

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

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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 <https://assignbuster.com/the-allocation-problem-session-long-project-4-walmart-accounting/>

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

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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 .