

Management accounting techniques of walmart company



Introduction

The aim of the report is to analyse how management accounting can provide information to assist the management of the Wal-Mart's organisation. Firstly, the company of Wal-Mart is deeply described. Therefore before choosing the most appropriate management accounting techniques the processes of Wal-Mart is well understood.

Afterwards, Just In Time, Inventory Management and Economic Quantity Orders techniques are the most appropriate techniques for the company among the many management accounting techniques.

Based on those techniques, it is analyzed to how well Wal-Mart managed.

2. Wal-Mart

Wal-Mart is a multinational corporation that runs a chain of discount departmental stores and warehouse stores. Wal-Mart has achieved tremendous success all over the globe in the recent past. Wal-Mart has expanded its business at a very fast pace which represents the potential of Wal-Mart to grow and the efficiency of its operations. Revenue of the company in accordance with the most recent financial data is \$405 Billion. (Wal-Mart Annual Report 2010) This revenue suggests that Wal-Mart has the potential to become the largest corporation of the world.

2. 1 Its Operation

Wal-Mart's operations are divided into three divisions: Wal-Mart Stores US, Sam's Club, and Wal-Mart International. The biggest operating division of Wal-Mart is Wal-Mart Stores U. S. which include; Wal-Mart Discount Stores,

Wal-Mart Supercenter, Neighbourhood Market by Wal-Mart , Supermercado de Wal-Mart , and Marketside.

2. 2 Its Process

The main business of Wal-Mart is retailing, therefore the most important process for the company is the management of its supply chain. The current success of the operations of Wal-Mart is due to the effectiveness of the logistic policies of Wal-Mart. The business of Wal-Mart is expanded throughout the world therefore the management and recording of the movement of inventory is a challenge for the company. The company has met this challenge efficiently by the use of technology.

Hence, based on The DMSRetailer™, the process of store management is:

Figure 1: Store Management Process (The DMSRetailer™)

2. 3 Its Competitors

As it was written above that Wal-Mart is a multinational company therefore it has many multinational competitors and several smaller retailers. Some of them are:

Table 1: The list of competitors (John Stilgoe, Robert Berner, Jack Ewing, David Fairlamb and Laura Cohn, www. ehow. com, retailindustry. about. com)

In North America

In Canada

In Mexico

In UK

In Germany

Kmart

Hart

Commerical Mexicana

Tesco

Metro

Target

Zellers

Soriana

Sainsbury

Schwarz

ShopKo

The Real Canadian Superstore

Waitrose

Aldi

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Meijer

Giant Tiger

Morrison

Wal-Mart is a secondary player in Germany behind Aldi. Also in UK after Tesco Wal-Mart with Asda brand is the second largest chain.

2. 4 Its Policy

It is the policy of the company to maintain an effective supply chain in order to make the movement of inventory from one place to another more efficient. With the success and expansion of the company, the inventory and warehouse management system of the company becomes more and more sophisticated therefore the key factor in the success of the company is its ability to cope with the challenge of its supply chain.

2. 5 Economic Impact

According Kenneth Stone, Wal-Mart has both positive and negative impacts on economy. The positive impacts are creating new jobs and provide the goods lower price. On the other hand, when Wal-Mart store opens in the small town mostly retail shops are closed because they are not able to competitive with Wal-Mart. (Kenneth Stone, 1997)

3. Management Accounting

Management accounting is only used by the management of the company therefore it is used for internal reporting of an entity rather than for the public disclosure (Weetman, 2002).

3. 1 Uses of Management Accounting

The management of accounts will allow your accounts with original budgets or forecasts to compare, manage your resources better, identify trends in your business, highlight variations in your income or expenses that need attention. (www. businesslink. gov. uk)

Furthermore, In Table 1 illustrates that the management accounting is needed for record keeping, decision making and planning and control.

Table 2: Uses of Management Accounting

Uses of Management Accounting

Record Keeping

Planning and control

Decision making

- recording business transactions
- measuring results of financial changes
- projecting financial effects of future transactions
- preparing internal reports in a user-friendly format
- collecting cash
- controlling stocks
- controlling expenses
- co-ordination and monitoring of strategy/performance

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- monitoring gross margins
- using cost information for pricing, capital investment and marketing
- evaluating market and product profitability
- evaluating the financial effect of strategies and plans

3. 2 Management Accounting Techniques

Management accounting comprises a set of techniques that have proven useful in making decisions regarding revenue and cost data. (www. microbuspub. com)

For each item on the financial statements, there is one or more appropriate technique of management accounting. The Figure 2 illustrates the association of management accounting techniques with particular financial statement items. (www. microbuspub. com)

Figure 2: Association of Management Accounting Techniques with Financial Statement (www. microbuspub. com)

Figure 3: Management Accounting Techniques (www. microbuspub. com)

4. The Key Management Accounting Techniques for Wal-Mart

The key management accounting techniques that I would recommend to Wal-Mart to enhance the sufficiently of its operations are: just in time management and inventory management and economic order quantity techniques.

4. 1 Just In Time Management

“ Just In Time (JIT) is a production and inventory control system in which materials are purchased and units are produced only as needed to meet actual customer demand.” (www. accountingformanagement. com).

