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United States General Accounting Office

GAO

Report to the President of the Senate and
the Speaker of the House of
Representatives

February 1988

FINANCIAL AUDIT

Senate Building Beauty Shop Statements—6-Month Period Ended 12-31-86



134975

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**Comptroller General
of the United States**

B-133046

February 8, 1988

To the President of the Senate and the
Speaker of the House of Representatives

In accordance with section 451 of the Legislative Reorganization Act of 1970 (40 U.S.C. 193m-1), which authorizes the General Accounting Office to audit private organizations conducting activities on the Capitol grounds, we have examined the balance sheet of the Senate Building Beauty Shop as of December 31, 1986, and the related statements of operations, changes in financial position, and changes in the capital account for the 6-month period then ended. The short audit period is the result of a change in Shop ownership from a partnership to a sole proprietorship, effective July 1, 1986, and a change in fiscal year-end from February 28 to December 31. Except as discussed in the following paragraph, our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We completed our fieldwork on July 28, 1987.

A physical inventory was not taken for merchandise held for sale by the Senate Building Beauty Shop as of June 30, 1986, which was the opening inventory for this fiscal period. We were unable to apply sufficient alternative procedures to verify the Shop's inventory balance.

In our opinion, except for the effects of any adjustments to the opening inventory as might have been necessary, the financial statements referred to above present fairly the financial position of the Senate Building Beauty Shop as of December 31, 1986, and the results of its operations and the changes in its financial position for the 6-month period then ended, in conformity with generally accepted accounting principles and the financial accounting policies described in note 1 to the financial statements applied on a consistent basis.

This report also contains our report on internal accounting controls and compliance with laws and regulations and the Senate Building Beauty Shop's financial statements and accompanying notes for the 6-month period ended December 31, 1986.

The Legislative Reorganization Act of 1970 requires that the results of our audit be reported to the Congress. We are sending copies of this report to cognizant congressional committees and to the Senate Sergeant at Arms. Copies will be made available to others upon request.

for 
Charles A. Bowsher
Comptroller General
of the United States

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Report on Internal Accounting Controls and Compliance With Laws and Regulations

We have examined the financial statements of the Senate Building Beauty Shop for the 6-month period ended December 31, 1986. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our preliminary review of the system of internal accounting controls and our review of compliance with laws and regulations for the 6-month period ended December 31, 1986.

We did not complete a study and evaluation of the system of internal accounting controls for the purpose of determining the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Based on our preliminary review, we concluded that it was more efficient to expand our substantive audit tests in examining the financial statements for the 6-month period ended December 31, 1986.

While we did not perform a complete study and evaluation of the system of internal accounting controls, we did not become aware of any condition during our expanded substantive audit tests which we believe to be a material weakness. In audits where we do study and evaluate the internal accounting control system, material weaknesses in the system would not necessarily be disclosed. Accordingly, even in such cases, we would not be able to express an opinion on the system taken as a whole.

As part of our examination, we also tested compliance with applicable laws and regulations. In our opinion, the Senate Building Beauty Shop complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements. Nothing came to our attention, in connection with our examination, that caused us to believe that it was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

Balance Sheet

December 31, 1986

Assets	
Current Assets	
Cash	\$7,398
Accounts receivable	694
Inventory	2,740
Total current assets	10,832
Fixed Assets	
Furniture, fixtures, and equipment	18,132
Less: Accumulated depreciation	17,015
	1,117
Improvements	6,838
Less: Accumulated amortization	6,280
	558
Total fixed assets	1,675
Total Assets	\$12,507
Liabilities and Capital	
Liabilities	
D.C. sales taxes payable	\$481
Va. withholding taxes payable	104
D.C. franchise taxes payable (note 2)	2,771
Total liabilities	3,356
Capital	
Liria Vouzikas	9,151
Total Liabilities and Capital	\$12,507

The accompanying notes are an integral part of this statement.

Statement of Operations

6-Month period ended
December 31, 1986

Revenue

Beauty services and retail sales	\$95,992
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Operating Expenses

Salaries	64,902
Beauty supplies and purchases	6,277
Payroll taxes	6,489
Insurance	1,221
Depreciation and amortization	304
Accounting	1,050
Advertising	147
Bank charges	157
Office expenses	898
Promotions	40
Returned checks	68
Other taxes	213
Telephone	384
Cash over and short	119

Total operating expenses	82,269
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Net Income

\$13,723

The accompanying notes are an integral part of this statement.

Statement of Changes in Financial Position

6-Month period ended
December 31, 1986

Funds Provided

Net income from operations	\$13,723
Depreciation and amortization—not requiring an outlay of cash	304
Increase in sales taxes payable	196
Increase in payroll taxes payable	104
Total funds provided	14,327

Funds Applied

Increase in accounts receivable	68
Increase in inventory	212
Drawings	14,914
Total funds applied	15,194

Decrease in Cash

\$867

The accompanying notes are an integral part of this statement.

