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E. D. Bowman

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## Accounting for Used-car Departments of Retail Automobile Dealers

BY E. D. BOWMAN

Under modern business conditions it is imperative in the successful administration of any enterprise that the recording of accounting transactions be carefully and intelligently detailed. This fact is very forcibly brought out in a survey of the operations incident to automobile merchandising. Yet, in the face of this fact, there is perhaps no branch of retail merchandising in which the classifying and recording of facts, with a view to disclosing accurate accounting information, is so generally disregarded.

The selling of automobiles embracing, as it does, the taking in and disposing of used cars, presents a feature that is current in very few modern merchandising enterprises, and if for no other reason than to assemble all the costs of used cars sold, and to acquaint the executives with the profits or losses accruing to this department, a comprehensive system of accounting should be installed and maintained by all retail automobile dealers.

The general accounting principles underlying the purchase and sale of any commodity obtain to a large extent in the purchase and sale of automobiles. However, one peculiarity stands out pre-eminently in automobile accounting; viz., the cost of bringing used cars to a salable condition and the profit thus determined from trading in this commodity. It is the purpose of this article to deal only with the accounting necessities of this one peculiar feature.

Fully ninety per cent. of the new motor vehicles sold are purchased by owners of cars, and in the major portion of these sales the governing feature is the ability of the dealer to take over the purchaser's used car. It necessarily follows that all automobile dealers handle used cars. It is customary with some to purchase them outright with a view to disposing of them at a profit, and with others to accept them only in trade to facilitate the selling of new cars. Transactions of the latter character with regular automobile selling agencies are by far the most frequent.

It is very obvious that in order to direct intelligently the pricing of used cars for sale a comprehensive record must be kept, not

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only of the first cost of used cars, but of all additional costs such as may be entailed in placing these used cars in salable condition and in finally disposing of them.

At the inception of any transaction of this character, it is vitally important that the accounting department be furnished with a voucher by someone in authority, detailing the price and also any other sale conditions governing, which obtained in the acquisition of the used car. This voucher should embody as well the original owner's name, the make, style, motor and chassis numbers, and such other physical information as is pertinent. From this voucher, the accounting department will make an entry as follows:

Used-car purchases . . . . .Dr.	\$	
Accounts receivable . . . . .Cr.		\$

This entry may be made either in the general journal, or, if these transactions occur with sufficient frequency, in a special multi-column journal, providing a column for the assembling of such entries. The original purchase or allowance price having thus been recorded, it now becomes necessary to provide for the proper accounting of costs incident to placing the car in marketable condition. These costs will originate largely in the shop department.

As soon as it has been determined just what work is necessary to place the car in salable condition, a numbered shop order should be prepared setting forth the necessary repairs, and instruction should be turned over to the shop by means of a duplicate of this shop order. From the daily shop report can be determined the cost accruing to each used-car job, and such costs should be charged by the accounting department daily to a general-ledger account, used-car expense, through the general journal or special multi-column journal.

Few shops are equipped to handle all of the repair work necessary, and it is not unusual to order such repairs as paint jobs, upholstery, radiator and top work from outside concerns. This should be handled by numbered requisitions bearing the shop-order number and setting forth specifically the work to be done. If it is found necessary to use parts, accessories or other materials not furnished by the shop department, such parts, accessories or other materials should be ordered by numbered inter-departmental requisitions, bearing the shop-order number. The charges

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originating from inter-departmental transfers will be charged daily to used-car expense through the general journal as follows:

Used-car expense . . . . . Dr.	\$	
Parts sales or accessory sales		\$

The charges originating from work done by outside concerns will be charged to used-car expense from some book of original entry.

Upon completion of the repair work upon any particular job, the duplicate shop order should accompany the daily shop report to the accounting department, where the total shop costs of repairing the used car may be determined.

There has now been recorded in the general ledger the original cost of the used car, as well as the cost of placing it in salable condition, these costs having been assembled and posted to two general-ledger accounts, used-car purchases and used-car expense.

In addition to the general-ledger record, it is essential that a separate record be kept of the accumulated costs of each individual used car. For this purpose, a specially printed and ruled card is recommended. Such a card should embody the physical information detailed upon the voucher prepared at date of acquisition and the original purchase price; it should also provide a space for the posting daily of departmental costs and the cost of work done by outside concerns. Properly to record these items, this card form should furnish a space for requisition number and name of the outside concern or department from which work or materials have been ordered. The original purchase price of the used car will be posted to this latter record at the time of spreading of the journal entry recording the acquisition. The subsequent costs will be posted as they occur from daily departmental reports and invoices of outside concerns.

