

# [The allocation problem session long project 4 (walmart) accounting](https://assignbuster.com/the-allocation-problem-session-long-project-4-walmart-accounting/)

XXXXX Number: XXXX XXXXX XXXXX XXXXXX XX – XX - Treatment of Allocated Costs (Wal-Mart)   
In any organization, irrespective of their scales of operations, common costs are incurred that need to be allocated across products or services or divisions, and Wal-Mart is no exception. This report aims at analyzing the common costs that are allocated to various divisions. The information required for this analysis is extracted from the annual reports of the company. The common costs are then provided in a consolidated report and the effects on the performance of the divisions with these costs removed are also analyzed. The information is taken from the 2010 annual report of Wal-Mart. The company allocates its administrative expenses to all the divisions and these common costs are used in this analysis.   
From the annual report of Wal-Mart, the incomes from various divisions are gathered. The administrative expenses are then allocated to each division. The allocation depends on a number of factors including the scale of operations in the division, number of stores operating in the division and the revenue generated (Wal-Mart Financial Review). The incomes from various divisions are presented below:   
Wal-Mart with allocation of fixed costs (in $ million)   
Division   
Revenue   
Operating Expenses   
Administrative Costs   
Net Income   
Consolidated   
405, 046   
297, 096   
84, 000   
23, 950   
Wal-Mart US   
258, 229   
182, 707   
56, 000   
19, 522   
International   
100, 107   
65, 074   
30, 000   
5, 033   
Sams Club   
46, 710   
36, 198   
9, 000   
1, 512   
Other   
0   
912   
1, 205   
-2, 117   
(Wal-Mart)   
The above report indicates that the Wal-Mart U S has the highest profit margin standing at 7. 5 % ($ 19522 million / $ 258, 229 million). However the International division has a low profit margin at 5 %. These performances are based on the incomes generated after taking the common costs into account. In order to identify the actual performance of the various divisions, the report is recast without taking the common costs into consideration.   
Wal-Mart without allocation of fixed costs (in $ million)   
Division   
Revenue   
Operating Expenses   
Net Income   
Consolidated   
405, 046   
297, 096   
107, 950   
Wal-Mart US   
258, 229   
182, 707   
75, 522   
International   
100, 107   
65, 074   
35, 033   
Sams Club   
46, 710   
36, 198   
10, 512   
Other   
0   
912   
-912   
The recast report above without the unallocated common costs (administrative expenses, in this case) reveals that the International division contributes significantly towards the total income and towards covering the common costs. It is a known fact that the administrative expenses are hard to predict and are very unstable in large organizations. Hence the above report without the administrative expenses can be used to predict or estimate future performance of the divisions.   
Conclusion:   
Thus the common costs (in this case, the advertising expenses) are analyzed for Wal-Mart. The recast report with the unallocated costs reveals a number of facts about the profitability, thus giving a clear picture of the performance of the various divisions. This information without the allocated common costs can be useful in analyzing the contribution of the division to the company as a whole.   
Works Cited   
Wal-Mart Financial Review. Wal-Mart - Notes to Financial Statements. 2010. 11 September 2010 .   
Wal-Mart. Wal-Mart 2010 Annual Report. 2010. 11 September 2010 .