

Downey & Company, LLP

"A CPA firm that understands dealership management, accounting, and tax issues"

CONTROLLING YOUR PARTS INVENTORIES

A well-run parts department should produce a significant amount of a dealership's operating profit. Controlling the amount of parts inventory is an important aspect of running a profitable parts department.

It is estimated that thirty-five percent of parts inventories are obsolete. These obsolete parts are tying up dealership capital that could be used elsewhere.

Purchasing is one of the toughest aspects of inventory control. Parts managers are naturally tempted to keep more parts in inventory than they need. Purchasing should be based on demand. Attempting to stock parts for every situation does not make good business sense.

Most manufacturers have gone to daily stock order purchases, which allow for daily delivery of fast-moving inventories. The parts manager should review the stock order based on past sales history and anticipate demand before the order is sent to the manufacturer. Special orders should be approved and paid for by the customer before the order is placed. The parts manager should take full advantage of factory parts returns. Each month, the owner or controller should review parts reports to ensure that the dealership has the appropriate amount of inventory. Look for obsolescence issues by reviewing the aging of the parts. A dealership should have no more than a ninety day supply of parts. Well-run departments have a sixty day supply.

A dealer advised us recently that he was experiencing a cash flow problem. The primary reason for the cash crunch was an increase in parts inventory of \$125,000 over the past year.

Downey & Company, LLP, is a CPA firm with extensive auto dealership experience in accounting, taxes, and management. For more information, you may reach Paul McGovern or Jim Downey at **(800) 849-6022**.

Visit our web site at www.downeycocpa.com

Certified Public Accountants, 222 Forbes Road, Braintree, MA 02184 (781) 849-3100 Fax (781) 849-9277

e-mail: cpa@downeycocpa.com