In order to obviate the possibility of overlooking any items of expense in summing up the entire cost of the completed job, it will be necessary at the time of preparing the requisition to note, in the space provided, the requisition number and department or outside concern through whose charges the additional expense will accrue, and, before considering this cost detail closed, to see that the information concerning the additional charges has been furnished in each instance.

We have now assembled all the charges for work expended on each particular car completed, and, in view of the fact that the car is now ready for the sales department, the assembled cost of

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the used car should be transferred to the inventory account in the general ledger. This may be handled by an entry as follows:

Used-car inventory . . . . . Dr.	\$	_____		
Used-car purchases . . . . . Cr.			\$	_____
Used-car expense . . . . . Cr.			\$	_____

The amounts necessary to compile this entry will be obtained from the individual used-car card record, above described.

This card should then be transferred to another file, detailing the inventory of used cars available for sale. There are now two files of used-car cards, one representing used cars available for sale, and the other representing used cars in process of repair.

The steps thus far described have been incident to the acquisition of the used car and its preparation for the sales department. It now devolves upon the accounting department to prepare entries properly recording the sale.

When any particular used car is sold, an entry should be prepared as follows:

Cost of used cars sold . . . . . Dr.	\$	_____		
Used-car inventory . . . . . Cr.			\$	_____

The information necessary for the compiling of this entry is available from the used-car inventory file. After the sale has been consummated, the sale price of the used car should be entered in a space provided in the used-car card record, and the card may then be filed permanently.

The sale of the used car will be brought into the general ledger through the ordinary sales record, and used-car sales in the general ledger will be credited with the amount of such sale.

At any closing period, the difference between the general-ledger accounts, used-car sales and cost of used cars sold, will represent the gross profit or loss accruing through the sales of used cars for that period.

In the detailed accounting steps heretofore described in this article, no mention has been made of administrative and other overhead expense, a certain portion of which is properly a charge to the used-car department. The reason for this is that it is presupposed that charges of this character are amply taken care of by the overhead burden included in charges by the shop or other departments to used-car expense. It is, therefore, apparent that when all the costs of placing the used car in salable condition are assembled, the shop and other departmental overhead properly

accruing to the job are included in this total. Any additional overhead of the used-car department must be considered as a part of used-car selling expense.

Such expenses as are entailed in the selling of used cars, including administration and other overhead, as well as direct expenses, will be assembled during the period in a general-ledger account, used-car selling expense, and the aggregate of such expenditures will be deducted from the gross profit realized upon used cars sold, in the determination of the net profit. Great care should be exercised in the allocation of charges, incident to the preparation and sale of used cars, as between used-car expense and used-car selling expense. Many of the expense items, unless careful consideration is given, may seem chargeable to either or to both of these accounts. However, an intelligent summing up of the expense in question, by someone with an intimate physical knowledge of the facts, will eliminate any confusion and will establish a guide for distribution of such items in analogous cases in the future.

From an accounting viewpoint, it is necessary that the two current used-car card files be reconciled monthly with the corresponding general-ledger controlling accounts.

The total of the amounts shown by the used-car inventory cards must agree with the general-ledger account, used-car inventory, and this amount will be shown on the closing balance-sheet under the inventory caption, used cars available for sale.

The total of the amounts shown by the cards representing used cars in the process of repair must be reconciled with the total of general-ledger accounts, used-car purchases and used-car expense, and the aggregate of these two accounts shown on the balance-sheet under the inventory caption, used cars in process of repair.

The procedure detailed in this article portrays only a general outline of the accounting phase of the retailing of used cars. This plan may be modified, curtailed or elaborated, depending upon the size or peculiarities of the business to which it is to be applied or adapted.

Nearly all retail dealers in automobiles realize that little net profit accrues through the operations of the used-car department. In fact, where transactions are properly recorded, and a true reflection of costs is shown, it is improbable that, if taken over a representative period of time, the operations of this department

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result in anything but loss. Yet, despite the fact that the department is generally not one of profit, its relation to the new-car department and its value as an adjunct in facilitating the sale of new cars preclude the possibility of its discontinuance.

Granted, then, that the operations of the used-car department can not be made particularly remunerative, it does not by any means follow that the accounting details may be disregarded. It is just as essential that accurate statements of the operations of losing departments be brought to the attention of the executives, as it is to portray the net results of profitable departments, and it is only by knowing definitely the actual losses that steps can be consistently taken to minimize such losses.