



CPAs & Strategic Advisors
Strategic | Experienced | Connected

Dealers' Year End Checklist



Cash / Investment Accounts

Review the bank reconciliations for all corporate owned bank accounts. Evaluate the need to report any un-cashed checks to the State Escheats Division and remit funds accordingly.

If you have "excess" cash on hand, consider moving the funds into a Floor Plan off-set investment or some other type of interest bearing account or pay down your Floor Plan line.



Accounts Receivable

Review all receivable account schedules in detail (vehicle, parts and service, factory, and finance reserve). Write off any account balances that are considered uncollectible. Check the reserve for uncollectible accounts to ensure it is adequate for those accounts that may become uncollectible but are still being actively pursued. Make sure you have properly accounted for chargebacks from finance companies by recording them as deductions to finance income.



Inventories

Have a physical observation of all significant inventory performed at or near the end of the year. Compare the detail shown in the accounting records to the physical inventory results. Investigate any discrepancies between the physical count and the accounting records. Make the appropriate adjustments to ensure the accounting records are correct.

If you use the lower of cost or market method to value your used vehicles, consider writing down your inventory at year-end to "market value" so that you can realize the tax advantages of any

vehicle depreciation. Consider wholesaling any old units to take advantage of any loss deductions. If you use the LIFO Method to value any of your inventories, see the LIFO Inventory section below.

Return any "over-aged" parts that are still eligible for factory return programs. If you have stale non-returnable parts, consider disposition by gift or scrapping for a tax deduction.

Be sure to review the "work-in-process" account and determine if the balance at year end is reasonable by reviewing the open repair order report. This is an account that is often overlooked and can get out of control if not followed up on monthly.



LIFO Inventory Valuation

Be sure that you include a "reasonable" LIFO adjustment estimate on all versions of your December financial statements (the best place to put this estimate is in a cost of sale account with no activity, unless a LIFO cost of sale account is available). Remember: All LIFO records must be retained permanently so be sure to keep invoices of all new vehicles in stock at year-end, as well as evidence of acquisition of used vehicles, so that LIFO computations can be made.



Prepaid Expenses

Review all prepaid expense accounts and expense any that are not appropriate assets. Tax law allows taxpayers who prepay certain expenses for a period beginning in the current tax year to expense the entire amount rather than spreading them over two years. This is treated as a tax expense without affecting your December factory



fmdcpas.com | fmd@fmdcpas.com | (248) 258-8900
355 S. Old Woodward Ave. #200, Birmingham, MI 48009



CPAs & Strategic Advisors
Strategic | Experienced | Connected

financials. Consult your tax adviser on the technicalities of this issue if you pay these types of expenses. (Examples include: Rent, Insurance, Advertising, License Fees, Maintenance Contracts).



Fixed Assets and Depreciation

Gather the detail for any fixed assets purchased during the year including descriptions, in-service date and purchase price so your accountant can appropriately depreciate them. A thorough review of the dealership's fixed asset listing should be performed, at least annually, and any items that were sold or disposed of during the year should be removed from the listing. If you added any facilities this year, consider segregating the costs between building components and equipment components to obtain a shorter recovery period (faster write-off).

If you are considering a tangible fixed asset purchase (non-real estate or leasehold improvement) and you have not already reached the Section 179 limit, consider making the purchase before the end of the year in order to maximize the available tax deduction. Use caution when coordinating this with any cost segregation studies.



Accounts and Notes Payable

Review all open accounts payable schedules. Investigate any payable over 30 days old. Be sure amounts appear to be reasonable. Investigate any debit balances for overpayments and request refunds from vendors, if applicable.

Reconcile the floor plan schedule to the financing source statement. Investigate any differences. Expense the interest for December in December instead of in January when it will actually be paid, this will speed up tax deductions. (See Accrued Expenses section.)

Reconcile the factory parts statement to the general ledger balance as the parts statement

cut-off date may not coincide with the end of the month.

Follow up on outstanding customer deposits. If the customer cannot be located, the deposits may need to be remitted to the State Escheats Division.



Accrued Expenses

If you are an accrual based taxpayer, take advantage of all possible tax deductions by accruing any expenses that relate to the current year, but will not be paid until the following year, including:

- Commissions, salaries and wages, vacation
- Payroll taxes
- Advertising
- Interest
- Utilities
- Insurance
- Property taxes (real and personal)
- Finance reserve chargebacks
- Professional fees

If you are a cash basis taxpayer, consider paying all your bills due in January by December 31st to maximize this year's tax deduction.

