

Welcome!									
Before completing this exercise you need to have completed the other BEFORE CLASS UNITS.									
Introduction to Automotive Accounting									
Balance Sheet Fundamentals									
Income Statement Fundamentals									
Cash Flow Management Fundamentals									
We have a few learning objectives for you as you work through this exercise. Mostly it's a preview of what we will cover from pages 3 through 8 in your workbook in our first session as well as a hands on review of the four modules you worked through previously.									
Our goals are to reinforce:									
What is a Chart of Accounts.									
What is PCL Chaining. (Page, Column, Line)									
The Accounting Equation: Assets = Liabilities + Owner's Equity									
What is a debit and what is a credit.									
Observing how a transaction makes it onto the financial statement.									
A Balance Sheet is a visual representation of the Accounting Equation. Left Side = Right									
Every transaction impacts at least two accounts and Debits = Credits, ALWAYS!									
Debits are a destination. Credits are a source.									
INSTRUCTIONS: Read completely before starting this exercise!									
1	There are 6 tabs across the bottom of this spreadsheet. PRINT each tab before you start.								
	Beginning balances for the selected accounts are entered into the T-Accounts and Financial Statement.								
	As you build the journal entries for the transactions you will be able to refer back to these printed pages to see what has changed.								
2	The only input you have is in the "Transactions -Journal Entries" tab. There are shaded boxes that you will fill in with the appropriate dollar amount. The transaction is described beneath the journal entry. Read through the description and input the dollar amount in the shaded box next to the proper account.								
	The amounts are given to you as well as if they are debits (DR) or credits (CR). Keep in mind DR = CR.								
3	How do you tie this together? Look at the first transaction. You have borrowed \$500,000.								
	Begin with the Chart of Accounts. Cash is an Asset. It is a usual debit. A debit increases a usual debit.								
	The Chart of Accounts tells you the PCL is 1,3,2. So cash is on page 1 of the financial statement, in the third column, on line #2. When you entered the \$500,000 in the debit box in the journal entry tab, it was posted to the T-Account labeled Cash, on the left side which increases cash. When you look at the balance sheet you see cash increased \$500,000.								
4	As you complete the journal entries, flip between tabs and see what changed compared to your printed copy.								
	When you complete the 8 journal entries, compare your Financial Statement to the Final Answer. They should match. Print & scan your financial statement (Tab 5) and upload it to the dropbox provided. This will count 50 points toward your final grade.								

	CHART OF ACCOUNTS				
		Account	Usual	Usual	PCL
<u>Account #</u>	<u>Account Name</u>	<u>Type</u>	<u>Debit</u>	<u>Credit</u>	<u>Chain</u>
1010	Cash	Asset	x		1,3,2
1110	CIT	Asset	x		1,3,3
1210	Accounts Recievable - Parts, Service, Body	Asset	x		1,3,7
1220	Accounts Recievable - Incentives	Asset	x		1,3,8
1310	New Vehicle Inventory	Asset	x		1,3,12
1320	Pre-Owned Vehicle Inventory	Asset	x		1,3,13
1510	Computer Equipment	Asset	x		1,3,19
2110	Accounts Payable - Trade	Liabilities		x	1,7,2
2130	Notes Payable - New (Floorplan)	Liabilities		x	1,7,3
2150	Current Portion of Long Term Debt	Liabilities		x	1,7,4
2710	Long Term Debt - Notes Payable	Liabilities		x	1,7,9
3300	Paid In Capital	Equity		x	1,7,15
3900	Retained Earnings	Equity		x	1,7,16
4010	Sales - New Vehicle	Sales/Income		x	2,2,2
4020	Sales - Pre-Owned Vehicle	Sales/Income		x	2,2,2
5010	Cost of Sales - New Vehicle	Cost Of Sales	x		
5020	Cost of Sales - Pre-Owned Vehicle	Cost Of Sales	x		
6010	Sales Compensation	Expense	x		2,2,6
6210	Floorplan Interest Expense	Expense	x		2,2,9
6220	Advertising Expense	Expense	x		2,2,10
7020	Rent Expense	Expense	x		2,2,14
7030	Other Interest Expense	Expense	x		2,2,15
8000	Other Income	Sales/Income		x	

PCL Chain is a mapping reference to the financial statement Page, Column and Line number.

