



Dealership Accounting Training Manual



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Topics and Objectives for this Chapter.

The primary purpose of City Auto Sales is to sell cars and trucks. However, NIADA dealers sub-divide these car and truck sales into different types of car and truck sales. Therefore, the purpose of this chapter is to help students understand the reasoning for these different types of sales entries and to understand how the vehicle sale entry is calculated.

Additionally, this chapter will review the basic documentation requirements for vehicle sales.

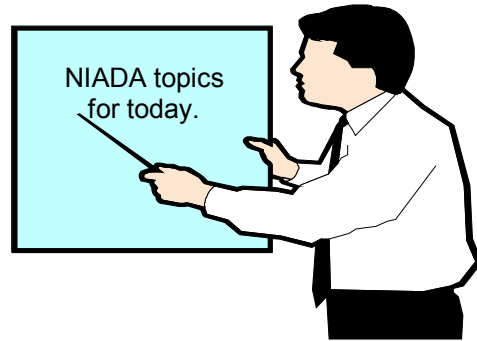


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5.1 Selling the Car and Completing the Paperwork.

In any vehicle sale negotiation, the buyer (customer) and the seller (City Auto Sales) must reach several mutually agreeable decisions. These include:



- Which car or truck does the customer want to buy?
- Selling price of the vehicle.
- Trade-in allowance for the trade-in vehicle, if one is involved in the negotiations.
- First and any other lien pay-off amounts on trade-in vehicle.
- Cash or finance deal.
- Amount of down payment monies.
- Financial institution to finance the purchase.
- Finance contract terms and conditions (ex. amount of monthly payment, length of contract and interest rate charged).
- Purchase of finance and insurance products, such as accident and health insurance, credit life insurance, or extended service contracts for future repairs.
- Purchase of vehicle accessories (ex. grill guards or cruise control) to be added to the vehicle before delivery and included in purchase price.
- Agreed upon dealership repairs to be included in the purchase price of the vehicle.
- Agreement on customer accommodation items such as advance payment of tag and title registration fees.
- Insurance coverage on the purchased vehicle.

Once the customer and the dealership have reached agreement on all sales and financing issues, City Auto Sales' Sales Manager (acting as the F&I Manager) completes the necessary paperwork to complete the sale. This documentation is contained in a vehicle sales jacket (a closed-end folder), shown below in Figure 5-1.


Deal Jacket		
Year _____	Stock No. _____	Sold To: _____
Make _____	Date Sold _____	Address: _____
VIN _____	Invoice No. _____	City _____
Motor No. _____	Mileage _____	State _____ Zip _____
Date of Purchase _____		Phone No: _____
Purchased From _____		Phone No: _____
Address _____		
City _____		<input type="checkbox"/> Bill of Sale
State _____ Zip _____		<input type="checkbox"/> Certificate of Title
Title No. _____		<input type="checkbox"/> Odometer Certification
License No. _____		
City Auto Sales 555 NIADA Parkway City, ST 12345		Received Title _____ Purchaser

Figure 5-1

CHAPTER 5. USED VEHICLE SALES

A sample City Auto Sales checklist listing typical vehicle sale documentation is shown in Figure 5-2 below. It should be similar to checklists used at your dealership.

This checklist has a section for City Auto Sales' Sales Manager and salesperson to complete and then check off before turning the Deal Jacket into the office. Additionally, there is an office check-off column for the office staff to use in verifying that the Sales Department has completed all documentation to complete the vehicle sale.



City Auto Sales
555 NIADA Parkway
City, ST 12345

Deal Checklist

Name _____ Stock # _____
Date _____ Salesperson _____

Salesperson Checklist	Received	Needed	Office OK
Copy of Both Drivers' Licenses			
Buyer's Order Approved			
Appraisal Slip			
Credit Application			
Tag Receipt and/or Numbers			
Title to Trade-in			
Insurance Information			
Service Pre-Delivery Checklist			
Buyer's Guide / As-Is Statement			
Disclosure Form Signed			
Emissions Test			

Sales Manager Checklist	Received	Needed	Office OK
Contract completed and signed.			
Title Signed on Car Purchased			
Co-Buyer's Form Signed			
Verification of Insurance			
Outside Lienholder(s) Recorded			
Payoff Verified			
State Lien Form Signed			
Out-of-State Tax Form			
Conditional Delivery/ Warranty of Title			
Power of Attorney - Used			
Bill of Sale			
Title Extension Form Signed			
Odometer Statement - Used			
F&I Waiver Signed			
Money and Receipts included			
Manager Check Request Over/Short			

Figure 5-2

Using this checklist and the documents provided by the sales personnel, City Auto Sales' Cashier - Inventory Clerk will complete the majority of the title and billing duties.

Take a few moments to review this checklist.

In summarizing the Office OK section of checklist, there are twelve overall tasks to complete on each deal.

5.2 Twelve Basic Title Clerk Responsibilities in Completing the Deal.

Every state has slightly different titling, billing and contract completion requirements. However, there seem to be twelve general responsibilities that new title clerks may use as a guide in learning their new position. The following items may be considered as additional detail and explanation of the tasks reviewed in Chapter 4's office assignments for new vehicle sales.

1. Double check documents for accuracy and completeness.

- Check serial number (V.I.N.) of sold car on all papers.
- Check for signatures on all contracts and title papers.
- Make sure monies for car have been deposited and copy of receipt attached to the deal.
- Trade-in title must be with car papers and odometer statements signed for both autos.

2. Separate paperwork into three different groups. Use checklist of necessary forms.

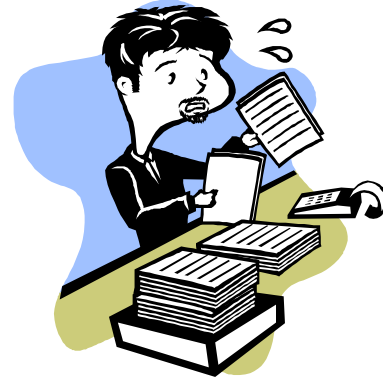
- Customer papers
- Finance Company papers
- Dealership papers

Hint: Do not work on more than one deal at a time.

There are numerous forms in even the most routine car sale. It is not uncommon to have anywhere from six to two dozen pieces of paper in each sale jacket.

Because of all this paper, it is not a good idea to work on more than one sale at a time. If you get a sale mixed up with another sale, finding missing papers will take far longer than any time you might have saved.

Dealerships normally use jackets with sealed ends rather than file folders so that small papers like receipts will not fall out. With sealed folders, you can easily have more than one sale on your things-to-be-done pile or in-basket and not worry about everything getting mixed up.



3. Organize customer's papers for delivery or to be mailed to the customer. Use certified mail with return receipt requested.

- Copy of typed invoice
- Copy of buyer's order
- Copy of finance contract
- Copy of title applications
- Copy of credit life application
- Copy of extended service contract
- Copy of title

Forms designers have made this separating and sorting job much easier for you by printing copies of the same form in different colors. For example, the top copy of a vehicle sale invoice is normally white, followed by other copy colors such as yellow, goldenrod, green, or pink. These colored copies are very useful in sorting "who gets which" copy. Forms copies may also be labeled with the intended recipient such as customer, finance company, or dealership copy.

4. Organize contract and papers to be mailed or delivered to the finance company.

- Original copy of contract
- Copy of title and/or lien holder copies of title applications.

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- Lien copies of credit life insurance policies
- Lien copy of extended service contract
- Copy of credit application
- Verification of car insurance
- Typed draft for contract amount and daily receipts deposit of same*

*For those dealers using electronic funds transfers rather than drafts, simply prepare audit trail document to detail the amount of EFT funds in transit.



Few things irritate a dealer or office manager more than having finance contracts rejected (or drafts bounce) because of sloppy documentation. The automobile business is very dependent on good cash flow. Mistakes can stop \$5,000 to \$25,000 in cash from coming into the dealership on a day when it was needed for daily operations.

Note: For those dealers with Buy Here-Pay Here operations, and affiliated finance companies, these steps may not all be necessary for buy here – pay here customers. Check with your dealer to determine their preferences on this step.

5. Organize and file dealership papers in sale folder.

Every office manager and dealer has a different opinion about what ought to be kept in a car sale jacket after the sale. At City Auto Sales, they put copies of whatever the office thinks they may need to find again for this sale. They always keep those documents that are required by state or federal law. The document list is typical of many NIADA dealers.



- Car sale invoice with all handwritten sales and F&I worksheets attached
- Copy of finance company check (or draft) and receipt used to record incoming funds
- Copy of trade-in title
- Copy of signed trade-in appraisal report
- Copies of all sublet or shop internal ROs on vehicle
- Copy of sale invoice from dealer or auction where vehicle was purchased
- Copy of check used to purchase vehicle from dealer or auction
- Copy of customer(s) driver's license
- We-Owe form signed by both the customer and dealer representative
- Signed check request for lien payoff on trade-in vehicle
- Copy of check used for lien payoff
- Previous dealer's odometer statement
- Copy of check for title fee
- Copy of title for sold vehicle
- Copy of "As Is" warranty sticker
- Copy of customer down payment check and associated receipt
- Deal Recap sheet from F&I
- Copy of credit application
- Copy of verification of insurance and/or agreement to provide insurance
- Co-signer notice
- Copy of stock card or vehicle print-out
- If applicable, copy of sales tax report for vehicle
- Credit Life and Disability contract copy
- Copy of signed Buyer's Order
- Transport delivery form

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- Accounting worksheet for posting sale
- Copy of signed Delivery Checklist
- Copy of EFT confirmations, if applicable
- Copy of videotape of vehicle sale closing, if applicable

6. Make up car jacket for trade-in.

- Copy of bid or signed appraisal slip.
- Copy of odometer statement.
- Copy of title.

Note: Trade-in titles are not always readily available or correct. The sales department and the office staff must work together in handling title work problems on trade-ins. There are lost, unreadable, non-current, fraudulent or lost titles that must be resolved.

The appraisal slip is a form used by the dealer or sales manager to appraise car and truck current wholesale value. Using this form, the dealer or manager estimates needed reconditioning or repairs to get the trade-in vehicle ready to sell.

7. Update vehicle inventory records for sold and trade-in vehicle.

- Record trade-in unit on stock card or add vehicle to inventory system.
- Record cost of sold unit on stock card or in inventory systems.
- Add needed reconditioning estimates to stock card or inventory system as applicable.

See sample stock card for stock number K3459 below in Figure 5-3.

USED VEHICLE INVENTORY RECORD				VOUCHER NO.		STOCK NO	K3459	KEY			
VEHICLE DESCRIPTION				ACCOUNT		ACCT #	AMOUNT	KEY			
YEAR & MAKE:	PY Ford		VIN:	Actual		USED CAR INVENTORY	1450	6,750.00	+		
MODEL:	Mustang convertible				USED TRUCK INVENTORY	1470		+			
COLOR:	Red				REMARKETED VEHICLE INVENTORY	1490		+			
TITLE NO.			LICENSE NO.					+			
PURCH. FROM	Mega Auto Auction				NOTES PAYABLE - USED VEHICLES	2110		-			
INVOICE NO.			DATE RECEIVED	5-15-CY							
OPTIONAL EQUIPMENT & ACCESSORIES				RECONDITIONING ON TRADE-IN VEHICLE							
				ESTIMATED	DATE	RO NO.	DESCRIPTION	AMOUNT	INV ADJMT	TOTAL INVTY COST	
				600.00	6/1	12250	clean-up	75.00		6,825.00	
					6/1	12345	brakes	225.00		7,050.00	
				APPRAISED BY							
				Sales Mgr							
SALES DATA				FINANCE & PAYMENT DATA				SALE AMT		\$8,500.00	
DATE SOLD	6-30-CY		INV #	56415		FIN CO	ORIG AMT		LESS O/A	NET SALE	
SOLD TO	John Q. Customer		DATE	CHECK #	PYMT	BALANCE				8,500.00	
ADDRESS	161 Willow Street								VEHICLE GROSS PROFIT	1,450.00	
	City, ST 12345								SERVICE CONTRACT INCOME	0.00	
SALESPERSON	Mitchell		COMM	225						FINANCE & INSURANCE INCOME	0.00
										OTHER INCOME	50.00
TRADE TAKEN IN:	YES	<input checked="" type="checkbox"/>	NO	<input type="checkbox"/>		TRADE-IN STOCK NO.	K3459A		TOTAL VEHICLE GROSS PROFIT		1,500.00
MAKE & MODEL	YEAR	COLOR	TRADE-IN VEHICLE IDENTIFICATION NUMBER (VIN)								
Nissan Stanza	PY	Blue	Actual								

Figure 5-3

This stock card records the May 15 purchase of this Mustang convertible from Mega Auto Auction, the reconditioning work done during June and the June 30, CY sale to John Q. Customer.

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The sales recap section in the right corner of the stock card details the profit made on the sale. This hand-written card is still used by some dealers, but has been replaced by computerized inventory management and sales reports that provide similar information.

However, even with computerized vehicle inventory systems, a deal jacket should be prepared for each trade-in or purchased vehicle for required paper documentation.

8. Make up title card for trade-in and/or apply for new title in dealership name.

Dealerships are not supposed to be selling cars and trucks that they do not have titles on. Therefore, office staff members should obtain a valid title as quickly as possible. Each state will have slightly different title application forms and procedures.

9. Type check and mail for pay-off on lien on trade-in and request release of lien.

See the sample City Auto Sales check below in Figure 5-4. This check is made out to Third National Bank to pay off the remaining balance due on customer Richard T. Polison's finance contract on his PY Mazda 626. Note the check also includes stock number of the trade-in vehicle (K3459A) on the remittance advice portion of the check.

City Auto Sales 555 NIADA Parkway, City, ST 12345		12601		
		Date: <u>June 30, CY</u> <small>000-00 0000</small>		
PAY THE SUM OF 2,475 DOLLARS & 00 CENTS				
TO THE ORDER OF: Third National Bank 784 Broad Street Appleton, ST 12346		CITY AUTO SALES		
FIRST NATIONAL BANK CITY, ST		Dealer		
:0000:0000: 000:000				
CITY AUTO SALES - CITY, ST 12345				
REMITTANCE ADVICE		CHECK NUMBER CONTROL NUMBER		
		12601 K3459A		
CASH DISBURSEMENTS JOURNAL - SOURCE 60				
		ACCOUNT ACCT NO AMOUNT KEY		
Lien pay off on customer Richard T. Polison, bank account number E548965 for PY Mazda 626, VIN 897654.		ACCTS PAYABLE - TRADE	2000	+
		ACCTS PAYABLE - VEH. LIEN	2,475.00	+
		NOTES PAYABLE - USED VEH.	2110	+
				+
				+
		CASH	2,475.00	-
	CASH DISCOUNT EARNED		-	
DETACHED CHECK IS PAYMENT IN FULL OF ACCOUNT SHOWN ABOVE. IF INCORRECT, RETURN WITHOUT ALTERATION.				

