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The first case at the end of this chapter and numerous subsequent chapters is a series of integrative cases involving **Walmart, Inc. (Walmart)**. The series of cases applies the concepts and analytical tools discussed in each chapter to Walmart's financial statements and notes. The preparation of responses to the questions in these cases results in an integrated illustration of the six sequential steps in financial statement analysis discussed in this chapter and throughout the book.

## Introduction

Walmart is a very large chain of retail stores selling consumer goods. As it states in its Form 10-K for fiscal 2020:

Walmart Inc. ("Walmart," the "Company" or "we") helps people around the world save money and live better - anytime and anywhere - by providing the opportunity to shop in retail stores and through eCommerce. Through innovation, we strive to continuously improve a customer-centric experience that seamlessly integrates our eCommerce and retail stores in an omnichannel offering that saves time for our customers. Each week, we

serve over 265 million customers who visit approximately 11,500 stores and numerous eCommerce websites under 56 banners in 27 countries.

Our strategy is to make every day easier for busy families, operate with discipline, sharpen our culture and become digital, and make trust a competitive advantage. Making life easier for busy families includes our commitment to price leadership, which has been and will remain a cornerstone of our business, as well as increasing convenience to save our customers time. By leading on price, we earn the trust of our customers every day by providing a broad assortment of quality merchandise and services at everyday low prices (“EDLP”). EDLP is our pricing philosophy under which we price items at a low price every day so our customers trust that our prices will not change under frequent promotional activity. Everyday low cost (“EDLC”) is our commitment to control expenses so our cost savings can be passed along to our customers.

Our operations comprise three reportable segments: Walmart U.S., Walmart International and Sam’s Club. Our fiscal year ends on January 31 for our United States (“U.S.”) and Canadian operations. We consolidate all other operations generally using a one-month lag and on a calendar year basis.

For more detailed discussion of Walmart’s stores, products, customers, and business model, visit the company’s website: [www.corporate.walmart.com](http://www.corporate.walmart.com).

## Financial Statements

[Exhibit 1.19](#) presents comparative balance sheets, [Exhibit 1.20](#) presents comparative income statements, [Exhibit 1.21](#) presents statements of comprehensive income, and [Exhibit 1.22](#) presents comparative statements of cash flows for Walmart for the three fiscal years ending January 31, 2019, 2020, and 2021. Because Walmart's fiscal year end occurs at the end of January, we refer to the calendar years ended January 31, 2019, 2020 and 2021 as fiscal years 2018, 2019, and 2020, respectively, because 11/12 of the months falls in these latter years. Firms vary in their practice of referring to their own fiscal year based on this convention or the calendar year in which the year end falls. However, from an analyst's perspective, it is helpful to reference fiscal years consistently across companies, for example, because it is more appropriate to compare, say, Walmart's 2020 results (as we reference) to a firm with a December 31, 2020 fiscal year end. Walmart prepares its financial statements in accordance with U.S. GAAP. For more detail on Walmart financial statements, or to download the fiscal 2020 Form 10-K, you can visit Walmart's investor relations page: [stock.walmart.com/investors/default.aspx](http://stock.walmart.com/investors/default.aspx).

