

HEADLIGHTS

A PUBLICATION
OF THE AutoCPA Group

WWW.AUTOCPA.COM
1-800-4AUTOCPA

NADA BY THE BAY

Aaron Winiarz, CPA

The annual National Automobile Dealers Association convention was held February 1–4, 2003 in beautiful San Francisco. As in the past, the AutoCPA Group was present with its booth. It was nice to see many current clients and friends, as well as many new ones, attend the show.

The convention had several focal points, but the predominant one was the ability of the dealers to maintain their current customers through proper management of their customer base. It is always more cost-effective to maintain a current customer relationship than to advertise and try to start new ones or re-establish and/or repair existing relationships. The dealer-management systems all have these in place in one form or another. Standalone options are available as well.

The Internet continues to be in the forefront of everyone's mind with regard to new-vehicle sales, but used-vehicle sales on the Internet, for example, e-Bay Motors, continue to grow in popularity. The

parts and service ends of the business still lag behind, but are gaining steam with each passing day.

Safeguarding dealership and family assets through proper estate planning was another major topic of great interest to dealers. Along with this comes the

discussion regarding the passing of the torch to the next generation of dealers. This includes making sure that you have the right person assume the helm when you are ready to step down and that the person is approved by the manufacturers.

The multitude of seminars this year seemed to focus on simplifying the business while improving the

processes to make your business more profitable.

Next year's convention will be held in Las Vegas from January 31–February 3. Have a terrific year and we look forward to seeing you in lucky Las Vegas. 🚗



SPRING 2003

401(k) MISTAKES

FOCUS ON EXPENSES

SERVICE-CONTRACT SALES

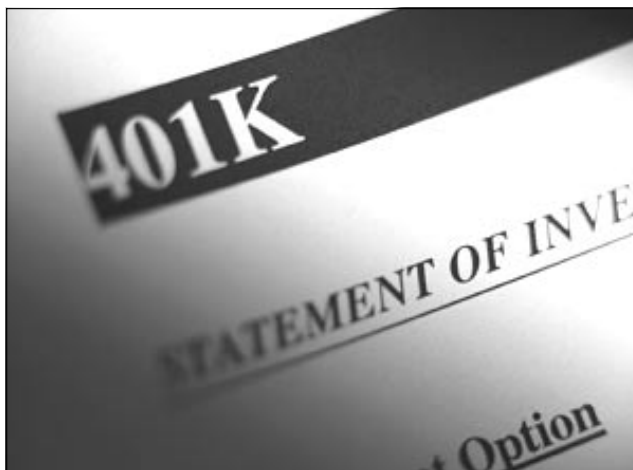
401(k) MISTAKES

Gerry Green, CPA
Green & Miller, P.C.

In the aftermath of the Enron scandal, Congress and 401(k) participants are growing more sensitive to how 401(k) plans are operated and managed. Moreover, there is a growing emphasis on the employer's role as the fiduciary who may be solely responsible and liable for ensuring that the participants are treated in accordance with the employer's plan document and related pension laws.

To help identify potential problem areas, here's a quick list of mistakes commonly made in operating 401(k) plans.

- ✓ Improperly excluding leased, part-time, temporary or seasonal employees in the plan when the plan document states that "all employees" are to be included.
- ✓ Erroneously excluding employees from the plan by virtue of a mischaracterization of employees as independent contractors.
- ✓ Wrongly excluding employees of another entity from the plan sponsor's controlled group when the plan document states that all employees of the "employer" are included and the plan defines "employer" to include all related employers.
- ✓ Mistakenly including employees at hire date when the plan document states that employees must perform one year of service with the employer to be eligible.
- ✓ Incorrectly including employees immediately upon satisfaction of participation of service when the plan has a later entry date.
- ✓ Failing to utilize W-2 compensation to calculate deferrals and failing to include disability pay and other taxable income (e.g., employee stock-purchase plan shares).
- ✓ Excluding bonuses while calculating contributions when the plan definition of compensation includes bonuses.



- ✓ Permitting pretax contributions to exceed the percentage allowable under the plan (e.g., a plan permits 1%–15%, but employees are allowed to defer up to \$11,000).
- ✓ Misinterpreting the match formula.
- ✓ Failure to distribute terminated employees' accounts of \$5,000 or less when the plan provides this will be done.
- ✓ Failure to give distributions or elections to disabled nonterminated participants when the plan provides for disability distributions.
- ✓ Failure to give direct rollover elections to \$5,000 cash-out distributions.
- ✓ Permitting a terminated employee to continue to make payments after departing when the plan says the loan is due in full at termination.

- ✓ Allowing an employee to take out a second plan loan when the plan permits only one outstanding loan.
- ✓ Failing to obtain spousal consent for loans when the plan requires the approval.

The Economic Growth and Tax Relief Reconciliation Act of 2001 required 401(k) plans to make specific plan amendments by the end of 2002, including those re-

lated to catch-up contributions for employees age 50 and older. Call your plan custodian if you have not been contacted or if you are unaware of any such amendments.

Also, work with your plan custodian to determine the number of active participants in your 401(k) plan as of the beginning of the plan year. Generally, if a plan has more than 100 active participants, it will need to be audited by an independent accountant. Confer with your plan custodian, accountant or legal counsel to determine if your plan requires an audit. 📌

FOCUS ON EXPENSES

Focusing on expense control can be the best way to increase profits at any time, but especially when sales slow down.


The best place to begin this process is with your controller. Dealerships have very capable reporting systems available to capture expense data, and your controller should be able to provide the necessary information. Analysis of those expenses that are controllable should be the primary focus. Involving key managers in this process, either early on or at a later stage, is an important element in reducing costs. They need to understand why changes are being made so that their part in implementing the changes is effective.

