



HEADLIGHTS

A PUBLICATION
OF THE AutoCPA Group

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VALUE PRICING AND LIFO

Mike Menear, CPA
Boyer & Ritter

The Big Three are determined to implement “value pricing” as reported in *Automotive News* and other news media stories. Value pricing means lowering sticker prices to more closely mirror transaction prices. Although not necessarily at the same rate, dealer cost will likely decrease as sticker prices drop.

This may or may not be good news from a dealer’s retail marketing perspective; however, it will undoubtedly have a profound impact on a dealer’s 2005 LIFO (Last In, First Out) inventory reserve and, consequently, the dealer’s tax bill.

If the factories accomplish value-pricing objectives by lowering the base price of 2006 vehicles, dealers will likely experience a 2005 reduction in their cumulative LIFO index. This reduction will, in most cases, cause erosion in the dealer’s LIFO reserve, resulting in dealers paying back a portion of the tax that had been deferred by adopting the LIFO inventory method.

Generally, a dealer can anticipate a LIFO reserve reduction of \$40,000 or more if the dealer had \$2 million of new vehicle inventory (dealer invoice price) at the beginning of the year and the average base price decrease by the manufacturer is 2%.

The actual reduction will be based on a dealer’s unique circumstances, current year FIFO (First In, First Out) cost of new vehicle inventory and LIFO layer history.

Inventory management and control decisions should always be based on business circumstances, not tax results. However, careful planning and monitoring of new vehicle inventory in the appropriate business situation can minimize the negative impact on the dealer’s LIFO reserve caused by



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WINTER 2006

MONITORING EFTs

NEW DISPOSAL LAW COULD
DISPOSE OF YOUR PROFITS

factory downward price adjustments. The following are a few examples of actions that will reduce the negative tax impact of price reductions:

- ✓ Stocking new models or substantially redesigned models treated as new models for LIFO purposes. New models have a neutralizing impact on the LIFO reserve during periods of falling prices.

MONITORING EFTs

When conducting audits of dealerships, CPAs are required to ask questions concerning fraud, including discussing with management concerns they may have about the existence of fraud in the dealership.

Recently, a dealer expressed the following: “I know that, in the past, you have suggested that I receive the bank statement and cancelled checks unopened and that I review (or at least cause others to think that I review) the cancelled checks and statement. I do this, but lately when I look at the bank statement, I have come to realize that the big dollars going out of my account are not from checks but they are arising from electronic fund transfers (EFTs). It seems to me that I need to be concerned about these EFTs as much as cancelled checks, but I have no idea what these EFTs are for when I look at the bank statement. I usually can tell what a check was for when I actually look at the cancelled check. What should I be doing?”

The bank statement for a dealership has changed drastically from what it looked like in the past. Now, the following are done by EFT:

- ✓ Flooring payoffs;
- ✓ Proceeds from flooring additional vehicles;
- ✓ Proceeds from contracts, including finance reserves;
- ✓ Tax payments; and
- ✓ 401(k) plan contributions.

One suggestion is for the office to set up an “EFT journal.” Rather than recording EFTs in the cash receipts journal or the cash disbursements journal (or even as journal entries) the dealership can record all incoming and outgoing EFTs in one journal. By using good descriptions, a dealer can look at this EFT jour-

- ✓ Insuring that inventory levels are sufficient to prevent liquidating older LIFO layers.

- ✓ Stocking models with no dealer base cost decrease or with the least dealer base cost decrease.

For information on the potential impact of factory price reductions on your particular dealership, contact your dealership’s tax advisor. ☞

Dan McCall, CPA
Daoro, Zydel & Holland



nal and know what each EFT entry was for or—if it is still not clear—the dealer will know which ones to ask about. The journal should include the following:

- Date:** This should match the date that the EFT went in or out.
- Amounts:** The total for the posting should agree with the EFT (i.e., the details should not be posted separately. Sometimes, the contract proceeds and flooring transactions are on the same EFT).
- Descriptions:** If good descriptions are entered by the person posting the EFT, it will be readily apparent what the EFT was for.
- Other:** Some dealerships use this journal to record other non-check transactions such as credit card and merchant fees.

The journal can be run at any time during the month. The dealer might ask for the EFT journal at the time he or she reviews the unopened bank statement. The EFTs should not be a mystery to the dealer. ☞

NEW DISPOSAL LAW COULD DISPOSE OF YOUR PROFITS

Scott Lewis, CPA
Rosenfield & Company, PA

On June 1, 2005, the highly anticipated Federal Trade Commission (FTC) disposal rule went into effect. This new law is part of the Fair and Accurate Credit Transactions Act and was designed to curb identity theft. The rule relates to the proper storage and disposal of certain consumer reports, including credit reports, which are used by all auto dealerships, no matter how big or small. So basically, you the dealer, along with your organization, fall under this federal law. But what is it?



Specifically, the Fair Credit Reporting Act defines the consumer report, in part, as “any written, oral, or other communication of any information by a consumer reporting agency bearing on a consumer’s credit worthiness, credit standing, credit capacity ... for the purpose of serving as a factor in establishing the consumer’s eligibility for credit or insurance to be used primarily for personal, family, or household purposes.” A credit application and report fit this definition, so again, the rule applies to you, the car dealer.

The new disposal law requires that this consumer information is disposed of in a reasonable manner but does not specify which methods will meet this standard. It does provide examples, including the following:

1 Implementing and monitoring compliance with policies and procedures that require the burning, pulverizing or shredding of papers containing consumer information so that the information cannot practicably be read or reconstructed.

2 Implementing and monitoring compliance with policies and procedures that require the destruction or erasure of electronic media-containing consumer information so that the information cannot practicably be read or reconstructed.

3 After due diligence, entering into and monitoring compliance with a contract with another party engaged in the business of record destruction to dispose of material, specifically identified as consumer information, in a manner consistent with this rule.

A dealer informed us recently that it had used the service of an outside company for the purpose of disposing of old credit reports and other documents. The company came to the dealership and shredded the documents on-site. After completion, the dealer received a certified document stating that all documents received were destroyed.

It is up to you to note which documents were destroyed including old credit reports, repair orders, etc. There are many companies in all areas of the country that provide this service, and you should investigate each one before using, as discussed by the FTC. Also, check with your CPA or a member of the AutoCPA Group to determine what your retention policy for specific records should be.

In addition, great care should be taken to ensure that credit reports stored at the dealership are safeguarded. These include completed deal folders and “lost and/or dead deals” (which must be kept for a minimum of 25 months, per the Equal Credit Opportunity Act). The FTC has provided broad objectives on maintaining compliance which include securing the confidentiality of consumer information and protecting against unauthorized access. For more information, see *Headlights* (Autumn 2004).

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Failure to comply with the new FTC disposal rule or the Equal Credit Opportunity Act can result in federal and state penalties up to (or in some cases exceeding) \$10,000 per violation, as well as civil actions. Some of these penalties would certainly affect your cash flow and bottom line, so it is important to take the necessary steps, as outlined (on page 3), to be in compliance with this new federal disposal law. ↵

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