Figure 5-4

This style check is a two copy check designed to be typed on a typewriter, not printed on a computer printer. Note the completed accounting section on the right corner of the check. Computerized checks may appear slightly different, but will contain the same basic information.

information.

Once the bank receives this check, they will release the lien on Polison's vehicle and send the vehicle title to City Auto Sales after receiving a Lien Payoff Authorization Form signed by the customer and the dealership. Each state's lien payoff authorization form will appear slightly different, but will contain similar information.

10. Type checks for tag, title, other municipal or state fees collected from customer.

When the customer buys a car, there may be several different taxes and fees on the sale. As an accommodation to the customer, many dealerships will collect the money for fees from the customer and then pay them as required.

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Dealership personnel will become familiar with these tax and fee payment procedures very quickly as some dealership will send someone to the local courthouse virtually every day. This collection and payment of fees is done as a courtesy to the customer (example, buying a tag) but also helps the dealership make sure that all state and local regulations are being followed. In some states, the dealership may collect a small fee from the state (1-2% of the fee collected) for providing these services.

11. Type sales tax check for state.

In some states, vehicle sales taxes are required on a per-vehicle basis within 2-3 days of the vehicle sale. In other states, sales taxes are paid monthly (generally by the 20th) for all vehicles sold the previous month. This step is included as a reminder to office staffs in those states requiring payments on an individual vehicle sale basis.

12. Other forms as necessary.

- Form 8300 – Report of Cash Payments Over \$10,000 Received in a Trade or Business.
- Form 8807 or Form 720 – Quarterly or Monthly Federal Excise (Luxury) Taxes

When a customer pays cash of \$10,000 or more in a car purchase, Form 8300 – Report of Cash Payments over \$10,000 Received in a Trade or Business has to be prepared. Your dealership should have all the necessary documentation to explain how and why this form is prepared.

Additionally, the Luxury Sales Tax is being phased out. Its 2000 threshold is for passenger cars with a sales price over \$38,000. Therefore, the majority of NIADA dealer sales will be below this sale amount and will not apply.

However, this final item is a reminder to double check with your office manager or dealer to verify that all documentation and forms required have been completed. Do not assume that you have successfully completed this task until it has been reviewed by the office manager or dealer. If they have a question, they can contact the appropriate state or local government agency, state dealer association, NIADA or the IRS. Both forms are listed on the IRS website at www.irs.gov.

Summary:

These twelve general title clerk tasks on each vehicle sale are not an exhaustive list and should be reviewed with your office manager or dealer. Additionally, students are referred to three authoritative guides:

- Your state *Title Procedures Manual* published by the Department of Motor Vehicles.
- The *N.A.D.A. (National Automobile Dealers Association) Title and Registration Book*.
- The *R.L. Polk Motor Vehicle Registration Manual*.



However, these twelve items should give students an idea of the importance of completing and checking vehicle sale documentation carefully.

To test your understanding, complete the exercise on the next page.

CONTINUE TO THE NEXT PAGE.

5.3 Exercise 1.

Q1. List the twelve general title clerk responsibilities for each vehicle sale.

Twelve General Title Clerk tasks.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____
11. _____
12. _____

Check your answers with the answers on the next page.

Exercise 1 Answers.

Q1.

Twelve General Title Clerk tasks.

1. Double check documents for accuracy and completeness.
 2. Separate paperwork into 3 different groupings. Use checklist for necessary forms.
 3. Organize customer's papers for delivery or to be mailed to the customer.
 4. Organize contract and papers to be mailed or delivered to finance company.
 5. Organize and file dealership papers in sale folder.
 6. Make up car jacket for trade-in.
 7. Enter trade-in unit into inventory records and record sale of sold unit.
 8. Make up title card for trade-in and/or apply for new title in dealership name.
 9. Type check and mail for pay-off on lien on trade-in and request release of lien.
 10. Type checks for tag, title and other municipal or state fees collected from customer.
 11. Type sales tax check for state, as required.
 12. Other forms as necessary.
-

Now, let's move on to our next topic.

5.4 Eight Elements of a Used Vehicle Sales Entry.

Having reviewed some of the basic tasks of title work, its time to review the vehicle sale entry. The easiest way to learn a somewhat complicated entry is to break it down into its individual components. There are eight elements (or parts) of a used vehicle sale entry as shown in the table below. Some sales will incorporate all eight elements, while other sales may only require four or five elements. We will review each element in turn.

Eight Elements of a Used Vehicle Sale Entry	
1.	Used Vehicle Sales, Cost of Sales and Inventory
2.	Taxes and Fees Payable
3.	Used Vehicle Service Contract Income and Contracts Payable
4.	Used Vehicle Finance Income – Finance Reserve Receivable
5.	Cash Down and Finance Contracts Receivable
6.	Trade-in Vehicle ACV, Lien Pay-off and Over-allowance
7.	Used Vehicle Commission Expense and Accrued Payroll
8.	Reconditioning Expense and Cost of Sales Adjustment

To help us understand these different elements, Figure 5-5 on the next page illustrates City Auto Sales' vehicle sale invoice number 11375 for a used Honda Accord, stock number 1460, sold to Roger Fleming. Examine the invoice and find each of the eight sale entry elements listed in the table above.

At City Auto Sales, there are two journals used to record used vehicle sales. They are Journal 20 - Used Vehicle Sales –Retail and Journal 21 – Used Vehicle Sales – Wholesale. Each journal is used to record retail and wholesale sales, as shown in the table below.

Journal 20 – Used Vehicle Retail Sales	Journal 21 – Used Vehicle Wholesale Sales
3500 - Used car retail sales	3520 -Used car wholesale sales
3540 - Used truck retail sales -	3560 - Used truck wholesale sales
3580 - Remarketed retail car sales	
3600 - Remarketed retail truck sales	

The difference in a retail sales and wholesale sale is the question of who *is the ultimate user (consumer or driver) of the car or truck*. For example, the sale invoice on the next page shows that City Auto Sales sold a PY (prior year) Honda Accord to Roger Fleming. Roger Fleming bought the Accord for his personal use. Therefore, this is a retail sale.

If this sale had been to Roger Fleming Used Cars, we would assume that Roger Fleming is a dealer who would resell the Accord to one of his customers. In this case, Roger is not the ultimate user (or consumer) of the vehicle. Therefore, a sale to Roger Fleming Used Cars would be a wholesale sale, not a retail sale.

A third sales category is remarketed sales. This is a relatively new category for NIADA dealers and is used to record sales of auction vehicles sold by vehicle manufacturers, (GM, Ford), their captive finance companies (GMAC, Ford Credit, DaimlerChrysler Finance) and national rental companies (Hertz or Enterprise) at special auctions. These *near-new* cars and trucks typically are less than 3 years old, with less than 36,000 miles on the odometer at the time of sale. Many will still have some time and mileage left on the original manufacturer's warranty period.

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Exhibit: Used vehicle sales invoice 11375 for used Honda Accord.


 <p align="center">CITY AUTO SALES 555 NIADA Parkway City, ST 12345</p>				SRC 20 - RETAIL		INVOICE NO.		11375			
				SRC 21 - WHSLE		① 1460		DATE: 2-15-CY			
				STOCK NO.				VEHICLE			
				SALESPERSON		Edwards		DEAL #		11375	
				COMMISSION							
				PRICE OF VEHICLE							
YEAR		MAKE	MODEL	N / U	DESCRIPTION	ACCT	KEY	SALE	KEY	COST	
PY		Honda	Accord	U	CARS						
SOLD TO:				CAR RETAIL	3500	-		13,995.00	%	10,650.80	
Roger G. Fleming 7889 Pine Tree Road Wallerford, ST 12346				CAR WHSLE	3520	-	①		%		
				REMKT CAR RET	3580				%		
				REMKT CAR WHSE	3590				%		
				CAR RECOND.	4510		⑧				
				TRUCKS							
VEHICLE I.D. NO. Actual				TRUCK RETAIL	3540	-			%		
SALESPERSON Edwards				TRUCK WHSLE.	3560				%		
KEY NUMBERS 168D537 / 0792				REMKT TRK RET	3600	-			%		
INSURANCE CO. Friendly Insurance Company				REMKT TRK WHSE	3610	-			%		
POLICY NO. 2468013				TRUCK RECOND.	4550	-	⑧				
				EXT. SVC. CONT.	3740	-	③	500.00	%		
SALES DATE 2-15-CY				INSUR. POLICIES	3720				%		
LIENHOLDER First National Bank				SALES TAX	2240	-	②	882.00			
ADDRESS 123 Broad Street				LICENSE & TITLE	2030	-	②	16.50			
CITY, ST, ZIP Limrock, ST 12346											
OPTIONAL EQUIPMENT				D.O.C. FEE	9070	-	①	50.00			
Where are the entry items?				TOTAL CASH PRICE				15,443.50			
1. Sales, Cost of Sales, Inventory				SETTLEMENT		ACCT.	KEY	AMOUNT			
2. Taxes and Fees Payable				CASH ON DELIVERY		1100	+	1,000.00			
3. Service Contract Income and Contracts Payable				FINANCE CONTRACT		⑤ 1020	+	12,143.50			
4. F&I Income and Finance Reserve Receivable				ACCOUNTS REC - VEH.		1100	+				
5. Cash Down and Finance Contracts Receivable				CUSTOMER DEPOSIT		2010	+				
6. Used car trade-in, Lien pay-off, and Over-allowance				USED VEHICLE ALLOWANCE				⑥ 3,500.00			
7. Salesperson Commission				PAY-OFF BALANCE ON USED VEHICLE TRADE-IN		2050	-	⑥ 1,200.00			
8. Reconditioning Expense and Cost of Sales Adjustment				TOTAL SETTLEMENT				22,365.95			
DISCLAIMER OF WARRANTIES.				FINANCE RESERVE REC.		1130	+	④ 150.00			
ANY WARRANTIES ON THE PRODUCTS SOLD HEREBY ARE THOSE MADE BY THE MANUFACTURER. THE SELLER HEREBY DISCLAIMS ALL WARRANTIES, EITHER EXPRESS OR IMPLIED, INCLUDING ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. AND THE SELLER NEITHER ASSUMES NOR AUTHORIZES ANOTHER PERSON TO ASSUME FOR IT ANY LIABILITY IN CONNECTION WITH THE SALE OF SAID PRODUCTS.				FINANCE INCOME		3700	-	④ 150.00			
				INSURANCE INCOME		3720	-	④			
				INSURANCE CONTRACT COST		2030	+				
				SERVICE CONTRACT INCOME		3740	-	③ 200.00			
				SERVICE CONTRACT COST		2040	-				
IT IS UNDERSTOOD THAT LEGAL TITLE TO HEREIN DESCRIBED VEHICLE DOES NOT PASS TO SAID BUYER UNTIL SAID BUYER'S CHECK RENDERED AS FULL OR PARTIAL PAYMENT IS HONORED BY THE BANK ON WHICH IT IS DRAWN.				FINANCE CHARGE (BHPH)		2460	-	④			
				USED VEHICLE STOCK NO.		1460A					
USED VEHICLE TRADED				INV. VALUE OF TRADE - USED CAR		1450	+	3,000.00			
YEAR	MAKE	MODEL	SERIAL NUMBER					⑥			
PY	Ford	Taurus	Actual	INV. VALUE OF TRADE - USED TRUCK.		1470	+				
DESC.	Taurus Station Wagon, blue										

Figure 5-5

This used vehicle sale invoice has an accounting entry section incorporated into the form. Your dealership's sales invoice may or may not include an accounting section on it.

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Now let's look at the complete entry for this sale in Figure 5-6 below. It has been written in our now familiar four-column worksheet entry format. Note that each of the eight elements (or parts) of the entry has been separated for you.

Exhibit: City Auto Sales Invoice for a PY Honda Accord:

Journal: Used Vehicle Sales Journal - Jml # 20				
Reference #: 11375				
Entry Date: 2-15-CY				
Account Description	Acct #	Control #	Debit	Credit
1. Used Vehicle Sales, Cost of Sales & Inventory				
Used Car Retail Sales	3500			13,995.00
Cost of Sales - Used Car Retail	4500		10,650.80	
Inventory - Used Cars	1450	1460		10,650.80
2. Taxes and Fees Payable				
Sales Tax Payable	2240			882.00
License & Title Fees Payable	2030			16.50
D.O.C. Fee	9070			50.00
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income	3740			200.00
Vehicle Protection & ESC Payable	2040	Fleming		300.00
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income	3700			150.00
Finance Reserve Rec - 1st Nat'l Bk	1130	1460	150.00	
5. Cash Down and Finance Contracts Receivable				
Cash on Delivery	1100	1460	1,000.00	
Finance Contract	1020	1460	12,143.50	
6. Trade-in Vehicle ACV, Lien Pay-off and Over-allowance				
Vehicle Lien Payable	2050	1460A		1,200.00
Used Car Inventory	1450	1460A	3,000.00	
Over-allowance - Used Car	3500		500.00	
7. Used Vehicle Commission Expense and Accrued Payroll				
Salaries, Wages & Commissions Pay	2210	Edwards		250.00
Salesperson Compensation & Incent.	8020		250.00	
8. Reconditioning Expense and Cost of Sales Adjustment				
Used Car Reconditioning	4510		150.80	
Cost of Sales - Used Car Retail	4500			150.80
Total Debits & Credits			27,845.10	27,845.10

Figure 5-6

While this entry may look somewhat complicated at first, broken down into its elements (or parts), it is a relatively straightforward entry. Let's review each part of the entry in turn

CHAPTER 5. USED VEHICLE SALES

5.5 Vehicle Sales, Cost of Sales and Inventory.

The first part of the entry records the agreed upon sales price of the Accord, and its cost.

Account Description	Acct #	Control #	Debit	Credit
1. Used Vehicle Sales, Cost of Sales & Inventory				
Used Car Retail Sales	3500			13,995.00
Cost of Sales - Used Car Retail	4500		10,650.80	
Inventory - Used Cars	1450	1460		10,650.80

The sale amount, \$13,995.00 is credited to account 3500 – Used Car Retail Sales. The cost of the sale is debited to account 4500 – Cost of Sales – Used Car Retail Sales and credited to account 1450 – Inventory – Used Cars.