**Exhibit 1.19** Walmart, Inc. Balance Sheets (Amounts in Millions; Allow for Rounding) (Integrative Case 1.1)

	2019	2020	2021
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 7,722	\$ 9,465	\$ 17,741
Receivables, net	6,283	6,284	6,516
Inventories	44,269	44,435	44,949
Prepaid expenses and other	3,623	1,622	20,861
<b>Total current assets</b>	<b>\$ 61,897</b>	<b>\$ 61,806</b>	<b>\$ 90,067</b>
Property and equipment, net	104,317	105,208	92,201
Operating lease right-of-use assets	—	17,424	13,642
Finance lease right-of-use assets, net	7,078	4,417	4,005
Goodwill	31,181	31,073	28,983
Other long-term assets	14,822	16,567	23,598
<b>TOTAL ASSETS</b>	<b>\$219,295</b>	<b>\$236,495</b>	<b>\$252,496</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings	\$ 5,225	\$ 575	\$ 224
Accounts payable	47,060	46,973	49,141
Accrued liabilities	22,159	22,296	37,966
Accrued income taxes	428	280	242
Long-term debt due within one year	1,876	5,362	3,115
Operating lease obligations due within one year	—	1,793	1,466
Finance lease obligations due within one year	729	511	491
<b>Total current liabilities</b>	<b>\$ 77,477</b>	<b>\$ 77,790</b>	<b>\$ 92,645</b>
Long-term debt	43,520	43,714	41,194
Long-term operating lease obligations	—	16,171	12,909
Long-term finance lease obligations	6,683	4,307	3,847
Deferred income taxes and other	11,981	12,961	14,370
Commitments and contingencies			
Equity:			
Common stock	288	284	282
Capital in excess of par value	2,965	3,247	3,646
Retained earnings	80,785	83,943	88,763
Accumulated other comprehensive loss	(11,542)	(12,805)	(11,766)
Total Walmart shareholders' equity	\$ 72,496	\$ 74,669	\$ 80,925
Noncontrolling interest	7,138	6,883	6,606
<b>Total equity</b>	<b>\$ 79,634</b>	<b>\$ 81,552</b>	<b>\$ 87,531</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$219,295</b>	<b>\$236,495</b>	<b>\$252,496</b>

## Exhibit 1.20 Walmart, Inc. Income Statements (Allow for Rounding) (Integrative Case 1.1)

	2018	2019	2020
<b>Net sales</b>	<b>\$510,329</b>	<b>\$519,926</b>	<b>\$555,233</b>
Membership and other income	4,076	4,038	3,918
<b>Total revenues</b>	<b>\$514,405</b>	<b>\$523,964</b>	<b>\$559,151</b>
Cost of sales	385,301	394,605	420,315
Operating, selling, general, and administrative expenses	107,147	108,791	116,288
<b>Operating income</b>	<b>\$ 21,957</b>	<b>\$ 20,568</b>	<b>\$ 22,548</b>
Interest:			
Debt	1,975	2,262	1,976
Finance, capital lease, and financing obligations	371	337	339
Interest income	(217)	(189)	(121)
Interest, net	\$ 2,129	\$ 2,410	\$ 2,194
Other (gains) and losses	8,368	(1,958)	(210)
<b>Income before income taxes</b>	<b>\$ 11,460</b>	<b>\$ 20,116</b>	<b>\$ 20,564</b>
Provision for income taxes	4,281	4,915	6,858
<b>Consolidated net income</b>	<b>\$ 7,179</b>	<b>\$ 15,201</b>	<b>\$ 13,706</b>
Consolidated net income attributable to noncontrolling interest	(509)	(320)	(196)
<b>Consolidated net income attributable to Walmart</b>	<b>\$ 6,670</b>	<b>\$ 14,881</b>	<b>\$ 13,510</b>
<b>Net income per common share:</b>			
Basic net income per common share attributable to Walmart	2.28	5.22	4.77
Diluted net income per common share attributable to Walmart	2.26	5.19	4.75
<b>Weighted-average common shares outstanding:</b>			
Basic	2,929	2,850	2,831
Diluted	2,945	2,868	2,847
Dividends declared per common share	2.08	2.12	2.16

## Exhibit 1.21 Walmart, Inc. Consolidated Statements of Comprehensive Income

(Amounts in millions)	2018	2019	2020
<b>Consolidated net income</b>	<b>\$7,179</b>	<b>\$15,201</b>	<b>\$13,706</b>
Consolidated net income attributable to noncontrolling interest	(509)	(320)	(196)
<b>Consolidated net income attributable to Walmart</b>	<b>\$6,670</b>	<b>\$14,881</b>	<b>\$13,510</b>
<b>Other comprehensive income (loss), net of income taxes</b>			
Currency translation and other	(226)	286	842
Net investment hedges	272	122	(221)
Cash flow hedges	(290)	(399)	235
Minimum pension liability	131	(1,244)	(30)
<b>Other comprehensive income (loss), net of income taxes</b>	<b>\$ (113)</b>	<b>\$ (1,235)</b>	<b>\$ 826</b>
Other comprehensive (income) loss attributable to noncontrolling interest	188	(28)	213
<b>Other comprehensive income (loss) attributable to Walmart</b>	<b>75</b>	<b>(1,263)</b>	<b>1,039</b>
<b>Comprehensive income, net of income taxes</b>	<b>\$7,066</b>	<b>\$13,966</b>	<b>\$14,532</b>
Comprehensive (income) loss attributable to noncontrolling interest	(321)	(348)	17
<b>Comprehensive income attributable to Walmart</b>	<b>\$6,745</b>	<b>\$13,618</b>	<b>\$14,549</b>

