Parts Physical Inventory
Best Practices: How to Avoid Surprises!

With
Bob Palcher
President, Dealer Solutions

and
Christine Andrews
Consultant, Mironov, Sloan & Parziale, LLC

Moderated by
Mike Bowers
Editorial Director, DealersEdge

Presented by
DealersEdge
About the speakers

BOB PALCHER
is the President of Dealer Solutions, Incorporated. Mr. Palcher has over 26 years of retail import and domestic automotive parts and service experience including National Director of Parts Operations for AutoNation, the world’s largest dealer group. Bob is recognized by industry leaders for his expertise in training, inventory management, asset verification, consolidation strategies, and profit improvement by using leading-edge strategies combined with real-world practices. As a frequent speaker for dealer groups, controllers, fixed operations managers, and computer vendors, he has also presented at a number of industry conferences in North America and Mexico. Bob has been featured in industry publications and training videos and assisted in writing training modules and operations manuals.

CHRIS ANDREWS
is a Consultant for Mironov, Sloan & Parziale LLC. She has helped countless dealerships establish procedures to help physical parts inventory line up with what’s in the books. She also has over 15 years experience working in almost every dealership administrative position including finance manager and controller.
Audio Conference Objectives

1. Increase Net Profit
2. Improve Quality of Life!

Reconcile:
To restore to friendship or harmony, settle or resolve differences, make consistent or congruous

4 Keys to Success

- Database Integrity
- Reconciling Items
- Account Accuracy
- Security
Inventory Reconciliation
Best Practices

➢ Inventory Reconciliation Frequency

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________________________________________________________________________
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➢ Database Integrity

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➢ Claims & Returns

________________________________________________________________________
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PARTS PHYSICAL INVENTORY
BEST PRACTICES;
HOW TO AVOID SURPRISES!

➢ Work in Process

➢ Appreciation / Depreciation

➢ Business Management

➢ Security

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PARTS PHYSICAL INVENTORY
BEST PRACTICES;
HOW TO AVOID SURPRISES!

➢ Daily Review

➢ Physical Inventory Process

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VARIANCE!

What Do We Look For?
## MONTHLY PARTS INVENTORY RECONCILIATION

**MONTH OF ________________ 2005**

### ACCOUNTING GENERAL LEDGER

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month-End Inventory Report</td>
<td>$__________</td>
</tr>
<tr>
<td>Cores in stock (New)</td>
<td>$__________</td>
</tr>
<tr>
<td>Cores in stock (Used)</td>
<td>$__________</td>
</tr>
<tr>
<td>Claims</td>
<td>$__________</td>
</tr>
<tr>
<td>Monthly Returns</td>
<td>$__________</td>
</tr>
<tr>
<td>Core Returns</td>
<td>$__________</td>
</tr>
<tr>
<td>Work in Process R.O. Customer Pay</td>
<td>$__________</td>
</tr>
<tr>
<td>Work in Process Warranty</td>
<td>$__________</td>
</tr>
<tr>
<td>Work in Process Internal</td>
<td>$__________</td>
</tr>
<tr>
<td>Work in Process Retail/Wholesale</td>
<td>$__________</td>
</tr>
</tbody>
</table>

### TOTAL ADJUSTED INVENTORY VALUE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFG Packing Slips (plus)</td>
<td>$__________</td>
</tr>
<tr>
<td>Misc. Vendors Purchases (plus)</td>
<td>$__________</td>
</tr>
<tr>
<td>Prepaid Special Orders (Not Received)</td>
<td>$__________</td>
</tr>
<tr>
<td>Parts Invoiced (Not Received) (minus)</td>
<td>$__________</td>
</tr>
<tr>
<td>Appreciation/Depreciation</td>
<td>$__________</td>
</tr>
</tbody>
</table>

### TOTAL

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$__________</td>
</tr>
</tbody>
</table>

### INVENTORY DIFFERENCE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$__________</td>
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</tbody>
</table>

Notes

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________________________________________________________________________

Prepared by: ________________

Date: ________________

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10 QUESTIONS TO ASK AN INVENTORY SERVICE

VENDOR: ____________________

1. Why should I use an outside inventory service?

2. How much retail dealership parts experience do you have with this franchise?

3. How did you get into the retail parts inventory business?

4. How long have you been in the parts inventory business?

5. Why is your service better than other inventory services?

6. What count value variance do you audit?

7. What is your system for the inventory process?

8. Does your personnel have automotive parts experience?

9. How do you recruit, select and train your personnel?

10. Who are your references?

Notes:

___________________________________________________________

___________________________________________________________

___________________________________________________________
Parts Physical Inventory Best Practices: How to Avoid Surprises!

