

STAYING INVOLVED WITH THE DEALERS CHECKLIST

As accountants we are trained to utilize checklists as an integral part of year-end documentation of procedures performed. The grocery shopper in your house probably uses a list when preparing to go to the market. In both of these cases the checklist is merely a starting point. Both the shopper and the accountant will find things that are not on the list. The "Dealer's Checklist" is designed as a starting point for a dealer who has not become involved in the accounting function of the organization.

The accounting function is the hub of the dealership, the accumulation of all information from the store's various departments. The checklist below can be used as a guideline to enable a dealer to become more involved with the accounting function and give the dealer a better understanding and control over it. Use of this checklist requires no accounting background, yet it provides a level of comfort for the dealer regarding the performance of the dealership's accounting function.

On a monthly basis, perform the following functions:

- Review the management reports for the parts inventory to ensure that obsolete parts are not getting out of control.
- Review the work in process account to determine that it is reasonable (it should generally not be more than 5% of customer pay service sales) and that no amounts have been written off in the current month.

- Review five car deals that have just been processed to ensure that they are complete and accurate.
- Review the missing documents report to ensure that all documents have been accounted for.
- Inquire whether each reconciliation (parts statement, cash accounts, finance reserve accounts) has been completed.
- Inquire about large write-offs in any of the receivable accounts.
- Review the sublet schedule and inquire about the reasons for credit balances and items over thirty days old.
- Review used car inventory schedules to ensure vehicles are

not becoming aged (over 60 days) and determine levels of inventory are not becoming excessive .

On a monthly basis, perform at least two of these following functions:

We suggest that you do at least two each month and that you perform these functions at random intervals.

- Review the bank reconciliation and see that the bank balance and the adjusted book balance agree. Also review the reconciliation to see if there are any large adjustments.
- Review the parts statement reconciliation and see that the

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factory balance matches the adjusted book balance. Review for reasonableness.

- Review the finance reserve reconciliation to see if they have been performed.
- Review the holdback schedule and see if there are any items included that should have been paid by the last holdback check.
- Review factory receivables and see that all items over 60 days old have been followed up and resubmitted if necessary.
- Review other receivables and determine what collection procedures have been taken on

all items over 60 days old.

- Review the cash schedule and determine if there were any large journal entries made to cash.
- Review the floorplan reconciliation to ensure that it has been completed on a timely basis.

The dealer checklist is a great starting point that can help the dealer open a dialogue with office personnel regarding their specific job functions.

If you have any questions about this information, contact your local ATA firm to assist in the process.

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IS YOUR DEALERSHIP READY FOR A BUYOUT?

There are a number of public investment groups now seeking to buy dealerships. Investing in a dealership is risky.

Automobile dealership groups are in a better position to take on this risk than an individual investor.

Let's take a look at the facts:

- Automobile dealerships are becoming too big and too expensive for the ordinary individual to acquire without some assistance from the factory or another investor.
- Many regulations and laws governing the dealership business exist. There are consumer laws, lending laws, environmental laws, labor laws, income tax laws, and DMV laws to name a few. The dealer has to be concerned about all of these issues.

Faced with these facts, finding an individual investor may be very difficult. It may be that being bought out by a dealership group is the best alternative for

many dealers. More than likely, the dealer will get the highest selling price from a dealership group. In many instances, you can receive your money from the sale while still operating the dealership at the request of the new owners. However, you must have a realistic assessment of the dealership's value and enough energy to last the next ten years or so to manage the store.

If opportunity knocks on your door, here are a few things to expect you'll need:

- Accurate dealer financial statement for three years.
- Audited financial statements for three years.
- Earnings estimate for the coming year.
- Description of corporate structure/organizational structure.
- Description of dealership, including location, land/acres, building/square feet and service stalls.
- A copy of agreements between related entities, including leases and management fees.
- Appraised value of any

TAX TIP

YEAR-END TAX PLANNING TIPS FOR 2005

The Katrina Emergency Tax Relief Act of 2005 allows some taxpayers to claim bigger charitable deductions than in the past because the Act lifts restrictions that limited the deductions. But it's only a temporary reprieve; the restrictions return after December 31, 2005. So if the restrictions apply to you, you may want to consider accelerating your charitable donations from 2006 to 2005.

Charitable donations are normally deductible only up to certain percentage limitations provided by the Code. For example, cash contributions to public charities are limited to 50% of a taxpayer's adjusted gross income (AGI). For cash contributions to most private foundations, the deduction limit is 30% of a taxpayer's AGI. For contributions of long-term capital gain property, the percentage limits are 30% and 20% respectively. In addition to these limits, a taxpayer's itemized deductions (including charitable donations) are subject to a phase out rule that reduces the benefits of itemized deductions if AGI exceeds \$145,950 (\$72,975 for a married taxpayer filing a separate return).

The new law removes both the percentage limits and itemized deduction phase out for "qualified contributions". Qualified contributions are cash charitable contributions made during the period August 28 through December 31, 2005. This provision gives taxpayers who are charitably minded a one-time opportunity to contribute an amount equal to 100% of their AGI to favorite charities before the year end and eliminate income tax liability. Of course, the taxpayer would need to make the gifts in cash and should be mindful of the tax implications of converting assets to cash and the impact of state income taxes.

This provision also creates the possibility of removing cash from a qualified retirement plan or regular IRA and making a charitable donation on a potentially more favorable basis. Withdrawals from such accounts are treated as distributions and, as such, increase the taxpayer's income. With the temporary removal of the percentage limitations for donations, it is possible to make a qualified contribution of the amount withdrawn and take the full amount as a deductible donation. (Of course, the taxpayer should be above age 59 1/2 or a 10% penalty may apply to the withdrawal.)

For an individual who is charitably inclined, this may provide an excellent opportunity to reduce the size of retirement accounts that will otherwise remain subject to income taxes whenever distributions are taken. Retirement accounts could also be subject to estate taxes at the account owner's death if the individual's estate exceeds the exemption amount.

- properties and buildings owned by the dealership.
- Dealer sales and service agreements and any related covenants.

How Much Should You Ask?

The asking price will differ depending on how the buy-sell agreement is structured. First, you must get a realistic value of your dealership. Second, get a range of the asking price. In most cases, you will find that a dealership group will have

interest in your dealership for other than just its earnings potential such as to enter into a certain geographic area or wanting to add a certain franchise to their group. They may be willing to pay quite a premium over what the true value of your dealership is. Third, be patient. This process will take more time than you would like and you should be ready for the opportunity. For more information, contact your local ATA member firm.