## Exhibit 1.22 Walmart, Inc. Statements of Cash Flows for the (Amounts in Millions; Allow for Rounding) (Integrative Case 1.1)

	2018	2019	2020
<b>Cash flows from operating activities:</b>			
Consolidated net income	\$ 7,179	\$ 15,201	\$ 13,706
Adjustments to reconcile consolidated net income to net cash provided by operating activities:			
Depreciation and amortization	10,678	10,987	11,152
Net unrealized and realized (gains) and losses	3,516	(1,886)	(8,589)
Losses on disposal of business operations	4,850	15	8,401
ASDA pension contribution	—	(1,036)	—
Deferred income taxes	(499)	320	1,911
Other operating activities	1,734	1,981	1,521
Changes in certain assets and liabilities, net of effects of acquisitions and dispositions:			
Receivables, net	(368)	154	(1,086)
Inventories	(1,311)	(300)	(2,395)
Accounts payable	1,831	(274)	6,966
Accrued liabilities	183	186	4,623
Accrued income taxes	(40)	(93)	(136)
<b>Net cash provided by operating activities</b>	<b>\$ 27,753</b>	<b>\$ 25,255</b>	<b>\$ 36,074</b>
<b>Cash flows from investing activities:</b>			
Payments for property and equipment	(10,344)	(10,705)	(10,264)
Proceeds from the disposal of property and equipment	519	321	215
Proceeds from the disposal of certain operations	876	833	56
Payments for business acquisitions, net of cash acquired	(14,656)	(56)	(180)
Other investing activities	(431)	479	102
<b>Net cash used in investing activities</b>	<b>\$(24,036)</b>	<b>\$ (9,128)</b>	<b>\$(10,071)</b>
<b>Cash flows from financing activities:</b>			
Net change in short-term borrowings	(53)	(4,656)	(324)
Proceeds from issuance of long-term debt	15,872	5,492	—
Repayments of long-term debt	(3,784)	(1,907)	(5,382)
Dividends paid	(6,102)	(6,048)	(6,116)
Purchase of company stock	(7,410)	(5,717)	(2,625)
Dividends paid to noncontrolling interest	(431)	(555)	(434)
Other financing activities	(629)	(908)	(1,236)
<b>Net cash used in financing activities</b>	<b>\$ (2,537)</b>	<b>\$(14,299)</b>	<b>\$(16,117)</b>
Effect of exchange rates on cash, cash equivalents, and restricted cash	\$ (438)	\$ (69)	\$ 235
<b>Net increase in cash, cash equivalents, and restricted cash</b>	<b>\$ 742</b>	<b>\$ 1,759</b>	<b>\$ 10,121</b>
Cash and cash equivalents reclassified as assets held for sale	—	—	\$ (1,848)
Cash, cash equivalents, and restricted cash at beginning of year	7,014	7,756	9,515
<b>Cash, cash equivalents, and restricted cash at end of year</b>	<b>\$ 7,756</b>	<b>\$ 9,515</b>	<b>\$ 17,788</b>
<b>Supplemental disclosure of cash flow information:</b>			
Income taxes paid	3,982	3,616	5,271
Interest paid	2,348	2,464	2,216

### Required

Respond to the following questions relating to Walmart.

### Industry and Strategy Analysis

- Apply Porter's five forces framework to the retail industry.
- How would you characterize the strategy of Walmart? How does Walmart create value for its customers? What critical risk and success factors must

Walmart manage?

## Balance Sheet

- c. Describe how “cash” differs from “cash equivalents.”
- d. What are Walmart’s two largest assets on the balance sheet (in dollar amounts)? How do these assets reflect Walmart’s strategy?
- e. Walmart reports accounts receivable *net* of an allowance for uncollectible accounts. Why? Identify the events or transactions that cause accounts receivable to increase and decrease. Also identify the events or transactions that cause the allowance account to increase and decrease.
- f. How does accumulated depreciation on the balance sheet differ from depreciation expense on the income statement?
- g. What is Walmart’s largest current liability in dollar amount? What does it represent?
- h. What is Walmart’s largest liability in dollar amount? In what types of assets did Walmart likely invest this financing?
- i. What does Walmart report in accumulated other comprehensive income (loss)? What does this amount represent? When, if ever, will these gains and losses appear in net income?

