

## Chart of Accounts Instructions

### Purpose:

In order to measure and improve performance, we must begin with timely and meaningful financial statements. This requires a proper format, a consistent chart of accounts, and proper classification of sales and cost data into those accounts. The purpose of this section is to assist you in setting up and using a chart of accounts that will make it easy to properly classify expenses and to produce a financial statement that is formatted correctly.

This will be most useful to independent collision centers, since most dealerships use a standardized chart of accounts and financial statement format. However, the explanations of accounting terms and examples will likely be useful to all.

There are several sections in this document including examples to assist you in setting up your financial system.

- ❑ Collision Center accounting explanation
- ❑ P&L Statement Example showing major accounts and selected sub-accounts
- ❑ Balance Sheet Example showing major accounts and selected sub-accounts
- ❑ Chart of Accounts Example – Showing all accounts listed on P&L and Balance Sheet
- ❑ Account Definitions for all accounts on the chart of accounts

The examples shown here were set up in the accounting software program QuickBooks. That program is easy to learn and use, but there are others that may work as well. QuickBooks can also help you process payroll, print invoices, manage accounts receivable, or make electronic payments. It can be as simple or as complex as you choose.

### COLLISION CENTER ACCOUNTING EXPLANATION

There are 5 types of accounts:

- ❑ Income (Sales)
- ❑ Expense - within expenses, we customarily differentiate between Cost of Goods Sold (Production Cost) and Operating (or Overhead) Expenses
- ❑ Assets
- ❑ Liabilities
- ❑ Owner's Equity

## **PROFIT & LOSS STATEMENT**

The Profit & Loss Statement records Income and Expenses.

Income is the value of the goods and services that we sell to our customers. Expenses, both Cost of Goods and Operating Expenses are what it costs us to purchase the goods and perform our services. If we take our income, subtract the cost of goods; we have our "Gross Profit". Then, if we take that figure and subtract our Operating Expenses, we are left with our Net Income (before income taxes). That is the money that we have left to pay taxes, reduce our debts, purchase new equipment, increase our working capital, or pay to shareholders as dividends.

Below is a short illustration of a Profit & Loss Statement:

### **SIMPLE INCOME STATEMENT FORMAT**

#### **INCOME**

Labor Sales	\$ 45,000	
Parts Sales	\$ 45,000	
P&M Sales	\$ 8,210	
Sublet Sales	\$ 2,000	
<b>Total Income</b>		<b>\$ 100,210</b>

#### **PRODUCTION COST**

Labor Costs	\$ 21,706	
Part Costs	\$ 33,750	
P&M Costs	\$ 6,250	
Sublet Costs	\$ 1,550	
<b>Total Production Costs</b>		<b>\$ 63,256</b>

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<b>GROSS PROFIT</b>	<b>\$ 36,954</b>
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*(Income – Production Costs = GROSS PROFIT)*

<b>Total Overhead Expenses</b>	<b>\$ 29,605</b>
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<b>Other Income / Expense</b>	<b>(\$ 1,420)</b>
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<b>NET INCOME</b>	<b>\$ 5,929</b>
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*(Gross Profit – Expenses = NET INCOME)*

## **BALANCE SHEET**

Assets, Liabilities, and Owners Equity comprise the “balance sheet”. Assets are “things we own”, Liabilities are “what we owe”, and Owner’s Equity is “what is ours” or our “net worth”, or the difference between our Assets and Liabilities.

Assets always equal the sum of Liabilities + Owner’s Equity

Below is a short illustration of a Balance Sheet Statement:

### **SIMPLE BALANCE SHEET FORMAT**

#### **CURRENT, FIXED & OTHER ASSETS**

Cash	\$ 20,990
Accounts Rec.	\$ 15,600
Inventory	\$ 5,000
Prepaid Expenses	\$ 1,200
Equipment	\$100,000
Accum. Depreciation	(\$ 20,000)
Security Deposits	<u>\$ 4,000</u>

**TOTAL ASSETS** **\$126,790**

#### **CURRENT & LONG TERM LIABILITIES**

Accounts Payable	\$ 10,500
Sales Tax Payable	\$ 2,650
Payroll Liabilities	\$ 8,062
Accrued Liabilities	\$ 750
Customer Deposits	\$ 10,000
Note Payable	<u>\$ 60,000</u>
<b>Total Liabilities</b>	<b>\$ 91,962</b>

