The Value of Great Accounting Records

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Strictly speaking, the office is not a profit center. There is no line item on the financial statements reporting "office gross profit" or "net income from accounting operations." But I will posit that it is a "profit retention center." You may say that it's a professional bias of mine, but the value of great accounting records is sometimes lost in how it can contribute to the overall success of the dealership. And it is a mistake to view the office solely as overhead. An empowered office can help secure dealership profits by being proactive in the following areas:

Asset Management and Fraud

Did you know that dealerships lose between 1-2% of annual sales to theft and mismanagement of assets each year? In other words, the business office is trusted with the task of avoiding annual losses between $300,000 and $600,000 (on $30 million of average annual sales). Internal controls should be reviewed on a regular basis by management, probing constantly for weaknesses so they can be identified and corrected. For example, the following are but a few examples of internal control procedures that should be performed regularly:

- Physical counts of all vehicle inventory
- A book reconciliation of parts inventory (per pad) with the general ledger (this does not replace the annual physical count, which I also recommend)
- Preparation and review of accounting schedules and journals
- Monthly review of used vehicle wholesale activity and valuations
- Preparation of a log of incoming cash receipts and subsequent tracing to the bank statement
- All balance sheet accounts supported by computer schedules, statements and/or reconciliations (remember that poor accounting records are a perfect environment in which theft can occur)

The implementation and execution of proper controls is critical, yet too often they are ignored until after losses occur. The commitment to these efforts should be ongoing and prioritized. Consider too that the actions of ownership and management determine how employees regard the dealership's culture as "tight" or "loose." I don't have to tell you which culture poses the greater risk to profits.

Cash Management

Watching cash is far more than counting and reconciling it. You may have heard that "cash is king," yet cash often receives less than royalty treatment. In any given dealership, there is probably $50,000 to $100,000 more annual income available through better cash management. You might look for it in the following areas first:

- Deposit excess cash in competitive, interest-bearing accounts, or better yet, apply excess funds against your flooring line
- Contracts should be "turned" every three days, or faster. Vehicle receivables should not be allowed to age past ten days
- Be disciplined with enforcing credit policies with customers to minimize bad debts and slow pays
- Reduce bank fees by encouraging customers to pay with debit cards
- Be strategic with the payment of vendor invoices without incurring late charges (use other people's money if they let you) and take advantage of any and all cash discounts for prompt payment on purchases
- Defer the payment of income taxes by taking advantage of interest-free loans with IRS, including LIFO, trade discounts, and deducting prepaids for tax purposes

Compliance with Laws and Avoidance of Penalties
The automotive industry is an extremely regulated one, and this fact increases the risk of noncompliance with these rules. Significant penalties for noncompliance can erase the efforts of even the most successful dealership. For example, if you have not made efforts toward protecting customer information, fines of $10,000 per day can be assessed.

Even an outline of the rules and regulations to which dealers are subject is beyond the scope of this article. For all the things dealers do correctly, there is always room for improvement in this area. If the prospect of negative publicity from noncompliance isn't enough to motivate corrective action, significant penalties should.

Office Productivity
A larger commitment in the training of staff with your DMS software, Excel and Word will improve both the quality and efficiency of your accounting department. The variable skills sets among office personnel explain, in large part, why one dealership has four office staff and another (of similar size) has six. Community colleges can be an excellent resource for making such "technology investments" in your personnel.

Computer Schedules & Journals
For all the data contained in the schedules and journals, there is an unfortunate lack of review of this information by management. If there is a lack of oversight here, engage your CPA firm to "look under the hood." The following is a short list of unwelcome surprises from such a review:

- Missing customer, vendor and employee names within the computer schedules
- Poor aging of receivables, not fully disclosed by financial statement summaries
- Manipulation of aging by reassignment of control numbers
- Aged credits from customer deposits can be used to conceal theft
- No explanations of journal entries
- Unpaid flooring on sold vehicles, thereby risking out-of-trust conditions
- Unusual balances given the expectations of a particular account
- Unauthorized write offs of customer receivables
- "Shell game" activity with used vehicle write-downs and write-ups.

Dealer Financial Statements
The monthly dealer statement offers a wealth of information, but the value of it is enhanced when it is timely, accurate, and complete.

- **Timely:** The dealership financial statements should be completed no later than the fifth day of the month. Failure to produce it timely indicates possible issues with office procedures and/or efficiencies. There could also be a lack of proper discipline with vehicle sales cutoff. Owners and GM's need to "inspect what you expect," and the sooner the better. Like receivables, information should not be allowed to "age."
- **Accurate:** Just as a radiologist's diagnosis would error from a faulty x-ray, an owner can't take corrective action with erroneous financial data.
- **Complete:** The dealer statement is a roadmap to improve dealership profits only if the information is complete (and there is plenty to go wrong when there are approximately 500 accounts pulling across four to eight pages that comprise the dealer statement).

The office is the nerve center of dealership operations. Treating it solely as "a cost of doing business" can marginalize the potential it offers to the dealership. And don't let the lack of a line item reporting "office operations" on the financial statement lull you into thinking that the office can't or doesn't positively impact dealership profits. It's no accident that great accounting records are found in the most successful dealerships.