## Income Statement

- j. What type of transaction gives rise to the primary source of Walmart’s revenues? At the end of each fiscal year, what does Walmart have to estimate to measure total (net) revenues for the fiscal year?

- k. What types of expenses does Walmart likely include in (1) cost of goods sold and (2) selling, general, and administrative expenses?
- l. Walmart reports interest expense that is much larger than interest income. Why?

### **Statement of Cash Flows**

- m. Why does net income differ from the amount of cash flow from operating activities?
- n. Why does Walmart add the amount of depreciation and amortization expense to net income when computing cash flow from operating activities?
- o. Why does Walmart show increases in inventory as subtractions when computing cash flow from operations?
- p. Why does Walmart show increases in accounts payable as additions when computing cash flow from operations?
- q. What was the single largest use of cash by Walmart during this three-year period? How does that use of cash reflect Walmart's business strategy?
- r. What was Walmart's single largest use of cash for financing activities during this three-year period? What does that imply about Walmart's financial position and performance?

### **Relations between Financial Statements**

- s. Prepare an analysis that explains the change in retained earnings from \$83,943 million at the end of fiscal 2019 to \$88,763 million at the end of fiscal 2020. Note that Walmart is somewhat unusual in that they have a stock repurchase program where repurchased stock is "constructively

retired and returned to an unissued status” (according to the Form 10-K). Thus, whereas most firms’ stock repurchases appear as a deduction within shareholders’ equity titled, “treasury shares,” Walmart instead reduces retained earnings directly. Do not be alarmed if your reconciliation is close to, but does not exactly equal, the \$88,763 million ending balance.

### **Interpreting Financial Statement Relations**

[Exhibit 1.23](#) presents common-size and percentage change balance sheets and [Exhibit 1.24](#) presents common-size and percentage change income statements for Walmart for fiscal years ended 2018, 2019, and 2020. The percentage change statements report the annual percentage change in each account from fiscal 2018 to 2019, and from fiscal 2019 to 2020.

- t. The percentage changes in prepaid expenses and other current assets jumped up 1,186.1% in fiscal 2020. Did the changes in the dollar amounts of this account have a huge impact on total assets (see [Exhibit 1.23](#))? Explain.
- u. During this three-year period, how did the proportion of total liabilities change relative to the proportion of shareholders’ equity? What does this imply about changes in Walmart’s leverage?
- v. How did net income as a percentage of total revenues change from fiscal 2018 to fiscal 2020? Identify the most important reasons for this change.
- w. Does Walmart generate high or low profit margins? How do Walmart’s profit margins relate to the company’s strategy?