1 - Monthly Parts Reconciliation of GL to Counter Pad
   ▶ Does the dealership perform a monthly reconciliation of the counter pad to the GL?
   ▶ Does the difference exceed a few percentage points?
     If so, is the variance investigated?
   ▶ Are there any trends in the differences?

2 - Make sure invoices are coded correctly
   ▶ Training materials
   ▶ Equipment
   ▶ Small tools
   ▶ Supplies
   ▶ Promotional literature
   ▶ Freight
   ▶ Discounts/Stock Order Allowance should be posted to inventory adjustment

3 - Understand Cores
   ▶ Are they relieved when they are sent back to the manufacturer?
   ▶ Is the Core value a memo on the management report or an amount, which needs to be
     included in the reconciliation?
4 - Control parts returns

► Are the parts removed from GL inventory immediately and set up as a receivable from the manufacturer?
► If your dealership is uncomfortable showing a sale with no profit, then negate the impact by debiting “sales” and crediting “cost of sales.”

5 - Proper cutoffs

► Is the parts invoice date stamped with the date the parts departments enters the quantity into the counter pad and also by the accounting department posting the amount into the general ledger?
► Is the WIP report run timely?

6 - Monthly Factory Parts Statement Reconciliation

► Is the parts statement reconciled on a monthly basis and is it current?
► Do any of the reconciling items impact the counter pad reconciliation?

7 - Routine bin checks

► How frequently does the parts department count the bins?

8 - Run Negative on Hand Report

► Does the dealership review the negative on hand report?
► Are negative on hand quantities adjusted to actual amounts on hand or adjusted to zero?

9 - Parts purchased from outside sources must be entered at the proper costs

► If the part has an established part number in the computer, does the parts department adjust to the cost already in the system?
► If this is being done, where is the difference being posted?
10 - Perform monthly physical inventories of GOG
- Does the dealership take a reading of the oil meter or dip the oil tank monthly?
- Are the costs of the fluids verified regularly?
- Are the correct units used when calculating the cost? (i.e. quarts vs. gallons)

11 - Do not record GL vs. Counter Pad differences until a physical inventory is performed
- When are reconciling differences booked to the general ledger?

12 - Perform yearly Physical Inventory
- How frequent are the physical inventories performed?
- Are proper cut-offs established?
- Is an outside company used?
- Are all required reports timely run?
- Actual count does not have to be at year-end

13 - Control the inventory of shop supplies
- Are the shop supplies charged on a separate ticket?
- Is the ticket closed monthly?

14 - Limit computer access
- Does the dealership limit the number of individuals who can override the system?

15 - Record Appreciation/Depreciation Monthly
- Does the dealership run the parts update tapes monthly?
- Does the accounting department post the appreciation/depreciation monthly?
IN THE EVENT OF A DIFFERENCE ON THE MONTHLY RECONCILIATION OR PHYSICAL INVENTORY

1 - Run GL Detail on All Parts Inventory Accounts
2 - Look @ Set up of Operation Codes to make sure they are coded properly
3 - In accounting, confirm the sources affecting the parts inventory accounts are coded and linked properly. Pay attention to any new accounts, manufacturer financial statement updates or changes within the dealership.
4 - Perform bin checks on a regular basis
5 - Confirm parts update tapes are run
6 - Look at timeliness of cutoffs
7 - Check the GOG costing
8 - Make sure the parts statement is reconciled currently
9 - Run variance report and adjust
10 - Analyze pending credits and WIP