

Chapter 5. Used Vehicle Sales



Dealership Accounting Training Manual



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Topics and Objectives for this Chapter.

The primary purpose of City Auto Sales is to sell cars and trucks. However, NIADA dealers sub-divide these car and truck sales into different types of car and truck sales. Therefore, the purpose of this chapter is to help students understand the reasoning for these different types of sales entries and to understand how the vehicle sale entry is calculated.

Additionally, this chapter will review the basic documentation requirements for vehicle sales.

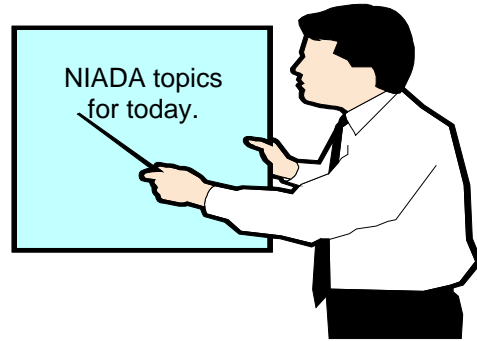
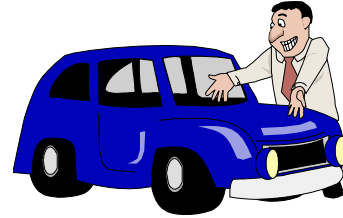


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5.1 Selling the Car and Completing the Paperwork.

In any vehicle sale negotiation, the buyer (customer) and the seller (City Auto Sales) must reach several mutually agreeable decisions. These include:



- Which car or truck does the customer want to buy?
- Selling price of the vehicle.
- Trade-in allowance for the trade-in vehicle, if one is involved in the negotiations.
- First and any other lien pay-off amounts on trade-in vehicle.
- Cash or finance deal.
- Amount of down payment monies.
- Financial institution to finance the purchase.
- Finance contract terms and conditions (ex. amount of monthly payment, length of contract and interest rate charged).
- Purchase of finance and insurance products, such as accident and health insurance, credit life insurance, or extended service contracts for future repairs.
- Purchase of vehicle accessories (ex. grill guards or cruise control) to be added to the vehicle before delivery and included in purchase price.
- Agreed upon dealership repairs to be included in the purchase price of the vehicle.
- Agreement on customer accommodation items such as advance payment of tag and title registration fees.
- Insurance coverage on the purchased vehicle.

Once the customer and the dealership have reached agreement on all sales and financing issues, City Auto Sales' Sales Manager (acting as the F&I Manager) completes the necessary paperwork to complete the sale. This documentation is contained in a vehicle sales jacket (a closed-end folder), shown below in Figure 5-1.


Deal Jacket		
Year _____	Stock No. _____	Sold To: _____
Make _____	Date Sold _____	Address: _____
VIN _____	Invoice No. _____	City _____
Motor No. _____	Mileage _____	State _____ Zip _____
Date of Purchase _____		Phone No: _____
Purchased From _____		Phone No: _____
Address _____		
City _____		<input type="checkbox"/> Bill of Sale
State _____ Zip _____		<input type="checkbox"/> Certificate of Title
Title No. _____		<input type="checkbox"/> Odometer Certification
License No. _____		
City Auto Sales 555 NIADA Parkway City, ST 12345		Received Title _____ Purchaser

Figure 5-1

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A sample City Auto Sales checklist listing typical vehicle sale documentation is shown in Figure 5-2 below. It should be similar to checklists used at your dealership.

This checklist has a section for City Auto Sales' Sales Manager and salesperson to complete and then check off before turning the Deal Jacket into the office. Additionally, there is an office check-off column for the office staff to use in verifying that the Sales Department has completed all documentation to complete the vehicle sale.



City Auto Sales

555 NIADA Parkway
City, ST 12345

Deal Checklist

Name _____ Stock # _____
Date _____ Salesperson _____

Salesperson Checklist	Received	Needed	Office OK
Copy of Both Drivers' Licenses			
Buyer's Order Approved			
Appraisal Slip			
Credit Application			
Tag Receipt and/or Numbers			
Title to Trade-in			
Insurance Information			
Service Pre-Delivery Checklist			
Buyer's Guide / As-Is Statement			
Disclosure Form Signed			
Emissions Test			

Sales Manager Checklist	Received	Needed	Office OK
Contract completed and signed.			
Title Signed on Car Purchased			
Co-Buyer's Form Signed			
Verification of Insurance			
Outside Lienholder(s) Recorded			
Payoff Verified			
State Lien Form Signed			
Out-of-State Tax Form			
Conditional Delivery/ Warranty of Title			
Power of Attorney - Used			
Bill of Sale			
Title Extension Form Signed			
Odometer Statement - Used			
F&I Waiver Signed			
Money and Receipts included			
Manager Check Request Over/Short			

Using this checklist and the documents provided by the sales personnel, City Auto Sales' Cashier - Inventory Clerk will complete the majority of the title and billing duties.

Take a few moments to review this checklist.

In summarizing the Office OK section of checklist, there are twelve overall tasks to complete on each deal.

5.2 Twelve Basic Title Clerk Responsibilities in Completing the Deal.

Every state has slightly different titling, billing and contract completion requirements. However, there seem to be twelve general responsibilities that new title clerks may use as a guide in learning their new position. The following items may be considered as additional detail and explanation of the tasks reviewed in Chapter 4's office assignments for new vehicle sales.

1. Double check documents for accuracy and completeness.

- Check serial number (V.I.N.) of sold car on all papers.
- Check for signatures on all contracts and title papers.
- Make sure monies for car have been deposited and copy of receipt attached to the deal.
- Trade-in title must be with car papers and odometer statements signed for both autos.

2. Separate paperwork into three different groups. Use checklist of necessary forms.

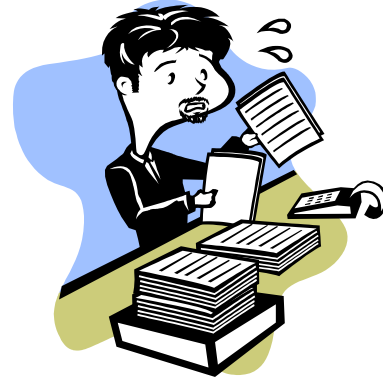
- Customer papers
- Finance Company papers
- Dealership papers

Hint: Do not work on more than one deal at a time.

There are numerous forms in even the most routine car sale. It is not uncommon to have anywhere from six to two dozen pieces of paper in each sale jacket.

Because of all this paper, it is not a good idea to work on more than one sale at a time. If you get a sale mixed up with another sale, finding missing papers will take far longer than any time you might have saved.

Dealerships normally use jackets with sealed ends rather than file folders so that small papers like receipts will not fall out. With sealed folders, you can easily have more than one sale on your things-to-be-done pile or in-basket and not worry about everything getting mixed up.



3. Organize customer's papers for delivery or to be mailed to the customer. Use certified mail with return receipt requested.

- Copy of typed invoice
- Copy of buyer's order
- Copy of finance contract
- Copy of title applications
- Copy of credit life application
- Copy of extended service contract
- Copy of title

Forms designers have made this separating and sorting job much easier for you by printing copies of the same form in different colors. For example, the top copy of a vehicle sale invoice is normally white, followed by other copy colors such as yellow, goldenrod, green, or pink. These colored copies are very useful in sorting "who gets which" copy. Forms copies may also be labeled with the intended recipient such as customer, finance company, or dealership copy.