Where did the cost figure come from? As discussed in earlier chapters, accounting schedules are vital for dealership accountants to understand. See the schedule # 10 – Vehicle Inventory page for stock number 1460 in Figure 5-7 below.

City Auto Sales						Page 1 02-15-CY				
SCHEDULE 10. VEHICLE INVENTORY										
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.				
<u>Control #</u>	<u>Date</u>	<u>Jrnl #</u>	<u>Ref #</u>	<u>Acct #</u>	<u>Amount</u>	<u>Acct #</u>	<u>Acct #</u>	<u>Acct #</u>	<u>Acct #</u>	
						1450	1470	2050	2110	
1460	PY Honda Accord LX - blue									
	01-06-CY	70	44588	1450	10,500.00					
	01-06-CY	70	44588	2110	(10,500.00)					
	01-18-CY	30	25478	1450	150.80					
	Current balance					<u>10,650.80</u>			<u>(10,500.00)</u>	
Account 1450 - Used Car Inventory Account 1470 - Used Truck Inventory Account 2050 - Vehicle Liens Payable Account 2110 - Notes Payable - Used Vehicles						Stock number 1460 was entered into inventory on 1-6-CY for \$10,500 and floorplanned for the same amount on the same day. Repairs were made to this unit on internal RO 25478 for \$150.80.				

Figure 5-7

What does this schedule tell us?

Stock number 1460 – Honda Accord LX was stocked into inventory on January 6, CY through the vehicle purchase journal (Jrnl 70) on reference number 44588. Account 1450 – Used Car Inventory was debited for \$10,500.00 and account 2110 – Notes Payable – Used Vehicle was credited for the same amount. This indicates that the vehicle was floor-planned for the purchase amount.

Secondly, on January 18, internal repair order 25478 was completed for this unit with a debit of \$150.80 to account 1450. These two items together give us a cost figure of \$10,650.80 as of the date of sale (2-15-CY).

Once the sale is posted, a new line will be added to stock number 1460, zeroing out this control number. See Figure 5-7, the revised schedule 10 on the next page. The sale entry is shown highlighted with a \$10,650.80 credit entry to account 1450 on 02-15-CY on reference number 11375 (the vehicle sale invoice number) from the Journal 20 – Used Vehicle Sales Journal.

CHAPTER 5. USED VEHICLE SALES

Exhibit: Revised schedule 10 for stock number 1460.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 10. VEHICLE INVENTORY									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1450	1470	2050	2110
1460	PY Honda Accord LX - blue								
	01/06/CY	70	44588	1450	10,500.00				
	01/18/CY	30	25478	1450	150.80				
	01/06/CY	70	44588	2110	(10,500.00)				
	02/15/CY	20	11375	1450	(10,650.80)				
	Current balance					0.00			(10,500.00)
Account 1450 - Used Car Inventory Account 1470 - Used Truck Inventory Account 2050 - Vehicle Liens Payable Account 2110 - Notes Payable - Used Vehicles						The revised schedule page now show the credit entry to account 1450 for stock number 1460. The current balance for this control number is now zero (0.00) for account 1450. The floor plan note due for this stock number is still outstanding.			

As indicated in the explanation box within Figure 5-8 above, the balance for stock (control) number 1460 is now zero (0.00).

Now, let's move on to the taxes and fees element of the entry.

5.6 Taxes and Fees Payable

Vehicle sales are a significant source of sales tax revenues for many states, counties and municipalities.

Account Description	Acct #	Control #	Debit	Credit
2. Taxes and Fees Payable				
Sales tax payable	2240			882.00
License & Title Fees Payable	2030	Fleming		16.50
D.O.C. Fee	9070			50.00

Account 2240 is credited for \$882.00. For the sake of simplicity, the authors will not show the individual city, county and state tax calculations. Assume that City Auto Sales' F&I system correctly calculated the tax due on the vehicle sale amount \$13,995.00 and the D.O.C. fee of \$50.00.

Some office managers use only one account number to credit all sales taxes payable in this one account. Other office managers prefer to separate sales taxes into specific account number numbers. These might include:

- Account 2240 – Sales Tax Payable – City
- Account 2241 – Sales Tax Payable – County
- Account 2242 – Sales Tax Payable – State
- Account 2243 – Sales Tax Payable – Federal

Scheduled account note: Generally, sales tax accounts are not scheduled. However, as was mentioned earlier in this chapter, some states require separate sales tax payments for each vehicle sold. In these states, account 2242 – Sales Tax Payable – State could be scheduled to allow each tax payment to be tracked by individual vehicle sale. The recommended control number for this schedule would be either the last six digits of the VIN or the stock number.

CHAPTER 5. USED VEHICLE SALES

The next line of the entry is a \$16.50 credit entry to account 2030 – License & Registration Fees Payable to control number FLEMING (customer’s last name). The updated schedule page for this entry is shown below in Figure 5-9.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 7. CUSTOMER PAYABLES									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct # 2020	Acct # 2030	Acct #	Acct #
FLEMING	Fleming, Roger G.								
	02/15/CY	20	11375	2030	16.50				
	Current balance						16.50		
Account 2020 - Customer Accomodation						This line shows the \$16.50 credit entry on February 15 on reference number 11375 in journal 20.			
Account 2030 - License & Registration Fees									

Figure 5-9

When the office manager enters the check to pay these fees, a second line will appear on this schedule debiting account 2030 under control number FLEMING. The second entry will zero out the balance for this control number.

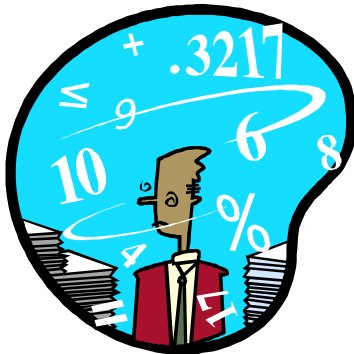
Schedule Control Number note: In this example, we have used the customer’s last name as the control number. Some office managers may prefer to use a designated customer number (1460) or a partial VIN (last six digits).

The third line of the taxes and fees payable entry is for the D.O.C fee of \$50.00. This amount is credited to account 9070 – Other Income. This is an optional fee that some dealers charge as an administrative fee to recoup part of the cost of sales forms, F&I software and clerical time required to complete the sale paperwork. In the City Auto Sales example, D.O.C. fees are credited to account 9070 – an Other Income/Other Expense account. Other dealers may prefer to show this fee with an optional F&I Income account.

Author’s Note: Charging D.O.C. fees is a contested item by many customers and consumer groups. Therefore, your dealership may or may not charge D.O.C. or other administrative fees. However, because of its widespread use, we show it here for illustration purposes.

Additional Note on Vehicle Accounting: The vehicle sale invoice does not have all the accounting information needed for a complete entry. Therefore, we will note where the additional information can be found to complete the entry. These may include:

- | | |
|---|----------------------------|
| A. Sale recap sheet from F&I | D. Finance contract |
| B. Vehicle stock card or wash-out sheet | E. Inventory schedule |
| C. Retail buyer’s order. | F. Retail lease worksheet. |



To test your understanding of these first two elements of the vehicle sale, complete the exercise on the next page.

CHAPTER 5. USED VEHICLE SALES

5.7 Exercise 2.

Q1. Fill in the blanks for this City Auto Sales partial entry shown on the previous pages.

Journal: _____				
Reference #: _____				
Entry Date: _____				
Account Description	Acct #	Control #	Debit	Credit
Used Car Retail Sales				13,995.00
Cost of Sales - Used Car Retail				
Inventory - Used Cars				10,650.80
Sales tax payable	2240			
License & Title Fees Payable				16.50
D.O.C. Fee				

Q2. What do the two control numbers in the partial entry represent?

1460 _____
 Fleming _____

Q3. Fill in the blanks for these two schedule questions.

a. Schedule 10. Vehicle Inventory records which four account numbers?

Acct. No.	Account Description

b. Schedule 7. Customer Payables records which two account numbers?

Acct. No.	Account Description

Q4. Identify each of the accounts shown in the partial entry by account category.

Acct. No.	Asset	Liability	Sale/COS	Expense	Other
3500					
4500					
1450					
2240					
2030					
9070					

Compare your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 2 Answers.

Q1. Fill in the blanks for this City Auto Sales partial entry shown on the previous pages.

Journal: <u>Used Vehicle Sales Journal - Jrnl # 20</u>				
Reference #: <u>11375</u>				
Entry Date: <u>2-15-CY</u>				
Account Description	Acct #	Control #	Debit	Credit
Used Car Retail Sales	3500			13,995.00
Cost of Sales - Used Car Retail	4500		10,650.80	
Inventory - Used Cars	1450	1460		10,650.80
Sales tax payable	2240			882.00
License & Title Fees Payable	2030	Fleming		16.50
D.O.C. Fee	9070			50.00

Q2. What do the two control numbers in the partial entry represent?

1460 Stock number for Honda Accord
 Fleming Customer last name used to track fees payable.

Q3. Fill in the blanks for these two schedule questions.

a. Schedule 10. Vehicle Inventory records which four account numbers?

Acct. No.	Account Description
1450	Used Car Inventory
1460	Used Truck Inventory
2050	Vehicle Liens Payable
2110	Notes Payable – Used Vehicles

b. Schedule 7. Customer Payables records which two account numbers?

Acct. No.	Account Description
2020	Customer Accommodation
2030	License & Registration Fees

Q4. Identify each of the accounts shown in the partial entry by account category.

Acct. No.	Asset	Liability	Sale/COS	Expense	Other
3500			X		
4500			X		
1450	X				
2240		X			
2030		X			
9070					X

Now, let's move on to our next part of the sale entry.

CHAPTER 5. USED VEHICLE SALES

5.8 Used Vehicle Service Contract Income and Contracts Payable.

At City Auto Sales, the Sales Manager handles the role of F&I Manager in completing the vehicle sale paperwork. As a part of this process, the manager discusses the benefits of various automotive-related insurance policies that the customer may find beneficial. These include accident and health (A&H) insurance policies, credit life (CL) or extended service contract (ESC) policies.

If the customer decides to purchase a policy, the policy sale amount is separated into portions for (1) the insurance income to the dealership and (2) the policy premium amount payable to the insurance carrier for the cost of the policy, as shown in our entry below.

Account Description	Acct #	Control #	Debit	Credit
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income	3740			200.00
Vehicle Protection & ESC Payable	2040	Fleming		300.00

However, note that the customer sale invoice shows only the total funds received for the policy.

EXT. SVC. CONT.	3740	-	3	500.00	%	
INSUR. POLICIES	3720				%	

See the table below illustrating the calculations for our actual entry.

Insurance Income Calculation	
Customer pays an agreed-upon price for policy	\$500
Less cost of insurance policy (premium due to insurance co)	-300
Equals insurance income to dealership (account 3720 or 3740)	200

Therefore, account 3740 is actually credited for only \$200, the income portion of the policy sale and account 2040 – Vehicle Protection & ESC (extended service contract) Payable is credited for the \$300 cost of the policy under control number FLEMING (customer’s last name).

The NIADA chart of accounts uses the following account numbers for F&I income.

- Account 3720 – Used Vehicle Insurance Income. This account is used to record income on A&H and CL type policies.
- Account 3740- Used Vehicle Service Contract Income. This account is used to record income on extended service contract policies.

Our \$300 credit entry to account 2040 would be recorded in Schedule 6. Warranty Receivables & Payables, which is shown in Figure 5-10 on the next page.

CHAPTER 5. USED VEHICLE SALES

Exhibit: Schedule 6. Warranty Receivables and Payables.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 6. WARRANTY RECEIVABLES & PAYABLES									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1160		2040	
FLEMING Fleming, Roger G.									
	02/15/CY	20	11375	2040	(300.00)				
Current balance						0.00			(300.00)
Account 1160 - Service Contract Claims Receivable						The credit entry to account 2040 is shown in brackets because it appears on a schedule with a receivable account whose normal sign is a debit balance.			
Account 2040 - Vehicle Protection & ESC Payable									

Figure 5-10

With this entry, the office manager has recorded the premium amount due to the insurance company providing the extended warranty coverage. In this example, City Auto Sales' office manager only uses one warranty company and has set up schedule 6 to trace both warranty claims and warranty premiums due on the same schedule. Additionally, the authors have assumed that City Auto Sales does not sell A&H or CL policies, only extended service policies.



Because of this assumption, office managers may prefer to set their insurance premiums payable schedules differently. They may prefer warranty claim receivables transactions on one schedule with payable transactions on a different schedule.

Additionally, with the growing numbers of companies providing F&I policies for NIADA dealers, office managers may work with two or three insurance companies. In those instances, office managers are encouraged to use sub-accounts for each insurance company.

- Account 2040 – Premiums Payable – Insurance Company “A”
- Account 2041 – Premiums Payable – Insurance Company “B”
- Account 2042 – Premiums Payable – Insurance Company “C”

These three accounts could all be placed on the same schedule so that office managers could accomplish two tasks at the same time.

1. The insurance company statement would be easier to reconcile by looking at a unique account number, rather than intermixing companies on account 2040.
2. If a policy premium were incorrectly posted to account 2040, rather than 2042, it would be easy to spot since all three insurance company transactions would be reported on the same schedule.

Students should ask their office manager how to account for their insurance premiums payable.

Side Note about Forms: In examining the partial vehicle sale invoice shown above, note that the invoice form shows a credit of \$500 to account 3740, along with a blank cost box to the right of item 3. This form has been designed so that dealers who prefer to use a cost of insurance policy account could use one, if desired

CHAPTER 5. USED VEHICLE SALES

5.9 Used Vehicle Finance Income and Finance Reserve Receivable.

When the sales manager (or F&I Manager) assists customers in obtaining outside financing for their vehicle sale through a bank, credit union or other financial institution, the dealership may receive a commission or fee for their services from the finance company. These monies are called finance income or finance reserve, which may range from 1-2% of the purchase amount financed by the customer to an agreed upon fee per finance deal.

Account Description	Acct #	Control #	Debit	Credit
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income	3700			150.00
Finance Reserve Rec - 1st Nat'l Bk	1130	1460	150.00	

In this City Auto Sales example, we have assumed that the dealership is receiving a fee of \$150 per contract arranged with First National Bank, the financial institution for this deal.

This entry has a credit to account 3700 – Used Vehicle Finance Income for \$150 with an offsetting debit entry for \$150 to account 1130 – Finance Reserve Receivable – First National Bank using control number 1460 – the vehicle stock number and/or customer number for Roger Fleming.