Important	There is no PCL for Cost of Sales because most financial statements do not show cost of				
	Line 2 of the income statement is Sales. Line 3 is Gross Profit.				
	Gross Profit is Sales less Cost of Sales (COS). A simple example: Sell a vehicle for \$33,5				
	The cost of the vehicle (COS) is \$32,100 so the GP is \$1,400. The GP PCL is 2,2,3				
	There is no Gross Profit account. It is the difference between Sales and COS.				

	Account Name									
	DR	CR	Account #		DR	CR				
1	Cash		1010		500,000					
		Current Portion of Long Term Debt		2150		92,000				
		Notes Payable - Long Term Debt		2710		408,000				
	The dealer is planning some capital improvements in the service department.									
	Start of the month, take out a 5 year working capital loan for \$500,000 (DR) increases cash.									
	The next 12 payments (the current portion of the loan) total \$92,000(CR).									
	The 48 payments (\$408,000 CR) after that are considered long term (months 13 to 60)									
	Cash goes up, current and long-term loans go up.									
2	Cash		1010		2,000					
		Contracts in Transit	1110		30,000					
		A/R Incentives	1220		1,500					
		Sales - New Vehicle		4010		33,500				
		Cost of Sales - New Vehicle	5010		1,400					
		Inventory - New Vehicle		1310		32,100				
	You sell a new vehicle for \$33,500 (CR). The customer puts \$2,000 (DR) cash down and									
	applies \$1,500 (DR) factory incentive to the deal. The balance, \$30,000 (DR) is financed through									
	the F&I Office. The vehicle cost is \$32,100 (DR & CR)									
	Note: Two parts to the transaction; revenue recognition and inventory reduction.									
	Revenue: Cash goes up (down payment), CIT goes up, A/R Receivable goes up, revenue goes up									
	Inventory: Cost of sale goes up, inventory goes down.									
	The gross profit on the deal is the sale price less the cost of sale (inventory cost).									
3	Cash		1010		33,500					
		Contracts in Transit		1110		0				
		Notes Payable - New (Floorplan)	2130		32,100					
		Cash		1010		468,900				
	Three days later the deal is funded and you receive the \$30,000 (DR & CR) in your checking									
	account due on the CIT.									
	You immediately pay the floorplan amount of \$32,100 (DR & CR) on that vehicle to remain									
	in Trust									
	Cash goes up, CIT goes down, Floorplan goes down, Cash goes down.									
4	Cash		1010		468,900					
		Other Income		8000		20,000				
	The dealer receives \$20,000 (DR & CR) from their OEM. This is an incentive tied to									
	their overall facility compliance standard. The dealer elects to recognize this payment									
	"below the line" in other income as it does not directly tie to a specific department.									
	Cash goes up, other income goes up.									
5	Notes Payable - Long Term Debt		2710		400,459					
		Other Interest Expense	7030		1,667					
		Cash		1010		459,692				
	At the end of the month it is time to make the first loan payment on the working									
	capital loan. The payment amounts are \$7,541 (DR) principal, \$1,667 (DR) interest.									
	Total cash out the door is \$9,208 (CR). Notice you reduced the long term debt, not									
	the current portion. That is because until you have less than 12 future payments									
	there will always be 12 months in the current portion.									
	Notes Payable goes down, Interest Expense goes up, Cash goes down.									
6	Computer Equipment		1510		15,000					
		Accounts Payable - Trade		2110		15,000				
	The service department purchases 10 iPads for technicians to use and communicate with									
	customers. These assets will be capitalized (not immediately expensed). The invoice will be									
	paid 30 days after delivery. Total expenditure is \$15,000 (DR & CR).									
	Fixed Assets go up, Accounts Payable goes up.									
7	Cash		1010		459,692					
		Accounts Receivable - Parts, Service, Body Shop		1210		8,500				
	Jake's Body Shop pays invoice #1235 due for parts purchased last month.									
	The total is \$8,500 (DR & CR). Cash goes up, A/R goes down.									
8	Payroll Expense		6010		15,000					
		Floorplan Interest Expense	6210		1,000					
		Advertising Expense	6220		9,000					
		Rent Expense	7020		6,000					
		Cash		1010		428,692				
	For illustration purposes, all these expenses happen on the same day, cash is leaving the									
	building for various reasons. Payroll \$15,000 (DR), Floorplan Interest \$1,000 (DR)									
	Advertising \$9,000 (DR) and Rent \$6,000 (DR). Total checks written \$31,000 (CR)									
	All Expenses go up, Cash goes down.									
					1,977,218	1,966,384				

