BEGIN YEAR-END PREPARATION NOW TO SAVE TIME LATER

Year-end at a dealership is undoubtedly the most stressful time period the accounting office experiences. In addition to preparing 1099s, W-2s, calculating bonuses, quarterly payroll taxes, and all of the other tasks in completing a normal month-end, the office is faced with preparing for their CPA firm's fieldwork.

From not having enough time to work on projects other than the day-to-day demands of a dealership, to not knowing what their CPA firm needs when they arrive, many office managers find themselves unprepared for this consultation.

The office staff usually focuses on reconciling scheduled accounts and assuring that the schedules are clean. Uncollectible receivables are written off and bank reconciliations are completed in preparation for year-end. However, there are several accounts that often get overlooked. These accounts are usually unscheduled and are not derived from a car sale.

Officer note receivables and payables are often overlooked in the year-end preparation. Sometimes these accounts aren't scheduled, but your accountant will likely ask for the prior twelve months of detail. If you have more than one stockholder and you are using the same unscheduled account, this could be a tedious project.

Work in progress is often an overlooked account that is in need of an adjustment. Take extra care that you adjust this account to actual at year-end.

In addition, any prepaid accounts that are not scheduled should be reconciled at year-end. For instance, if you posted $24,000 to prepaid insurance in June, then you should verify that the account has a $12,000 balance in December. Also, be prepared to give your accountant detail of how much was paid, to whom, and what was purchased. Prepaid taxes should also tie to all federal and state estimates paid for the year and any uncollected overpayment from the prior year. Photocopy all wire transfers and check payments to support the account balances.

One of the most time consuming processes during fieldwork is fixed assets. There are several steps that can be taken to minimize the time spent on these accounts during fieldwork.

First, the 12-month detail for these accounts should be printed. The journal entries should be scanned with the intention of noting special circumstances. The accounts should be reviewed for posting errors and for asset purchases under $100 that are not associated with a series of payments for a single asset.

For instance, if a construction project was completed during the year, the small items combined might be material. Any assets under $100 purchased alone, however, can be expensed. If a construction project has been started but is not complete as of year-end, all related expenses should be reclassified to a prepaid account or a construction in progress account. These assets will be depreciated after the project is completed. It can also be advantageous to have your accountant perform a cost segregation study if the project is significant.

Next, the journal entry detail should be reviewed to find any partial payments of an asset. For example, if a new sign has been purchased but only half of the cost has been paid, it should either be reclassified to a prepaid account or the remaining amount due should be set up in accounts payable. After these accounts have been reconciled, copies of all purchases for additions should be made for your accountant.

Last, but not least, are disposals. Your accountant will need to know the sale or abandonment date and the sale price or cost used to place it into inventory for every item disposed of.

Throughout the year, nearly all accrued accounts accumulate a difference. A good rule of thumb is that the accounts should be adjusted to the amount paid in the month following year-end. For instance, accrued payroll tax accounts should tie to the payroll payments and quarterly reports. Accrued 401k, as well as accrued interest, should tie to the amount paid in the following month.

Any accrued other accounts that are not scheduled—such as real estate taxes—should be reconciled at year-end. A description and amount making up any unscheduled accrued other account needs to be provided to your accountant.

Debt is often misclassified on the balance sheet and not adjusted to actual at year-end. Lines of credit are usually considered a current liability. Even if the agreement will be renewed, the contract often has a maturity date of one year or less. Your accountant will need copies of any line of credit agreements and floor plan payable agreements that were renewed or entered into during the preceding twelve months. Line of credit monthly statements will show the principle amount due and the current interest rate. Insure that the account balance ties to the year-end statement and provide your accountant with a copy of the statement.

Along with lines of credit, your accountant will need copies of any new long-term debt agreements entered into by the dealership. Often, monthly statements are not received on long-term debt. It is a good idea to contact the banks and request verification of the principle balances due at year-end. Your accountant will also need to know the current interest rate being paid. Some debt does not have a fixed interest rate and your accountant will need to know the rate to calculate the current portion of the debt.

The final account often overlooked is retained earnings. The account detail should be reviewed for posting errors that were possibly made to the account throughout the year. The only entries that should have been made to the account are the entries given to you by your accountant for the prior year.

If any of your adjusting entries are posted in a proceeding month following year-end, be sure to provide detail of all your entries to your accountant to insure adjustments are not doubled up. Setting aside time to adjust items discussed above will save numerous phone calls from your accountant. By reviewing these items prior to your accountant's visit to the dealership, the year-end process will be much quicker and smoother. Contact your ATA member firm for further assistance or questions regarding your year-end preparations.

QUICK CHECK

Do you know the payment terms for your major vendors? Are you using this knowledge to your advantage?

Many vendors offer discounts for early payment that can add up to significant savings. Some offer extended terms at no additional charge.

All too often, we get into a routine of paying vendors when the bill arrives—or at one scheduled time each month.

With a little investment in time and scheduling, you can make your payables work for you by enhancing cash flow and profit.

Tax Tip

WILL YOUR COST SEGREGATION STUDY HOLD UP?

Cost segregation studies are on the radar screen of the IRS. Because of this, it is absolutely necessary to be assured that your cost segregation study be performed by a qualified professional.

The IRS predicts that the use of cost segregation studies will continue to increase because of the significant tax benefits that can be derived from reclassifying costs to the personal property category from the building category. In response to that prediction, the IRS issued a 115-page *Cost Segregation Audit Guide* in April 2004. The purpose of the guide is to assist their examiners to develop an understanding of:

- *Why* cost segregation studies are performed for federal income tax purposes.
- *How* cost segregation studies are performed.
- *What* agents should look for in reviewing or examining a cost segregation study.

When examining a cost segregation study, the IRS says it is looking for a "quality" study. They define a quality study as one that is accurate and well documented. Clearly, the IRS will be looking at who performed the service as much as what the study accomplished.

Contact your Auto Team America member firm for an explanation of their approach to cost segregation studies to ensure IRS acceptance.