Statement of Changes in Capital Account

	6-Month period ended December 31, 1986
Balance, July 1, 1986	\$10,342
Net income	13,723
	24,065
Drawings	14,914
Balance, December 31, 1986	\$9,151

The accompanying notes are an integral part of this statement.

Notes to Financial Statements

Note 1. Significant Accounting Policies

Inventory is stated at cost, using the first-in, first-out method of valuation.

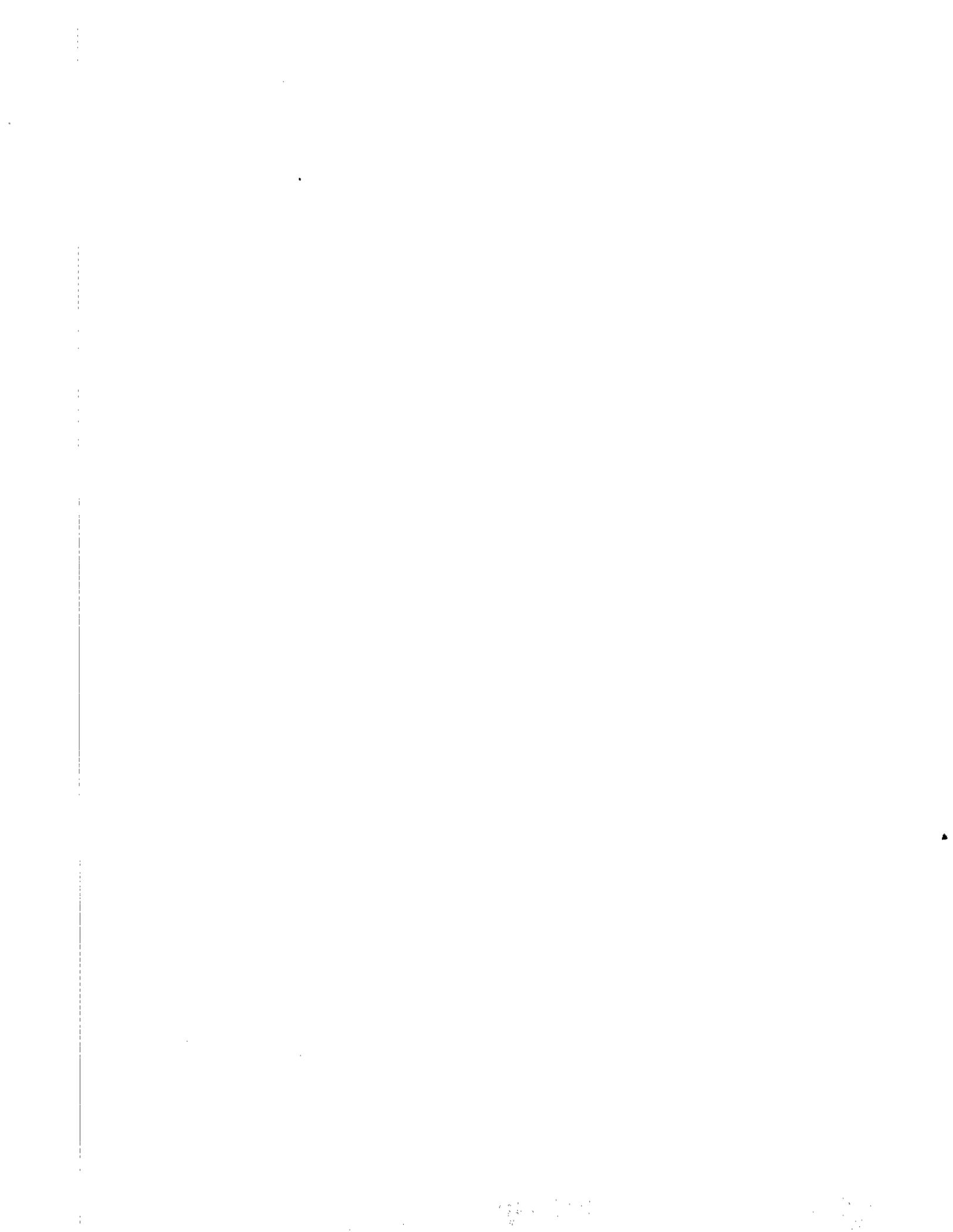
Furniture, fixtures, and equipment acquired before January 1, 1985, are depreciated over a 10-year life using the straight-line method. Such assets purchased after January 1, 1985, are depreciated over a 5-year life using an accelerated method of depreciation.

Improvements placed in service before January 1, 1981, have been amortized over a 10-year life using the straight-line method. Improvements placed in service after January 1, 1981, have been amortized over a 10-year life using an accelerated method of depreciation.

The financial statements do not include the costs of certain benefits and services such as space, utilities, and ordinary building repairs and maintenance that are provided to the Senate Building Beauty Shop without charge.

Note 2. D.C. Franchise Taxes Payable

District of Columbia unincorporated business franchise taxes due for 1985 and 1986 were paid on August 20, 1987, after our fieldwork was completed. However, penalties and interest may be assessed because the taxes were past due. The amount of such penalties and interest, if any, could not be determined at the time we issued this report.



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