4. Organize contract and papers to be mailed or delivered to the finance company.

- Original copy of contract
- Copy of title and/or lien holder copies of title applications.

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- Lien copies of credit life insurance policies
- Lien copy of extended service contract
- Copy of credit application
- Verification of car insurance
- Typed draft for contract amount and daily receipts deposit of same*

*For those dealers using electronic funds transfers rather than drafts, simply prepare audit trail document to detail the amount of EFT funds in transit.



Few things irritate a dealer or office manager more than having finance contracts rejected (or drafts bounce) because of sloppy documentation. The automobile business is very dependent on good cash flow. Mistakes can stop \$5,000 to \$25,000 in cash from coming into the dealership on a day when it was needed for daily operations.

Note: For those dealers with Buy Here-Pay Here operations, and affiliated finance companies, these steps may not all be necessary for buy here – pay here customers. Check with your dealer to determine their preferences on this step.

5. Organize and file dealership papers in sale folder.

Every office manager and dealer has a different opinion about what ought to be kept in a car sale jacket after the sale. At City Auto Sales, they put copies of whatever the office thinks they may need to find again for this sale. They always keep those documents that are required by state or federal law. The document list is typical of many NIADA dealers.



- Car sale invoice with all handwritten sales and F&I worksheets attached
- Copy of finance company check (or draft) and receipt used to record incoming funds
- Copy of trade-in title
- Copy of signed trade-in appraisal report
- Copies of all sublet or shop internal ROs on vehicle
- Copy of sale invoice from dealer or auction where vehicle was purchased
- Copy of check used to purchase vehicle from dealer or auction
- Copy of customer(s) driver's license
- We-Owe form signed by both the customer and dealer representative
- Signed check request for lien payoff on trade-in vehicle
- Copy of check used for lien payoff
- Previous dealer's odometer statement
- Copy of check for title fee
- Copy of title for sold vehicle
- Copy of "As Is" warranty sticker
- Copy of customer down payment check and associated receipt
- Deal Recap sheet from F&I
- Copy of credit application
- Copy of verification of insurance and/or agreement to provide insurance
- Co-signer notice
- Copy of stock card or vehicle print-out
- If applicable, copy of sales tax report for vehicle
- Credit Life and Disability contract copy
- Copy of signed Buyer's Order
- Transport delivery form

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- Accounting worksheet for posting sale
- Copy of signed Delivery Checklist
- Copy of EFT confirmations, if applicable
- Copy of videotape of vehicle sale closing, if applicable

6. Make up car jacket for trade-in.

- Copy of bid or signed appraisal slip.
- Copy of odometer statement.
- Copy of title.

Note: Trade-in titles are not always readily available or correct. The sales department and the office staff must work together in handling title work problems on trade-ins. There are lost, unreadable, non-current, fraudulent or lost titles that must be resolved.

The appraisal slip is a form used by the dealer or sales manager to appraise car and truck current wholesale value. Using this form, the dealer or manager estimates needed reconditioning or repairs to get the trade-in vehicle ready to sell.

7. Update vehicle inventory records for sold and trade-in vehicle.

- Record trade-in unit on stock card or add vehicle to inventory system.
- Record cost of sold unit on stock card or in inventory systems.
- Add needed reconditioning estimates to stock card or inventory system as applicable.

See sample stock card for stock number K3459 below in Figure 5-3.

USED VEHICLE INVENTORY RECORD				SOURCE - 73(0)		VOUCHER NO.		STOCK NO		K3459		KEY
VEHICLE DESCRIPTION												
YEAR & MAKE:		PY Ford		VIN:		Actual		ACCOUNT		ACCT #		KEY
MODEL:		Mustang convertible		USED CAR INVENTORY		1450		6,750.00		+		
COLOR:		Red		USED TRUCK INVENTORY		1470				+		
TITLE NO.				REMARKETED VEHICLE INVENTORY		1490				+		
PURCH. FROM		Mega Auto Auction								+		
INVOICE NO.		DATE RECEIVED		5-15-CY		NOTES PAYABLE - USED VEHICLES		2110				-
												-
OPTIONAL EQUIPMENT & ACCESSORIES				RECONDITIONING ON TRADE-IN VEHICLE								
				ESTIMATED		DATE	RO NO.	DESCRIPTION	AMOUNT	INV ADJMT	TOTAL INVTY COST	
				600.00		6/1	12250	clean-up	75.00		6,825.00	
						6/1	12345	brakes	225.00		7,050.00	
				APPRAISED BY								
				Sales Mgr								
SALES DATA				FINANCE & PAYMENT DATA				SALE AMT				
DATE SOLD		6-30-CY		INV #		56415		FIN CO		ORIG AMT		\$8,500.00
SOLD TO		John Q. Customer		DATE		CHECK #		PYMT		BALANCE		LESS O/A
ADDRESS		161 Willow Street										NET SALE
		City, ST 12345										8,500.00
SALESPERSON		Mitchell		COMM		225						VEHICLE GROSS PROFIT
												1,450.00
												SERVICE CONTRACT INCOME
												0.00
												FINANCE & INSURANCE INCOME
												0.00
												OTHER INCOME
												50.00
TRADE TAKEN IN: YES <input checked="" type="checkbox"/> NO <input type="checkbox"/>				TRADE-IN STOCK NO.				K3459A				TOTAL VEHICLE GROSS PROFIT
MAKE & MODEL				YEAR		COLOR		TRADE-IN VEHICLE IDENTIFICATION NUMBER (VIN)				1,500.00
Nissan Stanza				PY		Blue		Actual				

Figure 5-3

This stock card records the May 15 purchase of this Mustang convertible from Mega Auto Auction, the reconditioning work done during June and the June 30, CY sale to John Q. Customer.

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The sales recap section in the right corner of the stock card details the profit made on the sale. This hand-written card is still used by some dealers, but has been replaced by computerized inventory management and sales reports that provide similar information.

However, even with computerized vehicle inventory systems, a deal jacket should be prepared for each trade-in or purchased vehicle for required paper documentation.

8. Make up title card for trade-in and/or apply for new title in dealership name.

Dealerships are not supposed to be selling cars and trucks that they do not have titles on. Therefore, office staff members should obtain a valid title as quickly as possible. Each state will have slightly different title application forms and procedures.

9. Type check and mail for pay-off on lien on trade-in and request release of lien.

See the sample City Auto Sales check below in Figure 5-4. This check is made out to Third National Bank to pay off the remaining balance due on customer Richard T. Polison's finance contract on his PY Mazda 626. Note the check also includes stock number of the trade-in vehicle (K3459A) on the remittance advice portion of the check.

City Auto Sales 555 NIADA Parkway, City, ST 12345		12601						
		Date: <u>June 30, CY</u> 000-00 0000						
PAY TO THE ORDER OF: <u>THE SUM OF 2,475 DOLLARS & 00 CENTS</u>								
Third National Bank 784 Broad Street Appleton, ST 12346		CITY AUTO SALES						
FIRST NATIONAL BANK CITY, ST		Dealer						
:0000:0000: 000:000								
CITY AUTO SALES - CITY, ST 12345								
REMITTANCE ADVICE								
DATE	REF. NO.	AMOUNT	DISCOUNT	NET	CHECK NUMBER 12601	CONTROL NUMBER K3459A		
Lien pay off on customer Richard T. Polison, bank account number E548965 for PY Mazda 626, VIN 897654.					CASH DISBURSEMENTS JOURNAL - SOURCE 60			
					ACCOUNT	ACCT NO.	AMOUNT	KEY
					ACCTS PAYABLE - TRADE	2000		+
					ACCTS PAYABLE - VEHL LIEN	2050	2,475.00	+
					NOTES PAYABLE - USED VEHL	2110		+
								+
								+
					CASH		2,475.00	-
					CASH DISCOUNT EARNED			-
DETACHED CHECK IS PAYMENT IN FULL OF ACCOUNT SHOWN ABOVE. IF INCORRECT, RETURN WITHOUT ALTERATION.								

