

Examination of the Accounting Records of
THE GENERAL STORES DEPARTMENT OF THE UNIVERSITY OF ARIZONA
July 1, 1956 to June 30, 1958

Report No. 49

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

EXAMINATION OF THE ACCOUNTING RECORDS OF
THE GENERAL STORES DEPARTMENT OF THE UNIVERSITY OF ARIZONA
FOR THE YEARS 1956-57 AND 1957-58

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

The report presented herewith covers the examination of the accounting records relating to the General Stores Department of The University of Arizona for the fiscal years 1956-57 and 1957-58.

No recommendations relating to revision of any records or procedures appear necessary at present. However, the diminishing net income of the General Stores Department indicates the advisability of considering immediately the need to either increase the present 15% markup on merchandise sold by the Department, or to relieve the Department of an additional portion of the payroll costs incurred by it in the performance of functions which produce no revenue.

Respectfully submitted,



Alvred B. Nettleton
General Examiner

April 10, 1959

GENERAL STORES DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1956 TO JUNE 30, 1958

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GENERAL STORES DEPARTMENT OF THE UNIVERSITY OF ARIZONA

EXAMINATION REPORT

JULY 1, 1956 TO JUNE 30, 1958

Financial Position of the General Stores Department

At June 30, 1958 the General Stores Department Fund had a surplus of \$28,222 on a modified accrual basis. The inventory of merchandise for resale, valued at estimated cost, amounted to \$38,855, and accounts receivable totaled \$8,992. Liabilities consisted of accounts payable, \$2,424, and cash advanced by the Business Office for working capital, \$17,201.

Surplus at June 30, 1957 was \$28,123, and at June 30, 1956, \$26,560. The increases in surplus of \$1,563 in 1956-57 and of \$99 in 1957-58 represent the net income amounts of those two fiscal years.

Exhibit A shows the Department's assets, liabilities, and surplus at June 30, 1958 and 1957 in balance sheet form.

General Stores Department Operating Results

Net income of the General Stores Department in 1957-58 was \$99, a decrease of \$1,464 from the net income of \$1,563 realized in 1956-57. The decrease in net income is accounted for by a minor decrease in per cent of gross margin on sales, a small increase in per cent of total operating expenses on net sales, and, most importantly, by no allocation of any portion of the Educational and Institutional Cooperative patronage refund in 1957-58. Comments on sales, gross margin on sales, and operating expenses follow.

Net Sales

Net sales in 1957-58 totaled \$93,537, or an increase of \$15,450 over the 1956-57 net sales of \$78,087.

Gross Margin on Sales

Since, according to policy, selling prices are based upon a markup of approximately 15% of cost, gross margin on sales should be approximately 13% of retail. In 1957-58 gross margin of \$12,726 equalled 13.6% of retail, and in 1956-57 the gross margin of \$10,817 was equivalent to 13.85%. Therefore, it appears that the pricing policy is being adhered to reasonably closely.

Operating Expenses

Total operating expenses in 1957-58 amounted to \$12,627, an increase of \$2,256 over 1956-57. The major expense categories showing increases, and the amount of increase for each category, are: salaries, \$825; wages \$804; supplies \$500; and payroll taxes, \$110.

The increase in wage expense was due to the addition of one full-time male employee in the latter part of 1957-58.

The increase in supply expense reflects the purchase of invoice forms in sufficient quantity to last approximately two years.

In connection with the analysis of operating expenses, it should be stated that the General Stores Department receives most of the incoming freight, express and parcel post shipments for all campus departments. These incoming shipments require considerable handling and are not included in General Stores Dept. sales. Also, the General Stores Department operates the postage meter through which most of the outgoing campus mail is processed. This activity takes an increasing amount of time each year and produces no revenue to the General Stores Department.

Net Operating Income

Net operating income was only \$99 in 1957-58 compared with \$446 in 1956-57. In 1958-59 a net operating loss will probably occur.

The downward trend in net operating income is due mainly, according to the Examiner's best estimate, to the increasing cost of handling activities not productive of revenue to the General Stores Department, i.e., receiving and outgoing mailings. At present, the payroll of all General Stores Department personnel is charged against the income of that Department except for approximately two-thirds of one man's salary. Considerably more time than that is now required to perform the receiving and mailing functions.

Two alternatives present themselves for providing financial relief to the General Stores Department's operating situation:

1. Increase the markup on cost of purchases for resale from 15% to perhaps 20%;
2. Assume additional portions of this department's salaries in budgeted areas to reflect increased time spent on receiving and mailing.

It is recommended that the appropriate administrative officers of the institution consider the above alternatives as soon as possible, so that steps may be taken, if deemed advisable, to increase the markup to 20% (or some other per cent) July 1, 1959. If budgetary relief should appear more desirable than increasing markup, provision for such relief would need to be reflected in the 1960-61 request budget.

Miscellaneous Income

In 1957-58 no portion of the total patronage refunds received in that year from E. and I. Cooperative was credited to General Stores. In 1956-57, \$1,117 of such refunds was credited to General Stores. To date in 1958-59 General Stores has been credited with \$774 from this source.

In view of the financial needs of the General Stores Department, it appears that it would be helpful to establish a policy regarding the annual distribution of patronage refunds which would credit some consistent percentage of the refund to General Stores revenue.

