THE CPA TUNEUP®

Summary 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, gift & trust services; real estate appraisal and consulting; and valuation and litigation support services.

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Non-Public Entity Standards Updates for GAAP Basis Financial Statements

By Brian Campbell, CPA

For those dealerships that are not publicly traded entities and prepare their financial statements on a GAAP (generally accepting accounting principles) basis, there have been several developments regarding technical standards over the past few months that you need to know about. As I am sure most of you are aware, the PCC (Private Company Council) was established in May 2012 by the Financial Accounting Foundation to improve the process for setting accounting standards for non-public entities. In January 2014, the FASB (Financial Accounting Standards Board) started issuing standards that the PCC proposed for non-public entities. Since January, there have been three standards issued that are strictly for non-public entities.

Accounting for Goodwill – An entity that elects this accounting alternative should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. The entity is required to make an accounting policy decision to test goodwill for impairment at either the entity level or the reporting unit level when a triggering event occurs that indicates the fair value of an entity (or a reporting unit) may be below its carrying amount. The PCC further simplified goodwill impairment testing by eliminating step two of the current test, which requires the hypothetical application of the acquisition method to calculate the goodwill impairment amount. That amount, if any, represents the excess of the entity's (or the reporting unit's) carrying amount over its fair value (limited to the carrying amount of goodwill of the entity or reporting unit).

Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps – The amendments in this standard allow the use of the simplified hedge accounting approach to account for swaps that are entered into for the purpose of converting a variable-rate borrowing into a fixed-rate borrowing. Under this approach the income statement charge for interest expense will be similar to the amount that would result if the entity had directly entered into a fixed-rate borrowing instead of a variable-rate borrowing and a receive-variable, pay-fixed interest rate swap. Entities within the scope of this update are provided with a practical expedient to qualify for cash flow hedge accounting. An entity may assume no ineffectiveness for qualifying swaps. This method can be applied to a cash flow hedge of a variable-rate borrowing with a receive-variable, pay-fixed interest rate swap provided certain criteria are met. A private company has the option to measure the designated swap at settlement value instead of fair value. The primary difference between settlement value and fair value is that nonperformance risk is not considered in determining settlement value.

Applying Variable Interest Entity Guidance to Common Control Leasing Arrangements – This standard permits a private company lessee (the reporting entity) to elect an alternative not to apply VIE guidance to a lessor entity if (a) the private company lessee and the lessor entity are under common control, (b) the private company lessee has a lease arrangement with the lessor entity, (c) substantially all of the activities between the private company lessee and the lessor entity are related to leasing activities (including supporting leasing activities) between those two entities, and (d) if the private company lessee explicitly guarantees or provides collateral for any obligation of the lessor entity related to the asset leased by the private company, and the principal amount of the obligation at inception of such guarantee or collateral arrangement does not exceed the value of the asset leased by the private company from the lessor entity. The alternative is an accounting policy election that, when elected, should be applied by a private company lessee to all current and future lessor entities under common control that meet the criteria for applying this approach. If elected, the accounting alternative should be applied retrospectively to all periods presented.

The above standards will be effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance.

If you have any questions on any of the above standards, please do not hesitate to reach out to one of Henry & Horne, LLP's dealership professionals.

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

extra parts

The auto industry is getting serious about lighter materials to meet tougher government fuel economy standards. Last month Ford debuted a prototype for the Fusion, which weighs 800 pounds less. Ford also shaved 700 pounds off its 2015 F-150 thanks to an aluminum body.

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Manufacturers reported higher-than-expected U.S. new car sales of 1.6 million in May, an 11.3% increase. The auto industry also recorded its strongest annual sales rate since before the 2008 recession.

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According to an analysis from Bank of America Merrill Lynch Global Research, automakers will not see much change in market share over the next four years as the industry stabilizes. The report predicts Ford and Honda will lead the car wars, each gaining a half-percentage point of market share in the U.S. by 2017.

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Safeguarding Assets Checklist

By Kane Lavin, CPA

Assets are very important to almost every entity. The automobile dealership is no exception. The controller's job sometimes is referred to as the one who safeguards the Company's assets. Here is a checklist of items to consider in safeguarding your dealership's assets.

1. Have the office manager reconcile all balance sheet accounts on a monthly basis. They should also review the trial balance each month before they close the month and issue the monthly statement.
2. Do a physical inventory of all fixed assets and compare to the fixed asset listing per the general ledger.
3. Have a surprise physical of new and used vehicle inventory done by someone who is not in the vehicle sales department.
4. Have an outside company do a parts physical at least once a year and reconcile to the general ledger.
5. Have someone who is not in the parts department do cycle counts on various parts and compare them to the parts pad throughout the year.
6. Make sure all receivable write-offs are properly authorized.
7. Review payroll checks for possible terminated employees.
8. Have all checks require dual signatures. Have the owner review bank statements and returned checks for unusual items and irregularities.
9. Make sure you have embezzlement insurance. A minimum of $100,000 and higher amounts should be on all sales managers, finance managers, and office managers.
10. Have an outside CPA firm review controls and balance sheet accounts at least once a year. It is important the firm is familiar with automotive accounting.
11. Make sure your floor plan source is doing floor plan checks and all vehicles are accounted for.
12. Count all petty cash drawers on a periodic basis. You may also put an extra $10 in the drawer to see how employees handle the situation.
13. Make sure you have clear titles before selling or releasing any used vehicles to wholesalers.
14. Review expense accounts on a monthly basis and compare to prior months. Most computer systems have some sort of trend report for this purpose. If not available, create your own. A twelve month trend is a good start.
15. Make sure all payroll and 401k deposits are made on a timely basis. Penalties for late payments can be costly.
16. Make sure sales tax reports and payments are made on a timely basis. Also, make sure the system is calculating sales tax correctly in all areas.
17. Segregation of duties is really important. Do not allow any of the following functions to be done by the same person if possible:
    - Open mail
    - Record cash receipts
    - Prepare bank deposit
    - Prepare bank reconciliation
    - Record cash disbursements
    - Take deposit to the bank
18. Make sure all finance and sales managers are familiar with Form 8300 – Report of Cash Payments over $10,000.
19. Make sure stock certificates are properly issued and agree with the financial statements.
20. Have weekly manager meetings to review aged receivables from all departments.

This list is not all inclusive and the items may vary depending on the size and structure of your dealership. If you have any questions regarding this list or other issues concerning your dealership, please do not hesitate to reach out to one of Henry & Horne, LLP's dealership professionals.

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