



THE CPA TUNEUP®

Winter 2014

ABOUT US

Henry & Horne, LLP is one of the leading accounting firms in Arizona with offices in Tempe, Scottsdale and Casa Grande.

We combine the knowledge and expertise of a premier consulting firm with the personal attention of a local CPA, meaning unmatched service to you. Our services include: daily, monthly and annual bookkeeping and accounting; audit, review and compilation of company financial statements; audits of 401(k) plans; tax planning and compliance; CPA Tuneup®; cost segregation studies; internal control reviews; estate, trust & gift services; real estate appraisal and consulting; and valuation and litigation support services.

Your Automotive Team:

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Accounting for Sales Incentives Offered to Customers

By Brian Campbell, CPA

Dealerships frequently offer incentives to customers to buy vehicles and/or services. These incentives may be cash incentives on the purchase of a vehicle, products or services at no additional charge to the customer or free services redeemable at a future date.

Cash incentives offered by the manufacturer are very common and occur frequently. Manufacturer incentives exercisable after the sale through communication between the customer and the manufacturer do not affect how the dealership accounts for the sale. However, cash incentives exercisable at the time of sale and subsequently reimbursed to the dealership by the manufacturer would require the dealership to recognize revenue equal to the selling price of the vehicle and a receivable for the amount due from the manufacturer for reimbursement of the incentive.

When a dealership offers incentives that are not offered through the manufacturer, generally accepting accounting principles provides guidance on how accounting for these transactions should occur. A lot of times these types of incentives are offered to customers through local media advertising or coupons sent to customers.

A cash incentive offered on the purchase of a vehicle would be recorded as a reduction of revenue when the sale is recognized. As a result, the amount of revenue reported will equal the net consideration from the sale (the selling price less the cash incentive). If the cash incentive is in the form of a rebate that the customer must mail to the dealership, then a liability would be recorded for the potential rebate payment that the dealership may be required to make to the customer.

The cost of a product or service given to the customer at no additional charge would be recorded as a cost of revenue when the sale is recognized. As a result, the amount of revenue reported will equal the selling price.

When dealerships offer customers an incentive that is redeemable at a future date with no exchange of money, for example free oil changes or free gas for a certain period of time, accounting rules would dictate that these types of incentives would be accounted for as a separate agreement apart from the sale of the vehicle. As such, the total amount of revenue allocated to the vehicle would be recognized immediately and the amount of revenue allocated to the incentive being offered would be recorded as a liability and recognized as revenue as services are performed.

If you have questions regarding the above accounting treatment or any other questions regarding accounting for transactions at your dealership, please do not hesitate to reach out to one of Henry & Horne's dealership professionals.

If you have any questions, Brian can be reached at (480) 839-4900 or BrainC@hhcpa.com.



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extra parts

According to a study by Volkswagen, customers are 32% more likely to visit one of its dealership Web sites if that store has a Google review rating of four stars or more than a dealership with fewer than three stars.

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According to LMC Automotive, in 2014 North American vehicle production is expected to rise 3% to 16.6 million units.

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According to a NADA study, dealerships are hiring more women and young people, and their employees overall are making more money with finance and insurance managers having the highest pay growth in 2012. This was followed by service managers and sales consultants.



Getting Ready for Year-end

By Kane Lavin, CPA

December and January are usually remembered for the Holidays. In the automotive industry it is also time to get ready for year-end. Year-end for most controllers and office managers means gathering information for the year-end tax return, reviewed financial statements or audited financial statements.

Most controllers and office managers dread this process. They are also usually overseeing quarterly payroll reports, year-end payroll reports and W-2s. However, I do have a few clients that embrace this process. They see it as a report card on their work and are thankful for any suggestions to help them do their job better and any time-saving tricks I can provide them. Regardless of how you feel about the process, there are certain things you can do to make it as painless as possible.

Prior to their visit, the CPA will usually send you a list of items they would like you to prepare and have ready when they visit your dealership. This list can be very detailed or somewhat general. I prefer to send a detailed list of the items needed. My list usually includes items that need to be available to review and items I would like copies of. In this day and age, I also like the copies to be in electronic format, such as, an excel or PDF file. Items on the list may include the following:

- Bank reconciliation
- Flooring reconciliation
- Copy of leases
- Schedule of other income
- Schedule of other deductions
- Schedule of rent
- Schedule of interest expense
- Copy of board minutes
- Listing of fixed asset additions and deletions
- Excel version of the trial balance
- Listing of related parties and any transactions with them

Remember this list is not all inclusive and the items may vary depending on the dealership and the type of year-end work your CPA is doing.

Prior to the CPA coming to your dealership, it is important to review the list of requested items and make sure you are ready. As a CPA I understand the demands on the controller and how valuable their time is, so I provide the list to cut down on the questions and interruptions. For example, I requested a copy of the flooring reconciliation, but if it is not provided at the beginning of my work, my work and the process of performing my work can be slowed tremendously.

My list will include copies of several items I need. It is important to have these copies made and ready before I walk in the door to begin my work. Controllers are generally concerned about the cost of a CPA's work. The more work you and your staff can do up front, the less time the CPA spends and the less time they charge for their work.

The best thing you can do for the year-end to go smoothly is to have the items requested when the CPA walks through the door. If there are items on the list that you don't understand or that won't be ready, contact the CPA and let them know before they start their year-end work.

If you have any questions, Kane can be reached at (480) 839-4900 or KaneL@hhcpa.com.



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