

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.

# 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  |
| <u>1,288,192</u> | End Bal |

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

| +                | -       |
|------------------|---------|
| INVENTORY NEW    |         |
| 1,650,000        | Beg Bal |
|                  | 32,100  |
| <u>1,617,900</u> | End Bal |

| +                  | -       |
|--------------------|---------|
| COMPUTER EQUIPMENT |         |
| 2,500              | Beg Bal |
| 15,000             |         |
| <u>17,500</u>      | End Bal |

| -                   | +                |
|---------------------|------------------|
| NOTES PAYABLE - NEW |                  |
| Beg Bal             | 1,675,000        |
| 32,100              |                  |
| End Bal             | <u>1,642,900</u> |

| +              | -       |
|----------------|---------|
| CIT            |         |
| 150,000        | Beg Bal |
| 30,000         | 30,000  |
| <u>150,000</u> | End Bal |

| +              | -       |
|----------------|---------|
| A/R INCENTIVES |         |
| 15,000         | Beg Bal |
| 1,500          |         |
| <u>16,500</u>  | End Bal |

| +                   | -       |
|---------------------|---------|
| INVENTORY PRE OWNED |         |
| 400,000             | Beg Bal |
| <u>400,000</u>      | End Bal |

| -         | +             |
|-----------|---------------|
| A/P TRADE |               |
| Beg Bal   | 35,000        |
|           | 15,000        |
| End Bal   | <u>50,000</u> |

| -                 | +             |
|-------------------|---------------|
| ST PORTION OF LTD |               |
| Beg Bal           | 0             |
|                   | 92,000        |
| End Bal           | <u>92,000</u> |

| -                   | +              |
|---------------------|----------------|
| LTD - NOTES PAYABLE |                |
| Beg Bal             | 0              |
|                     | 408,000        |
| 7,541               |                |
| End Bal             | <u>400,459</u> |

| -               | +                |
|-----------------|------------------|
| PAID IN CAPITAL |                  |
| Beg Bal         | 1,000,000        |
| End Bal         | <u>1,000,000</u> |

| -         | +              |
|-----------|----------------|
| SALES NEW |                |
| Beg Bal   | 500,000        |
|           | 33,500         |
| End Bal   | <u>533,500</u> |

| +              | -       |
|----------------|---------|
| COS NEW        |         |
| 475,000        | Beg Bal |
| 32,100         |         |
| <u>507,100</u> | End Bal |

| +                  | -       |
|--------------------|---------|
| SALES COMPENSATION |         |
| 0                  | Beg Bal |
| 15,000             |         |
| <u>15,000</u>      | End Bal |

| +               | -       |
|-----------------|---------|
| ADVERTISING EXP |         |
| 0               | Beg Bal |
| 9,000           |         |
| <u>9,000</u>    | End Bal |

| +                  | -       |
|--------------------|---------|
| OTHER INTEREST EXP |         |
| 0                  | Beg Bal |
| 1,667              |         |
| <u>1,667</u>       | End Bal |

| -                 | +              |
|-------------------|----------------|
| RETAINED EARNINGS |                |
| Beg Bal           | 262,500        |
| End Bal           | <u>262,500</u> |

| -               | +              |
|-----------------|----------------|
| SALES PRE-OWNED |                |
| Beg Bal         | 500,000        |
| End Bal         | <u>500,000</u> |

| +              | -       |
|----------------|---------|
| COS PRE-OWNED  |         |
| 450,000        | Beg Bal |
| <u>450,000</u> | End Bal |

| +                      | -       |
|------------------------|---------|
| FLOORPLAN INTEREST EXP |         |
| 0                      | Beg Bal |
| 1,000                  |         |
| <u>1,000</u>           | End Bal |

| +            | -       |
|--------------|---------|
| RENT EXP     |         |
| 0            | Beg Bal |
| 6,000        |         |
| <u>6,000</u> |         |

| +            | -             |
|--------------|---------------|
| OTHER INCOME |               |
| Beg Bal      | 0             |
|              | 20,000        |
| End Bal      | <u>20,000</u> |

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

| 2020 OEM FINANCIAL STATEMENT  |               |               |         |              |               |               |
|-------------------------------|---------------|---------------|---------|--------------|---------------|---------------|
| 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> |
| <b>Sales</b>                  |               | 1,033,500     | 2       |              |               |               |
| <b>Gross Profit</b>           |               | 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          | 1,000         | 9       |              |               |               |
| Advertising                   | 6220          | 9,000         | 10      |              |               |               |
|                               |               |               | 11      |              |               |               |
|                               |               |               | 12      |              |               |               |
| <u>Fixed Expenses</u>         |               |               | 13      |              |               |               |
| Rent                          | 7020          | 6,000         | 14      |              |               |               |
| Other Interest                | 7030          | 1,667         | 15      |              |               |               |
|                               |               |               | 16      |              |               |               |
| <b>Total Expenses</b>         |               | 32,667        | 17      |              |               |               |
|                               |               |               | 18      |              |               |               |
| <b>Operating Profit</b>       |               | 43,733        | 19      |              |               |               |
|                               |               |               | 20      |              |               |               |
| Other Adds / Deducts          |               | 20,000        | 21      |              |               |               |
|                               |               |               | 22      |              |               |               |
| <b>Net Profit</b>             |               | 63,733        | 23      |              |               |               |