### **Exhibit 1.23 Walmart Stores, Inc. Common-Size and Percentage Change Balance Sheets (Amounts in Millions;**

## Allow for Rounding) (Integrative Case 1.1)

	Common Size			Percentage Change	
	2019	2020	2021	2020	2021
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	3.5%	4.0%	7.0%	22.6%	87.4%
Receivables, net	2.9%	2.7%	2.6%	0.0%	3.7%
Inventories	20.2%	18.8%	17.8%	0.4%	1.2%
Prepaid expenses and other	1.7%	0.7%	8.3%	(55.2%)	1186.1%
<b>Total current assets</b>	<b>28.2%</b>	<b>26.1%</b>	<b>35.7%</b>	<b>(0.1%)</b>	<b>45.7%</b>
Property and equipment, net	47.6%	44.5%	36.5%	0.9%	(12.4%)
Operating lease right-of-use assets	0.0%	7.4%	5.4%	na	(21.7%)
Finance lease right-of-use assets, net	0.0%	1.9%	1.6%	na	(9.3%)
Goodwill	14.2%	13.1%	11.5%	(0.3%)	(6.7%)
Other long-term assets	6.8%	7.0%	9.3%	11.8%	42.4%
<b>Total assets</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7.8%</b>	<b>6.8%</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities</b>					
Short-term borrowings	2.4%	0.2%	0.1%	(89.0%)	(61.0%)
Accounts payable	21.5%	19.9%	19.5%	(0.2%)	4.6%
Accrued liabilities	10.1%	9.4%	15.0%	0.6%	70.3%
Accrued income taxes	0.2%	0.1%	0.1%	(34.6%)	(13.6%)
Long-term debt due within one year	0.9%	2.3%	1.2%	185.8%	(41.9%)
Operating lease obligations due within one year	0.0%	0.8%	0.6%	na	(18.2%)
Finance lease obligations due within one year	0.3%	0.2%	0.2%	(29.9%)	(3.9%)
<b>Total current liabilities</b>	<b>35.3%</b>	<b>32.9%</b>	<b>36.7%</b>	<b>0.4%</b>	<b>19.1%</b>
Long-term debt	19.8%	18.5%	16.3%	0.4%	(5.8%)
Long-term operating lease obligations	0.0%	6.8%	5.1%	na	(20.2%)
Long-term finance lease obligations	3.0%	1.8%	1.5%	(35.6%)	(10.7%)
Deferred income taxes and other	5.5%	5.5%	5.7%	8.2%	10.9%
Common stock	0.1%	0.1%	0.1%	(1.4%)	(0.7%)
Capital in excess of par value	1.4%	1.4%	1.4%	9.5%	12.3%
Retained earnings	36.8%	35.5%	35.2%	3.9%	5.7%
Accumulated other comprehensive loss	(5.3%)	(5.4%)	(4.7%)	10.9%	(8.1%)
<b>Total Walmart shareholders' equity</b>	<b>33.1%</b>	<b>31.6%</b>	<b>32.1%</b>	<b>3.0%</b>	<b>8.4%</b>
Noncontrolling interest	3.3%	2.9%	2.6%	(3.6%)	(4.0%)
<b>Total equity</b>	<b>36.3%</b>	<b>34.5%</b>	<b>34.7%</b>	<b>2.4%</b>	<b>7.3%</b>
<b>Total liabilities and equity</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>7.8%</b>	<b>6.8%</b>

## Exhibit 1.24 Walmart Stores, Inc. Common-Size and Percentage Change Income Statements (Amounts in Millions, Except per Share Data; Allow for Rounding) (Integrative Case 1.1)

	Common Size			Percentage Change	
	2018	2019	2020	2019	2020
<b>Net sales</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.9%</b>	<b>6.8%</b>
Membership and other income	0.8%	0.8%	0.7%	(0.9%)	(3.0%)
<b>Total revenues</b>	<b>100.8%</b>	<b>100.8%</b>	<b>100.7%</b>	<b>1.9%</b>	<b>6.7%</b>
Cost of sales	75.5%	75.9%	75.7%	2.4%	6.5%
Operating, selling, general and administrative expenses	21.0%	20.9%	20.9%	1.5%	6.9%
<b>Operating income</b>	<b>4.3%</b>	<b>4.0%</b>	<b>4.1%</b>	<b>(6.3%)</b>	<b>9.6%</b>
Interest:					
Debt	0.4%	0.4%	0.4%	14.5%	(12.6%)
Finance, capital lease, and financing obligations	0.1%	0.1%	0.1%	(9.2%)	0.6%
Interest income	0.0%	0.0%	0.0%	(12.9%)	(36.0%)
Interest, net	0.4%	0.5%	0.4%	13.2%	(9.0%)
Other (gains) and losses	1.6%	(0.4%)	0.0%	(123.4%)	(89.3%)
<b>Income before income taxes</b>	<b>2.2%</b>	<b>3.9%</b>	<b>3.7%</b>	<b>75.5%</b>	<b>2.2%</b>
Provision for income taxes	0.8%	0.9%	1.2%	14.8%	39.5%
<b>Consolidated net income</b>	<b>1.4%</b>	<b>2.9%</b>	<b>2.5%</b>	<b>111.7%</b>	<b>(9.8%)</b>
Consolidated net income attributable to noncontrolling interest	(0.1%)	(0.1%)	0.0%	(37.1%)	(38.8%)
<b>Consolidated net income attributable to Walmart</b>	<b>1.3%</b>	<b>2.9%</b>	<b>2.4%</b>	<b>123.1%</b>	<b>(9.2%)</b>

## **Case 1.2. Nike: Somewhere between a Swoosh and a Slam Dunk**