

Finance/Accounting Assignment

N337 - Carl Munro - Audi Victoria

Area of Concern: Receivables

Past/Current Situation: Admittedly, 'receivables' is not a subject I previously allocated much focus to. From time-to-time, the Group Controller would send me lists by department of outstanding receivables to cleanup. Subsequently I would disseminate the lists to department managers with the clear instructions, "clean these up." And thus, my job of reducing outstanding receivables was complete. As cash flow was never raised as a topic of concern with our dealership, the timely collecting of receivables was rarely a concern.

Looking at the current situation, the opportunity for improvement varied greatly by department. Our first step was to look at the overall value of receivables as well as aged receivables by department. This revealed mixed levels of receivable health:

Vehicles - Although the overall amount was higher than what at first seemed reasonable, there were very few aged receivables.

Service - 120 days receivables at \$17,600 while 90 to 120 days were at \$5,300. Drilling down we found that the bulk of the aged receivables were to Audi Canada for work done to corporate training vehicles last year. In the 90 day category the issues were a third party warranty claim that had not been paid.

A significant amount was attributed to what is essentially a loan to another company within the group that apparently needed the cash more than we did. Repayment is on the 'sometime later' plan.

Warranty - Guide is 30 days of sales vs our receivables valued at 46 days. Receivables over 120 days were at \$23,300 while 90 to 120 receivables were at \$12,600. Some interesting revelations came out of an in-depth analysis of these: Our satellite Audi store in a nearby city (on our financial statements) had an extremely high decline rate on warranty. The claims were being submitted but frequently declined by the factory with no follow-up from the (shared) warranty admin ("I'm tired of fixing their mistakes as they don't listen to what I say anyway"). Within our own store we discovered our warranty admin was excellent at coming up with excuses as to why she had aged warranty receivables

Parts - Overall an acceptable amount of aged receivables with few over 120 days totaling \$1,200. Thankfully we have a parts manager who treats his department like its his own business.

Factory - An audit of aged factory incentive receivables turned up many submitted invoices were not claimable to begin with and needed to be written off. Others were resubmitted with the necessary changes

and we now have been paid for some and await payment on others. Another significant portion were discretionary incentives agreed to by our Audi regional manager and never paid. These have been discussed with the regional manager and he promises they will be paid, although likely not quickly.

Moving Forward: Now having been enlightened during the NADA Finance course, my old stance on receivables has been significantly altered. During the course, it became evident that receivables was an area I had pretty much ignored. Receivables were excessive in some departments. Certainly in every department there were receivables over 120 days. Moving forward, receivables will be managed with the goal to:

Eliminate all receivables over 120 days in every department within 120 days

Methodology: As with most new initiatives, success is not achieved by simply declaring what you wish to be so. Therefore I came up with an overall plan to improve our aged receivables situation:

1. Analyze the current situation - compared our results to guide with mixed results
2. Determine causes of successes and failures - reviewed each aged receivable by department to look for common causes. Not having a specific dealership-assigned accountant (accountants were shared) meant
3. Set specific, measurable, and achievable goals (above) - to eliminate all 120 day receivables within 120 days
4. Develop a plan to meet achieve the goals - Review every receivable at the 90 day mark to determine cause and remedy. This gives us 30 days to execute the plan and collect before anything hits 120 days
5. Communicate over and over again: Meet twice-monthly to review goals and progress by department. List of 90+ receivables is given by accountant to each department manager twice per month and the manager must come to the meeting to report on actions to be taken and any broad changes necessary moving forward.
6. Celebrate successes
7. Alter the plan if need be

Result to date: After one month, overall receivables have been reduced by nearly 14% or \$170,000.

