

GUIDE TO DEALER ACCOUNTING AND KEY PERFORMANCE INDICATORS





SEWELLS GROUP GUIDE TO DEALER ACCOUNTING AND KEY PERFORMANCE INDICATORS

PURPOSE OF THE GUIDE

The primary purpose of the guide is to serve as a reference source for best practice and principles that should be applied to record motor dealer transactions and analyse and interpret dealer financial performance.

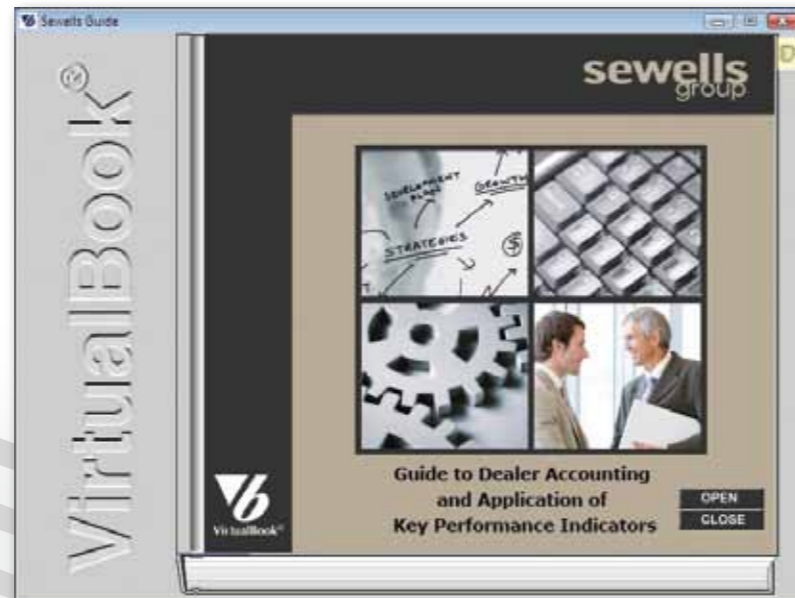
It is aimed at filling a knowledge and skills gap.

A holistic approach has been applied in developing and structuring the guide so that users can access know-how and obtain an understanding of a number of related accounting and financial management responsibilities which have been embedded in VirtualBook®.

The guide is divided into two sections and covers the following topics:

- **Dealer accounting, which includes:**
 - Purpose, stakeholders, managing meetings, internal controls
 - Management reports for dealers
 - Accounting principals
 - Dealership Chart of Accounts
 - Accounting for new, used, service, parts, F&I, driveway, administration, key expenses types, balance sheet

- **Key Performance Indicators, which includes:**
 - Purpose, stakeholders, managing meetings, internal controls
 - Interpreting, DuPont Cascade, Sewells MRA, classes of ratios i.e. solvency, liquidity, profitability
 - Guidelines for interpreting trends, presenting data and graphs
 - Dealership analysis and interpretation
 - Analysis and interpretation for new, used, service, parts, productivity



Virtualbook® is an easy to use book-like electronic format that is installed on a computer. Once registered online VirtualBook® can be updated.

TARGET AUDIENCE

The content of the guide is specialist in nature as it focuses exclusively on accounting for dealer business transactions and the analysis and interpretation of dealership business performance.

