

Wall street journal

Finance



Kohl's Earnings Hurt by Markdowns Executive Summary Several factors determine the success of any business. This paper is basically an analysis of an article on the Wall Street Journal on how Kohl's Corporation Department Store earnings were affected by markdowns. In fact, due to the markdowns, the profits for the company fell by 17% where its operator margin cleared out inventories as a result of markdowns. This organization's failure was as a result of the organization falling short on capitalizing on several issues. The paper also explores two primary bases for accounting for inventories which are critical in business management and accounting, and relates them to this company's case. These bases are First-in, first-out (FIFO) and Last-in, first-out (LIFO).

Discussion

Kohl's Corporation Department Store earnings fell by 17%. Its operator's margin was hurt by markdowns to clear out inventory. Their rival's dismal performance was projected to fair well for them but unfortunately, this was not the case. Kohl's Corp. fell short to capitalize on it and to some extent, it contributed in its poor performance. Chief Executive, Kevin Mansell, confessed that growth was not at the rate they had planned. They did not serve their customers at the standard they had set for themselves. Kohl's Corp. has about 1, 146 stores in 49 states, their main competitors being Macys Inc. and J. C. Penney (Talley & Tess).

There are two primary bases for accounting of inventories:

1. FIFO

First-in, first-out (FIFO) is the most common inventory accounting method which assumes that the oldest inventory is used first. This method reflects how transactions actually occur. Accounting rules do not necessitate the <https://assignbuster.com/wall-street-journal/>

inventory accounting method used by the company to be the same as the physical movement of goods but for companies selling via inventory supplies frequently, complexity in record-keeping is significantly reduced due to the matching movement of goods to the accounting method used. During periods when prices are rising, inventory cost is higher as compared with companies using LIFO method (Tracy 12).

2. LIFO

Last-in, first-out (LIFO) is another method of accounting for inventories. LIFO method assumes that the most recently purchased inventory is used first, which rarely matches the physical movement of inventories. Generally, when prices go up over time during the accounting period, the most expensive items in inventory are sold, reducing the net income, thus a lower tax liability becomes the end result. Companies which opt for LIFO valuation should be conscious of layering effect which can cause high tax liabilities which are not expected during high inventory usage periods (Talley & Tess). There are different ways to determine cost for inventory purposes. The following are ways to go about it:

Determining the time period, for example, to determine the inventory cost over a monthly time period.

Determining the beginning of inventory. This is the inventory value when the month begins, for example, the beginning inventory may be valued at \$30,000.

Adding up the inventory purchase cost over the period of time being evaluated. For example, you can purchase \$10,000 in inventory over the last month.

Taking physical count of the cost of the inventory regularly. For example, the <https://assignbuster.com/wall-street-journal/>

end month value of inventory can be \$5, 000.

Calculating the cost of inventory: The following formula is used:

Inventory Cost = initial Inventory + Inventory Purchases - final Inventory.

Therefore the calculation will be:

$\$30,000 + \$10,000 - \$5,000 = \$35,000.$

Conclusion

According to Mr. Mansell, the sales for the fourth quarter developed very late, thus having a negative effect on their profitability. In general, Kohl's Corp. had a series of both successes and failures throughout the year, with the gross margin falling to 33. 3% from 36. 2%, and overhead costs growing by 2. 9%. Recently, Kohls Corp. reported that total sales for the quarter had risen to 5. 45% (\$6. 34 b) after the inclusion of additional week of sales.

What Kohl's Corp. could do to curb this markdown and thus boost their performance as seen, is to apply primary bases for accounting of inventories and maybe also apply different ways to determine costs for inventory purposes. When it comes to matters of finance especially in this highly volatile and dynamic economy, there is no company that realizes profits in a linear progression manner. This is what is seen with Kohl's Corp. where even despite their main rivals having a dismal performance, their growth was hampered. This also means that your rivals fall is not necessarily your success (Talley & Tess).

Works Cited

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