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Report of Examination of the Accounts of

THE ASSOCIATED STUDENTS BOOKSTORE
OF THE UNIVERSITY OF ARIZONA

July 1, 1960 to June 30, 1961

Report No. 69

Office of the General Examiner
for the Board of Regents of
The Universities and State College of Arizona

EXAMINATION OF BOOKSTORE ACCOUNTS

AT THE UNIVERSITY OF ARIZONA

To the Board of Regents of the
Universities and State College of Arizona:

The report covering our examination of the accounts of
the Associated Students Bookstore of the University of Arizona
for the fiscal year ended June 30, 1961 is submitted herewith.

We have reviewed the accounting procedures of the Bookstore
in the light of steadily increasing sales volumes. Our review
has led to a number of recommendations looking toward improvement
of internal check and control. Since these recommendations are
procedural in nature and do not involve policy decisions, we have
incorporated them in a supplemental letter. The supplemental
letter has been directed to the University Comptroller and Treas-
urer, with copies to the Associated Students and Bookstore
Managers.

Respectfully submitted,

Alfred B. Nettleton

Alfred B. Nettleton
General Examiner

Sylvester A. Morey

Sylvester A. Morey
Examiner

September 21, 1961

The Associated Students Bookstore

of the University of Arizona

EXAMINATION REPORT

July 1, 1960 to June 30, 1961

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THE ASSOCIATED STUDENTS BOOKSTORE

OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

July 1, 1960 to June 30, 1961

Introduction

For a number of years we have prepared one examination report for the Associate Students including both Activities and Bookstore. The annual volume of the Bookstore's sales has now become so large, and the nature of its operation is so different from the Activities, that we have felt separate reports for each of the two major areas of the Associated Students should be issued. Accordingly, this report deals only with our examination of Bookstore accounts. Activities accounts will be covered in a separate, subsequent report.

Comments on Operating Results (Exhibit A)

Comparison of 1960-61 Results with 1959-60

The Bookstore's operating results, shown in detail in Exhibit A, are summarized as follows:

	<u>1960-61</u>		<u>1959-60</u>	
	<u>Amount</u>	<u>Per Cent</u>	<u>Amount</u>	<u>Per Cent</u>
Net Sales	\$ 645,693	100.0	\$ 577,121	100.0
Cost of Goods Sold	<u>472,206</u>	<u>73.1</u>	<u>454,875</u>	<u>78.8</u>
<u>Gross Margin on Sales</u>	173,487	26.9	122,246	21.2
Operating Expenses	<u>94,767</u>	<u>14.7</u>	<u>79,809</u>	<u>13.8</u>
<u>Net Operating Income</u>				
<u>from Sales</u>	78,720	12.2	42,437	7.4
Interest Income	<u>782</u>	<u>.1</u>	<u>1,677</u>	<u>.2</u>
<u>Total Net Operating Income</u>	79,502	12.3	44,114	7.6
Transferred to Activities and Intercollegiate Athletics	<u>12,300</u>	<u>1.9</u>	<u>12,300</u>	<u>2.1</u>
<u>Added to Surplus</u>	\$ <u>67,202</u>	<u>10.4</u>	\$ <u>31,814</u>	<u>5.5</u>

The following comments are made with respect to the items in the above table:

1. Net sales increased \$68,572 (11.9%) in 1960-61 over 1959-60.

2. Gross margin on sales increased 5.7%. It will be recalled that the per cent of gross margin declined 3% in 1959-60 compared with 1958-59. The increase in this percentage in 1960-61 reflects the restoration of the reduction of the preceding year, plus an additional increase due to certain changes in pricing policy and merchandise sources.

3. Total operating expenses increased .9% of sales. Expense categories which increased proportionally more than net sales includes salaries and wages (.2%), office expense (.25%), advertising (.2%), and Business Office service charge (.5%). The increase in Business Office service charge expense is caused by the accrual of the 1960-61 charge in the 1960-61 accounts in addition to the 1959-60 charge, which was paid in 1960-61. The inclusion of two years' service charges in 1960-61 brings this expense account to a current basis.