T ACCOUNTS

+	-			+	-			-	+			-	+
CASH				CIT				PAID IN CAPITAL				RETAINED EARNINGS	
800,000	Beg Bal			150,000	Beg Bal			Beg Bal	1,000,000			Beg Bal	262,500
500,000				30,000	0								
2,000													
33,500				180,000	End Bal			End Bal	1,000,000			End Bal	262,500
	468,900												
468,900				+	-			-	+			-	+
459,692	459,692			A/R INCENTIVES				SALES NEW				SALES PRE-OWNED	
	428,692			15,000	Beg Bal			Beg Bal	500,000			Beg Bal	500,000
				1,500					33,500				
906,808	End Bal			16,500	End Bal			End Bal	533,500			End Bal	500,000
+	-			+	-			+	-			+	-
A/R P,S,BS				INVENTORY PRE OWNED				COS NEW				COS PRE-OWNED	
30,000	Beg Bal			400,000	Beg Bal			475,000	Beg Bal			450,000	Beg Bal
	8,500							1,400					
21,500	End Bal			400,000	End Bal			476,400	End Bal			450,000	End Bal
+	-			-	+			+	-			+	-
INVENTORY NEW				A/P TRADE				SALES COMPENSATION				FLOORPLAN INTEREST EXP	
1,650,000	Beg Bal			Beg Bal	35,000			0	Beg Bal			0	Beg Bal
	32,100				15,000			15,000				1,000	
1,617,900	End Bal			End Bal	50,000			15,000	End Bal			1,000	End Bal
+	-			-	+			+	-			+	-
COMPUTER EQUIPMENT				ST PORTION OF LTD				ADVERTISING EXP				RENT EXP	
2,500	Beg Bal			Beg Bal	0			0	Beg Bal			0	Beg Bal
15,000					92,000			9,000				6,000	
17,500	End Bal			End Bal	92,000			9,000	End Bal			6,000	
-	+			-	+			+	-			+	-
NOTES PAYABLE - NEW				LTD - NOTES PAYABLE				OTHER INTEREST EXP				OTHER INCOME	
Beg Bal	1,675,000			Beg Bal	0			0	Beg Bal			Beg Bal	0
32,100					408,000			1,667					20,000
				400,459									
End Bal	1,642,900			End Bal	7,541			1,667	End Bal			End Bal	20,000