Pay bonuses to stockholders and other related parties by December 31 in order to obtain a current year tax deduction.



Related Party Loans

Record or pay interest on shareholder, or other related party loans, before the end of the year in order to maximize the tax deduction. The IRS requires taxpayers to use the minimum applicable federal interest rate if the company loans money to a shareholder and the loan does not have a stated interest rate. Make sure all loan documents are up to date and security agreements in place, if applicable.



Payroll, Sales and Use Taxes

Review payroll tax forms such as W-2, W-3 and 941 for accuracy. Also, check to make sure that totals on these forms agree with one another where applicable (this can help prevent IRS notices). IRS rules require any taxpayer with more than 250 forms W-2 to report the aggregate cost of employer sponsored health insurance on the W-2.

Compare payroll tax liability balances on the general ledger to the 4th quarter payroll tax returns. Investigate the reason for any differences. Record any differences as current period expenses.

Ensure that your sales, use and withholding tax returns are being filed timely and that you are taking advantage of all relevant credits and discounts. There are many credits available, (depending on your State), such as the dealer supplemental discount, bad debts credits, gas/fuel credits, etc.



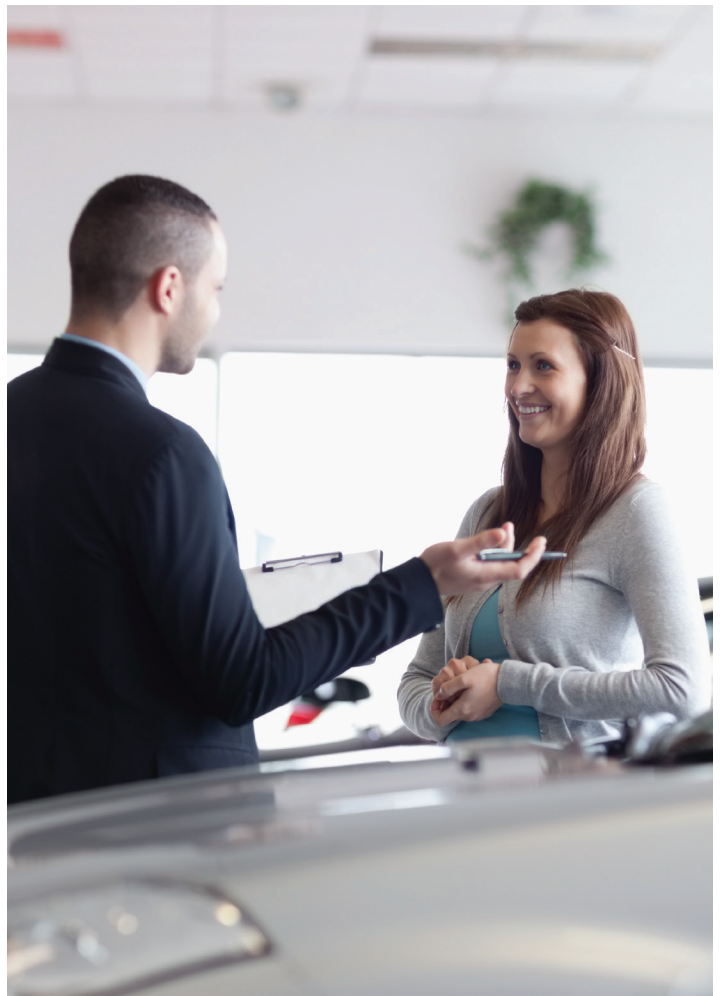
Customer Information Privacy

Check to see if your dealership is in compliance with the Red Flags Rules and Privacy Act laws that relate to safeguarding customer information. Review the company policy with all employees to ensure compliance.



Cash Reporting - Form 8300

Be sure that an IRS Form 8300 has been filed for all cash transactions over \$10,000, and that all of the customers involved in these transactions have been properly notified. Failure to do so can result in significant penalties.



1096 / 1099's

Make sure you have a form W-9 on file for each person to receive a form 1099, complete with name, address, social security number and taxpayer identification number.

In January issue 1099's for:

- Interest paid to individuals
- Rent paid to individuals
- Payments for services to non-employees other than corporations totaling \$600 or more during the year
- Payments to attorneys



Demonstration Vehicles Tax Matters

Review your vehicle demonstrator policy to see that it is up-to-date and in accordance with IRS guidelines. Make sure all employees who use a demo vehicle during the year are charged the appropriate amount of income on their W-2.