4. Total net operating income increased \$35,388 (4.7% of net sales) because of the 5.7% increase in gross margin, partially offset by the increase in the total operating expense ratio.

Enlargement of the Bookstore

A second floor (approximately 5,000 square feet) is scheduled to be added to the present Bookstore building during the 1961-62 fiscal year. Cost estimates for the building addition and necessary fixtures and equipment are not finalized at this time but will probably aggregate approximately \$185,000, according to the Bookstore Manager.

The enlargement project will require the use of most of the Bookstore's cash balance, and may cause some loss of business during certain stages of construction. After 1961-62 the additional selling area to be provided should result in increased sales.

Balance Sheet Comments (Exhibit B)

Those balance sheet items which are considered to need comment or clarification are discussed below:

Cash on Deposit at Business Office \$155,040

The Bookstore's deposit balance at June 30, 1961 was \$76,725 greater than at the close of the preceding year. The increase in funds on hand approximates the net income for the year 1960-61 plus depreciation of building and equipment. The relatively large cash balance will be required to finance the building addition referred to previously.

Due from Vendors for Returned Merchandise \$ 10,593

The total amount due from vendors for returned merchandise at June 30, 1961 decreased \$6,326 from the comparable total at June 30, 1960. This reduction reflects careful judgment and close follow-up by the Bookstore management throughout the year.

Prepaid Purchases and Expenses \$ 5,124

This item represents merchandise invoices charged to the Bookstore by the Business Office as of June 30, 1961 covering merchandise not included in the Bookstore's year-end inventory. Prepaid warehouse rent of \$165 is also included.

Inventory of Merchandise \$171,076

The total estimated cost of merchandise on hand at June 30, 1961 was \$3,537 more than at June 30, 1960. This is a very small increase in inventory compared with the increase in sales volume.

Earned Surplus \$480,112

Earned surplus increased \$67,202 during 1960-61, which is the amount of the total net income of the Bookstore in 1960-61.

In previous years, the balance sheets included with our reports have shown surplus distributed between reserves (reserve for working capital and reserve for investment in fixed assets) and the unappropriated balance. We have discontinued this method of allocating surplus in the balance sheet for June 30, 1961, because it appeared to serve no useful purpose. Instead, we have stated earned surplus in one amount, with the preceding year's earned surplus indicated comparably.

Comments on Accounting Procedures

As stated in the transmittal letter included in the report, we have reviewed the accounting procedures of the Bookstore in relation to the present and anticipated future sales volume. The recommendations resulting from this review are procedural and are not set forth in this report. They have been presented in a supplemental letter to the administrators directly involved.

The Associated Students of the University of ArizonaBOOKSTOREStatement of Income and ExpensesFor the Years Ended June 30, 1961 and 1960