2020 OEM FINANCIAL STATEMENT						
Month/Year	Jan-20		Through	Jan-20		
BALANCE SHEET						
						Page 1
<u>Assets</u>	<u>Acct #</u>	<u>Amount</u>	1	<u>Liabilities</u>	<u>Acct #</u>	<u>Amount</u>
Cash	1010	906,808	2	A/P Trade	2110	50,000
CIT	1110	180,000	3	Notes Payable New	2130	1,642,900
Total Cash & Contracts		1,086,808	4	Current Portion of LTD	2150	92,000
			5			
<u>Receivables</u>			6	Total Current Liabilities		1,784,900
A/R Parts Service BS	1210	21,500	7			
A/R Incentives	1220	16,500	8	<u>Long Term Debt (LTD)</u>		
Net Receivables		38,000	9	Notes Payable	2710	7,541
			10			
<u>Inventories</u>			11	Total Liabilities		1,792,441
New Vehicle	1310	1,617,900	12			
Pre-Owned Vehicles	1320	400,000	13	<u>Net Worth</u>		
Total Inventories		2,017,900	14			
			15	Paid In Capital	3300	1,000,000
Total Current Assets		3,142,708	16	Retained Earnings	3900	262,500
			17			
<u>Fixed Assets</u>			18	<u>Current Earnings</u>		
Computer Equipment	1510	17,500	19	January		94,433
			20			
			21	Total Net Worth		1,356,933
			22			
Total Assets		3,160,208	23	Total Liab & Net Worth		3,149,374

2020 OEM FINANCIAL STATEMENT						
Month/Year	Jan-20		Through	Jan-20		
INCOME STATEMENT						
						Page 2
Month: January				YTD: January		
	<u>Acct #</u>	<u>Amount</u>	1	<u>Acct #</u>	<u>Amount</u>	
Sales		1,033,500	2			
Gross Profit		107,100	3			
			4			
<u>Variable Expenses</u>			5			
Sales Compensation	6010	15,000	6			
			7			
<u>Semi-Variable Expenses</u>			8			
Floorplan Interest	6210	9,000	9			
Advertising	6220	1,000	10			
			11			
			12			
<u>Fixed Expenses</u>			13			
Rent	7020	6,000	14			
Other Interest	7030	1,667	15			
			16			
Total Expenses		32,667	17			
			18			
Operating Profit		74,433	19			
			20			
Other Adds / Deducts		20,000	21			
			22			
Net Profit		94,433	23			

2020 OEM FINANCIAL STATEMENT							2020 OEM FINANCIAL STATEMENT						
Month/Year		Jan-20		Through	Jan-20		Month/Year		Jan-20		Through	Jan-20	
BALANCE SHEET							INCOME STATEMENT						
ANSWER KEY							ANSWER KEY						
Page 1							Page 2						
							Month: January			YTD: January			
<u>Assets</u>	Acct #	Amount	1	<u>Liabilities</u>	Acct #	Amount		Acct #	Amount	1		Acct #	Amount
Cash	1010	1,288,192	2	A/P Trade	2110	50,000	Sales		1,033,500	2			
CIT	1110	150,000	3	Notes Payable New	2130	1,642,900	Gross Profit		76,400	3			
Total Cash & Contracts		1,438,192	4	Current Portion of LTD	2150	92,000				4			
			5				Variable Expenses			5			
<u>Receivables</u>			6	Total Current Liabilities		1,784,900	Sales Compensation	6010	15,000	6			
A/R Parts Service BS	1210	21,500	7							7			
A/R Incentives	1220	16,500	8	Long Term Debt (LTD)			Semi-Variable Expenses			8			
Net Receivables		38,000	9	Notes Payable	2710	400,459	Floorplan Interest	6210	9,000	9			
			10				Advertising	6220	1,000	10			
<u>Inventories</u>			11	Total Liabilities		2,185,359				11			
New Vehicle	1310	1,617,900	12							12			
Pre-Owned Vehicles	1320	400,000	13	Net Worth			Fixed Expenses			13			
Total Inventories		2,017,900	14				Rent	7020	6,000	14			
			15	Paid In Capital	3300	1,000,000	Other Interest	7030	1,667	15			
Total Current Assets		3,494,092	16	Retained Earnings	3900	262,500				16			
			17				Total Expenses		32,667	17			
<u>Fixed Assets</u>			18	Current Earnings						18			
Computer Equipment	1510	17,500	19	January		63,733	Operating Profit		43,733	19			
			20							20			
			21	Total Net Worth		1,326,233	Other Adds / Deducts		20,000	21			
			22							22			
Total Assets		3,511,592	23	Total Liab & Net Worth		3,511,592	Net Profit		63,733	23			