#### **OWNERS EQUITY**

Retained Earnings	\$ 18,899
Net Income	\$ 5,929
Paid-In-Capital	<u>\$ 10,000</u>
<b>Total Owners Equity</b>	<b>\$ 34,828</b>

**TOTAL LIABILITIES & EQUITY** **\$126,790**

**ASSETS = LIABILITIES + OWNERS EQUITY**  
**\$126,790 = \$ 91,962 + \$ 34,828**

**See the detailed sample P&L statement and Balance Sheet, Chart of Accounts, and Account Definitions later in this document.**

There are two significant accounting terms that it is important to understand: “Double entry bookkeeping” and “Accrual accounting”.

## **Double Entry Bookkeeping**

Double entry bookkeeping simply means that for every transaction we make two entries in our books. One entry will always be a debit (left column in the days of handwritten ledgers); the other will always be a credit (right column). Assets and Expenses carry debit balances. Income and Liabilities carry credit balances.

For example: We write a check to purchase a part. The accounting entry will be a debit to Parts Cost and a credit to Checking (Cash). Both Expenses (Parts Cost) and Assets (Cash) carry debit balances. We are increasing our Parts expense (debit) and reducing our Cash balance (credit).

## **Accrual Accounting**

There are two types of accounting methods: Accrual and Cash. This has to do with when income and expenses are “recognized”. Accrual accounting recognizes income when the transaction occurs (i.e. delivering the vehicle). Cash accounting recognizes the income only when you receive the cash. Conversely, expenses are handled the in the same manner: An accrual accounting recognizes and expense when the goods are delivered or the service is performed. Cash accounting recognizes the transaction only when we pay the bill.

Our major objective for keeping a set of books is to have timely and accurate information regarding the financial status of our business, measure how we are doing, and proactively take steps to constantly improve. We must match our income and expenses on a timely basis. Accrual accounting does this. Cash accounting only tells us how much cash we have left in the checkbook, and often distorts the performance of our business.

For measuring and managing a business, accrual accounting is the best method. In some instances, cash accounting is better for tax purposes. However, it’s easy and perfectly legal to maintain our books on an accrual basis and convert to a cash basis when we file our income tax return.

## **Accounts Receivable and Accounts Payable**

The majority of our accounting transactions involve recognizing income and expenses. Let’s consider a couple of common transactions to illustrate accrual accounting.

**A Sale** – A customer drops off a vehicle. If they pay their deductible in advance, we will deposit the check and enter it as a Customer Deposit – a liability, since we have not yet performed the repair. It’s still their money that we are holding. When the insurance company approves the estimate, they may send us a check. That is also a Customer Deposit. When we deliver the vehicle, we close the R.O. and enter the full amount as income (a credit) and debit our Customer Deposits account, since we have now earned the income. If there is a charged supplement, then we enter that amount as an Account Receivable from the insurance company.

**Example:**

1. Customer Drops off vehicle & we collect a \$500 deductible

Debit: Checking (Cash)	\$ 500	
Credit: Customer Deposits		\$ 500

Estimate is approved at \$4000 less deductible  
and check received for \$3500

Debit: Checking (Cash)	\$3500	
Credit: Customer Deposits		\$3500

2. Supplement is written and approved for \$650  
- No transaction yet

3. R.O. is closed, insurance billed for supplement,  
Vehicle is delivered. Total bill \$4650

Credit: Income (Labor, Parts, P&M, Sublet Sales Accounts)		\$4650
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Debit: Customer Deposits	\$4000	
Debit: Accounts Receivable	\$ 650	

4. Supplement Check is received for \$650

Debit: Checking (Cash)	\$ 650	
Credit: Accounts Receivable		\$ 650

A purchase – In conjunction with the above transaction, we ordered \$1500 in parts from  
the OEM dealership. No accounting entry is made until the parts arrive.