Figure 5-4

This style check is a two copy check designed to be typed on a typewriter, not printed on a computer printer. Note the completed accounting section on the right corner of the check. Computerized checks may appear slightly different, but will contain the same basic

information.

Once the bank receives this check, they will release the lien on Polison's vehicle and send the vehicle title to City Auto Sales after receiving a Lien Payoff Authorization Form signed by the customer and the dealership. Each state's lien payoff authorization form will appear slightly different, but will contain similar information.

10. Type checks for tag, title, other municipal or state fees collected from customer.

When the customer buys a car, there may be several different taxes and fees on the sale. As an accommodation to the customer, many dealerships will collect the money for fees from the customer and then pay them as required.

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Dealership personnel will become familiar with these tax and fee payment procedures very quickly as some dealership will send someone to the local courthouse virtually every day. This collection and payment of fees is done as a courtesy to the customer (example, buying a tag) but also helps the dealership make sure that all state and local regulations are being followed. In some states, the dealership may collect a small fee from the state (1-2% of the fee collected) for providing these services.

11. Type sales tax check for state.

In some states, vehicle sales taxes are required on a per-vehicle basis within 2-3 days of the vehicle sale. In other states, sales taxes are paid monthly (generally by the 20th) for all vehicles sold the previous month. This step is included as a reminder to office staffs in those states requiring payments on an individual vehicle sale basis.

12. Other forms as necessary.

- Form 8300 – Report of Cash Payments Over \$10,000 Received in a Trade or Business.
- Form 8807 or Form 720 – Quarterly or Monthly Federal Excise (Luxury) Taxes

When a customer pays cash of \$10,000 or more in a car purchase, Form 8300 – Report of Cash Payments over \$10,000 Received in a Trade or Business has to be prepared. Your dealership should have all the necessary documentation to explain how and why this form is prepared.

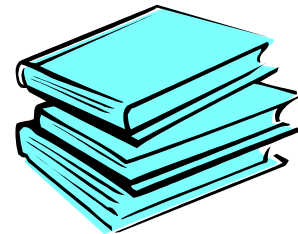
Additionally, the Luxury Sales Tax is being phased out. Its 2000 threshold is for passenger cars with a sales price over \$38,000. Therefore, the majority of NIADA dealer sales will be below this sale amount and will not apply.

However, this final item is a reminder to double check with your office manager or dealer to verify that all documentation and forms required have been completed. Do not assume that you have successfully completed this task until it has been reviewed by the office manager or dealer. If they have a question, they can contact the appropriate state or local government agency, state dealer association, NIADA or the IRS. Both forms are listed on the IRS website at www.irs.gov.

Summary:

These twelve general title clerk tasks on each vehicle sale are not an exhaustive list and should be reviewed with your office manager or dealer. Additionally, students are referred to three authoritative guides:

- Your state *Title Procedures Manual* published by the Department of Motor Vehicles.
- The *N.A.D.A. (National Automobile Dealers Association) Title and Registration Book*.
- The *R.L. Polk Motor Vehicle Registration Manual*.



However, these twelve items should give students an idea of the importance of completing and checking vehicle sale documentation carefully.

To test your understanding, complete the exercise on the next page.

CONTINUE TO THE NEXT PAGE.

5.3 Exercise 1.

Q1. List the twelve general title clerk responsibilities for each vehicle sale.

Twelve General Title Clerk tasks.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____
11. _____
12. _____

Check your answers with the answers on the next page.

Exercise 1 Answers.

Q1.

Twelve General Title Clerk tasks.

1. Double check documents for accuracy and completeness.
 2. Separate paperwork into 3 different groupings. Use checklist for necessary forms.
 3. Organize customer's papers for delivery or to be mailed to the customer.
 4. Organize contract and papers to be mailed or delivered to finance company.
 5. Organize and file dealership papers in sale folder.
 6. Make up car jacket for trade-in.
 7. Enter trade-in unit into inventory records and record sale of sold unit.
 8. Make up title card for trade-in and/or apply for new title in dealership name.
 9. Type check and mail for pay-off on lien on trade-in and request release of lien.
 10. Type checks for tag, title and other municipal or state fees collected from customer.
 11. Type sales tax check for state, as required.
 12. Other forms as necessary.
-

Now, let's move on to our next topic.

5.4 Eight Elements of a Used Vehicle Sales Entry.

Having reviewed some of the basic tasks of title work, its time to review the vehicle sale entry. The easiest way to learn a somewhat complicated entry is to break it down into its individual components. There are eight elements (or parts) of a used vehicle sale entry as shown in the table below. Some sales will incorporate all eight elements, while other sales may only require four or five elements. We will review each element in turn.

Eight Elements of a Used Vehicle Sale Entry	
1.	Used Vehicle Sales, Cost of Sales and Inventory
2.	Taxes and Fees Payable
3.	Used Vehicle Service Contract Income and Contracts Payable
4.	Used Vehicle Finance Income – Finance Reserve Receivable
5.	Cash Down and Finance Contracts Receivable
6.	Trade-in Vehicle ACV, Lien Pay-off and Over-allowance
7.	Used Vehicle Commission Expense and Accrued Payroll
8.	Reconditioning Expense and Cost of Sales Adjustment

To help us understand these different elements, Figure 5-5 on the next page illustrates City Auto Sales’ vehicle sale invoice number 11375 for a used Honda Accord, stock number 1460, sold to Roger Fleming. Examine the invoice and find each of the eight sale entry elements listed in the table above.

At City Auto Sales, there are two journals used to record used vehicle sales. They are Journal 20 - Used Vehicle Sales –Retail and Journal 21 – Used Vehicle Sales – Wholesale. Each journal is used to record retail and wholesale sales, as shown in the table below.

Journal 20 – Used Vehicle Retail Sales	Journal 21 – Used Vehicle Wholesale Sales
3500 - Used car retail sales	3520 -Used car wholesale sales
3540 - Used truck retail sales -	3560 - Used truck wholesale sales
3580 - Remarketed retail car sales	
3600 - Remarketed retail truck sales	

The difference in a retail sales and wholesale sale is the question of who *is the ultimate user (consumer or driver) of the car or truck*. For example, the sale invoice on the next page shows that City Auto Sales sold a PY (prior year) Honda Accord to Roger Fleming. Roger Fleming bought the Accord for his personal use. Therefore, this is a retail sale.

If this sale had been to Roger Fleming Used Cars, we would assume that Roger Fleming is a dealer who would resell the Accord to one of his customers. In this case, Roger is not the ultimate user (or consumer) of the vehicle. Therefore, a sale to Roger Fleming Used Cars would be a wholesale sale, not a retail sale.