Once the entry is posted, the schedule for account 1130 will be updated, as shown below in Figure 5-11.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 8. FINANCE RESERVE RECEIVABLES									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1130	1131	1132	1960
1460	Fleming, Roger G.								
	02/15/CY	20	11375	1130	150.00				
	Current balance					150.00			0.00
Account 1130 - Finance Receivables - First National Bank Account 1131 - Finance Receivables - Metro Bank Account 1132 - Finance Receivables - Other Account 1960 - Finance Receivables - Deferred									
Figure 5-11									

The highlighted line shows the debit entry to account 1130 for 150.00 under control number 1460. When payment from First National Bank is received for the Roger Fleming contract, the office manager will credit account 1130 for the \$150 using the same control number 1460.



Schedule Note: As shown in Schedule 8 above, City Auto Sales has set up separate sub-accounts for their local financial institutions that they do business with.

Note on Buy Here – Pay Here Interest: We will be addressing this topic shortly.

To test your understanding, complete the exercises on the next page.

CONTINUE TO THE NEXT PAGE.

CHAPTER 5. USED VEHICLE SALES

5.10 Exercise 3.

The purpose of this exercise is to review elements 3 and 4 of our sample vehicle sale entry.

- Used vehicle service contract income and Contract Payable
- Used vehicle Finance Income and Finance Reserve Receivable

Q1. Assume that Dealer A sold an extended service contract to a customer THOMAS for \$650. The cost of the extended service contract was \$300. Complete the partial entry below.

Account Description	Acct #	Control #	Debit	Credit
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income				
Vehicle Protection & ESC Payable				

Q2. Fill in the blanks for the partial Chart of Accounts listing below.

Account No.	Description
1130	
1960	
2040	
3700	
3720	
3740	

Q3. Assume that Dealer C has assisted customer Wilson in arranging financing for their vehicle purchase with Metro Savings & Loan. Dealer C earns \$75.00 from Metro for this service. Complete the partial entry below for these monies. Assume that the dealership uses the customer's last name as the control number for finance reserve entries.

Account Description	Acct #	Control #	Debit	Credit
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income				
Finance Reserve Rec - Metro S&L	1131			

Check your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 3 Answers.

Q1. Assume that Dealer A sold an extended service contract to a customer THOMAS for \$650. The cost of the extended service contract was \$300. The completed entry is shown below.

Account Description	Acct #	Control #	Debit	Credit
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income	3740			350.00
Vehicle Protection & ESC Payable	2040	Thomas		300.00

As we reviewed earlier, the sale amount is not entered into accounting. Rather the \$350 profit (income) from the sale of the policy is posted to the Revenue account, and the \$300 policy premium due to the ESC insurance company is credited to the liability account, using the customer's name THOMAS as the control number.

Q2. Fill in the blanks for the partial Chart of Accounts listing below.

Account No.	Description
1130	Finance & Insurance Receivables – Current
1960	Finance Receivables – Deferred
2040	Vehicle Protection & ESC Payable
3700	Used Vehicle Finance Income
3720	Used Vehicle Insurance Income
3740	Used Vehicle Service Contract Income

Q3. Assume that Dealer C has assisted customer Wilson in arrange financing for their vehicle purchase with Metro Savings & Loan. Dealer C earns \$75.00 from Metro for this service. Complete the partial entry below for these monies. Assume that the dealership uses the customer's last name as the control number for finance reserve entries

Account Description	Acct #	Control #	Debit	Credit
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income	3700			75.00
Finance Reserve Rec - Metro S&L	1131	Wilson	75.00	

In this question, we have once again assumed that the finance reserve income was a set dollar amount. In some dealership-finance company agreements, the dealer may earn an agreed upon percentage of the financed amount. However, the entry to record the income is the same, assuming the monies from the financial institution are received shortly after the sale is completed.

If finance reserve income is received over time (term of the loan) from the financial institution, then this entry would be modified to record unearned finance income in a similar manner as unearned interest – BH-PH contracts.

CHAPTER 5. USED VEHICLE SALES

5.11 Cash Down and Finance Contracts Receivable.

While some customers buy their vehicles with cash at the time of sale, the majority of customers have to finance at least some portion of the purchase price. In this example, the customer, Roger Fleming has paid a down payment of \$1,000 and financed the balance of his \$12,143.50 purchase price with First National Bank.

Account Description	Acct #	Control #	Debit	Credit
5. Cash down and Finance Contracts Receivable				
Cash on Delivery	1100	1460	1,000.00	
Finance Contract	1020	1460	12,143.50	

The cash down amount of \$1,000 is debited to account 1100 – Accounts Receivable - Retail Vehicles using control number 1460, which has been assigned to Roger Fleming as his customer number. This number is also the vehicle stock number of the Honda Accord he purchased. Your dealership may or may not use the stock number as the customer number.

SRC 20 - RETAIL	INVOICE NO.		11375		
SRC 21 - WHSLE	1460		DATE: 2-15-CY		
STOCK NO.	Edwards		VEHICLE		
SALESPERSON	COMMISSION		DEAL # 11375		
PRICE OF VEHICLE					
DESCRIPTION	ACCT	KEY	SALE	KEY	COST
CARS					
CAR RETAIL	3500	-	(1) 13,995.00	%	10,650.80
CAR WHSLE	3520	-		%	
REMKT CAR RET	3580			%	
REMKT CAR WHSE	3590			%	
CAR RECOND.	4510				
TRUCKS					
TRUCK RETAIL	3540	-		%	
TRUCK WHSLE.	3560	-		%	
REMKT TRK RET	3600	-		%	
REMKT TRK WHSE	3610	-		%	
TRUCK RECOND.	4550	-			
EXT. SVC. CONT.	3740	-	(2) 500.00	%	
INSUR. POLICIES	3720			%	
SALES TAX	2240	-	(3) 882.00		
LICENSE & TITLE	2030	-	(4) 16.50		
D.O.C. FEE	9070	-	(5) 50.00		
TOTAL CASH PRICE			15,443.50		
SETTLEMENT		ACCT.	KEY	AMOUNT	
CASH ON DELIVERY	1100	+	(a)	1,000.00	
FINANCE CONTRACT	1020	+	(b)	12,143.50	
ACCOUNTS REC - VEH.	1100	+			
CUSTOMER DEPOSIT	2010	+			
USED VEHICLE ALLOWANCE			(c)	3,500.00	
PAY-OFF BALANCE ON USED VEHICLE TRADE-IN	2050	-	(d)	(1,200.00)	
TOTAL SETTLEMENT				15,443.50	
FINANCE RESERVE REC.	4130	+		150.00	
FINANCE INCOME	3700	-		150.00	

Figure 5-12

How was the financed amount determined?

We begin by determining the cash price of the sale. See the accounting section of invoice 11375 to the left.

The \$15,443.50 cash price of the sale includes the following items:

1. Vehicle sale price \$13,995.00
2. Extended service contract \$500.00
3. Sales tax due \$882.00
4. License and Title Fees due \$16.50
5. D.O.C. Fee \$50.00

The total of these five items is \$15,443.50, which is shown as the TOTAL CASH PRICE.

The Settlement section of the form details how Roger Fleming will pay for his Honda.

- a. Cash down on delivery \$1,000.00
- b. Finance Contract \$12,143.50
- c. Used Vehicle Allowance \$3,500.00
- d. Deduction for Lien Payoff \$1,200.00

The total of these four items is \$15,443.50, which is shown as the TOTAL SETTLEMENT.

Thus, the cash price amount and the settlement amount are the same. When this sale is entered into accounting, the cash down and finance contract amount will appear on Schedule 5. Car Deal Analysis, which is shown in Figure 5-12 on the next page.

CHAPTER 5. USED VEHICLE SALES

Exhibit: Schedule 5. Car Deal Analysis for Roger Fleming sale.

City Auto Sales						Page 1 02-15-CY				
SCHEDULE 5. CAR DEAL ANALYSIS										
Accounting Data Entry Information from Dealership Journals						Current Balance for Account Numbers listed by Control #.				
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #	
						1020	1100	2010		
1460	Fleming, Roger G.									
	02/15/CY	20	11375	1100	1,000.00					
	02/15/CY	20	11375	1020	12,143.50					
	Current balance					1,000.00	12,143.50			
Account 1020 - Finance Contracts in Transit										
Account 1100 - Accounts Receivable - Retail Vehicles										
Account 2010 - Customer Deposits										

The highlighted lines show the cash down and finance contract amount for this deal.

Figure 5-13

With this updated schedule page, City Auto Sales' office manager can see what monies were due from the customer and the finance company on this sale.

Note: Even though the customer paid cash down on this deal, the accounting entry in Journal 20 – Vehicle Sales Journal is shown as a debit to Accounts Receivable – Retail Vehicles. The cash received from Fleming is posted in Journal 50 – Cash Receipts Journal. We will be reviewing the posting of cash receipts in a later chapter.

What if this were a Buy Here – Pay Here sale, rather than a bank sale?

The example we are reviewing is for a vehicle sale financed by an outside financial institution, First National Bank. When the dealership finances the sale, the dollar entries are the same, but both amounts are posted to account 1100 – Accounts Receivable –Retail Vehicles.

Account 1020 – Finance Contracts in Transit would not be used to post a buy here – pay here note because account 1020 is considered a cash or near cash account number, as shown on the partial NIADA chart of accounts below.

Cash and Contracts	
1000	Petty Cash Fund
1010	Cash in Bank
1015	Cash in Bank - Payroll
1020	Contracts in Transit
1030	Cash Investments
1040	Undeposited Cash Clearing
1050	Cash Sales Clearing
Receivables	
1100	Retail Vehicles
1110	Wholesale & Dealer Transfer Vehicles
1120	Lease & Rental Accounts
1130	Finance & Insurance Receivables - Current
1140	Customer Notes
1150	Service, Parts & Body Accounts
1160	Service Contract Claims
1170	Allowance for Doubtful Accounts

Account 1020 – Finance Contracts in Transit is a very short term receivable account. Monies posted to this account generally will be received by the dealership within 5 working days of the sale.

Account 1100 – Accounts Receivable – Retail Vehicles is classified as a receivable account, where moneys are expected to be received over time.

At City Auto Sales, which has only a small number of buy here – pay here finance sales, all BHPH notes are posted to account 1100 – Retail Vehicles.

Some office managers may prefer to use a different account number for these type notes, such as sub-account 1101 – BHPH Notes or account 1140 – Customer Notes.

CHAPTER 5. USED VEHICLE SALES

Buy Here – Pay Here Note 2: Principal and Interest (P&I) note balances versus Principal only note balances.

Depending on the Buy Here – Pay Here software used at your dealership, the note balance for each BHPH customer may or may not include interest to be earned over the term of the contract.

If the dealership's software tracks BH-PH customers by principal amounts only, then the entry is the same as our previous example, except the BH-PH principal amount and down payment amounts are both posted to account 1100, rather than 1020 and 1100.

However, if the dealership's BH-PH software tracks BH-PH notes as combined P&I balances due, then the initial vehicle sale entry is slightly different.

Students who have studied bookkeeping understand that interest is earned over time. As BHPH payments are received, interest is earned and is recorded in the dealership's profit and loss statement.

Look at the simplified journal entry below recording the sale of stock number K9985 for \$6,000 to customer Jones. In this example, we have assumed that both the principal amount due (\$6,000 – 500 = 5,500) and the \$1,500 calculated interest due over the term of the loan are included in the BH-PH receivable amount shown in account 1100. Thus, the entry to account 1100 is a debit for \$7,000 (\$5,500 + \$1,500 = \$7,000).

The big question is *what entry should be made to record the \$1,500 calculated interest due over the term of the loan?* The interest is not actually earned at this moment in time. It is earned over the term of customer Jones' loan, as payments come in.

The answer is to record the calculated interest as unearned income in account 2450 – Other Liability account, also under the control number JONES. See the highlighted credit entry to account 2450 for \$1,500 below in Figure 5-14.

Journal: Used Vehicle Sales Journal - Jml # 20				
Reference #: 4368				
Entry Date: 3-15-CY				
Account Description	Acct #	Control #	Debit	Credit
Used Car Retail Sales	3500			6,000.00
Cost of Sales - Used Car Retail	4500		4,500.00	
Inventory - Used Cars	1450	K9985		4,500.00
Cash down	1100	Jones	500.00	
BH-BH Principal & Interest Rec.	1100	Jones	7,000.00	
Unearned Interest - Other Liability	2450	Jones		1,500.00
Total Debits & Credits			12,000.00	12,000.00

Figure 5-14

If your dealership's BH-PH software tracks customer balances by the combined P&I amount, your office manager would add account number 2450 – Unearned Interest – Other Liability to your schedule 5. Car Deal Analysis as shown on the next page in Figure 5-15.

CHAPTER 5. USED VEHICLE SALES

Exhibit: Combined P&I Note balance for Customer Jones.

City Auto Sales						Page 1 3-16-CY				
SCHEDULE 5. CAR DEAL ANALYSIS										
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.				
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct # 1020	Acct # 1100	Acct # 2010	Acct # 2450	
JONES Customer Jones										
	03-15-CY	20	4368	1100	7,500.00					
	03-15-CY	20	4368	1100	500.00					
	03-15-CY	20	4368	2450	(1,500.00)					
	03-15-CY	50	44589	1100	(500.00)					
	Current balance					7,500.00		(1,500.00)		
Account 1020 - Finance Contracts in Transit						<div style="border: 1px solid black; padding: 5px; display: inline-block; margin-bottom: 5px;">Principal & Interest due balance as of March 16, when report was printed.</div> <div style="border: 1px solid black; padding: 5px; display: inline-block; margin-left: 100px; margin-bottom: 5px;">Unearned Interest balance as of March 16, when report was printed.</div>				
Account 1100 - Accounts Receivable - Retail Vehicles										
Account 2010 - Customer Deposits										
Account 2450 - Other Liabilities - Unearned Interest										

Figure 5-15

This schedule records all the transactions that took place for Jones' deal on March 15 for these scheduled accounts.

1. The \$7,500 P&I note due over the term of the loan is posted as a debit to account 1100 on sale invoice number 4368 in the Used Vehicle Sales Journal (Jrnl 20) for control number JONES.
2. The \$500 down payment due from customer Jones at the time of sale is posted as a debit to account 1100 on sale invoice number 4368 in the Used Vehicle Sales Journal (Jrnl 20) for control number JONES.
3. The \$1,500 calculated interest due over the term of the loan is credited to account 2450 - Other Liabilities – Unearned Interest on sale invoice number 4368 in the Used Vehicle Sales Journal (Jrnl 20) for control number JONES.
4. The \$500 down payment received from customer Jones at the time of sale is posted as a credit to account 1100 on cash receipt number 44589 in the Cash Receipts Journal (Jrnl 50).

