

SESSION 2.

Chart of Accounts Analysis

FORD MINORITY DEALER OPERATIONS'

Secretary/Treasurer (Office Manager) Training Program

**For Ford & Lincoln-Mercury Dealerships Operating
Under the Dealer Development Program.**



SESSION 2. SECRETARY-TREASURER TRAINING

Introduction

In this section, we will continue our study of commonly used account numbers as listed on our study index, **Account Number Listing for S/T Training Sessions**. The account numbers selected for Session 2 are the primary accounts used for accounts receivable, accounts payable, payroll and factory receivable accounting entries.

As you S/T candidates continue working in your training dealership, you will soon realize that the accounting books and records of Dealer Development dealerships are very closely reviewed by both outside CPA firm auditors and Dealer Development Branch personnel. Therefore, learning how to maintain adequately documented account files is a very important part of your S/T training process.

The rest of this section contains account number definitions, examples and our suggestions on proper documentation for these accounts.

The materials in this section are presented in the following order:

- Comments on each account number.
- Definition of the account number as presented in the *Ford Dealer Accounting Procedures Manual* or *DD Red Book*.
- Sample documents and other information on selected account numbers.

Reminder: These chart of account notes are to be used with the corresponding account number documentation papers that you prepared for homework. Therefore, the information in this section and the HOMEWORK REVIEW section should be used together.

Additionally, some account numbers listed on the **Account Number Listing for S/T Training Sessions** may have several recommended sub-account numbers. These sub-accounts will be presented along with the standard account number notes.

CHART OF ACCOUNTS

Account 1120 - Accounts Receivable - Parts & Service

Comments about account:

Accounts Receivable - Parts & Service is the primary receivable account for Parts Department, Service Department and Body Shop in-house charge sales to dealership customers. Dealer Development *Red Book* guidelines on this account and all other in-house charge sale accounts are discussed in Part IV: Accounting System Procedures, Chapter 3. Receivables beginning on page 4-13. If you have not already reviewed these guidelines, we suggest that you stop here and review these procedures now.

S/T Audit Note:

The account 1120 schedule is very closely reviewed by both DD and CPA firm auditors. The primary accounting entries to this account for parts and service charge sales are straight-forward and easy to understand. However, some S/T's have used account 1120 for a number of non-parts & service receivable transactions. Shown below are several examples of transactions that sometimes appear in account 1120 schedules that should be entered in other accounts instead. They include:

- Salesperson draw amounts against sales commissions or other employee advances.
A more applicable account number might be sub-account 2413 - Accrued Sales Draw & Commissions.
- Employee charges for service work completed in their personal vehicles.
DD Red Book guidelines recommend account 1810 - Receivables - Officers & Employees for employee charges.
- Employee deductions for technician uniforms.
A more applicable account number might be sub-account 2122 - Employee Deductions Payable - Uniforms.
- Third party credit companies, such as Commercial Billing or Interstate Billing that act as a credit guarantor on parts sales.
A more applicable account number might be sub-account 1121 - Commercial Billing receivables.
- Credit card transactions, such as AMEX or VISA/MasterCard.
A more applicable account number might be sub-account 1122 - Accounts Receivable - Credit Cards.

These are just a few examples of non-parts & service charge entries that have been found on 1120 schedules. You may see other examples as well. Therefore, when reviewing an account 1120 schedule, note all debit or credit entries from journals other than the Parts & Service Sales Journals. Study the schedule entry by researching the initial journal entry that

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Account 1120 - Accounts Receivable - Parts & Service (continued)

originated the schedule entry to make sure you understand the reasoning for the entry.

Typical Example:

On the following page is an exhibit of (1) a sample Accounts Receivable statement of \$9.94 from Hawthorne L/M to its customer Pacific Ford, (2) a partial check stub from Pacific Ford paying the \$9.94 statement balance and (3) the cash receipt prepared by Hawthorne L/M to record payment by Pacific Ford. **Note:** Accounts receivable statements from different computer vendor systems may look some different than this 1991 Ford DCS system example. However, the information contained on the statement should be basically the same.

In addition to this exhibit, we will also review an entire account 1120 schedule in the ACCOUNTS RECEIVABLE section.

S/T File Documentation:

Collecting receivables has been a problem with many dealerships. Some dealerships write off many thousands of dollars to bad debt due to collection problems. S/T candidates can expect to be involved in some sort of legal action over past due receivables during their career. Therefore, make sure to maintain complete files on credit applications, collection of past due receivables and other important customer contact notes.

CHART OF ACCOUNTS

Account 1170 - Ford Receivables - Incentives

Comments about account:

Depending on the time of the year, Ford Motor Company may have a dozen or more vehicle sale incentive programs going on at the same time. Each of these incentive programs has a separate program number. Some incentive programs involve dealer cash and others use customer cash incentives. Most of the customer programs allow the dealership to receive immediate incentive cash on these programs by allowing the dealer or customer to deposit the universal program bank draft directly into the bank to receive their money.