	<u>1960-61</u>		<u>1959-60</u>		Amount Increase (Decrease)
	<u>Amount</u>	<u>% of Net Sales</u>	<u>Amount</u>	<u>% of Net Sales</u>	
Net Sales	\$ <u>645,693</u>	100.00	\$ <u>577,121</u>	100.00	\$ 68,572
<u>Cost of Goods Sold</u>					
Inventory, Beginning	167,539		128,093		
Purchases (Incl. Trans.)	<u>475,743</u>		<u>494,321</u>		
Total	643,282		622,414		
Inventory, Ending	<u>171,076</u>		<u>167,539</u>		
<u>Cost of Goods Sold</u>	<u>472,206</u>	<u>73.13</u>	<u>454,875</u>	<u>78.82</u>	17,331
<u>Gross Margin on Sales</u>	<u>173,487</u>	<u>26.87</u>	<u>122,246</u>	<u>21.18</u>	51,241
<u>Operating Expenses</u>					
Salaries	25,231	3.91	23,452	4.06	1,779
Wages	37,434	5.80	31,663	5.49	5,771
Office Expense	5,354	.83	3,331	.58	2,023
Light and Heat	1,125	.17	981	.17	144
Dues and Subscriptions	182	.03	174	.03	8
State Use Tax	2,833	.44	3,046	.53	(213)
Insurance	681	.10	633	.10	48
Payroll Taxes & Retire.	2,940	.46	2,485	.43	455
Advertising	3,856	.60	2,302	.40	1,554
Repairs & Maint.	1,311	.20	1,135	.20	176
Deprec. of Building	2,759	.43	2,759	.48	-0-
Deprec. of Equipment	3,965	.61	3,574	.62	391
Bus. Office Service Chg.	5,578	.86	2,206	.38	3,372
Travel	243	.04	529	.09	(286)
Bad Debt Expense	-0-		28	-0-	(28)
High School Senior Day	793	.12	850	.15	(57)
Rent	312	.05	324	.06	(12)
Other Expenses	170	.03	337	.06	(167)
<u>Total Operating Expenses</u>	<u>94,767</u>	<u>14.68</u>	<u>79,809</u>	<u>13.83</u>	14,958
<u>Net Operating Income from Sales</u>	78,720	12.19	42,437	7.35	36,283
Interest Income	<u>782</u>	<u>.12</u>	<u>1,677</u>	<u>.29</u>	(895)
<u>Total Net Operating Income</u>	79,502	12.31	44,114	7.64	35,388
Transfer to Activities and Intercollegiate Athletics	<u>12,300</u>	<u>1.90</u>	<u>12,300</u>	<u>2.13</u>	-0-
<u>Added to Surplus</u>	\$ <u>67,202</u>	<u>10.41</u>	\$ <u>31,814</u>	<u>5.51</u>	\$ 35,388

The Associated Students of the University of ArizonaBOOKSTOREBalance SheetJune 30, 1961 and 1960

<u>Assets</u>	<u>June 30,</u> <u>1961</u>	<u>June 30,</u> <u>1960</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Current Assets</u>			
Cash on Deposit at Business Office	\$ 155,040	\$ 78,315	\$ 76,725
Deposit in Transit	3,566	3,731	(165)
Change Fund	1,600	1,600	-0-
Accounts Receivable	8,117	8,945	(828)
Due from Vendors for Ret'd. Merchandise	10,593	16,919	(6,326)
Prepaid Purchases and Expenses	5,124	-0-	5,124
Inventory of Merchandise	<u>171,076</u>	<u>167,539</u>	<u>3,537</u>
<u>Total Current Assets</u>	<u>355,116</u>	<u>277,049</u>	<u>78,067</u>
<u>Investments</u>			
U. S. Gov't. Bonds for Building and Equipment Replacement	<u>25,935</u>	<u>25,935</u>	<u>-0-</u>
<u>Fixed Assets</u>			
Building	110,372	110,372	-0-
Furniture and Equipment	<u>40,328</u>	<u>38,980</u>	<u>1,348</u>
<u>Total</u>	<u>150,700</u>	<u>149,352</u>	<u>1,348</u>
Less: Accumulated Depreciation	<u>43,812</u>	<u>37,087</u>	(<u>6,725</u>)
<u>Net Fixed Assets</u>	<u>106,888</u>	<u>112,265</u>	(<u>5,377</u>)
<u>Total Assets</u>	<u>487,939</u>	<u>415,249</u>	<u>72,690</u>
<u>Liabilities and Surplus</u>			
<u>Current Liabilities</u>			
Accounts Payable	6,151	680	5,471
Due to Bus. Office for Change Fund	1,600	1,600	-0-
Special Order Deposits	<u>76</u>	<u>59</u>	<u>17</u>
<u>Total Current Liabilities</u>	<u>7,827</u>	<u>2,339</u>	<u>5,488</u>
<u>Earned Surplus</u>	<u>480,112</u>	<u>412,910</u>	<u>67,202</u>
<u>Total Liabilities and Surplus</u>	<u>\$ 487,939</u>	<u>\$ 415,249</u>	<u>\$ 72,690</u>