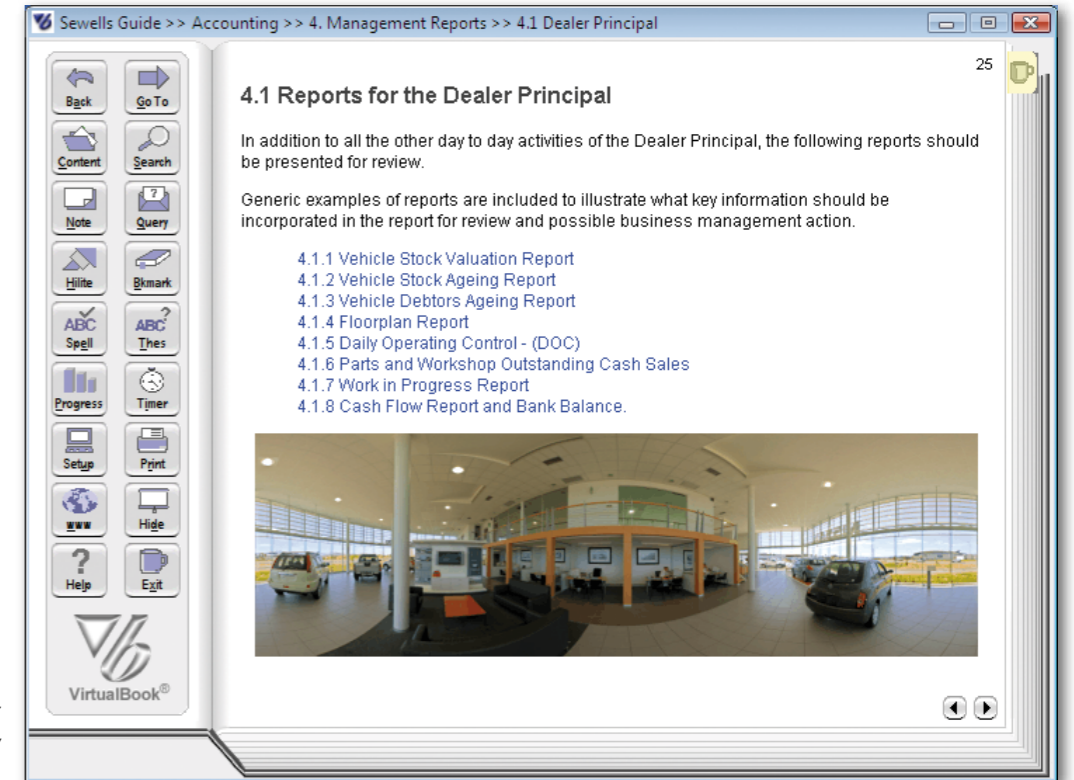
The target audience will be employees of dealerships or manufacturers who wish to question or check or verify the accounting for or analysis and interpretation of an aspect of dealer operations.

Sewells acknowledge the possibility that a better accounting practice or key performance interpretation may exist. In view of this, the guide also provides an email link - accountingkpiguide@sewellsgroup.com - that allows for correspondence on the content to be exchanged and for suggestions for future content updates.

Order Detail

The guide is available in two formats. A CD which we ship to you or an internet download both cost R547 including Vat. To order a copy of the guide go to the Sewells Website (www.sewells.co.za) and place your online order. The online order form can be found in the Business Intelligence section of the Sewells website or by selecting the Accounting and KPI Guide icon in the banner at the bottom of the Sewells homepage.

The valuation report in section 4.1.1 below illustrated this section.





SEWELLS GROUP GUIDE TO DEALER ACCOUNTING AND KEY PERFORMANCE INDICATORS

ACCOUNTING GUIDE

Aspects of two of the main features of the accounting section are illustrated.

Management report for dealerships

This section covers all departments in the dealership and provides a listing of the minimum number of reports that should be available for the dealer principal and each department manager to manage their areas of responsibility.

4.1.1 Vehicle stock valuation report

Purpose of this Report

- To make you aware of vehicle stockholding and which vehicles you have in stock.
- This report should be reviewed **weekly**.

[Click here for a Vehicle Stock Report - New Vehicles](#)

What to Focus on:

- Are all the **data fields** correctly completed? That includes make, model, serial no, engine, registration no. Ensure that all the necessary information is provided.
- How many **units** are in each category? New, used and demo units. Does this number tally with your stockholding? It is possible that units have not yet been stocked. You should follow this up with the vehicle managers.
- What is the **rand** value of the stock holding? Is it in line with your stockholding?
- Cost prices are entered **ex Vat**. A common error is that units are stocked, include the Vat amount in the cost price. Vat is a government value added tax, this would not apply in all countries in the world.
- Check **additional** costs. There should be no credits. A common error is that costs are not posted before invoicing and impact on the selling price of the vehicle. Any PDI or safety check is standard and forms part of the cost of the vehicle. These costs show appear here. Ensure that these costs are added to the vehicle cost and are not invoiced to the customer, at the time of selling the vehicle.

Dealership accounting for new, used, service, parts, F&I, driveway, administration, key expense types, balance sheet, share capital.

All efforts have been made to include the generic core transactions, from the alpha to the omega of business activity of each department.