Now, as customer Jones starts making scheduled payments, they will also be recorded in the Cash Receipts Journal (Jrnl 50) and will contain entries for:

- A reduction of the P&I note balance (account 1100, an Asset account)
- A reduction in unearned income (account 2450, a Liability account)
- An increase in earned finance income (account 3700 – a Revenue account).

We will review these entries in more detail later in our chapter on cash receipts.

Schedule Note: We have assumed that accounting records should match other application records. That is why this additional entry is made to make the accounting receivable records match the balances in the BPH software. With the flexibility of schedule setup, it is easy to add account 2450 – Other Liabilities to our Schedule 5, so that we can track number customer Jones' balances in accounting and they should match the balances in our BH-PH records as well. Depending on our computer vendor's accounting interface software, these entries may be automatically calculated.

To test your understanding, complete the exercises on the next page.

CHAPTER 5. USED VEHICLE SALES

5.12 Exercise 4.

In this exercise, we will be reviewing vehicle sale entry – part 5. Cash Down and Finance Contracts Receivable.

Assume that Dealer J has sold a used truck to customer Keller. You are given the following information about the sale.

Price of used car	7,900.00
D.O.C. Fee	95.00
Sales Tax Payable	180.0
Cost of sold car	6,500.00
License & Title Fees Payable	16.50
Trade-in Allowance	2,000.00

Q1. What is the total cash price of this vehicle price? _____

Q2. Using the same information above, assume that customer Keller is paying \$500 cash down at the time of sale and trading in his old vehicle. What will the finance contract dollar amount be, assuming that the customer has already arranged financing with their own bank. In other words, what will be the dollar amount posted to account 1020 – Contracts in Transit?

Answer the question by completing the partial entry shown below.

Account Description	Acct #	Control #	Debit	Credit
5. Cash down and Finance Contracts Receivable				
Cash on Delivery	1100	Keller	500.00	
Finance Contract	1020			

Q3. Assume that the Keller deal is now a BH-PH deal financed internally by ABC Auto Sales. Keeping the same dollar amounts, complete the revised entry below.

Account Description	Acct #	Control #	Debit	Credit
5. Cash down and Finance Contracts Receivable				
			500.00	
			5,691.50	

Explain your reasons for the change.

Check your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 4 Answers.

Q1. What is the total cash price of this vehicle sale?

Price of used car	7,900.00
D.O.C. Fee	95.00
Sales Tax Payable	180.00
License & Title Fees Payable	16.50
Total Cash Price	\$8,191.50

Remember, the cash price does not include any trade-in information, which would be included in the Settlement calculations. Nor does it include the cost of the used vehicle sold to the customer.

Q2. Using the same information above, assume that customer Keller is paying \$500 cash down at the time of sale and trading in his old vehicle. What will the finance contract dollar amount be, assuming that the customer has already arranged financing with their own bank. In other words, what will be the dollar amount posted to account 1020 – Contracts in Transit?

Answer the question by completing the partial entry shown below.

Account Description	Acct #	Control #	Debit	Credit
5. Cash down and Finance Contracts Receivable				
Cash on Delivery (AR - Ret Veh)	1100	Keller	500.00	
Finance Contract	1020	Keller	5,691.50	

Calculations for this \$5,691.50 finance contract amount are shown below.

Cash Price of vehicle	8,191.50
Settlement:	
Trade-in Allowance	(2,000.00)
Keller Down Payment	(500.00)
Amount to be paid by Keller's bank	5,691.50

Q3. Assume that the Keller deal is now a BH-PH deal financed internally by ABC Auto Sales. Keeping the same dollar amounts, complete the revised entry below.

Account Description	Acct #	Control #	Debit	Credit
5. Cash Down and Finance Contracts Receivable				
Cash on Delivery	1100	1460	1,000.00	
Finance Contract	1020	1460	12,143.50	

Explain your reasons for the change.

A BH-PH finance contract is considered a receivable, rather than a near-cash item. The bank would have paid the full amount within days, not years. Therefore, the entry is debited to account 1100 – Accounts Receivable – Retail Vehicle using the same control number, Keller.

Now, let's move on to the next part of the vehicle sale entry.

CHAPTER 5. USED VEHICLE SALES

5.13 Trade in Vehicle ACV, Lien Pay-off and Over-Allowance.

Many customer trade in their old vehicle when they purchase another vehicle. They receive a trade-in allowance toward the purchase of the new vehicle. However, this allowance may not be the same as the actual cash value (ACV) of the vehicle as determined by the dealer or sales manager. ACV is the estimated current cash wholesale value of the trade-in vehicle if it were immediately sold (or disposed of) by the dealership at a vehicle auction. This ACV valuation is documented by either the dealer or sales manager on an appraisal slip and placed in the vehicle deal jacket. The difference between the vehicle trade-in allowance given to the customer and the ACV is considered a vehicle over-allowance.

Here is the partial entry containing the line items for the trade-in vehicle.

Account Description	Acct #	Control #	Debit	Credit
6. Trade-in Vehicle ACV, Lien Pay-off and Over-allowance				
Vehicle Lien Payable	2050	1460A		1,200.00
Used Car Inventory	1450	1460A	3,000.00	
Over-allowance - Used Car	3500		500.00	

A partial vehicle sales invoice for our Roger Fleming sale is shown below. The vehicle lien payable, or amount due to a financial institution is shown as item (b) \$1,200 credit amount. The ACV of the trade-in vehicle is shown as item (c), the used vehicle inventory amount of \$3,000. The over-allowance amount is calculated as the difference between items (a) used vehicle allowance and (c) used vehicle inventory amount.

Trade-in Vehicle Over-allowance Calculations	
Customer is offered an agreed-upon allowance for trade-in vehicle.	3,500.00
Manager or Dealer appraises ACV of trade-in at lower figure.	3,000.00
Difference is over-allowance on trade-in.	500.00

TOTAL CASH PRICE		15,443.50	
SETTLEMENT	ACCT.	KEY	AMOUNT
CASH ON DELIVERY	1100	+	1,000.00
FINANCE CONTRACT	1020	+	12,143.50
ACCOUNTS REC - VEH.	1100	+	
CUSTOMER DEPOSIT	2010	+	
USED VEHICLE ALLOWANCE			(a) 3,500.00
PAY-OFF BALANCE ON USED VEHICLE TRADE-IN	2050	-	(b) (1,200.00)
TOTAL SETTLEMENT			15,443.50
FINANCE RESERVE REC.	1130	+	150.00
FINANCE INCOME	3700	-	150.00
INSURANCE INCOME	3720	-	
INSURANCE CONTRACT COST	2030	+	
SERVICE CONTRACT INCOME	3740	-	200.00
SERVICE CONTRACT COST	2040	-	300.00
FINANCE CHARGE (BHPH)	2460	-	
USED VEHICLE STOCK NO.	1460A		//////
INV. VALUE OF TRADE - USED CAR	1350	+	(c) 3,000.00
INV. VALUE OF TRADE - USED TRUCK.	1360	+	

Figure 5-16

The over-allowance is accounted for by reducing (or debiting) account 3500 – Used Car Retail Sales to determine a lower net sales figure. The dollar amount debited in account 1350 – Used Vehicle Inventory will then be correctly recorded as the ACV amount, rather than the higher trade-in amount. By using the lower ACV, the dealership maintains its used car inventory at the net realizable value of the vehicles in stock (a.k.a. lower of cost or market value).

In this example, customer Fleming traded in a PY Taurus station wagon which was then debited to account 1350 for \$3,000 on control number 1460A. The number 'A' has been added to the original 1460 stock number to identify that it is a local trade-in vehicle, rather than an auction vehicle.

Item (b) the vehicle lien on the Honda is posted as a \$1,200.00 credit entry to account 2050 on control number 1460A,

CHAPTER 5. USED VEHICLE SALES

the stock number of the Taurus wagon trade-in. As soon as this sale is posted into accounting, the updated used vehicle schedule will reflect the removal of the Honda Accord sold to Roger Fleming, and the addition of his Taurus Wagon, as shown in Schedule 10. Vehicle Inventory below in Figure 5-17.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 10. VEHICLE INVENTORY									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1450	1470	2050	2110
1460	PY Honda Accord LX - blue								
	01-06-CY	70	44588	1450	10,500.00				
	01-18-CY	30	25478	1450	150.60				
	01-06-CY	70	44588	2110	(10,500.00)				
	02-15-CY	20	11375	1450	(10,650.60)				
	Current balance					0.00			(10,500.00)
1460A	PY Taurus Station Wagon - blue								
	02-15-CY	20	11375	1450	3,000.00				
	02-15-CY	20	11375	2050	(1,200.00)				
	Current balance					3,000.00			(1,200.00)
Account 1450 - Used Car Inventory									
Account 1470 - Used Truck Inventory									
Account 2050 - Vehicle Liens Payable									
Account 2110 - Notes Payable - Used Vehicles									

This line posts the sale of the Honda by zeroing out the inventory amount for stock number 1460.

The first line records the addition of the Taurus station wagon to account 1450 - Used Car Inventory under stock number 1460A. The next line records the \$1,200 lien pay-off to account 2050 - Vehicle Liens Payable for the same stock number.

Figure 5-17

One of the many benefits of flexible schedule set-ups is the ability to add related account numbers to the same schedule. City Auto Sales' office manager has set up this Vehicle Inventory schedule to record four related account numbers.

- Account 1450 – Used Car Inventory
- Account 1470 – Used Truck Inventory
- Account 2050 – Vehicle Liens Payable
- Account 2110 – Notes Payable – Used Vehicles.

Looking at this updated schedule page, the office manager has a clear understanding of what transactions have been posted so far, and what transactions must be completed next.

What's happened so far?

- Stock number 1460 was purchased on January 6th and was floor planned the same day.
- Stock number 1460 was worked on in City Auto Sales' Service Department on January 18th.
- Stock number 1460 was sold on February 15th and now has a \$0.00 balance.
- Stock number 1460A was stocked into inventory on February 15th as a trade-in on stock number 1460.
- Stock number 1460A has an outstanding lien on it.

What needs to be done next?

- The floor plan note on stock number 1460 must be paid within 3 days of sale.
- The lien payable on stock number 1460A must be paid off to receive a title on the Taurus wagon.

This concludes our review of the vehicle trade-in part of the entry. Now, let's move on to the next part of the sale entry.

CHAPTER 5. USED VEHICLE SALES

5.14 Used Vehicle Commission Expense and Accrued Payroll

The next part of vehicle sale entry concerns sales commissions and may be considered an optional part of the sale entry.

Account Description	Acct #	Control #	Debit	Credit
7. Used Vehicle Commission Expense and Accrued Payroll				
Salaries, Wages & Commissions Pay	2210	Edwards		250.00
Salesperson Compensation & Incent.	8020		250.00	

Most NIADA dealers have some sort of sales commission plan. Typically, the dealer will pay some percentage of profit on the vehicle sale or pay a flat or floating fee based on number of unit sales achieved and/or profit earned during the dealer-defined sales period (ex. weekly or monthly sales).

Due to the wide variety of commission plans, we have simply assumed that Salesperson Edwards earned a \$250 commission on this Honda Accord sale to Roger Fleming. We will not attempt to recreate the calculations for this commission amount.

Students who have studied basic accounting should be familiar with accrued expenses. The dealership wants to record the expense now, but will actually pay the expense at a later date. The same principle is used with accounts payable to post current month income with current month expenses, even if the bills are not paid until the 10th of the following month. Payroll expenses are accrued on the same day of the sale, even though payroll checks are not prepared until the end of the current pay period. This allows a more accurate D.O.C. to be prepared on a daily basis.

Account 2210 – Salaries, Wages & Commissions Payable (a liability account) is credited for \$250 under control number EDWARDS, as shown on the schedule below in Figure 5-18.

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SCHEDULE 17. ACCRUED PAYROLL

<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.				
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #	
						2210				
Edwards	Salesperson Edwards									
	02-10-CY	20	11355	2210	125.00					
	02-12-CY	20	11367	2210	300.00					
	02-15-CY	20	11375	2210	250.00					
	Current balance					675.00				

Account 2210 - Salaries, Wages & Commissions Payable

This line posts the \$250 commission due to Salesperson Edwards. Edwards has already sold two other vehicles for this current pay period.

Figure 5-18

Since City Auto Sales has less than ten employees, the office manager sees no need to assign employee numbers. The offsetting entry is a debit entry to account 8020 – Salesperson Compensation and Incentive (an expense account). When payroll checks are posted, the balance due for Edwards will be debited to account 2210.

Note: Some NIADA office managers would not recommend scheduling this account, preferring to use commission worksheets or F&I generated commission reports instead. We show the account scheduled in this example as one of several possible methods to track commissions payable.

To test your understanding, complete the exercises on the next page.

CONTINUE TO THE NEXT PAGE.

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5.15 Exercise 5.

The purpose of this section is to review your understanding of parts 6 and 7 of our vehicle sale entry.

- Trade-in Vehicle ACV, Lien Pay-off and Over-allowance.
- Used Vehicle Commission Expense and Accrued Payroll.

Q1. Assume the following information. Dealer C sells stock number B7786, a used truck for \$5,000 to customer Holland. Holland has a trade-in truck with an appraised value of \$1,000, but the dealership sales manager offers a \$1,500 trade allowance. Customer Holland still owes \$600 on the trade-in truck. Based on this information, complete the partial entry below.

Account Description	Acct #	Control #	Debit	Credit
Vehicle Lien Payable	2050			
Used Truck Inventory		B7786A		
Over-allowance - Used Truck				

Q2. Continuing this Dealer C sale to customer Holland, assume that Salesperson Waller earned a \$200 commission for the sale. Complete the partial entry below.

Account Description	Acct #	Control #	Debit	Credit
	8020			

Q3. Complete the table below by filling in the missing information and checking the correct account classification. Use the NIADA Chart of Accounts in the front of the book as needed.

Account Number	Account Description	Asset	Liab.	Sales COS	Exp.
	Salesperson Compensation & Incentives				
1470					
2050					
	Used Car Retail Sales				
2210					
	Used Truck Retail Sales				
	Inventory – Used Cars				

Check your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 5 Answers.

Q1. Assume the following information. Dealer C sells stock number B7786, a used truck for \$5,000 to customer Holland. Holland has a trade-in truck with an appraised value of \$1,000, but the dealership sales manager offers a \$1,500 trade allowance. Customer Holland still owes \$600 on the trade-in truck. Based on this information, complete the partial entry below.

