



THE CPA TUNEUP®

Winter 2012

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; and valuation and litigation support services.

Your Automotive Team:

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Welcome to The CPA Tuneup By Brian Campbell, CPA

First off, I want to wish you a Happy and prosperous New Year. I also hope everyone enjoyed their Holiday celebrations and time away from their dealerships (if you were so lucky to get away and spend time with loved ones). Now that you are rejuvenated, you should be ready to jump back into what should be a great 2012.

To get you started on a few of the new things in 2012, I would like to be the first to welcome you to Henry & Horne's dealership group's new quarterly newsletter, *The CPA Tuneup®*. The focus of *The CPA Tuneup®* will be to bring you up to speed with our experience and knowledge of the auto industry. We not only want to help dealerships understand the new accounting and tax practices out there, but we want to bring insight into the operational issues our team may be encountering and ways to deal with these issues.

If you do not know who Henry & Horne is, we are a team of accounting, tax and business professionals who have been in the Phoenix area for well over 50 years...since 1957 to be exact! We are the largest locally owned accounting firm in the state of Arizona and continue to grow each year. We have had dealerships as a part of our firm since our inception. What this means for you is that we are a team of experts with well over 50 years of experience that can be trusted to provide you with the help and guidance needed to make your dealership a profitable business. Your dealership is your number one investment, so you should have the number one accounting firm there to help and assist you.

We use a team approach at Henry & Horne. This means you are a part of our team. We help our dealerships with various services ranging from daily, monthly and yearly accounting and tax assistance to LIFO calculations, business valuations, litigation support, buy/sell agreements, workouts and turnarounds, estate planning and succession planning to name a few. Feel free to visit our website, www.hhcpa.com, for more information on how we are helping our dealership clients. While visiting our website, you will also notice that we help our dealership client's with what we call a CPA Tuneup®. The CPA Tuneup® was created by Henry & Horne and is a registered trademark of our firm. The day-to-day demands of running a business may make it difficult to find time to look at a business from the big picture perspective. Maybe you've got a gut feeling a specific part of your business is not running as profitably as possible, but you're not sure what the problem is...much less the answer. A CPA Tuneup® can pinpoint the issue, help to resolve it, and increase the profits of your business. No matter what area of the business you're concerned about.

In addition to our website, I would like to invite you to view and follow our blog, Accountants Understanding The Obstacles, that you can find on our website at www.hhcpa.com/blogs. Our blog keeps you up-to-date on the latest laws and regulations as well as our own personal insight into what else is occurring in the dealership industry. We look forward to your input and feedback on these various topics. We hope you find it informative and worthy of your time. The blogs will be posted on a weekly basis.

Please do not hesitate to contact any one of our dealership or firm professionals if you have any questions or need assistance with anything within the dealership industry.

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



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extra parts

According to Automotive News, the hottest chunk of vehicle real estate for auto suppliers and gadget companies is the center stack.

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According to a survey of 110 suppliers by IRN Inc., rubber and plastic resins are causing suppliers the most headaches, with the cost of raw materials such as steel, resins, rubber, copper and aluminum rising, typically 10 to 20 percent from a year ago.

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Investment rating agency Moody's this week cut its outlook for auto suppliers from "positive" to "stable" as materials cost continue to rise and some production forecasts continue to fall.



LIFO Conformity - Still An Issue After All These Years

By Wendell Peters, CPA

With all the discussion in Washington about the need to raise tax revenue for deficit reduction purposes and the movement in the U.S. to adopt International Financial Reporting Standards (IFRS), one has to wonder what the future holds in store for the LIFO inventory method currently used by many automobile dealerships. Repeal of the LIFO inventory method continues to be viewed by many in Washington as a quick and easy source of tax revenue to reduce the ballooning federal deficit. At the same time, the adoption of IFRS in the United States appears not to be a question of if, but when. Unfortunately for the proponents of the LIFO inventory method, LIFO is not allowed for IFRS purposes. Aside from the political and budget considerations, the difference between LIFO reporting for IFRS and U.S. income tax is already drawing the scrutiny of the Internal Revenue Service.

In a recent legal memorandum, the Internal Revenue Service concluded that the financial statements prepared by a corporation using IFRS and provided to a bank for credit purposes violated the LIFO conformity requirements under IRC Section 472(e)(2) and Reg. §1.472-2(e)(1). Under IRC Section 472(e) (2) and Reg. §1.472-2(e) (1), use of the LIFO inventory method is conditioned on the taxpayer's adherence to several requirements. One of those requirements (i.e. LIFO conformity) is that the taxpayer must use the LIFO method in financial statements issued to shareholders, partners, other proprietors, beneficiaries and for credit purposes.

IRC Sections 472(e) & (c) impose a requirement that for the tax year of the LIFO election and all subsequent tax years, financial statements provided by the taxpayer to third parties must be on the LIFO method. The Internal Revenue Service may require a taxpayer to discontinue the use of the LIFO inventory method if this requirement is violated.

The taxpayer in the recent legal memorandum provided financial statements to its foreign parent based upon IFRS and also provided the IFRS-only balance sheet and income statement to its lending bank. Because the IFRS-only financial statements were reported on a non-LIFO basis, the IRS concluded that the IFRS-only statements used a method other than LIFO to ascertain income, profit or loss. It should be noted, the LIFO conformity requirements do not merely require the use of a LIFO inventory method; they require that no method other than LIFO be used.

How does the recent IRS legal memorandum affect an auto dealer on the LIFO method? Since few, if any U.S. auto dealers have converted from Generally Accepted Accounting Principals (GAAP) to International Financial Accounting Standards (IFRS), the conformity issue has little impact from that standpoint. However, even under GAAP auto dealers must be extremely careful to make sure they do not intentionally or unintentionally violate the conformity requirement. Conformity violations most commonly occur when dealers fail to include a reasonable LIFO estimate in the twelve month year-end statement provided to the manufacturer or lender. In a worst case scenario where LIFO conformity is violated and the IRS revokes a taxpayer's LIFO election, the entire LIFO reserve must be taken into income. From an income tax standpoint, this can be extremely costly if the taxpayer has been on LIFO for a long period of time and has a large LIFO reserve that must be recognized in the year of the LIFO revocation.

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



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