Journals

| | Dt | Ct |
|------------------------------------|--------|--------|
| J1 New Vehicle Inventory | 120000 | |
| Vat Control | 16800 | |
| Creditor | | 136800 |
| J2 New Vehicle Inventory Accessory | 3000 | |
| Vat Control | 420 | |
| Creditor | | 3420 |
| J3 New vehicle stock | 500 | |
| Internal Sales Service | | 500 |

| Dt | New Vehicle Inventory | Ct |
|---------------------|-----------------------|----|
| J1 Purchase of Unit | 120000 | |
| J3 PDI | 500 | |

| Dt | Vat Control | Ct |
|-----------------------------|-------------|----|
| J1 Purchase of Unit | 16800 | |
| J2 Factory Fitted Accessory | 420 | |

| Dt | Creditor | Ct |
|----------------------------|----------|--------|
| J1 Purchase of Unit | | 136800 |
| J2 Purchase Factory Fitted | | 3480 |

| Dt | Accessory Inventory | Ct |
|---------------------|---------------------|----|
| J2 Purchase of Unit | 3000 | |

| Dt | Service Internal Sales | Ct |
|---------------|------------------------|-----|
| J3 PDI #12345 | | 500 |

4.1.1 Vehicle stock valuation report

Purpose of this Report

- To make you aware of vehicle stockholding and which vehicles you have in stock.
- This report should be reviewed **weekly**.

[Click here for a Vehicle Stock Report - New Vehicles](#)

What to Focus on:

| VEHICLE STOCK REPORT | | NEW VEHICLES | | | | | | | |
|----------------------|-------|--------------|---------------|---------------|-----------------|--------------|------------------|------------|----------|
| G/L CONTROL ACCOUNT | | 2349 | | | | | | | |
| STOCK NUMBER | BRAND | MODEL | SERIAL NUMBER | ENGINE NUMBER | REGISTRA NUMBER | FACTORY COST | ADDITIONAL COSTS | TOTAL COST | DATE ACQ |
| 2345-3456 | MERC | 180C | MR2345273 | 38590081 | R3208640P | 183500 | 5463 | 194963 | Jan-03 |
| 2345-5678 | MERC | 220C | MR1234567 | 30753331 | ZXU8036P | 223800 | 3200 | 227000 | Feb-03 |
| 2345-6789 | MERC | 180C | MR1234567 | 36753382 | FGX4564P | 196400 | 3200 | 193600 | Mar-03 |

A generic example of each report is provided, its purpose and use are explained and the frequency of review by the user is also indicated.

A link is provided which permits the user to navigate directly to the report.

8. Accounting for Used Vehicles

8.1 Operations Best Practices Guidelines

Every entry captured into your system is based on a debit and a credit. Although you might not see it on the screen when you are capturing, there is a dual sided entry that takes place, for everything that is captured.

Documentation is very important when capturing entries. This can include an original suppliers invoice and orders that have been authorized, a quote from the supplier. It is very important that there is correct, authorized and relevant documentation, before any entry is processed. These source documents must be filed, as they will be required for auditing purposes. They also need to be attached to the documentation produced from your system.