A third sales category is remarketed sales. This is a relatively new category for NIADA dealers and is used to record sales of auction vehicles sold by vehicle manufacturers, (GM, Ford), their captive finance companies (GMAC, Ford Credit, DaimlerChrysler Finance) and national rental companies (Hertz or Enterprise) at special auctions. These *near-new* cars and trucks typically are less than 3 years old, with less than 36,000 miles on the odometer at the time of sale. Many will still have some time and mileage left on the original manufacturer’s warranty period.

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Now let's look at the complete entry for this sale in Figure 5-6 below. It has been written in our now familiar four-column worksheet entry format. Note that each of the eight elements (or parts) of the entry has been separated for you.

Exhibit: City Auto Sales Invoice for a PY Honda Accord:

Journal: Used Vehicle Sales Journal - Jrnl # 20				
Reference #: 11375				
Entry Date: 2-15-CY				
Account Description	Acct #	Control #	Debit	Credit
1. Used Vehicle Sales, Cost of Sales & Inventory				
Used Car Retail Sales	3500			13,995.00
Cost of Sales - Used Car Retail	4500		10,650.80	
Inventory - Used Cars	1450	1460		10,650.80
2. Taxes and Fees Payable				
Sales Tax Payable	2240			882.00
License & Title Fees Payable	2030			16.50
D.O.C. Fee	9070			50.00
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income	3740			200.00
Vehicle Protection & ESC Payable	2040	Fleming		300.00
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income	3700			150.00
Finance Reserve Rec - 1st Nat'l Bk	1130	1460	150.00	
5. Cash Down and Finance Contracts Receivable				
Cash on Delivery	1100	1460	1,000.00	
Finance Contract	1020	1460	12,143.50	
6. Trade-in Vehicle ACV, Lien Pay-off and Over-allowance				
Vehicle Lien Payable	2050	1460A		1,200.00
Used Car Inventory	1450	1460A	3,000.00	
Over-allowance - Used Car	3500		500.00	
7. Used Vehicle Commission Expense and Accrued Payroll				
Salaries, Wages & Commissions Pay	2210	Edwards		250.00
Salesperson Compensation & Incent.	8020		250.00	
8. Reconditioning Expense and Cost of Sales Adjustment				
Used Car Reconditioning	4510		150.80	
Cost of Sales - Used Car Retail	4500			150.80
Total Debits & Credits			27,845.10	27,845.10

Figure 5-6

While this entry may look somewhat complicated at first, broken down into its elements (or parts), it is a relatively straightforward entry. Let's review each part of the entry in turn

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5.5 Vehicle Sales, Cost of Sales and Inventory.

The first part of the entry records the agreed upon sales price of the Accord, and its cost.

Account Description	Acct #	Control #	Debit	Credit
1. Used Vehicle Sales, Cost of Sales & Inventory				
Used Car Retail Sales	3500			13,995.00
Cost of Sales - Used Car Retail	4500		10,650.80	
Inventory - Used Cars	1450	1460		10,650.80

The sale amount, \$13,995.00 is credited to account 3500 – Used Car Retail Sales. The cost of the sale is debited to account 4500 – Cost of Sales – Used Car Retail Sales and credited to account 1450 – Inventory – Used Cars.

Where did the cost figure come from? As discussed in earlier chapters, accounting schedules are vital for dealership accountants to understand. See the schedule # 10 – Vehicle Inventory page for stock number 1460 in Figure 5-7 below.

Accounting Data Entry Information from Dealership Journals						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
1460	PY Honda Accord LX - blue								
	01-06-CY	70	44588	1450	10,500.00				
	01-06-CY	70	44588	2110	(10,500.00)				
	01-18-CY	30	25478	1450	150.80				
	Current balance					10,650.80			(10,500.00)

Account 1450 - Used Car Inventory
 Account 1470 - Used Truck Inventory
 Account 2050 - Vehicle Liens Payable
 Account 2110 - Notes Payable - Used Vehicles

Stock number 1460 was entered into inventory on 1-6-CY for \$10,500 and floorplanned for the same amount on the same day. Repairs were made to this unit on internal RO 25478 for \$150.80.

Figure 5-7

What does this schedule tell us?

Stock number 1460 – Honda Accord LX was stocked into inventory on January 6, CY through the vehicle purchase journal (Jrnl 70) on reference number 44588. Account 1450 – Used Car Inventory was debited for \$10,500.00 and account 2110 – Notes Payable – Used Vehicle was credited for the same amount. This indicates that the vehicle was floor-planned for the purchase amount.

Secondly, on January 18, internal repair order 25478 was completed for this unit with a debit of \$150.80 to account 1450. These two items together give us a cost figure of \$10,650.80 as of the date of sale (2-15-CY).

Once the sale is posted, a new line will be added to stock number 1460, zeroing out this control number. See Figure 5-7, the revised schedule 10 on the next page. The sale entry is shown highlighted with a \$10,650.80 credit entry to account 1450 on 02-15-CY on reference number 11375 (the vehicle sale invoice number) from the Journal 20 – Used Vehicle Sales Journal.

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Exhibit: Revised schedule 10 for stock number 1460.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 10. VEHICLE INVENTORY									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1450	1470	2050	2110
1460	PY Honda Accord LX - blue								
	01/06/CY	70	44588	1450	10,500.00				
	01/18/CY	30	25478	1450	150.80				
	01/06/CY	70	44588	2110	(10,500.00)				
	02/15/CY	20	11375	1450	(10,650.80)				
	Current balance					0.00			(10,500.00)
Account 1450 - Used Car Inventory Account 1470 - Used Truck Inventory Account 2050 - Vehicle Liens Payable Account 2110 - Notes Payable - Used Vehicles						The revised schedule page now show the credit entry to account 1450 for stock number 1460. The current balance for this control number is now zero (0.00) for account 1450. The floor plan note due for this stock number is still outstanding.			

As indicated in the explanation box within Figure 5-8 above, the balance for stock (control) number 1460 is now zero (0.00).

Now, let's move on to the taxes and fees element of the entry.

5.6 Taxes and Fees Payable

Vehicle sales are a significant source of sales tax revenues for many states, counties and municipalities.

Account Description	Acct #	Control #	Debit	Credit
2. Taxes and Fees Payable				
Sales tax payable	2240			882.00
License & Title Fees Payable	2030	Fleming		16.50
D.O.C. Fee	9070			50.00

Account 2240 is credited for \$882.00. For the sake of simplicity, the authors will not show the individual city, county and state tax calculations. Assume that City Auto Sales' F&I system correctly calculated the tax due on the vehicle sale amount \$13,995.00 and the D.O.C. fee of \$50.00.

Some office managers use only one account number to credit all sales taxes payable in this one account. Other office managers prefer to separate sales taxes into specific account number numbers. These might include:

- Account 2240 – Sales Tax Payable – City
- Account 2241 – Sales Tax Payable – County
- Account 2242 – Sales Tax Payable – State
- Account 2243 – Sales Tax Payable – Federal

Scheduled account note: Generally, sales tax accounts are not scheduled. However, as was mentioned earlier in this chapter, some states require separate sales tax payments for each vehicle sold. In these states, account 2242 – Sales Tax Payable – State could be scheduled to allow each tax payment to be tracked by individual vehicle sale. The recommended control number for this schedule would be either the last six digits of the VIN or the stock number.