Account Description	Acct #	Control #	Debit	Credit
Vehicle Lien Payable	2050	B7786A		600.00
Used Truck Inventory	1470	B7786A	1,000.00	
Over-allowance - Used Truck	3540		500.00	

The lien payable is credited to account 2050 – Vehicle Lien Payable for \$600 on control number B7786A, assigned as the stock number for the trade-in truck. Used Truck Inventory (account 1470) is debited \$1,000 for the ACV (appraised value) of the truck. The over-allowance amount (\$1,500 - \$1,000 = \$500) is debited to account 3540 – Used Truck Retail Sales, thus creating a net sale amount of \$4,500 (\$5,000 - \$500).

Q2. Continuing this Dealer C sale to customer Holland, assume that Salesperson Waller earned a \$200 commission for the sale. Complete the partial entry below.

Account Description	Acct #	Control #	Debit	Credit
Salaries, Wages & Commissions Pay	2210	Waller		200.00
Salesperson Compensation & Incent.	8020		200.00	

This entry is exactly the same as the illustration entry. The control number (WALLER) has changed for the different salesperson and the commission amount is slightly less.

Q3. Complete the table below by filling in the missing information and checking the correct account classification. Use the NIADA Chart of Accounts in the front of the book as needed.

Account Number	Account Description	Asset	Liab.	Sales COS	Exp.
8020	Salesperson Compensation & Incentives				X
1470	Inventory – Used Trucks	X			
2050	Vehicle Lien Payable		X		
3500	Used Car Retail Sales			X	
2210	Salaries, Wages & Commissions Payable		X		
3540	Used Truck Retail Sales			X	
1450	Inventory – Used Cars	X			

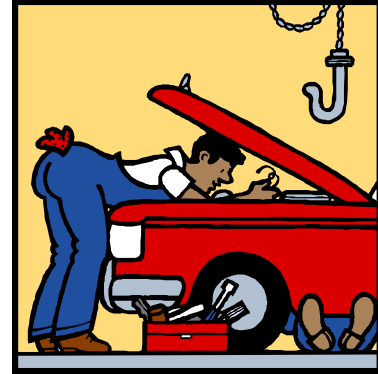
The purpose of this question is to help the student see the various types of account numbers used in a vehicle sale entry and to reinforce account numbers and their corresponding names.

Now, let's continue on to the final part of our vehicle sales entry.

5.16 – Reconditioning Expense and Cost of Sales Adjustment.

The goal of reconditioning a used car or truck is to put it in sellable condition, and still be able to make a profit on the sale of the unit.

Dealers have differing opinions about how much reconditioning is required to put their cars and trucks in sellable condition. Some dealers, specializing in 1-3 year old (near new) models can reasonably expect a reconditioned unit to look and run almost as well as when it was new. The vehicle often will still have some portion of the manufacturer warranty still in effect.



Dealers selling 3-5 year old cars and trucks may have to spend some money in repairs and routine maintenance to prepare their vehicles for sale. These cars and trucks are still reliable, but are at an age and mileage level that repairs are generally necessary.

On the other hand, dealers specializing in older model vehicles (6-10 years old) can easily spend hundreds or thousands of dollars on repairs. The needed repairs may cost more than the vehicle’s ACV at wholesale. In these situations, the cost to repair the vehicle is more than the vehicle is worth.

NIADA dealers routinely analyze how much they spend on reconditioning costs in order to understand their business costs and opportunities. For example, if a dealer averages \$200 per car in reconditioning costs and averages \$1,500 in profit on the sale, can they make an extra \$300 in profit if they spend another \$50 on reconditioning?

The answer to that question can not be answered by looking at one or two vehicles, but dozens or hundreds of vehicles sold over a period of time. That’s because the dealer must look at average reconditioning costs or average cost per unit to make a reasonable decision on reconditioning guidelines.

This type of analysis is one of the strengths of NIADA’s Twenty Groups, where dealers can study together and gather additional insight on how to run their business.

In our City Auto Sales example, the adjusting entry on reconditioning is straight-forward.

Account Description	Acct #	Control #	Debit	Credit
8. Reconditioning Expense and Cost of Sales Adjustment				
Used Car Reconditioning	4510		150.80	
Cost of Sales - Used Car Retail	4500			150.80

Account 4510 – Used Car Reconditioning is a cost of sales account. However, it is essentially a sub-account of 4500 – Cost of Sales – Used Car Retail. It is used strictly as a reclassification account, to segregate the cost of each car sale that was spent on repairing and reconditioning the vehicle for resale.

While some cars and trucks may have extensive repairs completed on several repair orders, this Honda Accord only had one RO performed on it, as was shown earlier in Schedule 10. Vehicle Inventory, which appears again on the next page in Figure 5-19.

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Exhibit: Schedule 10. Vehicle Inventory for stock number 1460.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 10. VEHICLE INVENTORY									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1450	1470	2050	2110
1460	PY Honda Accord LX - blue								
	01-06-CY	70	44588	1450	10,500.00				
	01-18-CY	30	25478	1450	150.80				
	01-06-CY	70	44588	2110	(10,500.00)				
	02-15-CY	20	11375	1450	(10,650.80)				
	Current balance					<u>0.00</u>			<u>(10,500.00)</u>
Account 1450 - Used Car Inventory Account 1470 - Used Truck Inventory Account 2050 - Vehicle Liens Payable Account 2110 - Notes Payable - Used Vehicles									

The only reconditioning work done on stock number 1460 by City Auto Sales was on RO 25478 on January 18th for \$150.60.

Figure 5-19

The highlighted line shows the one repair order charged to this vehicle. Therefore, our only reconditioning expense is the \$150.80 charged on RO 25478. Account 4500 – Cost of Sales – Used Car Retail is credited for \$150.80 and account 4510 is debited for the same amount.

No scheduled accounts are involved in this entry, it is simply a cost reclassification for analysis purposes.

How is this information used?

Assume that the end of February, account 4510 has a balance of \$7,375.00. If City Auto Sales sold 25 cars at retail during February, the average reconditioning cost per car would be \$295.00 ($\$7,375 \div 25 = \295). Similar type analysis could be done for used trucks and compared to earlier month averages or six month averages. However, without the reconditioning cost reclassification entries, these calculations could not be accurately completed from accounting information.

Instead, the dealer would have to rely on the vehicle inventory management system, which should match the accounting records, but which is often not maintained with the same care as are accounting records.

To test your understanding of this final part of the vehicle sale entry and the other seven parts reviewed so far, complete the exercises on the next page.

5.17 Exercise 6.

The purpose of this final exercise is to help you calculate a vehicle sale entry yourself. Here are the facts of a City Auto Sales transaction on April 5, CY.

- Retail sale of PY Jeep Cherokee (stock number A6784) for \$9,600 to customer Tiller on sales invoice 26897.
- Inventory cost of stock number A6784 is \$8,100, including \$300 of reconditioning work completed in Service Department during March.
- Customer Tiller traded in a PY Ford Explorer XLT (stock number A6784A) with an ACV of \$2,800 and a trade-allowance of \$3,200. Tiller still owed \$450 on the Explorer to Mountain Valley Savings and Loan. Tiller paid \$1,500 down on Jeep purchase.
- Sales tax was \$385.00 on the sale.
- License and Title fees were \$24.50, which will be paid by City Auto Sales.
- City Auto Sales assisted customer Tiller in obtaining a loan for the balance due on his vehicle purchase from Friendly Bank Group. Friendly Bank Group will pay City Auto Sales \$125 for this service.
- Tiller's salesperson (Norton) earned a \$100 commission on the deal.
- A D.O.C. fee of \$149.00 was included in the sale as an administrative fee.
- Customer Tiller purchased an extended service contract policy with Mega Warranty Co for \$795.00. City Auto Sales will pay Mega Warranty Co. \$400 in policy premiums.



Q1. Complete the vehicle sale entry worksheet on the next page. Use the NIADA chart of accounts sheets in the front of your book as necessary.

CONTINUE TO THE NEXT PAGE.

CHAPTER 5. USED VEHICLE SALES

Exercise 6 Answers.

Q1.

Journal: <u>Used Vehicle Sales Journal - Jrnl # 20</u>				
Reference #: <u>26897</u>				
Entry Date: <u>4-5-CY</u>				
Account Description	Acct #	Control #	Debit	Credit
1. Used Vehicle Sales, Cost of Sales & Inventory				
Used Truck Retail Sales	3540			9,600.00
Cost of Sales - Used Truck Retail	4540		8,100.00	
Inventory - Used Trucks	1470	A6784		8,100.00
2. Taxes and Fees Payable				
Sales tax payable	2240			385.00
License & Title Fees Payable	2030			24.50
D.O.C. Fee	9070			149.00
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income	3740			395.00
Vehicle Protection & ESC Payable	2040	Tiller		400.00
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income	3700			125.00
Finance Reserve Rec	1130	A6784	125.00	
5. Cash down and Finance Contracts Receivable				
Cash on Delivery	1100	A6784	1,500.00	
Finance Contract	1020	A6784	6,703.50	
6. Trade-in Vehicle ACV, Lien Pay-off and Over-allowance				
Vehicle Lien Payable	2050	A6784A		450.00
Used Truck Inventory	1470	A6784A	2,800.00	
Over-allowance - Used Truck	3540		400.00	
7. Used Vehicle Commission Expense and Accrued Payroll				
Salaries, Wages & Commissions Pay	2210	Norton		100.00
Salesperson Compensation & Incent.	8020		100.00	
8. Reconditioning Expense and Cost of Sales Adjustment				
Used Truck Reconditioning	4550		300.00	
Cost of Sales - Used Truck Retail	4540			300.00
Total Debits & Credits			20,028.50	20,028.50

This entry was exactly the same as our illustrative entry, but with different information. Once you get used to breaking down the entry into its individual parts, calculating the entry is much easier. There may be variations in types of sales, but the basic entry should always be similar to this one you've just completed.

5.18 Accounting for Repossessed Vehicles.

NIADA dealers are in the business of selling used cars and trucks. Many of their retail customer are unable to purchase their vehicles outright, and must arrange financing to pay for their purchases over time. Some customers are able to arrange financing for their vehicle purchase from traditional finance sources, such as banks and credit unions. In other instances, the customer may be unable to obtain financing from traditional sources and the selling dealer agrees to finance the vehicle purchase. Thus, the dealership (ex. City Auto Sales) or their related finance company (ex. City Auto Finance) becomes the financing company. These are typically called Buy Here – Pay Here (BHPH) dealerships. Customers agree to pay the BHPH dealership a set number of payments which will total the vehicle purchase price plus interest. These payments are typically made on a weekly, monthly or every other week basis.



Retail customers who finance their vehicle purchases with BHPH dealers are typically customers who have blemished credit records. Therefore BHPH dealers expect that some of their customers will have difficulties in completing all their payments and paying off their finance contract.

Retail customers who finance their vehicle purchases with BHPH dealers are typically customers who have blemished credit records. Therefore BHPH dealers expect that some of their customers will have difficulties in completing all their payments and paying off their finance contract.

NOTE: This information is general and non-specific in nature and is used for illustration and training purposes only. Dealers should consult competent legal and accounting counsel, as well as outside finance companies involved, for specific details on repossession procedures in their state.

When retail customers are unable to make their payments as determined in their finance contract, eventually their vehicles will be repossessed by the finance company or BHPH dealer. Once the vehicle is repossessed, the customer is entitled by law to redeem a repossessed vehicle until it is sold. Under this procedures, if the customer makes a certain payment to the dealer, the vehicle must be returned to them. In some states, the customer must pay the entire debt outstanding plus repossession and other costs. In other states, customers may under certain circumstances redeem their vehicles by paying the overdue amount (including late charges) plus expenses within a specified time period; they are then “reinstated” in their contracts.

To give the customer an opportunity to redeem, a repossessed vehicle may not be sold for a “reasonable time” after repossession. The vehicle should be held for at least ten days (longer in some states) after the customer is sent a notice of repossession. Even after the expiration of the reasonable waiting period, the customer may redeem at any time until the vehicle is actually sold.

When the repossessed vehicle is sold to an independent third party, the customer is entitled to any surplus remaining. However, there are several elements involved in calculating this surplus (or deficiency). These include:

- Selling Price
- Loan Pay-off
- Dealer Repossession Expenses
- Legal Costs
- Title and Registration Fees
- Storage Costs
- Reconditioning by the Dealer
- Reconditioning – Sublet
- Sales Commission
- Advertising
- Auction Fees / Expenses
- Reimbursement to Financing Institution
- Other Liens

To help us better understand these elements, an illustrative sample may be useful.

CHAPTER 5. USED VEHICLE SALES

City Auto Sales and Customer Smith.

City Auto Sales sold Customer Smith a used truck for \$5,000. Smith signed a finance contract with City Auto Sales to pay for the truck over 30 months with payments due every week. After making regular payments for some months, Smith began to bring in payments late, then making partial payments and eventually stopped making payments entirely. City Auto Sales, after following standard collection procedures, repossessed the used truck due to non-payment.