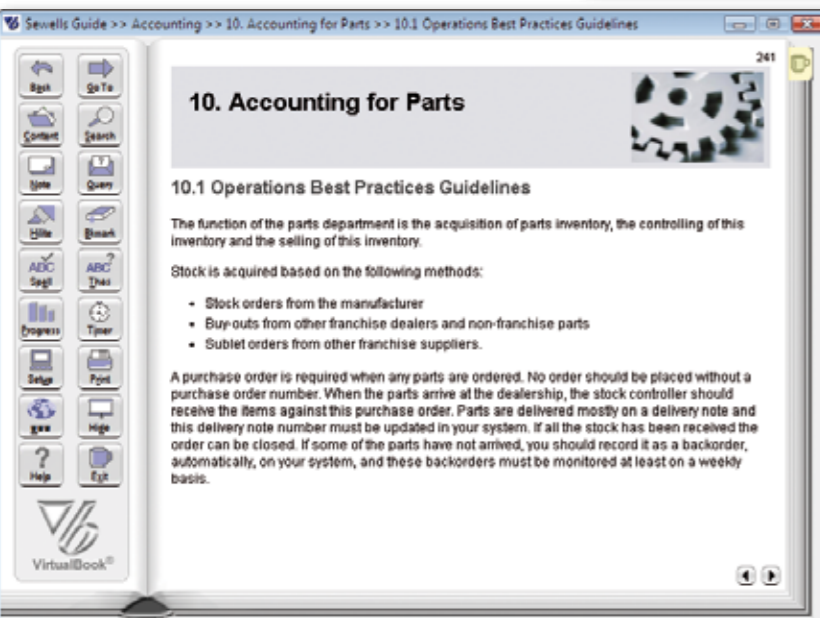
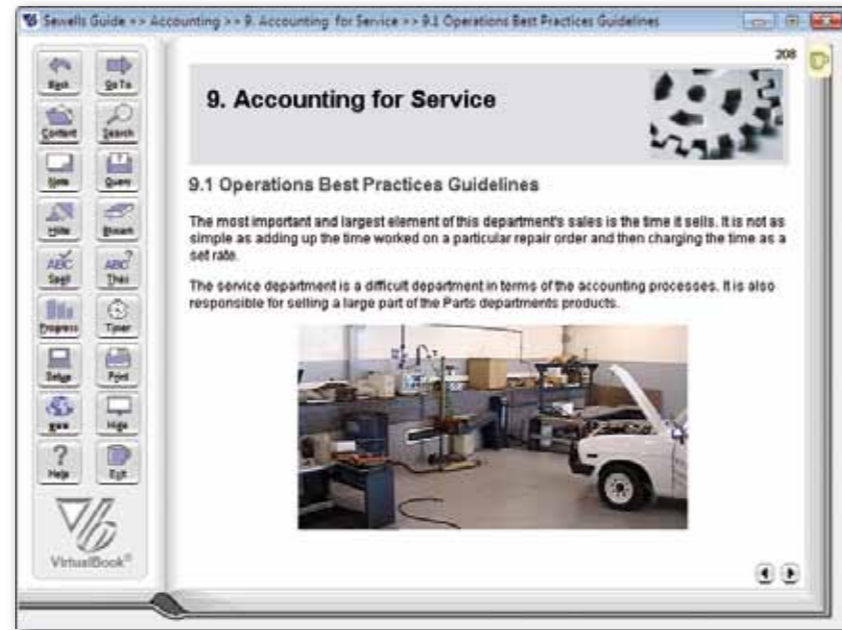
As far as used vehicles are concerned, it is very important that the relevant documentation is on the deal file. This includes a signed offer to purchase. This must be signed by the customer. There must be an trade-in appraisal form completed, and signed by the Used Vehicle Manager. The Business Manager should ensure that all the necessary documentation for any finance is also on file, i.e. copy of ID, proof of residence, and so on.

Where there is internal work or sublet work to be done, copies of the orders must be on file as well as the quotes for this work.



SEWELLS GROUP GUIDE TO DEALER ACCOUNTING AND KEY PERFORMANCE INDICATORS

One of the big challenges facing trainee accountants in the twenty first century is that they only get experience working with sophisticated dealer management systems where a single transaction can initiate a series of linked transactions and sight is lost of the resulting debits and credits underlying the initiating transaction. Hence the approach to show the debits and credits in a series of journals matched with the postings to the general ledger.



Sewells will be the first to acknowledge that accounting practices and policies will vary across the world and even within a single country. The illustrations and practices reflected in the guide are based on experience from a number of dealer accountants, financial managers and financial directors and serve to illustrate the key principal involved.