CHAPTER 5. USED VEHICLE SALES

The next line of the entry is a \$16.50 credit entry to account 2030 – License & Registration Fees Payable to control number FLEMING (customer’s last name). The updated schedule page for this entry is shown below in Figure 5-9.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 7. CUSTOMER PAYABLES									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct # 2020	Acct # 2030	Acct #	Acct #
FLEMING	Fleming, Roger G.								
	02/15/CY	20	11375	2030	16.50				
	Current balance						16.50		
Account 2020 - Customer Accomodation Account 2030 - License & Registration Fees						This line shows the \$16.50 credit entry on February 15 on reference number 11375 in journal 20.			

When the office manager enters the check to pay these fees, a second line will appear on this schedule debiting account 2030 under control number FLEMING. The second entry will zero out the balance for this control number.

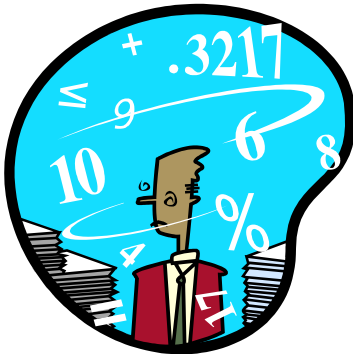
Schedule Control Number note: In this example, we have used the customer’s last name as the control number. Some office managers may prefer to use a designated customer number (1460) or a partial VIN (last six digits).

The third line of the taxes and fees payable entry is for the D.O.C fee of \$50.00. This amount is credited to account 9070 – Other Income. This is an optional fee that some dealers charge as an administrative fee to recoup part of the cost of sales forms, F&I software and clerical time required to complete the sale paperwork. In the City Auto Sales example, D.O.C. fees are credited to account 9070 – an Other Income/Other Expense account. Other dealers may prefer to show this fee with an optional F&I Income account.

Author’s Note: Charging D.O.C. fees is a contested item by many customers and consumer groups. Therefore, your dealership may or may not charge D.O.C. or other administrative fees. However, because of its widespread use, we show it here for illustration purposes.

Additional Note on Vehicle Accounting: The vehicle sale invoice does not have all the accounting information needed for a complete entry. Therefore, we will note where the additional information can be found to complete the entry. These may include:

- | | |
|---|----------------------------|
| A. Sale recap sheet from F&I | D. Finance contract |
| B. Vehicle stock card or wash-out sheet | E. Inventory schedule |
| C. Retail buyer’s order. | F. Retail lease worksheet. |



To test your understanding of these first two elements of the vehicle sale, complete the exercise on the next page.

CHAPTER 5. USED VEHICLE SALES

5.7 Exercise 2.

Q1. Fill in the blanks for this City Auto Sales partial entry shown on the previous pages.

Journal: _____				
Reference #: _____				
Entry Date: _____				
Account Description	Acct #	Control #	Debit	Credit
Used Car Retail Sales				13,995.00
Cost of Sales - Used Car Retail				
Inventory - Used Cars				10,650.80
Sales tax payable	2240			
License & Title Fees Payable				16.50
D.O.C. Fee				

Q2. What do the two control numbers in the partial entry represent?

1460 _____
 Fleming _____

Q3. Fill in the blanks for these two schedule questions.

a. Schedule 10. Vehicle Inventory records which four account numbers?

Acct. No.	Account Description

b. Schedule 7. Customer Payables records which two account numbers?

Acct. No.	Account Description

Q4. Identify each of the accounts shown in the partial entry by account category.

Acct. No.	Asset	Liability	Sale/COS	Expense	Other
3500					
4500					
1450					
2240					
2030					
9070					

Compare your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 2 Answers.

Q1. Fill in the blanks for this City Auto Sales partial entry shown on the previous pages.

Journal: <u>Used Vehicle Sales Journal - Jrnl # 20</u>				
Reference #: <u>11375</u>				
Entry Date: <u>2-15-CY</u>				
Account Description	Acct #	Control #	Debit	Credit
Used Car Retail Sales	3500			13,995.00
Cost of Sales - Used Car Retail	4500		10,650.80	
Inventory - Used Cars	1450	1460		10,650.80
Sales tax payable	2240			882.00
License & Title Fees Payable	2030	Fleming		16.50
D.O.C. Fee	9070			50.00

Q2. What do the two control numbers in the partial entry represent?

1460 Stock number for Honda Accord
 Fleming Customer last name used to track fees payable.

Q3. Fill in the blanks for these two schedule questions.

a. Schedule 10. Vehicle Inventory records which four account numbers?

Acct. No.	Account Description
1450	Used Car Inventory
1460	Used Truck Inventory
2050	Vehicle Liens Payable
2110	Notes Payable – Used Vehicles

b. Schedule 7. Customer Payables records which two account numbers?

Acct. No.	Account Description
2020	Customer Accommodation
2030	License & Registration Fees

Q4. Identify each of the accounts shown in the partial entry by account category.

Acct. No.	Asset	Liability	Sale/COS	Expense	Other
3500			X		
4500			X		
1450	X				
2240		X			
2030		X			
9070					X

Now, let's move on to our next part of the sale entry.

5.8 Used Vehicle Service Contract Income and Contracts Payable.

At City Auto Sales, the Sales Manager handles the role of F&I Manager in completing the vehicle sale paperwork. As a part of this process, the manager discusses the benefits of various automotive-related insurance policies that the customer may find beneficial. These include accident and health (A&H) insurance policies, credit life (CL) or extended service contract (ESC) policies.

If the customer decides to purchase a policy, the policy sale amount is separated into portions for (1) the insurance income to the dealership and (2) the policy premium amount payable to the insurance carrier for the cost of the policy, as shown in our entry below.

Account Description	Acct #	Control #	Debit	Credit
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income	3740			200.00
Vehicle Protection & ESC Payable	2040	Fleming		300.00

However, note that the customer sale invoice shows only the total funds received for the policy.

EXT. SVC. CONT.	3740	-	3	500.00	%	
INSUR. POLICIES	3720				%	

See the table below illustrating the calculations for our actual entry.

Insurance Income Calculation	
Customer pays an agreed-upon price for policy	\$500
Less cost of insurance policy (premium due to insurance co)	-300
Equals insurance income to dealership (account 3720 or 3740)	200

Therefore, account 3740 is actually credited for only \$200, the income portion of the policy sale and account 2040 – Vehicle Protection & ESC (extended service contract) Payable is credited for the \$300 cost of the policy under control number FLEMING (customer’s last name).

The NIADA chart of accounts uses the following account numbers for F&I income.

- Account 3720 – Used Vehicle Insurance Income. This account is used to record income on A&H and CL type policies.
- Account 3740- Used Vehicle Service Contract Income. This account is used to record income on extended service contract policies.

Our \$300 credit entry to account 2040 would be recorded in Schedule 6. Warranty Receivables & Payables, which is shown in Figure 5-10 on the next page.

CHAPTER 5. USED VEHICLE SALES

Exhibit: Schedule 6. Warranty Receivables and Payables.

City Auto Sales						Page 1 02-15-CY				
SCHEDULE 6. WARRANTY RECEIVABLES & PAYABLES										
Accounting Data Entry Information from Dealership Journals						Current Balance for Account Numbers listed by Control #.				
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #	
						1160		2040		
FLEMING	Fleming, Roger G.									
	02/15/CY	20	11375	2040	(300.00)					
	Current balance					0.00			(300.00)	
Account 1160 - Service Contract Claims Receivable						The credit entry to account 2040 is shown in brackets because it appears on a schedule with a receivable account whose normal sign is a debit balance.				
Account 2040 - Vehicle Protection & ESC Payable										

Figure 5-10

With this entry, the office manager has recorded the premium amount due to the insurance company providing the extended warranty coverage. In this example, City Auto Sales' office manager only uses one warranty company and has set up schedule 6 to trace both warranty claims and warranty premiums due on the same schedule. Additionally, the authors have assumed that City Auto Sales does not sell A&H or CL policies, only extended service policies.