1. Parts Delivered – Invoice for \$1500 is submitted

Debit: Parts Cost	\$1500	
Credit: Accounts Payable		\$1500

2. At the end of the month we receive the dealership's statement, we reconcile all our  
invoices and receiving documents with the statement and pay their bill.

Debit: Accounts Payable	\$1500	
Credit: Checking (Cash)		\$1500

## Work-In-Process Inventory

The one glitch in our accrual accounting system as described above, is that we are recognizing income only when jobs are completed but recognizing expenses when goods are received. At the end of the month, there are always jobs “in-process” for which Labor, Parts, P&M and Sublet have been expensed, but no income has been recognized because the R.O has not been closed yet. The other way to handle this is to book our parts and materials initially into inventory and then charge them out when the R.O. is closed. Though this approach may be more accurate, it involves a lot of work and management.

Often, P&M are booked into inventory and then usage is calculated by taking a physical inventory each month.

The benefit of a work-in-process inventory is that parts and labor gross profits aren't distorted if a large job carries over from one month to the next. A majority of parts and labor has been expensed, but since the vehicle “just went to the paint department” the last day of the month, no income will be recognized until the ticket is closed during the first week of the second month. Gross profit will see a dip the first month, with expense but no sale, then a jump the next month with income but little expense. These transactions generally even out over time, but still spend time researching & explaining them to ourselves each month. An accurate WIP will help this, but the risk is that we overstate our profits if we overstate our inventory, and we need a simple and accurate method of accounting for WIP Inventory each month.

If you can apply the discipline, managing a “Work-in-process” inventory will be a truer representation, but for most collision centers, managing the workflow may be a better use of time.

The following examples assume that work-in-process inventory is **NOT** reflected in the financial statement.



## Chart of Accounts

<u>Account</u>	<u>Type</u>	<u>Accnt. #</u>
1000 · Checking Account	Bank	1000
1100 · Savings Account	Bank	1100
1150 · Petty Cash	Bank	1150
1200 · Accounts Receivable	Accounts Receivable	1200
1300 · Inventory	Other Current Asset	1300
1320 · Prepaid Expenses	Other Current Asset	1320
1400 · Fixed Assets	Fixed Asset	1400
1400 · Fixed Assets:1410 · Equipment	Fixed Asset	1410
1500 · Accumulated Depreciation	Fixed Asset	1500
1500 · Accumulated Depreciation:1510 · Equipment	Fixed Asset	1510
1600 · Security Deposits	Other Asset	1600
2000 · Accounts Payable	Accounts Payable	2000
2100 · Sales Tax Payable	Other Current Liability	2100
2300 · Payroll Liabilities	Other Current Liability	2300
2300 · Payroll Liabilities:2310 · FICA	Other Current Liability	2310
2300 · Payroll Liabilities:2320 · Federal Withholding	Other Current Liability	2320
2300 · Payroll Liabilities:2330 · FUTA	Other Current Liability	2330
2300 · Payroll Liabilities:2340 · SUTA	Other Current Liability	2340
2300 · Payroll Liabilities:2350 · State Withholding	Other Current Liability	2350
2400 · Accrued Liabilities	Other Current Liability	2400
2500 · Customer Deposits	Other Current Liability	2500
2600 · Note Payable	Long Term Liability	2600
3000 · Retained Earnings	Equity	3000
3100 · Paid-in capital	Equity	3100
3200 · Opening Bal Equity	Equity	3200
4000 · Labor Sales	Income	4000
4000 · Labor Sales:4010 · Mechanical Labor Sales	Income	4010
4000 · Labor Sales:4020 · Frame Labor Sales	Income	4020
4000 · Labor Sales:4030 · Body Labor Sales	Income	4030
4000 · Labor Sales:4040 · Paint Labor Sales	Income	4040
4100 · Parts Sales	Income	4100
4200 · P&M Sales	Income	4200
4300 · Sublet Sales	Income	4300
4300 · Sublet Sales:4310 · Glass Sales	Income	4310
4300 · Sublet Sales:4320 · Towing Sales	Income	4320
4300 · Sublet Sales:4330 · Other Sales	Income	4330
5000 · Labor Cost	Cost of Goods Sold	5000
5000 · Labor Cost:5010 · Mechanical Labor Cost	Cost of Goods Sold	5010
5000 · Labor Cost:5020 · Frame Labor Cost	Cost of Goods Sold	5020
5000 · Labor Cost:5030 · Body Labor Cost	Cost of Goods Sold	5030
5000 · Labor Cost:5040 · Paint Labor Cost	Cost of Goods Sold	5040
5000 · Labor Cost:5050 · Vac, Sick, Pers, Holiday Cost	Cost of Goods Sold	5050
5100 · Production Taxes / Benefits	Cost of Goods Sold	5100
5100 · Production Taxes / Benefits:5110 · FICA	Cost of Goods Sold	5110
5100 · Production Taxes / Benefits:5120 · FUTA	Cost of Goods Sold	5120
5100 · Production Taxes / Benefits:5130 · SUTA	Cost of Goods Sold	5130