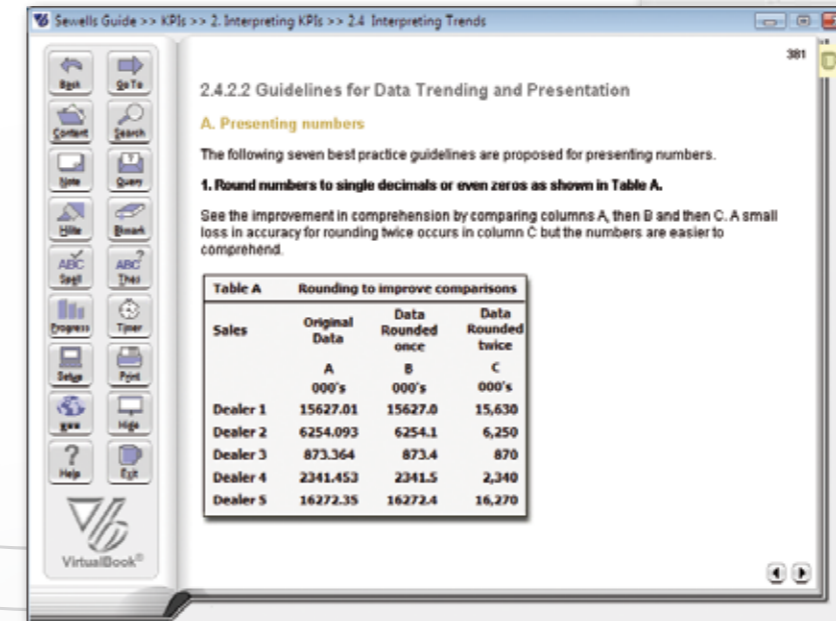
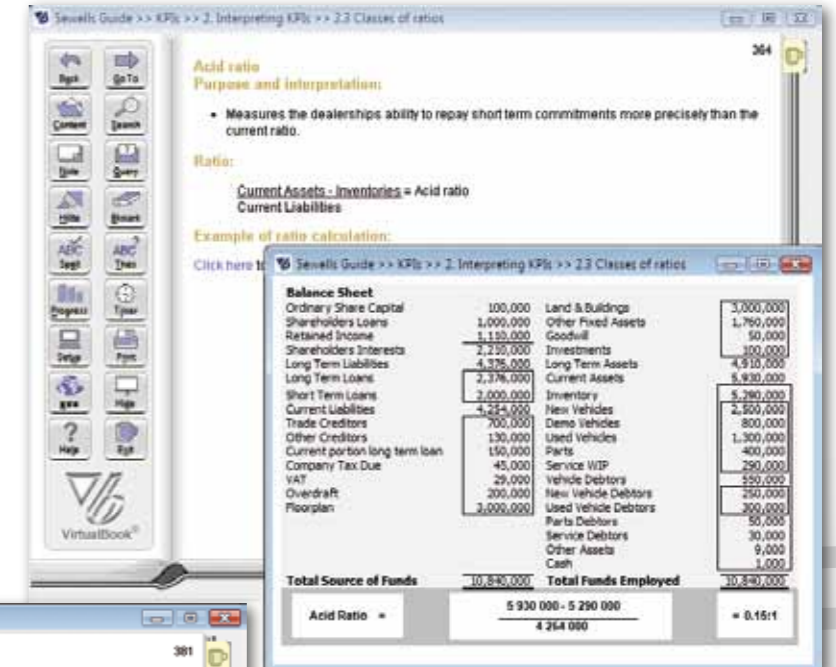
Each core transaction is illustrated with a set of journals and classic "T" accounts to illustrate the double entry accounting and posting in the general ledger.

KEY PERFORMANCE INDICATORS

Analysis and interpretation

The Sewells approach to diagnosing dealer performance has its origins in the DuPont Cascade, which allows for the performance of a business to be split between operational efficiency, the measurement of profitability and asset utilisation, the extent to which operational assets are used to generate sales. These two performance measures combined give the return on operational assets.

The guide focuses on the DuPont Cascade analysis but includes a review and explanation of all classes of ratios to ensure that a holistic appraisal of the business can be undertaken.



The purpose and interpretation of each ratio is provided. The ratio formula is provided as is a practical illustration which in some instances is in the form of a popup.

Presenting financial results

There are some best practice guidelines for arranging and trending data to get a meaningful interpretation. A section has been added which illustrates these guidelines.