Because of this assumption, office managers may prefer to set their insurance premiums payable schedules differently. They may prefer warranty claim receivables transactions on one schedule with payable transactions on a different schedule.

Additionally, with the growing numbers of companies providing F&I policies for NIADA dealers, office managers may work with two or three insurance companies. In those instances, office managers are encouraged to use sub-accounts for each insurance company.

- Account 2040 – Premiums Payable – Insurance Company “A”
- Account 2041 – Premiums Payable – Insurance Company “B”
- Account 2042 – Premiums Payable – Insurance Company “C”

These three accounts could all be placed on the same schedule so that office managers could accomplish two tasks at the same time.

1. The insurance company statement would be easier to reconcile by looking at a unique account number, rather than intermixing companies on account 2040.
2. If a policy premium were incorrectly posted to account 2040, rather than 2042, it would be easy to spot since all three insurance company transactions would be reported on the same schedule.

Students should ask their office manager how to account for their insurance premiums payable.

Side Note about Forms: In examining the partial vehicle sale invoice shown above, note that the invoice form shows a credit of \$500 to account 3740, along with a blank cost box to the right of item 3. This form has been designed so that dealers who prefer to use a cost of insurance policy account could use one, if desired

CHAPTER 5. USED VEHICLE SALES

5.9 Used Vehicle Finance Income and Finance Reserve Receivable.

When the sales manager (or F&I Manager) assists customers in obtaining outside financing for their vehicle sale through a bank, credit union or other financial institution, the dealership may receive a commission or fee for their services from the finance company. These monies are called finance income or finance reserve, which may range from 1-2% of the purchase amount financed by the customer to an agreed upon fee per finance deal.

Account Description	Acct #	Control #	Debit	Credit
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income	3700			150.00
Finance Reserve Rec - 1st Nat'l Bk	1130	1460	150.00	

In this City Auto Sales example, we have assumed that the dealership is receiving a fee of \$150 per contract arranged with First National Bank, the financial institution for this deal.

This entry has a credit to account 3700 – Used Vehicle Finance Income for \$150 with an offsetting debit entry for \$150 to account 1130 – Finance Reserve Receivable – First National Bank using control number 1460 – the vehicle stock number and/or customer number for Roger Fleming.

Once the entry is posted, the schedule for account 1130 will be updated, as shown below in Figure 5-11.

City Auto Sales						Page 1 02-15-CY			
SCHEDULE 8. FINANCE RESERVE RECEIVABLES									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1130	1131	1132	1960
1460	Fleming, Roger G.								
	02/15/CY	20	11375	1130	150.00				
	Current balance					150.00			0.00
Account 1130 - Finance Receivables - First National Bank Account 1131 - Finance Receivables - Metro Bank Account 1132 - Finance Receivables - Other Account 1960 - Finance Receivables - Deferred									
Figure 5-11									

The highlighted line shows the debit entry to account 1130 for 150.00 under control number 1460. When payment from First National Bank is received for the Roger Fleming contract, the office manager will credit account 1130 for the \$150 using the same control number 1460.



Schedule Note: As shown in Schedule 8 above, City Auto Sales has set up separate sub-accounts for their local financial institutions that they do business with.

Note on Buy Here – Pay Here Interest: We will be addressing this topic shortly.

To test your understanding, complete the exercises on the next page.

CONTINUE TO THE NEXT PAGE.

CHAPTER 5. USED VEHICLE SALES

5.10 Exercise 3.

The purpose of this exercise is to review elements 3 and 4 of our sample vehicle sale entry.

- Used vehicle service contract income and Contract Payable
- Used vehicle Finance Income and Finance Reserve Receivable

Q1. Assume that Dealer A sold an extended service contract to a customer THOMAS for \$650. The cost of the extended service contract was \$300. Complete the partial entry below.

Account Description	Acct #	Control #	Debit	Credit
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income				
Vehicle Protection & ESC Payable				

Q2. Fill in the blanks for the partial Chart of Accounts listing below.

Account No.	Description
1130	
1960	
2040	
3700	
3720	
3740	

Q3. Assume that Dealer C has assisted customer Wilson in arranging financing for their vehicle purchase with Metro Savings & Loan. Dealer C earns \$75.00 from Metro for this service. Complete the partial entry below for these monies. Assume that the dealership uses the customer's last name as the control number for finance reserve entries.

Account Description	Acct #	Control #	Debit	Credit
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income				
Finance Reserve Rec - Metro S&L	1131			

Check your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 3 Answers.

Q1. Assume that Dealer A sold an extended service contract to a customer THOMAS for \$650. The cost of the extended service contract was \$300. The completed entry is shown below.

Account Description	Acct #	Control #	Debit	Credit
3. Used Vehicle Service Contract Income and Contracts Payable				
Extended Service Contract Income	3740			350.00
Vehicle Protection & ESC Payable	2040	Thomas		300.00

As we reviewed earlier, the sale amount is not entered into accounting. Rather the \$350 profit (income) from the sale of the policy is posted to the Revenue account, and the \$300 policy premium due to the ESC insurance company is credited to the liability account, using the customer's name THOMAS as the control number.

Q2. Fill in the blanks for the partial Chart of Accounts listing below.

Account No.	Description
1130	Finance & Insurance Receivables – Current
1960	Finance Receivables – Deferred
2040	Vehicle Protection & ESC Payable
3700	Used Vehicle Finance Income
3720	Used Vehicle Insurance Income
3740	Used Vehicle Service Contract Income

Q3. Assume that Dealer C has assisted customer Wilson in arrange financing for their vehicle purchase with Metro Savings & Loan. Dealer C earns \$75.00 from Metro for this service. Complete the partial entry below for these monies. Assume that the dealership uses the customer's last name as the control number for finance reserve entries

Account Description	Acct #	Control #	Debit	Credit
4. Used Vehicle Finance Income – Finance Reserve Receivable				
Used Vehicle Finance Income	3700			75.00
Finance Reserve Rec - Metro S&L	1131	Wilson	75.00	

In this question, we have once again assumed that the finance reserve income was a set dollar amount. In some dealership-finance company agreements, the dealer may earn an agreed upon percentage of the financed amount. However, the entry to record the income is the same, assuming the monies from the financial institution are received shortly after the sale is completed.

If finance reserve income is received over time (term of the loan) from the financial institution, then this entry would be modified to record unearned finance income in a similar manner as unearned interest – BH-PH contracts.

CHAPTER 5. USED VEHICLE SALES

5.11 Cash Down and Finance Contracts Receivable.

While some customers buy their vehicles with cash at the time of sale, the majority of customers have to finance at least some portion of the purchase price. In this example, the customer, Roger Fleming has paid a down payment of \$1,000 and financed the balance of his \$12,143.50 purchase price with First National Bank.