Additionally, the VINCENT system is available to verify what incentives are available for each vehicle.

S/T Audit Note:

While some dealership S/T's do not schedule this account, we would recommend that account 1170 be scheduled using the last six or eight digits of the VIN for the control number.

Typical Example:

Assume Ford Division is offering a \$500 dealer cash incentive for each new Taurus sold during the months of July, August and September. The money is paid to the dealership on the Dealer Payment Statement following each eligible sale. Eligible units are automatically tabulated by Ford from vehicle sales reported by the dealership. The accounting entries for this program are very straight-forward.

Step 1. Record the incentive receivable due from Ford on a Taurus sale (VIN 123456).

Account Description	Account #	Control #	Debit	Credit
Ford Receivables - Incentives	1170	123456	500.00	
Car Incentives	4380			500.00

Step 2. Record the incentive payment on the Dealer Payment Statement using the same six digits of the VIN as control number. The entire VIN will be shown on the statement for easy reference.

Account Description	Account #	Control #	Debit	Credit
Cash on Hand Clearing	1005		500.00	
Ford Receivables - Incentives	1170	123456		500.00

Note: This debit entry to account 1005 represents the cash receipt entered for the entire Dealer Payment Statement. It is used here only as an illustration. A cash receipt entry for an entire Dealer Payment Statement may look considerably different.

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Account 1170 - Ford Receivables - Incentives (continued)

Typical Example # 2.

On the following pages, we have enclosed several Dealer Payment Statement pages from XYZ Lincoln-Mercury (an actual dealer statement modified for training purposes) and a four column accounting worksheet illustrating the accounting entry for this statement. Before continuing, stop here and review these exhibits.

There are several items that you should note about the accounting worksheet and sample statement pages:

1. Page 0001 of this April 27, 1998 statement includes the quarterly payment of \$116,390.00 for Vehicle Holdback receivables. Page 0001 also includes \$2,397.48 in Prep & Conditioning payments and \$13,132.05 in various vehicle floor plan assistance programs that the S/T has credited to account 7190 - Floor Plan Assistance - New. Note that while this dealership's S/T does not schedule accounts 1150 or 1165, the individual vehicles holdback amounts are detailed on page 0005 under the columns labeled Acct 1150 and Acct 1165.
2. The balance of pages 0001 and 0002 list a number of different incentive programs and price adjustment payments received by the dealership. **Note that this dealership S/T uses account 1162, rather than account 1170 for Ford Incentive Receivables.** Note that some of the payments were credited to vehicles in stock (ex. account 1340 and 1310), while other payments were credited to the vehicle cost of sale account for already sold units. This S/T sets up the applicable vehicle incentive receivables with a credit to account 1162 (or 1170) when the vehicle sale is posted. However, the S/T has not scheduled the account, preferring to use a detailed account listing to reconcile account balances as desired.

S/T File Documentation:

Several DD S/T's have indicated that they are very careful in documenting and reconciling this account. Therefore, a separate file folder with notes and documentation (ex. any phone calls to the Ford Help Desk) should be maintained, in addition to the *Contest & Incentive Program Manual*. With the increasing number of incentive programs using universal program bank drafts and the availability of the VINCENT system to confirm eligibility, this account number has become much easier to reconcile and control.

CHART OF ACCOUNTS

Account 1175 - Ford Receivables - Carryover Allowance

Comments about account:

At the end of each vehicle model year, Ford Motor Company typically offers incentives to assist dealers in selling prior year model vehicles. These incentives may or may not be offered on all vehicle and model lines. Details on these incentives (commonly called carryover allowances) are transmitted to the dealership near the end of each model year.

S/T Audit Note:

For audit purposes, the key document is the vehicle listing report from Ford detailing which in-stock vehicles are eligible for carry-over allowances as of the model year-end. Once this in-stock listing is reviewed and finalized by Ford or Lincoln-Mercury Division, these vehicles are eligible for the carry-over allowance.

Typical Example:

These allowances are considered adjustments to the cost of the unit and should be accounted for accordingly. These allowance incentives may be booked to vehicle inventory after the unit has been identified as eligible for the carry-over allowance. Alternatively, these price adjustments (allowance) may be entered at the time of sale of the eligible unit. S/T's should follow the standard Ford *Dealer Accounting Procedures Manual* guidelines on accounting for these incentives.

S/T File Documentation:

Like any key Ford document, we would recommend that a separate file folder be set up for this account number. Keep all documentation, including the final stock listing report and a copy of your journal entry recording the allowance in this file.