

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 Side
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.

Account Name

	DR	CR	Account #	DR	CR
1	Cash		1010	0	
	Current Portion of Long Term Debt		2150		0
	Notes Payable - Long Term Debt		2710		0

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	0	
	Contracts in Transit		1110	0	
	A/R Incentives		1220	0	
	Sales - New Vehicle		4010		0
	Cost of Sales - New Vehicle		5010	0	
	Inventory - New Vehicle		1310		0

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	0	
	Contracts in Transit		1110		0
	Notes Payable - New (Floorplan)		2130	0	
	Cash		1010		0

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	0	
	Other Income		8000		0

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			0	
	Other Interest Expense	7030			0	
	Cash		1010			0

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			0	
	Accounts Payable - Trade		2110			0

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			0	
	Accounts Receivable - Parts, Service, Body Shop		1210			0

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			0	
	Floorplan Interest Expense	6210			0	
	Advertising Expense	6220			0	
	Rent Expense	7020			0	
	Cash		1010			0

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.

0 0

T ACCOUNTS

+	-
CASH	
800,000	Beg Bal
0	
0	
0	
	0
0	
0	0
	0
800,000	End Bal

+	-
A/R P,S,BS	
30,000	Beg Bal
	0
30,000	End Bal

+	-
INVENTORY NEW	
1,650,000	Beg Bal
	0
1,650,000	End Bal

+	-
COMPUTER EQUIPMENT	
2,500	Beg Bal
0	
2,500	End Bal

-	+
NOTES PAYABLE - NEW	
Beg Bal	1,675,000
0	
End Bal	1,675,000

+	-
CIT	
150,000	Beg Bal
0	0
150,000	End Bal

+	-
A/R INCENTIVES	
15,000	Beg Bal
0	
15,000	End Bal

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

-	+
A/P TRADE	
Beg Bal	35,000
	0
End Bal	35,000

-	+
ST PORTION OF LTD	
Beg Bal	0
	0
End Bal	0

-	+
LTD - NOTES PAYABLE	
Beg Bal	0
	0
0	
End Bal	0

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

-	+
SALES NEW	
Beg Bal	500,000
	0
End Bal	500,000

+	-
COS NEW	
475,000	Beg Bal
0	
475,000	End Bal

+	-
SALES COMPENSATION	
0	Beg Bal
0	
0	End Bal

+	-
ADVERTISING EXP	
0	Beg Bal
0	
0	End Bal

+	-
OTHER INTEREST EXP	
0	Beg Bal
0	
0	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
0	
0	End Bal

+	-
RENT EXP	
0	Beg Bal
0	
0	

+	-
OTHER INCOME	
Beg Bal	0
	0
End Bal	0

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	800,000	2	A/P Trade	2110	35,000
CIT	1110	150,000	3	Notes Payable New	2130	1,675,000
Total Cash & Contracts		950,000	4	Current Portion of LTD	2150	0
			5			
Receivables			6	Total Current Liabilities		1,710,000
A/R Parts Service BS	1210	30,000	7			
A/R Incentives	1220	15,000	8	<u>Long Term Debt (LTD)</u>		
Net Receivables		45,000	9	Notes Payable	2710	0
			10			
Inventories			11	Total Liabilities		1,710,000
New Vehicle	1310	1,650,000	12			
Pre-Owned Vehicles	1320	400,000	13	Net Worth		
Total Inventories		2,050,000	14			
			15	Paid In Capital	3300	1,000,000
Total Current Assets		3,045,000	16	Retained Earnings	3900	262,500
			17			
Fixed Assets			18	Current Earnings		
Computer Equipment	1510	2,500	19	January		75,000
			20			
			21	Total Net Worth		1,337,500
			22			
Total Assets		3,047,500	23	Total Liab & Net Worth		3,047,500

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>		<u>Acct #</u>	<u>Amount</u>	
Sales		1,000,000	1			
Gross Profit		75,000	2			
			3			
			4			
<u>Variable Expenses</u>			5			
Sales Compensation	6010	0	6			
			7			
<u>Semi-Variable Expenses</u>			8			
Floorplan Interest	6210	0	9			
Advertising	6220	0	10			
			11			
			12			
<u>Fixed Expenses</u>			13			
Rent	7020	0	14			
Other Interest	7030	0	15			
			16			
Total Expenses		0	17			
			18			
Operating Profit		75,000	19			
			20			
Other Adds / Deducts		0	21			
			22			
Net Profit		75,000	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>		<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	Net Worth		
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					
ANSWER KEY					
Month: January				YTD: January	
	Acct #	Amount	1		Acct #
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		

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