying notes.



# WALMART'S ASSETS 2015

## Consolidated Balance sheets

As of January 31

(Amount in millions)	2015	2014
<b>Assets</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 9,135	\$ 7,281
Receivables, net	6,778	6,677
Inventories	45,141	44,858
Prepaid expenses and other	2,224	1,909
Current assets of discontinued operations	---	460
Total current assets	63,278	61,185
<i>Property and equipment:</i>		
Property and equipment	177,395	173,089
Less accumulated depreciation	(63,115)	(57,725)
Property and equipment, net	114,280	115,364
<i>Property under capital leases:</i>		
Property under capital leases	5,239	5,589
Less accumulated amortization	(2864)	(3,046)
Property under capital leases, net	2,375	2,543
Goodwill	18,102	19,510
Other assets and deferred charges	5,671	6,149
<b>Total assets</b>	<b>\$203,706</b>	<b>\$204,751</b>



# SUMMARY

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In this module, you learned:

- The definition and users of accounting information
- The main financial statements

In the next module, you will learn how to record transactions and prepare basic financial statements.