Account Description	Acct #	Control #	Debit	Credit
5. Cash down and Finance Contracts Receivable				
Cash on Delivery	1100	1460	1,000.00	
Finance Contract	1020	1460	12,143.50	

The cash down amount of \$1,000 is debited to account 1100 – Accounts Receivable - Retail Vehicles using control number 1460, which has been assigned to Roger Fleming as his customer number. This number is also the vehicle stock number of the Honda Accord he purchased. Your dealership may or may not use the stock number as the customer number.

SRC 20 - RETAIL	INVOICE NO.		11375		
SRC 21 - WHSLE	1460		DATE: 2-15-CY		
STOCK NO.	Edwards		VEHICLE		
SALESPERSON	Edwards		DEAL # 11375		
COMMISSION					
PRICE OF VEHICLE					
DESCRIPTION	ACCT	KEY	SALE	KEY	COST
CARS					
CAR RETAIL	3500	-	(1) 13,995.00	%	10,650.80
CAR WHSLE	3520	-		%	
REMKT CAR RET	3580			%	
REMKT CAR WHSE	3590			%	
CAR RECOND.	4510				
TRUCKS					
TRUCK RETAIL	3540	-		%	
TRUCK WHSLE.	3560	-		%	
REMKT TRK RET	3600	-		%	
REMKT TRK WHSE	3610	-		%	
TRUCK RECOND.	4550	-			
EXT. SVC. CONT.	3740	-	(2) 500.00	%	
INSUR. POLICIES	3720			%	
SALES TAX	2240	-	(3) 882.00		
LICENSE & TITLE	2030	-	(4) 16.50		
D.O.C. FEE	9070	-	(5) 50.00		
TOTAL CASH PRICE			15,443.50		
SETTLEMENT	ACCT.	KEY	AMOUNT		
CASH ON DELIVERY	1100	+	(a)	1,000.00	
FINANCE CONTRACT	1020	+	(b)	12,143.50	
ACCOUNTS REC - VEH.	1100	+			
CUSTOMER DEPOSIT	2010	+			
USED VEHICLE ALLOWANCE			(c)	3,500.00	
PAY-OFF BALANCE ON USED VEHICLE TRADE-IN	2050	-	(d)	(1,200.00)	
TOTAL SETTLEMENT				15,443.50	
FINANCE RESERVE REC.	4130	+		150.00	
FINANCE INCOME	3700	-		150.00	

Figure 5-12

How was the financed amount determined?

We begin by determining the cash price of the sale. See the accounting section of invoice 11375 to the left.

The \$15,443.50 cash price of the sale includes the following items:

1. Vehicle sale price \$13,995.00
2. Extended service contract \$500.00
3. Sales tax due \$882.00
4. License and Title Fees due \$16.50
5. D.O.C. Fee \$50.00

The total of these five items is \$15,443.50, which is shown as the TOTAL CASH PRICE.

The Settlement section of the form details how Roger Fleming will pay for his Honda.

- a. Cash down on delivery \$1,000.00
- b. Finance Contract \$12,143.50
- c. Used Vehicle Allowance \$3,500.00
- d. Deduction for Lien Payoff \$1,200.00

The total of these four items is \$15,443.50, which is shown as the TOTAL SETTLEMENT.

Thus, the cash price amount and the settlement amount are the same. When this sale is entered into accounting, the cash down and finance contract amount will appear on Schedule 5. Car Deal Analysis, which is shown in Figure 5-12 on the next page.

CHAPTER 5. USED VEHICLE SALES

Exhibit: Schedule 5. Car Deal Analysis for Roger Fleming sale.

City Auto Sales						Page 1 02-15-CY				
SCHEDULE 5. CAR DEAL ANALYSIS										
Accounting Data Entry Information from Dealership Journals						Current Balance for Account Numbers listed by Control #.				
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #	
						1020	1100	2010		
1460	Fleming, Roger G.									
	02/15/CY	20	11375	1100	1,000.00					
	02/15/CY	20	11375	1020	12,143.50					
	Current balance					1,000.00	12,143.50			
Account 1020 - Finance Contracts in Transit										
Account 1100 - Accounts Receivable - Retail Vehicles										
Account 2010 - Customer Deposits										

The highlighted lines show the cash down and finance contract amount for this deal.

Figure 5-13

With this updated schedule page, City Auto Sales' office manager can see what monies were due from the customer and the finance company on this sale.

Note: Even though the customer paid cash down on this deal, the accounting entry in Journal 20 – Vehicle Sales Journal is shown as a debit to Accounts Receivable – Retail Vehicles. The cash received from Fleming is posted in Journal 50 – Cash Receipts Journal. We will be reviewing the posting of cash receipts in a later chapter.

What if this were a Buy Here – Pay Here sale, rather than a bank sale?

The example we are reviewing is for a vehicle sale financed by an outside financial institution, First National Bank. When the dealership finances the sale, the dollar entries are the same, but both amounts are posted to account 1100 – Accounts Receivable –Retail Vehicles.

Account 1020 – Finance Contracts in Transit would not be used to post a buy here – pay here note because account 1020 is considered a cash or near cash account number, as shown on the partial NIADA chart of accounts below.

Cash and Contracts	
1000	Petty Cash Fund
1010	Cash in Bank
1015	Cash in Bank - Payroll
1020	Contracts in Transit
1030	Cash Investments
1040	Undeposited Cash Clearing
1050	Cash Sales Clearing
Receivables	
1100	Retail Vehicles
1110	Wholesale & Dealer Transfer Vehicles
1120	Lease & Rental Accounts
1130	Finance & Insurance Receivables - Current
1140	Customer Notes
1150	Service, Parts & Body Accounts
1160	Service Contract Claims
1170	Allowance for Doubtful Accounts

Account 1020 – Finance Contracts in Transit is a very short term receivable account. Monies posted to this account generally will be received by the dealership within 5 working days of the sale.

Account 1100 – Accounts Receivable – Retail Vehicles is classified as a receivable account, where moneys are expected to be received over time.

At City Auto Sales, which has only a small number of buy here – pay here finance sales, all BPH notes are posted to account 1100 – Retail Vehicles.

Some office managers may prefer to use a different account number for these type notes, such as sub-account 1101 – BPH Notes or account 1140 – Customer Notes.

CHAPTER 5. USED VEHICLE SALES

Buy Here – Pay Here Note 2: Principal and Interest (P&I) note balances versus Principal only note balances.

Depending on the Buy Here – Pay Here software used at your dealership, the note balance for each BHPH customer may or may not include interest to be earned over the term of the contract.

If the dealership's software tracks BH-PH customers by principal amounts only, then the entry is the same as our previous example, except the BH-PH principal amount and down payment amounts are both posted to account 1100, rather than 1020 and 1100.

However, if the dealership's BH-PH software tracks BH-PH notes as combined P&I balances due, then the initial vehicle sale entry is slightly different.

Students who have studied bookkeeping understand that interest is earned over time. As BHPH payments are received, interest is earned and is recorded in the dealership's profit and loss statement.

Look at the simplified journal entry below recording the sale of stock number K9985 for \$6,000 to customer Jones. In this example, we have assumed that both the principal amount due (\$6,000 – 500 = 5,500) and the \$1,500 calculated interest due over the term of the loan are included in the BH-PH receivable amount shown in account 1100. Thus, the entry to account 1100 is a debit for \$7,000 (\$5,500 + \$1,500 = \$7,000).

The big question is *what entry should be made to record the \$1,500 calculated interest due over the term of the loan?* The interest is not actually earned at this moment in time. It is earned over the term of customer Jones' loan, as payments come in.