CITY AUTO SALES NOTICE OF REPOSSESSION AND RIGHT TO REDEEM																							
Customer Smith 123 Oak Street Anytown, ST 12345 Co-Buyer/Guarantor Name/Address N/A	FINANCE CONTRACT																						
	Date of Repossession 5-15-CY																						
	Date of Notice 5-15-CY																						
	Contract Date 1-10-CY																						
	Contract Number 4598																						
	REPOSSESSED VEHICLE DESCRIPTION																						
	Year PY Make/Model Chev S-10																						
	Serial No. VIN #																						
<input checked="" type="checkbox"/> We've repossessed your property. <input type="checkbox"/> You have voluntarily turned in your property to us.																							
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">HOW TO GET IT BACK</th> </tr> </thead> <tbody> <tr> <td colspan="2">To get your property back, pay us this amount before it is sold.</td> </tr> <tr> <td>Unpaid Balance</td> <td style="text-align: right;">\$ 3,500.00</td> </tr> <tr> <td>Plus Costs:</td> <td style="text-align: right;">\$</td> </tr> <tr> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td></td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Plus Late Charges</td> <td style="text-align: right;">\$ 250.00</td> </tr> <tr> <td>Less Finance Charge Rebate</td> <td style="text-align: right;">\$ 0.00</td> </tr> <tr> <td>Less Insurance Premium Rebate</td> <td style="text-align: right;">\$ 0.00</td> </tr> <tr> <td style="text-align: right;">TOTAL</td> <td style="text-align: right;">\$ 3,750.00</td> </tr> </tbody> </table> <p>Plus expenses incurred and less monies received after the date of this notice.</p> <p>Your property won't be sold until 10 days after the date of this notice at the earliest. After that you can still get it back any time before it is actually sold. If you do, we will have no further claim on it. But the longer you wait, the more costs (including repairs) you may have to pay. If you have any questions, please call us.</p>	HOW TO GET IT BACK		To get your property back, pay us this amount before it is sold.		Unpaid Balance	\$ 3,500.00	Plus Costs:	\$		\$		\$		\$	Plus Late Charges	\$ 250.00	Less Finance Charge Rebate	\$ 0.00	Less Insurance Premium Rebate	\$ 0.00	TOTAL	\$ 3,750.00	<p>Your property will be returned to: City Auto Sales 555 NIADA Parkway City, ST 12345 Phone 555-555-5555.</p> <p>City Auto Sales will sell the property and pay you any money left over.</p> <p>RIGHT TO MONEY LEFT OVER FROM SALE - When your property is sold, the sale price minus expenses will be deducted from your debt. If any money is left over, it must be paid to you with 45 days after the sale. If you don't get this money, you may have a right to sue for it plus penalties under state law.</p> <p>Insurance Rights - If you don't want to get your property back, call the insurance company or the dealer to make sure that any insurance has been canceled. You have a right to get credit for all premium refunds.</p> <p>Remaining Debt - The sale price might not cover your debt and expenses. If that happens, you'll owe the difference to us.</p>
HOW TO GET IT BACK																							
To get your property back, pay us this amount before it is sold.																							
Unpaid Balance	\$ 3,500.00																						
Plus Costs:	\$																						
	\$																						
	\$																						
	\$																						
Plus Late Charges	\$ 250.00																						
Less Finance Charge Rebate	\$ 0.00																						
Less Insurance Premium Rebate	\$ 0.00																						
TOTAL	\$ 3,750.00																						
NOTICE OF SALE																							
<input checked="" type="checkbox"/> PRIVATE SALE: The property described above will be sold at a private sale at any time after 10 days from the Date of Notice shown above unless redeemed by you prior to such sale.	<input type="checkbox"/> PUBLIC SALE: The property described above will be sold at public auction to the highest bidder on the date and at the time and place indicated below unless redeemed by you prior to																						
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;">Date of Sale</th> <th style="width: 33%;">Time of Sale</th> <th style="width: 33%;">Place of Sale</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>		Date of Sale	Time of Sale	Place of Sale																			
Date of Sale	Time of Sale	Place of Sale																					
<p>The proceeds of the sale will be applied first to the payment of the expenses of retaking, holding, preparing for sale and selling said property and reasonable attorney's fees and legal expenses, then to the satisfaction of the balance due under the contract covering the financing said property, and then to the satisfaction of any indebtedness secured by any subordinate security interest in said property.</p>																							

Figure 5-20

At the time of the repossession, Smith owed City Auto Sales \$3,750 in principal, interest and late charges due. The first entry is to record the receipt of the vehicle at City's sales lot.

CHAPTER 5. USED VEHICLE SALES

Entry 1 – Stock in the truck. Post the repossessed vehicle into inventory at current ACV (actual cash value) or appraised wholesale value, shown below in Figure 5-21.

Journal: General Journal - Jrnl # 80				
Reference #: REPO505				
Entry Date: 5-15-CY				
Account Description	Acct #	Control #	Debit	Credit
Inventory - Used Trucks	1470	R505	2,000.00	
Used Vehicle Repossession Losses	4620		1,750.00	
Customer Notes Receivable	1140			3,750.00

Figure 5-21

The repossessed used truck was appraised by the dealer and sales manager at its current wholesale or actual cash value (ACV) of \$2,000. NOTE: A copy of the signed appraisal form, which should include reconditioning estimates, should be filed in the car jacket (folder). Some dealers also take pictures of the interior and exterior of the repossessed vehicle and file them in the car jacket. The second line of the entry records the repossession loss of \$1,750 to account 4620 – Used Vehicle Repossess Loss. This amount is calculated as the difference between the \$3,750 balance owed by Customer Smith and the \$2,000 appraised value of the vehicle at the time of repossession. **Note:** In this example, the repossession loss was posted directly to a used vehicle cost of sale account. For those dealerships using the repossession allowance method, the entry would have been posted to account 2310- Reserve for Repos, F&I & Service Contract Losses. City Auto Sales assigns the repossessed vehicle a unique stock number (R505 = R for repo, 5 for May, 05 for 5th vehicle repossessed in May) to keep track of repossessed vehicle documentation requirements. We will see the importance of this stock number in our repossessed vehicle tracking document shortly.

Entry 2. Repossession Expenses: We assume that City Auto Sales hired a repossession agent to find and bring the used truck back to the dealership. The entry for the dealership check to the agent is shown below in Figure 5-22.

Journal: Cash Disbursements Journal - Jrnl # 60				
Reference #: 15689				
Entry Date: 5-15-CY				
Account Description	Acct #	Control #	Debit	Credit
Inventory - Used Trucks	1470	R505	250.00	
Cash in bank	1010			250.00

Figure 5-22

This \$250 fee is also charged to the repossessed vehicle inventory balance, as shown below in the used vehicle schedule page is shown on the next page in Figure 5-9.

At this point, the repossessed vehicle will be stored in City Auto Sales back lot for a minimum of 10 days, allowing Customer Smith time to either catch up on past due payments and late fees. No work will be done on the vehicle during this period.

CHAPTER 5. USED VEHICLE SALES

Inventory Schedule for Repossessed Truck:

City Auto Sales						Page 1 05-15-CY			
SCHEDULE 10. VEHICLE INVENTORY									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1450	1470	2050	2110
1460	PY Honda Accord LX - blue								
	04-25-CY	70	44588	1450	10,500.00				
	04-25-CY	70	44588	2110	(10,500.00)				
	Current balance					10,500.00			(10,500.00)
R505	PY Chev. S10 - Repo Customer Smith								
	05-15-CY	80	REPO505	1470	2,000.00				
	05-15-CY	60	15689	1470	250.00				
	Current balance						2,250.00		
Account 1450 - Used Car Inventory Account 1470 - Used Truck Inventory Account 2050 - Vehicle Liens Payable Account 2110 - Notes Payable - Used Vehicles						The first entry posts the repossessed truck into inventory at its ACV, using a unique repossession stock number. The second entry records the check for the repossession agent.			

Figure 5-23

Assuming that Customer Smith is not able to bring their payments up to date, City Auto Sales will recondition the vehicle to put it in salable condition. Repossessed vehicles must be resold at auction or by private sale at the dealership. We will assume that City Auto Sales will try to sell the used truck to a retail customer at their sales lot. If it does not sell, then they will sell it at a vehicle wholesale auction.

As part of the initial appraisal process when the truck was repossessed, the dealer and sales manager have determined that repairs must be made to the vehicle. The mechanical repairs can be completed by City's Service Department and a ripped headliner replacement will be sublet to a local shop. The internal repair order entry for these repairs is shown below in Figure 5-24.

Journal: Service & Parts Sales Journal - Jrnl # 30
Reference #: 25896
Entry Date: 5-26-CY

Account Description	Acct #	Control #	Debit	Credit
Internal Labor Sales	5080			30.00
Cost of Sales - Internal Labor	6080		30.00	
Inventory - Labor in Process	1550			30.00
Parts Sales - Internal R.O.	5260			125.75
Cost of Sales - Internal Parts	6260		125.75	
Inventory - Parts & Accessories	1450			125.75
Sublet Repair Sales	5100			75.00
Cost of Sales - Sublet Repairs	6100		75.00	
Inventory - Sublet Repairs	1540	25896		75.00
Inventory - Used Trucks	1470	R505	230.75	

Figure 5-24

NOTE: When calculating the amount for repossessed vehicle reconditioning, you're going to find that the methods of determining the costs of reconditioning are different from the usual methods that you are accustomed to because the issue is cost recovery, not profit. Let's review each type of sale in the internal RO entry.

CHAPTER 5. USED VEHICLE SALES

Internal Labor Sales: Note that the sale and cost of sale amounts are the same. To calculate the labor sales amount, you need two items of information:

- The number of hours spent repairing the vehicle, which can be either the actual time or the time set forth in the labor time standards manual adopted for use in your Service Department. In this example, we assume that 2.0 hours were required for repairs. These hours are noted (flagged) on the front and back of the RO.
- The hourly labor rate, which is the weighted average of all Service Department technicians' hourly wage rate. In this example, we have assumed that City Auto Sales' weighted average technician hourly rate is \$15.00 per hour, as shown in Figure 5-25 below. Thus, our sale and cost of sale entries are \$30 (2.0 hours @ \$15.00 per hour).

CITY AUTO SALES
COMPUTATION OF AVERAGE TECHNICIAN WAGE RATE
REPOSSESSION REPAIRS

Technician Classification
 Shop Body Shop

Base Wages			
Number of Technicians	x	Actual Hourly Wage Rate	Sub-total
<u>1</u>	x	<u>13.50</u>	= <u>13.50</u>
<u>1</u>	x	<u>16.50</u>	= <u>16.50</u>
<u>1</u>	x	<u>15.00</u>	= <u>15.00</u>
<u>3</u>	x		= <u>45.00</u>
Totals			
		\$ <u>45.00</u>	
		divided by	
		<u>3</u>	
	equals \$	<u>15.00</u>	Weighted Average Hourly Wage Rate

Prepared by: Service Manager Date: 1-15-CY
 Figure 5-25

Internal Parts Sales: Note that the sale and cost of sale amounts are the same. This means parts are sold at cost! To determine the sale amount, you need either:

- Parts purchase invoice
- Price catalog adopted by your dealership for pricing service parts.

Sublet Labor Sales: Note that the sale and cost of sale amounts are the same. This means that sublet repairs are sold at cost. To determine the sale amount, you need a copy of the vendor's invoice, along with a properly documented purchase order.

CHAPTER 5. USED VEHICLE SALES

Our updated schedule for the repossessed truck is shown below in Figure 5-26.

SCHEDULE 10. VEHICLE INVENTORY						Page 1 05-26-CY			
Accounting Data Entry Information from Dealership Journals						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1450	1470	2050	2110
1460	PY Honda Accord LX - blue								
	04-25-CY	70	44588	1450	10,500.00				
	04-25-CY	70	44588	2110	(10,500.00)				
	Current balance					10,500.00			(10,500.00)
R505	PY Chev. S10 - Repo Customer Smith								
	05-15-CY	80	REPO505	1470	2,000.00				
	05-15-CY	60	15689	1470	250.00				
	05-26-CY	30	25896	1470	230.75				
	Current balance						2,480.75		

Account 1450 - Used Car Inventory
 Account 1470 - Used Truck Inventory
 Account 2050 - Vehicle Liens Payable
 Account 2110 - Notes Payable - Used Vehicles

This entry posts the internal RO repairs to the repossessed truck stock number.

Figure 5-26

Now that the repossessed truck has been reconditioned, it is ready for sale. The sale entry to Customer Linville is shown below in Figure 5-27. Note the following items about this entry:

- The sale is posted like any other retail sale.
- The commission amount due to the salesperson is included in the entry.

Retail Sale of Repossessed Truck to Customer Linville:

Journal: Used Car Sales - Retail Journal - Jrnl # 20
 Reference #: 14786
 Entry Date: 5-29-CY

Account Description	Acct #	Control #	Debit	Credit
Used Car Retail Sales	3500			3,495.00
Cost of Sales - Used Car Retail	4500		2,480.75	
Inventory - Used Trucks	1470	R505		2,480.75
Sales Tax	2240			139.80
Accounts Receivable - Vehicle	1100	6542	1,200.00	
Finance Contracts in Transit	1020	6542	2,434.80	
Salaries, Wages & Commissions Pay	2210	E12		125.00
Salesperson Compensation	8020		125.00	

Figure 5-27

Customer Linville purchased the repossessed truck for \$3,495 (plus sales tax) and put \$1,200 down on the truck, financing the rest of the purchase with his local credit union. Linville's customer number is 6542, shown as the control number for accounts 1100 – Accounts Receivable – Vehicle and 1020 – Finance Contracts in Transit. The commission due to the salesperson is shown with a credit to account 2210 – Salaries, Wages & Commissions Payable and offsetting debit to account 8020 – Salesperson Compensation. In this example, we have assumed that account 2210 is scheduled with the employee number (E12) as control number.

Once this sale is posted, our updated Vehicle Inventory Schedule is shown on the next page in Figure 5-28 with a zero balance.

CHAPTER 5. USED VEHICLE SALES

Exhibit: Updated Inventory Schedule with Repossessed Vehicle Sale:

City Auto Sales						Page 1 05-29-CY			
SCHEDULE 10. VEHICLE INVENTORY									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
<u>Control #</u>	<u>Date</u>	<u>Jrnl #</u>	<u>Ref #</u>	<u>Acct #</u>	<u>Amount</u>	<u>Acct #</u>	<u>Acct #</u>	<u>Acct #</u>	<u>Acct #</u>
						1450	1470	2050	2110
1460	PY Honda Accord LX - blue								
	04-25-CY	70	44588	1450	10,500.00				
	04-25-CY	70	44588	2110	(10,500.00)				
	Current balance					<u>10,500.00</u>			<u>(10,500.00)</u>
R505	PY Chev. S10 - Repo Customer Smith								
	05-15-CY	80	REPO505	1470	2,000.00				
	05-15-CY	60	15689	1470	250.00				
	05-26-CY	30	25896	1470	230.75				
	05-29-CY	20	14786	1470	(2,480.75)				
	Current balance					<u>0.00</u>			
Account 1450 - Used Car Inventory Account 1470 - Used Truck Inventory Account 2050 - Vehicle Liens Payable Account 2110 - Notes Payable - Used Vehicles						<div style="border: 1px solid black; padding: 5px; display: inline-block;"> This entry posts the sale of the repossessed truck, zeroing out the inventory balance for this stock number. </div>			

Figure 5-28



With this sale, we are now ready to begin to calculate the surplus or deficiency for this repossessed truck. City Auto Sales has designed a form for this calculation. It is shown on the following page in Figure 5-29.

