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Are Your Monthly Financial Statements Accurate?

An accurate and timely financial statement can be the most useful tool a dealer can have in evaluating a dealership's performance. The dealer financial statement is an important tool that, when analyzed properly, can assist a dealer in pinpointing departmental deficiencies. It is important to make sure that the statement is as accurate as possible. The following are some items we have noted that are not being reported properly on a monthly basis:

- The cutoff of sales is incorrect at the end of the month. Many dealers leave the sales journal open for a few days after the close of the month.
- Accounts payable for the month are not entered until the subsequent month. This happens quite frequently with advertising bills.
- Payroll is recorded on the cash basis and is not properly accrued at month end.
- Used vehicles should be evaluated and written down, if necessary, monthly. Many dealers wait until year end to make a used car write down.
- Accounts receivable and factory receivables that have become bad are not written off on a monthly basis.
- Accruals for year end bonuses, professional fees, parts inventory costs, etc., are not made on a monthly basis.
- Prepaid expenses are not adjusted monthly and contain items that should have been expensed.
- Standard journal entries for depreciation are not accurate on a monthly basis.
- Various accounts such as factory receivables, finance reserves, and parts accounts are not reconciled and adjusted on a monthly basis.

If these areas are not reported properly on a monthly basis, the ability of the dealer to rely on the monthly financial statement as a useful tool is diminished. In many cases, manager's bonuses are too high because the financial statements are not accurate. We suggest that you review your monthly closing procedures with your office manager to ensure that your results are reported as accurately as possible on a monthly basis.

For more insights on the state of the dealer industry, please e-mail Paul McGovern at pmcgovern@downeycocpa.com or call 781.849.3100.

Visit our web site at www.downeycocpa.com.

Certified Public Accountants 222 Forbes Road, Braintree, MA 02184 781.849.3100