



HEADLIGHTS

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PHYSICAL COUNTS AND OVERAGES IN YOUR PARTS DEPARTMENT

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Parts inventory is one of the more substantial investments of the dealer because it's owned outright. Below are a few suggestions that can improve the accountability of those charged with protecting your parts investment.

Count Your Parts

Parts should be counted by an outside service at least once every 12 months. Using employees of the dealership for the count is better than no count at all, but the inherent conflict of interest should give one pause. Trust goes a long way inside dealerships, but experience with inventory counts has shown that management is apt to learn more about the condition and value of this investment when an outside service is used. In lieu of this, have your CPA supervise any in-house count.



should run count sheets (preferably on high-value items) by bin location for independent counts by the dealer or by management. It is best that such counts be done by someone outside the parts department. This practice also signals to the parts department that, as custodian of a high-value asset, it warrants management oversight.

Parts Variances

At the conclusion of a physical count, the variance (i.e., shortage or overage) should be small (2% of total inventory is a widely quoted percentage). Unfortunately, there are parts managers who operate with the idea that a shortage of any amount will punch their own pink slip. They may also believe that a \$10,000 overage merits a favorable performance review, if not a raise.

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Regular Bin Counts

In addition to annual physicals, management should test-count parts bins randomly during the year. On a periodic basis, the office

WINTER 2007

**MAXIMIZE YOUR
401(k) BENEFITS**

**RISING INTEREST RATES AND FUEL
PRICES: HOW DOMESTIC DEALERS
SHOULD REACT**

Because parts managers may be motivated to report an overage, they have been known to artificially create one. Consequently, the goal of running a tight inventory may shift from accuracy to “creative parts management.” In the stock market, it’s the pressure that management feels from Wall Street to report expected earnings. But when it comes to a parts count, the goal should be precision. Ownership needs to communicate to parts managers that expectations are for an accurate count and that any chicanery compromising it will not be tolerated.

Parts-count Overages

If parts management practices are creating additional profit, which can be a recipe for an overage, it should be recorded as gross profit in the period to which it relates, and not deferred to the date of the next parts physical. To do otherwise will likely conceal the true picture of things.

MAXIMIZE YOUR 401(k) BENEFITS

Retirement plans are a great benefit to offer your employees. Likewise they provide you with the opportunity to increase your own retirement savings and decrease the tax burden of the dealership. However, many dealers only see them as a cost of retaining employees. Let’s focus on the benefits they can provide.

Be sure the owners, owners’ family members employed in the business and other key employees are deferring the maximum allowable amounts. You may opt to give bonuses or raises to these employees to max out their deferral without reducing their take-home pay. By doing so, you increase compensation, but personal taxes only increase by the 7.65% FICA (Federal Insurance Contribution Act) tax since salary deferral is not subject to income tax. It may be necessary to add safe-harbor provisions to your plan to enable the principals to defer the maximum. Required discrimination tests are not applicable in plans that include safe harbor provisions.



Role of the Accounting Office and Monthly Reconciliations

An accurate variance depends as much on the completeness of the reconciling items as it does on the absence of errors in the quantities of the parts counted. And make sure the office reconciles the parts statement prior to the count.

Finally, the best chance to minimize the threat of a large variance at year-end is to monitor differences between the parts department and the office each month or, at least, quarterly. This is accomplished by a reconciliation of the parts pad total with the parts amount reported in the general ledger. This does not require a physical count of the inventory; it is a clerical procedure, taking into account the normal reconciling items that occur with any full count. *✍*

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Another method to maximize deferrals is matching or profit-sharing if your plan offers these. The higher gross salaries and deferrals of owners and key employees will result in even more money being tucked away in their retirement accounts, and the dealership gets another tax deduction.

Encourage your employees to defer more to their retirement plan. When you give employees bonuses or raises, remind them of their option to defer additional funds. Have your plan administrator meet with employees regularly to encourage participation in the plan and help them fully understand the value of this benefit you provide.

To understand the tax savings your dealership can reap, have your AutoCPAGroup member work closely with your plan administrator to best meet the goals of the dealership while lowering your tax burden. Have preliminary assessments done at intervals throughout the year (especially in the fourth quarter) as your cash flow fluctuates.

Periodically, as the profitability of your dealership changes, review the provisions of your plan to determine if it still fits your needs or if it should be amended to provide the best scenario for you.

A new development for 2006 that you may consider for your plan is the Roth 401(k) deferral. Earnings on Roth contributions are tax-free while earnings on traditional contributions are tax-

deferred. Roth contributions do not decrease current taxable income as traditional contributions do, but there is no tax on the distributions. While this option is not for everyone, it may help your plan meet the varying needs of your employees and encourage participation.

Talk to your AutoCPA Group member about the best options to maximize your benefits. ↗

RISING INTEREST RATES AND FUEL PRICES: HOW DOMESTIC DEALERS SHOULD REACT

For years, domestic automotive dealers have relied on the strong sales of trucks and sport-utility vehicles (SUVs) for their profits. However, these dealers have recently seen a sharp decline in sales. Higher fuel prices and rising interest rates have created a demand for smaller, fuel-efficient vehicles—a market in which foreign manufacturers have been sales leaders.

Since January 2004, the price of oil has increased significantly, as has the average price of a gallon of gasoline. While the cost of purchasing a car and keeping it fueled has risen dramatically, the average U.S. salary has risen less than 4% annually during the same time period.

In addition, the Federal Reserve has raised interest rates 17 times during the last two years, which has increased the cost of financing a new vehicle. As a result, some new-vehicle shoppers have decided against purchasing larger, more expensive trucks and SUVs.

These economic developments create a difficult environment for domestic dealers, but these dealers are creative entrepreneurs who have managed to survive hard economic times before. To succeed now they will need to rely on some time-tested strategies.

✓ **Tighten controls on inventory and costs.**

While domestic car manufacturers are developing new vehicles with better fuel economies, successful dealers will maintain inventories with fewer days'

supply, especially regarding trucks and SUVs. In addition, dealers will increase their focus on departmental efficiency and expense control, such as advertising and personnel costs. By monitoring each expense category and revenue source more

closely, dealers will be able to identify areas of inefficiency and recapture lost profit.

✓ **Focus on used-car sales.** New-car dealers have access to a readily available supply of used cars, from both trade-ins and auction purchases. With rising interest rates, car buyers will be looking more to used cars in order to reduce monthly payments. Successful dealers will have a competitive inventory of used cars to meet this demand.

✓ **Focus on parts and service.** Finally, domestic dealers will likely focus on increasing parts and service revenue, an area that has sometimes been viewed as a secondary area of business. By providing customers with reliable and courteous post-

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sale service, dealers can build relationships that result in repeat business, possibly for the lifetime of the customer.

Domestic automotive dealers have faced difficult conditions before, and, by being flexible and innovative, have steered through those rough waters. By implementing a few basic operational strategies, domestic dealers will continue to profitably meet the needs of the car-buying public. ☞

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