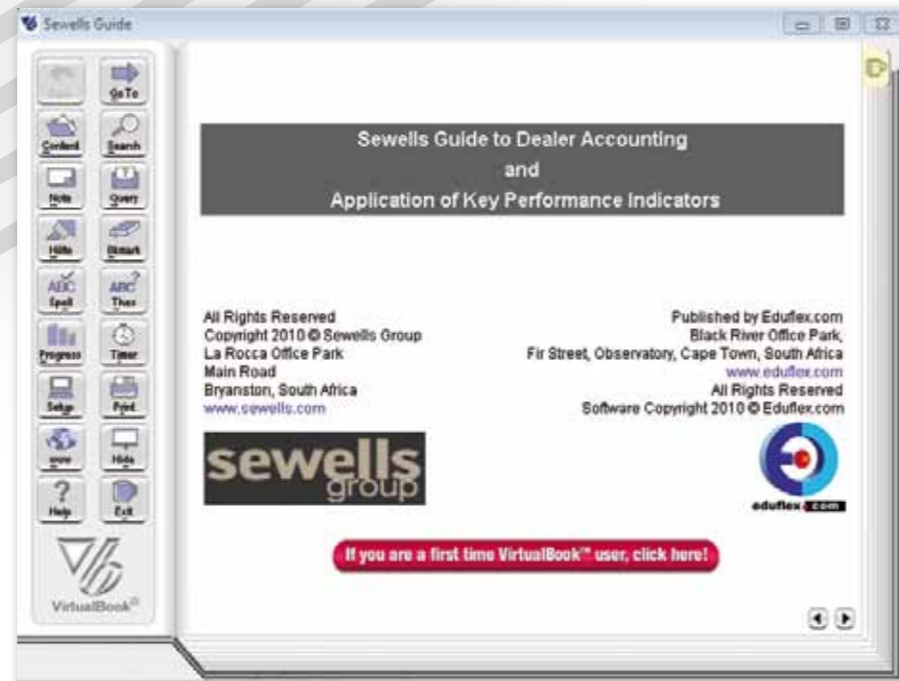
SEWELLS GROUP GUIDE TO DEALER ACCOUNTING AND KEY PERFORMANCE INDICATORS

VirtualBook®

VirtualBook® is an easy to use book-like electronic medium which can be installed on a computer.

VirtualBook® has unique features :

- Automatic updates via the internet after registration
- Study aid tools that allow you to create notes, bookmarks and use a spell checker
- A search engine which allows you to find content and explanations in the guide
- Easy navigation through hyperlinks
- Seamless links to the internet and connections to other content if required
- A variety of assessments can be setup to facilitate formal learning
- Runs on Windows XP/Vista/Windows7



SUMMARY OF CONTENT

Accounting guide contents

- Introduction
- Purpose
 - Quality of dealer accounting
 - A communication tool
 - How to manage meetings
- Internal controls
 - Establishing internal controls
 - Recruiting
 - Job descriptions
 - Authority levels
 - Separation of duties
 - Pre – authorization processes
- Management reports for dealerships
 - Dealer principal reports
 - New vehicle manager reports
 - Used vehicle manager reports
 - Service manager reports
 - Parts manager reports
 - F&I manager reports
 - Financial manager reports
 - Stock controller reports
 - Debtor clerk reports

- Creditor clerk reports Accounting best practices
 - Accounting principals
- Dealership chart of accounts
 - Activity based accounting
 - Statistical information and its use
 - Typical income statement
 - Key productivity input data
- Accounting for new vehicles
- Accounting for used vehicles
- Accounting for service
- Accounting for parts
- Accounting for F & I
- Accounting for driveway
- Accounting for admin
- Accounting for expense types
 - Classification of expenses
 - Payroll
 - Interest and finance costs
 - Rent
- Balance Sheet accounting
 - Basic accounting equation
 - Share capital
 - Fixed assets



SEWELLS GROUP GUIDE TO DEALER ACCOUNTING AND KEY PERFORMANCE INDICATORS

SUMMARY OF CONTENT CONTINUED...

KPI guide contents

- Interpreting financial performance
 - DuPont cascade
 - Sewells© MRA model
 - Classes of ratios
 - Risk
 - Profitability
 - Growth
 - Interpreting trends
 - Holistic approach
 - Data presentation best practice
 - Dealership analysis
 - ROAA %
 - Gearing
 - Debt Equity
- Generic set of ratios applied to the dealership and all departments
 - Units sold per sales person
 - First gross
 - Accessory Gross
 - Total gross profit % sales
 - Variable expenses % total gross profit
 - Semi variable expenses % total gross profit
 - Fixed expenses % total gross profit
 - Profit before tax % sales
 - Total expenses % total gross
 - Inventory days
 - Debtor days
 - Inventory aging analysis
 - Returns on gross assets
 - Productivity (gross / heads)
 - Units sold
 - Units serviced
 - Work bay utilisation
 - Hour worked, clocked, available
 - Hour per repair order
 - Productivity/efficiency/effectiveness



Sewells Group
La Rocca Office Park
321 Main Road
Bryanston, Johannesburg

Ph: +27 (0) 11 4632334

www.sewells.co.za

Disclaimer: The information in this brochure is correct at the time of production. Sewells reserves the right to make changes at its sole discretion.

© 2011 Sewells Group