Comments on Accounting Procedures

In connection with the examination, we tested the Department's records and procedures connected with receiving, pricing, and billing. We also made tests of the prices and extensions of the inventory taken by General Stores Department personnel as of June 30, 1958.

We found that the records of the General Stores Department are in very good condition, and that the procedures used appear sound. We suggested that time could be saved by elimination of typing the detail of the annual inventory. It is believed that discontinuance of this lengthy annual task will have no disadvantage, inasmuch as pencil inventory sheets will continue to be available for reference and for audit.

Summary of Recommendations

The financial statements included in this report indicate that net operating income of the General Stores Department was very small in 1957-58. It is estimated that in 1958-59 a net operating loss may occur. This situation is largely due to the increasing costs of performing the functions of receiving much of the incoming campus freight, express and parcel post, and metering most of the outgoing campus mail. Neither of these functions produce revenue for the General Stores Department.

It is recommended that consideration be given as soon as possible to the alternatives mentioned previously of either increasing the markup on merchandise sold by General Stores, or of converting a larger portion of the Department's payroll to a budgetary obligation.

Exhibit A

The University of Arizona General Stores Department

Balance Sheet

June 30, 1958 and 1957

| | <u>June 30</u> <u>1958</u> | <u>June 30</u> <u>1957</u> | <u>Increase</u> <u>(Decrease)</u> |
|--------------------------------------|-------------------------------|-------------------------------|--------------------------------------|
| <u>Assets</u> | | | |
| <u>Current Assets</u> | | | |
| Accounts Receivable | \$ 8,992 | \$ 6,555 | \$ 2,437 |
| Inventory | 38,855 | 31,824 | 7,031 |
| Merchandise in Transit | <u>-0-</u> | <u>176</u> | <u>(176)</u> |
| <u>Total Current Assets</u> | <u>47,847</u> | <u>38,555</u> | <u>9,292</u> |
| <u>Liabilities and Surplus</u> | | | |
| <u>Current Liabilities</u> | | | |
| Cash Advance from Business Office | 17,201 | 10,432 | 6,769 |
| Accounts Payable | <u>2,424</u> | <u>-0-</u> | <u>2,424</u> |
| <u>Total Current Liabilities</u> | 19,625 | 10,432 | 9,193 |
| <u>Unappropriated Surplus</u> | <u>28,222</u> | <u>28,123</u> | <u>99</u> |
| <u>Total Liabilities and Surplus</u> | <u>\$ 47,847</u> | <u>\$ 38,555</u> | <u>\$ 9,292</u> |

Exhibit B

The University of Arizona General Stores Department

Statement of Income and Expense

for the Years Ended June 30, 1958 and 1957

| | <u>1957-58</u> | | <u>1956-57</u> | | Amount Increase (Decrease) |
|------------------------------------|----------------|---------------------------|-----------------|---------------------------|----------------------------------|
| | <u>Amount</u> | <u>% of Net Sales</u> | <u>Amount</u> | <u>% of Net Sales</u> | |
| <u>Net Sales</u> | \$ 93,537 | 100.00 | \$ 78,087 | 100.00 | \$ 15,450 |
| <u>Cost of Goods Sold</u> | | | | | |
| Inventory Beginning | 31,824 | | 32,520 | | |
| Purchases (Incl. Trans.) | 87,842 | | 66,574 | | |
| <u>Total</u> | <u>119,666</u> | | <u>99,094</u> | | |
| Inventory Ending | 38,855 | | 31,824 | | |
| <u>Cost of Goods Sold</u> | <u>80,811</u> | <u>86.40</u> | <u>67,270</u> | <u>86.15</u> | <u>13,541</u> |
| <u>Gross Margin on Sales</u> | <u>12,726</u> | <u>13.60</u> | <u>10,817</u> | <u>13.85</u> | <u>1,909</u> |
| <u>Operating Expenses</u> | | | | | |
| Salaries | 9,025 | 9.65 | 8,200 | 10.50 | 825 |
| Wages | 1,594 | 1.71 | 790 | 1.01 | 804 |
| Supplies | 715 | .76 | 215 | .28 | 500 |
| Telephone | 53 | .06 | 53 | .07 | -0- |
| Dues | 50 | .05 | 50 | .06 | -0- |
| Payroll Taxes & Retirement | 642 | .69 | 532 | .68 | 110 |
| Repairs & Maintenance | 89 | .09 | 74 | .09 | 15 |
| Insurance | 75 | .08 | 34 | .04 | 41 |
| Equipment | -0- | | 59 | .08 | (59) |
| Business Office Handling Charge | 384 | .41 | 364 | .47 | 20 |
| <u>Total Operating Expenses</u> | <u>12,627</u> | <u>13.50</u> | <u>10,371</u> | <u>13.28</u> | <u>2,256</u> |
| <u>Net Operating Income</u> | 99 | .10 | 446 | .57 | (347) |
| Miscellaneous Income (Note 1) | -0- | | 1,117 | 1.43 | (1,117) |
| <u>Net Profit</u> | <u>\$ 99</u> | <u>.10</u> | <u>\$ 1,563</u> | <u>2.00</u> | <u>\$(1,464)</u> |

Note 1: Miscellaneous income in 1956-57 represents the portion of the E. and I. Coop. patronage refund allocated to General Stores Department. No similar allocation was made in 1957-58.