



Dealership Accounting Training Manual

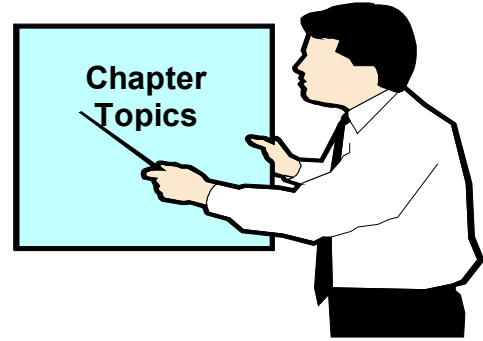


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Topics and Objectives for this section.

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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CHAPTER 5. USED VEHICLE SALES

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, the next page illustrates City Auto Sales' vehicle sale invoice 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.

CHAPTER 5. USED VEHICLE SALES

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.		SALESPERSON		VEHICLE			
				SALESPERSON		COMMISSION		DEAL #		11375	
SOLD TO: Roger G. Fleming 7889 Pine Tree Road Wallerford, ST 12346				PRICE OF VEHICLE							
				DESCRIPTION	ACCT	KEY	SALE	KEY	COST		
TRUCKS TRUCK RETAIL 3540 - % TRUCK WHSLE. 3560 - % REMKT TRK RET 3600 - % REMKT TRK WHSE 3610 - % TRUCK RECOND. 4550 - ⑧				CARS							
				CAR RETAIL	3500	-	13,995.00	%	10,650.80		
				CAR WHSLE	3520	-	①	%			
				REMKT CAR RET	3580			%			
				REMKT CAR WHSE	3590			%			
EXT. SVC. CONT. 3740 - ③ 500.00 % INSUR. POLICIES 3720 % SALES TAX 2240 - ② 882.00 LICENSE & TITLE 2030 - ② 16.50 D.O.C. FEE 9070 - ① 50.00				TOTAL CASH PRICE 15,443.50							
				SETTLEMENT		ACCT.	KEY	AMOUNT			
				CASH ON DELIVERY		⑤ 1100	+	1,000.00			
				FINANCE CONTRACT		1020	+	12,143.50			
				ACCOUNTS REC - VEH.		1100	+				
CUSTOMER DEPOSIT		2010	+								
USED VEHICLE ALLOWANCE				⑥ 3,500.00							
PAY-OFF BALANCE ON USED VEHICLE TRADE-IN		2050	-	⑥ 1,200.00							
DISCLAIMER OF WARRANTIES.				TOTAL SETTLEMENT				22,365.95			
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 RESERVE REC.		1130	+	④ 150.00			
				FINANCE INCOME		3700	-	④ 150.00			
				INSURANCE INCOME		3720	-	④			
				INSURANCE CONTRACT COST		2030	+	④			
				SERVICE CONTRACT INCOME		3740	-	③ 200.00			
SERVICE CONTRACT COST		2040	-	③ 300.00							
FINANCE CHARGE (BHPH)		2460	-	④							
USED VEHICLE TRADED				USED VEHICLE STOCK NO.		1460A					
YEAR MAKE MODEL SERIAL NUMBER				INV. VALUE OF TRADE - USED CAR		1450		+			
PY Ford Taurus Actual				INV. VALUE OF TRADE - USED TRUCK.		1470		+			
DESC. Taurus Station Wagon, blue								⑥			

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

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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.

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	1460	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)

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 numbe is still outstanding.

Figure 5-8

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 \$150.60 to account 1450. These two items together give us a cost figure of \$10,650.60 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 \$10,650.50 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.

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Exhibit: Revised schedule 10 for stock number 1460.

City Auto Sales	SCHEDULE 10. VEHICLE INVENTORY					Page 1 02-15-CY								
<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>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><u>Acct #</u></td> <td style="text-align: center;"><u>Acct #</u></td> <td style="text-align: center;"><u>Acct #</u></td> <td style="text-align: center;"><u>Acct #</u></td> </tr> <tr> <td style="text-align: center;">1450</td> <td style="text-align: center;">1460</td> <td style="text-align: center;">2050</td> <td style="text-align: center;">2110</td> </tr> </table>	<u>Acct #</u>	<u>Acct #</u>	<u>Acct #</u>	<u>Acct #</u>	1450	1460	2050	2110
<u>Acct #</u>	<u>Acct #</u>	<u>Acct #</u>	<u>Acct #</u>											
1450	1460	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					<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><u>0.00</u></td> <td style="text-align: right;"><u>(10,500.00)</u></td> </tr> </table>	<u>0.00</u>	<u>(10,500.00)</u>						
<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 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 numbe is still outstanding.

Figure 5-8

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

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