## Chart of Accounts

<u>Account</u>	<u>Type</u>	<u>Accnt. #</u>
5100 · Production Taxes / Benefits:5140 · Medical Insurance	Cost of Goods Sold	5140
5100 · Production Taxes / Benefits:5150 · Worker's Compensation	Cost of Goods Sold	5150
5100 · Production Taxes / Benefits:5160 · Uniforms	Cost of Goods Sold	5160
5100 · Production Taxes / Benefits:5170 · Other Benefits	Cost of Goods Sold	5170
5200 · Parts Cost	Cost of Goods Sold	5200
5300 · P&M Cost	Cost of Goods Sold	5300
5400 · Sublet Cost	Cost of Goods Sold	5400
5400 · Sublet Cost:5410 · Glass Cost	Cost of Goods Sold	5410
5400 · Sublet Cost:5420 · Towing Cost	Cost of Goods Sold	5420
5400 · Sublet Cost:5430 · Other Cost	Cost of Goods Sold	5430
6000 · Management Wages	Expense	6000
6010 · Administrative Wages	Expense	6010
6020 · Mgmt/Admin Taxes/Benefits	Expense	6020
6020 · Mgmt/Admin Taxes/Benefits:6030 · FICA	Expense	6030
6020 · Mgmt/Admin Taxes/Benefits:6040 · FUTA	Expense	6040
6020 · Mgmt/Admin Taxes/Benefits:6050 · SUTA	Expense	6050
6020 · Mgmt/Admin Taxes/Benefits:6060 · Medical Insurance	Expense	6060
6020 · Mgmt/Admin Taxes/Benefits:6070 · Worker's Compensation	Expense	6070
6020 · Mgmt/Admin Taxes/Benefits:6080 · Other Benefits	Expense	6080
6100 · Facility Rent	Expense	6100
6200 · General Insurance	Expense	6200
6300 · Utilities	Expense	6300
6300 · Utilities:6310 · Gas	Expense	6310
6300 · Utilities:6320 · Electric	Expense	6320
6300 · Utilities:6330 · Water	Expense	6330
6300 · Utilities:6340 · Trash Removal	Expense	6340
6400 · Maintenance	Expense	6400
6400 · Maintenance:6410 · Building	Expense	6410
6400 · Maintenance:6420 · Office Equipment	Expense	6420
6400 · Maintenance:6430 · Production Equipment	Expense	6430
6500 · Leases	Expense	6500
6500 · Leases:6510 · Production	Expense	6510
6500 · Leases:6520 · Computer	Expense	6520
6500 · Leases:6530 · Office, other	Expense	6530
6600 · Small Tools	Expense	6600
6610 · Production Supplies	Expense	6610
6620 · Advertising	Expense	6620
6630 · Office Supplies	Expense	6630
6640 · Telephone	Expense	6640
6650 · Bank Fees	Expense	6650
6660 · Training	Expense	6660
6670 · Taxes	Expense	6670
6670 · Taxes:6671 · Property	Expense	6671
6700 · Professional Fees	Expense	6700
6800 · Automobile Expense	Expense	6800
6810 · Interest Expense	Expense	6810
6820 · Depreciation Expense	Expense	6820
6830 · Miscellaneous	Expense	6830
7000 · Interest Income	Other Income	7000
7010 · Non-Operating Income	Other Income	7010
8000 · Non-Operating Expenses	Other Expense	8000