

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: $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$

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 S

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

<u>Account #</u>	<u>Account Name</u>	<u>Account Type</u>	<u>Usual Debit</u>	<u>Usual Credit</u>	<u>PCL 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 sales. 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 \$33,500. 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.

es.

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	32,100	
	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	30,000	
	Contracts in Transit	1110		30,000
	Notes Payable - New (Floorplan)	2130	32,100	
	Cash	1010		32,100

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	20,000	
	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		7,541	
	Other Interest Expense	7030		1,667	
	Cash		1010		9,208

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		8,500	
	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		31,000

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.

711,408 711,408

T ACCOUNTS

+	-
CASH	
800,000	Beg Bal
500,000	
2,000	
30,000	
	32,100
20,000	
8,500	9,208
	31,000
1,288,192	End Bal

+	-
A/R P,S,BS	
30,000	Beg Bal
	8,500
21,500	End Bal

+	-
INVENTORY NEW	
1,650,000	Beg Bal
	32,100
1,617,900	End Bal

+	-
COMPUTER EQUIPMENT	
2,500	Beg Bal
15,000	
17,500	End Bal

-	+
NOTES PAYABLE - NEW	
Beg Bal	1,675,000
32,100	
End Bal	1,642,900

+	-
CIT	
150,000	Beg Bal
30,000	30,000
150,000	End Bal

+	-
A/R INCENTIVES	
15,000	Beg Bal
1,500	
16,500	End Bal

+	-
INVENTORY PRE OWNED	
400,000	Beg Bal
400,000	End Bal

-	+
A/P TRADE	
Beg Bal	35,000
	15,000
End Bal	50,000

-	+
ST PORTION OF LTD	
Beg Bal	0
	92,000
End Bal	92,000

-	+
LTD - NOTES PAYABLE	
Beg Bal	0
	408,000
7,541	
End Bal	400,459

-	+
PAID IN CAPITAL	
Beg Bal	1,000,000
End Bal	1,000,000

-	+
SALES NEW	
Beg Bal	500,000
	33,500
End Bal	533,500

+	-
COS NEW	
475,000	Beg Bal
32,100	
507,100	End Bal

+	-
SALES COMPENSATION	
0	Beg Bal
15,000	
15,000	End Bal

+	-
ADVERTISING EXP	
0	Beg Bal
9,000	
9,000	End Bal

+	-
OTHER INTEREST EXP	
0	Beg Bal
1,667	
1,667	End Bal

-	+
RETAINED EARNINGS	
Beg Bal	262,500
End Bal	262,500

-	+
SALES PRE-OWNED	
Beg Bal	500,000
End Bal	500,000

+	-
COS PRE-OWNED	
450,000	Beg Bal
450,000	End Bal

+	-
FLOORPLAN INTEREST EXP	
0	Beg Bal
1,000	
1,000	End Bal

+	-
RENT EXP	
0	Beg Bal
6,000	
6,000	

+	-
OTHER INCOME	
Beg Bal	0
	20,000
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>		<u>Liabilities</u>	<u>Acct #</u>	<u>Amount</u>
Cash	1010	1,288,192	2	A/P Trade	2110	50,000
CIT	1110	150,000	3	Notes Payable New	2130	1,642,900
Total Cash & Contracts		1,438,192	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	400,459
			10			
<u>Inventories</u>			11	Total Liabilities		2,185,359
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		3,494,092	16	Retained Earnings	3900	262,500
			17			
<u>Fixed Assets</u>			18	<u>Current Earnings</u>		
Computer Equipment	1510	17,500	19	January		63,733
			20			
			21	Total Net Worth		1,326,233
			22			
Total Assets		3,511,592	23	Total Liab & Net Worth		3,511,592

2020 OEM FINANCIAL STATEMENT				
Month/Year	Jan-20		Through	Jan-20

INCOME STATEMENT

Page 2

Month: January

YTD: January

	Acct #	Amount	1	Acct #	Amount	
Sales		1,033,500	2			
Gross Profit		76,400	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		43,733	19			
			20			
Other Adds / Deducts		20,000	21			
			22			
Net Profit		63,733	23			

2020 OEM FINANCIAL STATEMENT

Month/Year Jan-20 Through Jan-20

BALANCE SHEET

ANSWER KEY

Page 1

<u>Assets</u>	<u>Acct #</u>	<u>Amount</u>	1	<u>Liabilities</u>	<u>Acct #</u>	<u>Amount</u>
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Month/Year		Jan-20		Through	Jan-20	
INCOME STATEMENT						
ANSWER KEY						
						Page 2
Month: January				YTD: January		
	<u>Acct #</u>	<u>Amount</u>	1		<u>Acct #</u>	<u>Amount</u>
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			11			
			12			
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