The answer is to record the calculated interest as unearned income in account 2450 – Other Liability account, also under the control number JONES. See the highlighted credit entry to account 2450 for \$1,500 below in Figure 5-14.

Journal: Used Vehicle Sales Journal - Jrnl # 20				
Reference #: 4368				
Entry Date: 3-15-CY				
Account Description	Acct #	Control #	Debit	Credit
Used Car Retail Sales	3500			6,000.00
Cost of Sales - Used Car Retail	4500		4,500.00	
Inventory - Used Cars	1450	K9985		4,500.00
Cash down	1100	Jones	500.00	
BH-BH Principal & Interest Rec.	1100	Jones	7,000.00	
Unearned Interest - Other Liability	2450	Jones		1,500.00
Total Debits & Credits			12,000.00	12,000.00

Figure 5-14

If your dealership's BH-PH software tracks customer balances by the combined P&I amount, your office manager would add account number 2450 – Unearned Interest – Other Liability to your schedule 5. Car Deal Analysis as shown on the next page in Figure 5-15.

CHAPTER 5. USED VEHICLE SALES

Exhibit: Combined P&I Note balance for Customer Jones.

City Auto Sales						Page 1 3-16-CY			
SCHEDULE 5. CAR DEAL ANALYSIS									
<i>Accounting Data Entry Information from Dealership Journals</i>						Current Balance for Account Numbers listed by Control #.			
Control #	Date	Jrnl #	Ref #	Acct #	Amount	Acct #	Acct #	Acct #	Acct #
						1020	1100	2010	2450
JONES Customer Jones									
	03-15-CY	20	4368	1100	7,500.00				
	03-15-CY	20	4368	1100	500.00				
	03-15-CY	20	4368	2450	(1,500.00)				
	03-15-CY	50	44589	1100	(500.00)				
	Current balance					7,500.00			(1,500.00)
Account 1020 - Finance Contracts in Transit						<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; padding: 5px; width: 40%;">Principal & Interest due balance as of March 16, when report was printed.</div> <div style="border: 1px solid black; padding: 5px; width: 40%;">Unearned Interest balance as of March 16, when report was printed.</div> </div>			
Account 1100 - Accounts Receivable - Retail Vehicles									
Account 2010 - Customer Deposits									
Account 2450 - Other Liabilities - Unearned Interest									

Figure 5-15

This schedule records all the transactions that took place for Jones' deal on March 15 for these scheduled accounts.

1. The \$7,500 P&I note due over the term of the loan is posted as a debit to account 1100 on sale invoice number 4368 in the Used Vehicle Sales Journal (Jrnl 20) for control number JONES.
2. The \$500 down payment due from customer Jones at the time of sale is posted as a debit to account 1100 on sale invoice number 4368 in the Used Vehicle Sales Journal (Jrnl 20) for control number JONES.
3. The \$1,500 calculated interest due over the term of the loan is credited to account 2450 - Other Liabilities – Unearned Interest on sale invoice number 4368 in the Used Vehicle Sales Journal (Jrnl 20) for control number JONES.
4. The \$500 down payment received from customer Jones at the time of sale is posted as a credit to account 1100 on cash receipt number 44589 in the Cash Receipts Journal (Jrnl 50).

Now, as customer Jones starts making scheduled payments, they will also be recorded in the Cash Receipts Journal (Jrnl 50) and will contain entries for:

- A reduction of the P&I note balance (account 1100, an Asset account)
- A reduction in unearned income (account 2450, a Liability account)
- An increase in earned finance income (account 3700 – a Revenue account).

We will review these entries in more detail later in our chapter on cash receipts.

Schedule Note: We have assumed that accounting records should match other application records. That is why this additional entry is made to make the accounting receivable records match the balances in the BPH software. With the flexibility of schedule setup, it is easy to add account 2450 – Other Liabilities to our Schedule 5, so that we can track number customer Jones' balances in accounting and they should match the balances in our BH-PH records as well. Depending on our computer vendor's accounting interface software, these entries may be automatically calculated.

To test your understanding, complete the exercises on the next page.

CHAPTER 5. USED VEHICLE SALES

5.12 Exercise 4.

In this exercise, we will be reviewing vehicle sale entry – part 5. Cash Down and Finance Contracts Receivable.

Assume that Dealer J has sold a used truck to customer Keller. You are given the following information about the sale.

Price of used car	7,900.00
D.O.C. Fee	95.00
Sales Tax Payable	180.0
Cost of sold car	6,500.00
License & Title Fees Payable	16.50
Trade-in Allowance	2,000.00

Q1. What is the total cash price of this vehicle price? _____

Q2. Using the same information above, assume that customer Keller is paying \$500 cash down at the time of sale and trading in his old vehicle. What will the finance contract dollar amount be, assuming that the customer has already arranged financing with their own bank. In other words, what will be the dollar amount posted to account 1020 – Contracts in Transit?

Answer the question by completing the partial entry shown below.

Account Description	Acct #	Control #	Debit	Credit
5. Cash down and Finance Contracts Receivable				
Cash on Delivery	1100	Keller	500.00	
Finance Contract	1020			

Q3. Assume that the Keller deal is now a BH-PH deal financed internally by ABC Auto Sales. Keeping the same dollar amounts, complete the revised entry below.

Account Description	Acct #	Control #	Debit	Credit
5. Cash down and Finance Contracts Receivable				
			500.00	
			5,691.50	

Explain your reasons for the change.

Check your answers with the answers on the next page.

CHAPTER 5. USED VEHICLE SALES

Exercise 4 Answers.

Q1. What is the total cash price of this vehicle sale?

Price of used car	7,900.00
D.O.C. Fee	95.00
Sales Tax Payable	180.00
License & Title Fees Payable	16.50
Total Cash Price	\$8,191.50

Remember, the cash price does not include any trade-in information, which would be included in the Settlement calculations. Nor does it include the cost of the used vehicle sold to the customer.

Q2. Using the same information above, assume that customer Keller is paying \$500 cash down at the time of sale and trading in his old vehicle. What will the finance contract dollar amount be, assuming that the customer has already arranged financing with their own bank. In other words, what will be the dollar amount posted to account 1020 – Contracts in Transit?

Answer the question by completing the partial entry shown below.

Account Description	Acct #	Control #	Debit	Credit
5. Cash down and Finance Contracts Receivable				
Cash on Delivery (AR - Ret Veh)	1100	Keller	500.00	
Finance Contract	1020	Keller	5,691.50	

Calculations for this \$5,691.50 finance contract amount are shown below.

Cash Price of vehicle	8,191.50
Settlement:	
Trade-in Allowance	(2,000.00)
Keller Down Payment	(500.00)
Amount to be paid by Keller's bank	5,691.50

Q3. Assume that the Keller deal is now a BH-PH deal financed internally by ABC Auto Sales. Keeping the same dollar amounts, complete the revised entry below.

Account Description	Acct #	Control #	Debit	Credit
5. Cash Down and Finance Contracts Receivable				
Cash on Delivery	1100	1460	1,000.00	
Finance Contract	1020	1460	12,143.50	

Explain your reasons for the change.

A BH-PH finance contract is considered a receivable, rather than a near-cash item.
The bank would have paid the full amount within days, not years. Therefore, the entry is debited to account 1100 – Accounts Receivable – Retail Vehicle using the same control number, Keller.

Now, let's move on to the next part of the vehicle sale entry.