CHAPTER 5. USED VEHICLE SALES

Exhibit: City Auto Sales' Repossession Surplus/Deficiency Worksheet:

CITY AUTO SALES					
RESALE OF A REPOSSESSED VEHICLE					
ORIGINAL CUSTOMER			RESALE CUSTOMER		
Name	Customer Smith		Name	Customer Linville	
Address	123 Oak Street		Address	884 Maple Drive	
Address			Address		
City, St, Zip	Anytown, ST 12345		City, St, Zip	Anytown, ST 12345	
FINANCING INSTITUTION - ORIGINAL CUSTOMER			REPOSSESSED VEHICLE DESCRIPTION		
Name	City Auto Sales		Year	PY	Make/Model Chev S-10
Location	City, ST		Stock No.	R505	Serial No. VIN #
Date Vehicle Returned	5-15-CY		Date Vehicle Resold	5-29-CY	
Repo Agent	Ace Wrecker		Sales Inv. No.	14786	Retail/Whse Retail
SELLING PRICE / LOAN PAYOFF					
SELLING PRICE	Selling Price				\$3,495.00
	Trade-in Adjustments - Overallowance				0.00
	Trade-in Adjustments - Underallowance				0.00
	Adjusted Selling Price				3,495.00
LOAN PAY-OFF	Loan Pay-off to Financial Inst.			Check No.	N/A
	Less: Insurance Premium Rebates Received				0.00
	Less: Other Insurance Refunds				0.00
INITIAL SURPLUS/ (DEFICIENCY)					(\$255.00)
If balance is negative, no further calculation is required unless a deficiency is sought.					
ALLOWABLE EXPENSES					
A. Dealer Repossession Expense		250.00	D. Legal Costs		0.00
B. Reconditioning by Dir.			E. Title and Regist. Fees		15.00
Labor - Total Repair Shop			F. Storage		0.00
Internal RO Number	25896		G. Sales Commission		125.00
2.0	hours x	15.00	Rate	30.00	H. Advertising
Labor - Total Body Shop			I. Auction Fees/Expenses		0.00
Internal RO Number			J. Postage/Telephone		0.00
	hours x \$				
Parts at Cost		125.75			
C. Reconditioning - Sublet		75.00			
Purchase Order No.	5598				
Internal RO No.	25896		Total Allowable Expenses		\$620.75
ADJUSTED SURPLUS/ (DEFICIENCY)					(\$875.75)
OTHER ITEMS					
Less: Reimbursement to Financing Institution for Repossession Expenses					0.00
Less: Other Liens					0.00
FINAL SURPLUS/ (DEFICIENCY)					(\$875.75)
Surplus refunded to Original Customer	Check Number	N/A	Date	N/A	
Completed by: Office Manager			Date: 5-30-CY		

Figure 5-29

Because this is a repossessed vehicle sale, documentation is very important. This form illustrates the various elements involved in calculating the surplus or deficiency when the repossessed vehicle is sold. Let's review each section of the form in turn.

- **Original Customer:** This section indicates the original purchaser of the vehicle.
- **Resale Customer:** This section indicates the customer who purchases the repossessed vehicle.
- **Financing Institution – Original Customer:** This section lists the financing institution which financed the original customer's purchase. In this example, it is City Auto Sales.

CHAPTER 5. USED VEHICLE SALES

Alternatively, it could have been City Auto Finance Company, its related finance company (RFC).

- **Repossessed Vehicle Description:** This section records the repossessed vehicle and subsequent sale details.
- **Selling Price / Loan Payoff:** This section has several elements.
 - Selling Price – The selling price of \$3,495.00 excludes amounts for any separately priced warranty or service contract. Supporting documentation required: (a) to support the overallowance / underallowance value on the trade-in (where applicable), the appraisal value of the trade-in must be supported with a signed appraisal form, (b) copy of the make/model page of the vehicle guide book adopted by the dealership, (c) copy of the vehicle sales invoice.
 - Loan Pay-off – The amount of the loan pay-off to the financial institution, which in our example is \$3,750 due to City Auto Sales. Supporting documentation required: (a) pay-off letter from financial institution or (b) copy of pay-off check. Note that the number of the pay-off check should be indicated on the form.
 - Insurance Premium Rebates – The original customer is entitled to receive credit for all premium rebates that result from an early cancellation of any policy. In our example, the customer purchased no insurance policies. The entire unearned premium must be credited to the customer. This includes the prorated portion of any commission the dealership might have earned for selling the policy. These policies include:
 - Credit Life Insurance Policies
 - Accident and Health Insurance Policies
 - Casualty Insurance Policies
 - Service Policies or Maintenance Contracts

At this point, there is an initial deficiency of \$255.00, which means that City Auto Sales does not owe Customer Smith, the original customer any money. However, for the sake of illustration, let's review the remainder of the form.

- **Allowable Expenses:** The items listed on this form are the only expenses typically allowable as deductions. Such things as general advertising, overhead, lot charges and charges for storing the vehicle on your own property cannot be included when determining a deficiency. Complete documentation is required to back up this section. Also note that all expenses are shown at dealer cost. No markups are included, and the expenses should be considered reasonable.
 - A. Dealer Repossession Expenses – These are payments made to an independent party other than the financing source for repossessing, towing or transporting the vehicle. Payments made to dealership employee to repossess the vehicle generally are not allowed as deductions. Supporting Documentation: (a) copy of paid vendor's invoice, (b) copy of dealership check for payment.
 - B. Reconditioning by Dealer – These are internal expenses incurred by the dealer to prepare the vehicle for resale or auction. Expenses are detailed on an internal repair order. Labor and Parts are shown at cost, with no mark-up. Supporting documentation: (a) Internal Repair Order, (b) Worksheet for weighed average technician hourly wage rate, (c) parts purchase invoice or (d) copy of parts catalog pricing pages for installed parts.
 - C. Reconditioning – Sublet – These are outside vendor expenses incurred by the dealer to prepare the vehicle for resale or auction. Supporting documentation: (a) vendor invoice, (b) completed purchase order, (c) internal repair order.
 - D. Legal Costs – This line item refers to filing fees, court costs, cost of bonds, fees, expenses paid to a sheriff or similar officer, and fees and expenses paid to an attorney who is not an employee of the dealer or financing institution, in order

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- to obtain possession of or title to the vehicle. Supporting documentation: (a) paid vendor's invoice, (b) attorney's statement.
- E. Title and Registration Fees – This line item refers to fees paid to others to obtain title to the vehicle, to obtain legally required inspection of the vehicle, or to register the vehicle. Note that no inspection fees are allowable unless they are legally required and done by someone other than the dealer. Supporting documentation: (a) paid vendor's invoice, (b) copy of title application forms.
 - F. Storage – This line item refers to fees paid to others for storage of the repossessed vehicle. Charges for storing the vehicle in or on facilities owned by the dealership typically cannot be included. Supporting documentation: (a) paid vendor's invoice.
 - G. Sales Commission – This line item refers to the sales commission paid to the salesperson who resells the repossessed vehicle. The commission must be calculated at a rate no higher than for a similar non-repossessed vehicle. The only allowable commission expenses are those paid to persons directly involved in the actual sale of the vehicle. Supporting documentation: (a) commission voucher, (b) vehicle sale log.
 - H. Advertising – This line item refers to advertising for resale of the repossessed vehicle. For example, a newspaper ad with 10 vehicles including 1 repossessed vehicle costs \$100. Ten percent of the ad cost (\$10) would be typically allowed as an allowable expense. Supporting documentation: (a) copy of advertisement, (b) paid invoice for ad.
 - I. Auction Fees – This line item refers to fees and expenses paid to auction the repossessed vehicle. Supporting documentation: (a) paid invoices from auction.
 - J. Postage / Telephone – This line item refers to the cost of telephone calls and postage to arrange for vehicle repossession and resale. Only specifically identifiable phone calls and postage (ex. Certified mail with receipt) expenses are typically allowable. Supporting documentation: (a) copy of phone bills, (b) postage receipts.

At this point, the adjusted surplus/deficiency is calculated. If there is a deficiency, no additional calculations are necessary, unless the dealership wishes to pursue deficiencies as allowed by applicable law. Let's briefly review the remaining items on the form.

Other Items – These remaining items are unique items that are not commonly encountered. Complete documentation is required to back up this section.

- Reimbursement for Financing Institution – There may be some repossession expenses that were incurred by the finance company that were not included in the loan pay-off amount. These expenses may be deducted here. Supporting Documentation: (a) invoice or statement from finance company, (b) copy of dealership check for payment of invoice.
- **Other Liens** – If a surplus remains at this point, any valid lien provided for by state law may be discharged. The dealership's attorney should be consulted at this point.

At this point, the final surplus/deficiency is calculated. If there is a surplus, it must be refunded to the customer. The check number and the date of the check are noted on the form and then signed by the office manager or dealer. Supporting documentation: (a) copy of dealership check, (b) copy of cover letter, (c) certified letter receipt, if applicable.

REMINDER: Documentation is very important in repossession accounting. A copy of each document listed as supporting documentation should be filed in the deal jacket for each repossessed vehicle.

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In addition to the deal jacket, the office manager should maintain a monthly repossession log sheet listing each vehicle repossessed for the month, as shown below in Figure 5-30.

CITY AUTO SALES				REPOSSESSED VEHICLE LOG				Month <u>May, CY</u>		
Repurchase / Repossession Information				Resale Information						
Date Vehicle Return	Assigned Stock Number	Original Customer Name	Finance Source	Resale Date	Invoice Number	Resale Customer Name	Deficiency	Surplus Check Info		
								Date	Number	Amount
May 4	R501	Harrison	City Auto Sales	5-18	14751	Alvarez	-1245.55			
May 4	R502	Chevarex	City Auto Finance	5-20	14767	Morette	-521.77			
May 9	R503	Getz	City Auto Sales	5-25	14764	Timkin	-2201.45			
May 9	R504	Holigeeen	City Auto Finance	5-19	14762	Looney	-432.52			
May 15	R505	Smith	City Auto Sales	5-29	14786	Linville	-875.75			

Figure 5-30

This log contains the key items listed on the Resale worksheet shown earlier in Figure 5-29.

- Date vehicle was returned or repossessed.
- Assigned stock number of the repossessed unit (note unique **Rxxx** stock number)
- Original customer name
- Finance source (City Auto Sales or its RFC City Auto Finance)
- Resale date of the repossessed vehicle
- Resale customer name
- Deficiency – Final
- Surplus check date
- Surplus check number
- Surplus check amount

Summary: Accounting for repossessed vehicles is not difficult, but requires extensive documentation as protection for both the customer and the dealership. **NOTE: These examples and illustration are meant as examples only. Dealers should consult competent legal and accounting counsel for specific guidelines and repossession forms for their state.**

To test your understanding, complete the exercises on the next page.

CONTINUE TO THE NEXT PAGE.

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5.19 Exercise 7.

In this exercise, we will be reviewing repossession loss and deficiency/surplus calculations.

Assume that Dealer M has sold a used car to customer Morrison several months ago and are now compelled to repossess the unit. You are given the following information.

Outstanding Balance Due	\$2,795.00
Outstanding Interest Due	128.75
Late Charges Due	135.00
Appraised ACV of Unit	1,500.00

Q1. What is the repossession loss on this unit? _____

Q2. Using the four column worksheet below, complete general journal entry number 422 to restock this repossessed car into inventory on 5-14-CY. The repossessed unit has been assigned stock number R0208. Customer Morrison's account number is M3578.

Journal: _____
 Reference #: _____
 Entry Date: _____

Account Description	Acct #	Control #	Debit	Credit
Total Debits & Credits				

Q3. List 10 items included in the deficiency/surplus calculation as shown on City Auto Sales Resale of a Repossessed vehicle worksheet.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

Check your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 7 Answers.

Assume that Dealer M has sold a used car to customer Morrison several months ago and are now compelled to repossess the unit.

Outstanding Balance Due	\$2,795.00
Outstanding Interest Due	128.75
Late Charges Due	135.00
Total Balance Due	3,058.75
Appraised ACV of Unit	1,500.00
Repossession Loss on car	1,558.75

Q1. What is the repossession loss on this unit? \$1,558.75

Q2. Using the four column worksheet below, complete general journal entry number 422 to restock this repossessed car into inventory on 5-14-CY. The repossessed unit has been assigned stock number R0208. Customer Morrison's account number is M3578.

Journal: General Journal (Jrnl 80)
 Reference #: 422
 Entry Date: 4-15-CY

Account Description	Acct #	Control #	Debit	Credit
Inventory - Used Cars	1450	R0208	1,500.00	
Used Vehicle Repossession Losses	4620		1,558.75	
Customer Notes Receivable	1140	M3578		3,058.75
Total Debits & Credits			3,058.75	3,058.75

Q3. List at least 10 items included in the deficiency/surplus calculation as shown on City Auto Sales Resale of a Repossessed vehicle worksheet.

1. Selling price
2. Loan Pay-off
3. Dealer Repossession Expenses
4. Legal Costs
5. Title and Registration Fees
6. Storage Costs
7. Reconditioning by the Dealer
8. Reconditioning – sublet
9. Sales Commission
10. Auction Fees

Exercise 7 continues on the next page.

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Exercise 7 – continued.

Q4. A partial repossession worksheet is shown below. Using the information given earlier, complete the section on Selling Price / Loan Payoff to calculate the Initial Surplus/ (Deficiency), assuming the repossessed vehicle was resold the following month for \$2,200. Also assume that there are no insurance rebates associated with this repossessed car.

CITY AUTO SALES			
RESALE OF A REPOSSESSED VEHICLE			
SELLING PRICE / LOAN PAYOFF			
SELLING PRICE	Selling Price		
	Trade-in Adjustments - Overallowance		
	Trade-in Adjustments - Underallowance		
	Adjusted Selling Price		
LOAN PAY- OFF	Loan Pay-off to Financial Inst.	Check No.	N/A
	Less: Insurance Premium Rebates Received		
	Less: Other Insurance Refunds		
INITIAL SURPLUS/ (DEFICIENCY)			
If balance is negative, no further calculation is required unless a deficiency is sought.			

Check your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 7 Answers.

Q4. A partial repossession worksheet is shown below. Using the information given earlier, complete the section on Selling Price / Loan Payoff to calculate the Initial Surplus/ (Deficiency),

CITY AUTO SALES			
RESALE OF A REPOSSESSED VEHICLE			
SELLING PRICE / LOAN PAYOFF			
SELLING PRICE	Selling Price		\$2,200.00
	Trade-in Adjustments - Overallowance		
	Trade-in Adjustments - Underallowance		
	Adjusted Selling Price		
LOAN PAY-OFF	Loan Pay-off to Financial Inst.	Check No. <i>N/A</i>	3,058.75
	Less: Insurance Premium Rebates Received		
	Less: Other Insurance Refunds		
INITIAL SURPLUS/ (DEFICIENCY)			(\$858.75)
If balance is negative, no further calculation is required unless a deficiency is sought.			

Remember that the amount used for the Repossession Loss when the vehicle is stocked in is not the same as the Surplus/Deficiency amount! The loan payoff to the financial institution in this exercise is the outstanding amount due to City Auto Sales at the time the vehicle was repossessed.

This completes the materials for chapter 5.