A dealership's largest expense is personnel. A review of all positions, how they are compensated and the level of benefits provided is a good place to be-



gin. In addition, reviewing processes that dealership personnel use may yield changes that allow fewer people to complete specific tasks.

Advertising is another large expense to review. Are your advertising dollars being effectively spent? Is the target customer being reached? What do your own internal statistics show as to how customers find you? Getting answers to these questions and implementing changes to your advertising to more effectively reach your potential customers can yield savings.

Paying attention to expenses monthly, no matter which direction sales are going, is the most effective way to control expenses. Quicker decision-making is accomplished when you know what your expenses are currently so that changes can be made when needed. 

Richard Heider, CPA
Heider, Tanner & Dirks, CPAs

SERVICE-CONTRACT SALES

Most new-vehicle dealers sell service contracts to over 30% of their retail new- and used-vehicle customers. Some dealers have special reasons why they do not sell the average amount of service contracts that new-vehicle dealers typically sell. Such dealers may want to obtain a service contract company that can train, assist and guide them in being more effective in selling these contracts. Many dealers who use one of these companies usually show higher service-contract penetrations along with higher F & I income.


I have heard all kinds of excuses why dealers have lower service-contract penetrations. A common reason is that the dealership believes it will have a higher service-contract penetration selling factory service contracts. I have also heard employees from the manufacturers state that their dealers would sell a higher percentage of service contracts if the dealers would sell mainly factory service contracts. The reasons given for selling factory service contracts is name recognition, safety of being paid and being able to have the vehicle easily repaired any-

where in the United States. I have always wondered if dealers that sell mainly factory service contracts have a higher service-contract penetration rate compared with selling nonfactory service contracts.

I was curious to see which types of service contracts dealers sell, so I conducted a survey of more than 600 new-vehicle dealers on service-contract sales. One hundred forty-two dealers responded from more than 25 states. Here are some of the results:

- ✓ The average dealer sells service contracts to 35% of its retail new- and used-vehicle customers.
- ✓ Ford dealers selling Ford service contracts (approximately 60%) have a 31% penetration rate. Ford dealers selling non-Ford service contracts have a 39% penetration rate.
- ✓ Chrysler dealers selling Chrysler service contracts (approximately 55%) have a 38% penetration rate. Chrysler dealers selling non-Chrysler service contracts have a 44% penetration rate.

Carl Woodward, CPA
Woodward & Associates, CPAs

please turn the page 

SERVICE-CONTRACT SALES

(continued from page 3)

✓ General Motors (GM) dealers selling GM service contracts (approximately 30%) have a 28% penetration rate. GM dealers selling non-GM service contracts have a 31% penetration rate.

✓ JM & A had the highest percentage of nonfactory service contracts.

✓ Resource Group had the second highest percentage of nonfactory service contracts.

✓ First Extended had the third highest percentage of nonfactory service contracts.

✓ Protective had the fourth highest percentage of nonfactory service contracts.

The results show that there is not a higher penetration rate on selling factory versus nonfactory service contracts. 📈

For assistance, please call 1-800-4AUTOCPA or see our website at www.autocpa.com. Headlights is prepared by the **AutoCPA Group** for the clients of its members. It is recommended that you obtain professional advice with respect to any information that is covered in this newsletter.
© 2003 Headlights

Managing Editor

William Westhoven, *WPI Communications, Inc., Springfield, NJ*

Associate Editors

Aaron Winiarz, *Aaron Winiarz, CPA, Dayton, NJ*

Jim Tanner, *Heider, Tanner & Dirks, Denver, CO*

Advisory Board of CPAs

John Bachle

*Sartain Fischbein & Co., CPAs
Tulsa, OK*

Jim Barrington

Henry & Horne, P.L.C., Tempe, AZ

Wayne Bond

Dwight Darby & Co., Tampa, FL

Jerry Bressler

*Carpenter, Mountjoy & Bressler
Covington, KY*

Jacob Cohen

Walpert & Wolpoff, LLP, Baltimore, MD

Stephen deBlois

Welch & Company, LLP, Ottawa, ON

Robert Deering

Pomares & Co., Sacramento, CA

John Dobson

*Thom-Dobson-Womack, Inc.
Oklahoma City, OK*

Robert Galloway

Simpson & Osborne, Charleston, WV

Gerry Green

Green & Miller, P.C., Denton, TX

Barton Haag

*Albin, Randall & Bennett
Lewiston, ME*

Susan Harwood

Hulsey, Harwood & Co., Monroe, LA

John Hayes

Hausser & Taylor, Cleveland, OH

Dick Heider

Heider, Tanner & Dirks, Denver, CO

Jeffrey Jensen

*Jensen & Keddington, P.C.
Salt Lake City, UT*

Daniel R. McCall

*Daoro, Zydell & Holland
San Francisco, CA*

Joseph Monahan

*Weisberg, Molé, Krantz & Goldfarb, LLP
Hicksville, NY*

Craig Nelson

*Virchow, Krause & Co.
Madison, WI*

Don Owens

*Peterson Sullivan, P.L.L.C.
Seattle, WA*

Ken Rosenfield

*Rosenfield & Company, P.A.
Orlando, FL
Manassas, VA*

Dan Thompson

*Boyer & Ritter
Harrisburg, PA*

Mike Vaughn

*Lattimore Black Morgan & Cain, P.C.,
Brentwood, TN*

Diane Weinhold

*Weinhold & Associates
Irvine, CA*

Carl Woodward

*Woodward & Associates
Bloomington, IL*