The adoption of the JIT philosophy, reducing production time and costs, inventory investment in materials and waste materials, and it results in higher quality goods. Fund not invested in the inventory can be redirected consistent with the goals of the business plan.

JIT systems drive Wal-Mart more accurate costs to be allocated to their products and defined the cost of waste and ineffective operation. Using the JIT systems, Wal-Mart often required replenishing inventory and paying only when they sell the goods, minimizing the resources invested in stock and allows the retailer to focus on offering high-demand merchandise at attractive prices. (Susan V. Crosson, Belverd E. Needles, 2009) The JIT system of Wal-Mart policies is not to hold inventory therefore it leads Wal-Mart's suppliers to have more inventories. (www. inventorymanagement. com) Also Wal-Mart implements ' zero tolerance' policies for late shipments that means they require goods shorter lead times however they abide by received time.

4. 2 Inventory Management

Inventory and methods, or inventory costs and inventory valuation are all techniques and the application of theories used in the process of cost accounting. The basic aim of such techniques is very simple, namely the assessment of the value of the stock. This evaluation is done in two ways,

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namely the evaluation of the total inventory costs and evaluation of the stock of each individual unit. Thus this form of recognition and measurement criteria is broader than the normal accounting. Inventory Management accounting is more beneficial for forecasts and predictions and proceeding to the valuation method of retail inventory. (Scholasticus K, 2010)

Wal-Mart can use inventory management accounting to inventory forecasting and review business decisions rely on financial information. Wal-Mart can lead to a management accounting system to the cost of the assessment and evaluation track vendors or suppliers to determine if stock is available cheaper.

Wal-Mart decrease unproductive inventory by allowing stores to manage their own stocks, reducing pack sizes across many product categories, and timely price markdowns. (Wal-Mart's supply chain management practise)

Hence, Wal-Mart decrease unproductive inventory by using IT system.

Therefore they use M-CAPS inventory program and Market Basket system. Based on M-CAPS reports sales concentration by goods, with Market Basket system helps to track what customers combine in their shopping cart; and Customer Insights, a demographic profiling system for Wal-Mart sales areas. (Charles Atkinson, 2006). According to CEO of Wal-Mart, this software supports Wal-Mart managing inventory levels thus with better inventory managing, it adds benefit by reducing the number of distribution centres.

4. 2. 1 Economic Order Quantity Techniques (EOQ)

For the sufficient levels of inventory, it is necessary to get the right amount of inventory at the right time to maximize the benefits of holding inventory <https://assignbuster.com/management-accounting-techniques-of-walmart-company/>

against its depreciations and costs with the Economic Order Quantity (EOQ).

(Darrell Victor)

The full equation is as follows (www. investopedia. com):

S = Setup costs

D = Demand rate

P = Production cost

I = Interest rate (considered an opportunity cost, so the risk-free rate can be used)

The EOQ formula can be adapted to settle on production levels or order interval lengths. (www. investopedia. com) Furthermore, The EOQ is used by large companies which are especially the large supply chains.

Wal-Mart, as mentioned above, runs a quite efficient JIT system and Inventory management thus Wal-Mart only orders a small batches when they are necessary. That is logical because the factors that decide batch size, as derived from the EOQ, are holding costs, demand, and ordering costs.

(Charles Atkinson, 2006)

Wal-Mart sells the good as a lowest price around the world. Because of relationship between the price and the quantity demanded which is described an economic law. " The Law of demand says that quantity demanded varies inversely with price, other things constant." (William A. McEachern, 2009) That means when the price is higher the quantity

demanded is smaller; when the price is lower the quantity demanded is greater.

5. Limitation of the Key Management Accounting Techniques

Table 3: The Key Management Accounting Techniques

The Key Management Accounting Techniques

Just In Time Management

Inventory Management

Economic Order Quantity

Strengths

1. Funds can be used somewhere else instead of inventories.
 2. Reduce to use an area as storing inventories
 3. Reduce the time
 4. Reduce to waste 5. Increase the customer satisfaction.
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1. Served the customer quickly and conveniently
 2. Used to buy in bulk therefore it will be cheaper
 3. Allows meeting unexpected surges in demand
 4. Is insurance when an unexpected interruption happens in supply
 5. Inventory allows different parts of the operation to be 'decoupled'.

1. Reduce the inventory investments 2. No assumptions about ordering and carrying costs are needed 3. No new data or management practices are required 4. No investments in hardware or software are necessary

Weaknesses

1. May be difficult and expensive to introduce

2. Opens businesses to a number of risks 3. With no stocks it is easy to fall back

1. Expensive
2. Items might depreciate
3. Products might become out of date
4. Stock might be mixing up

Conclusion

Overall, there is not certain way to define certain techniques of management accounting to certain sectors or company. However, some of them more appropriate in particular company than others because the special advantages of them might create a competitive advantage for the company like Wal-Mart. Also Wal-Mart runs JIT system with Inventory Management. Therefore Wal-Mart combine both them thus they get all advantages and make up all disadvantages by integrating their strengths.

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