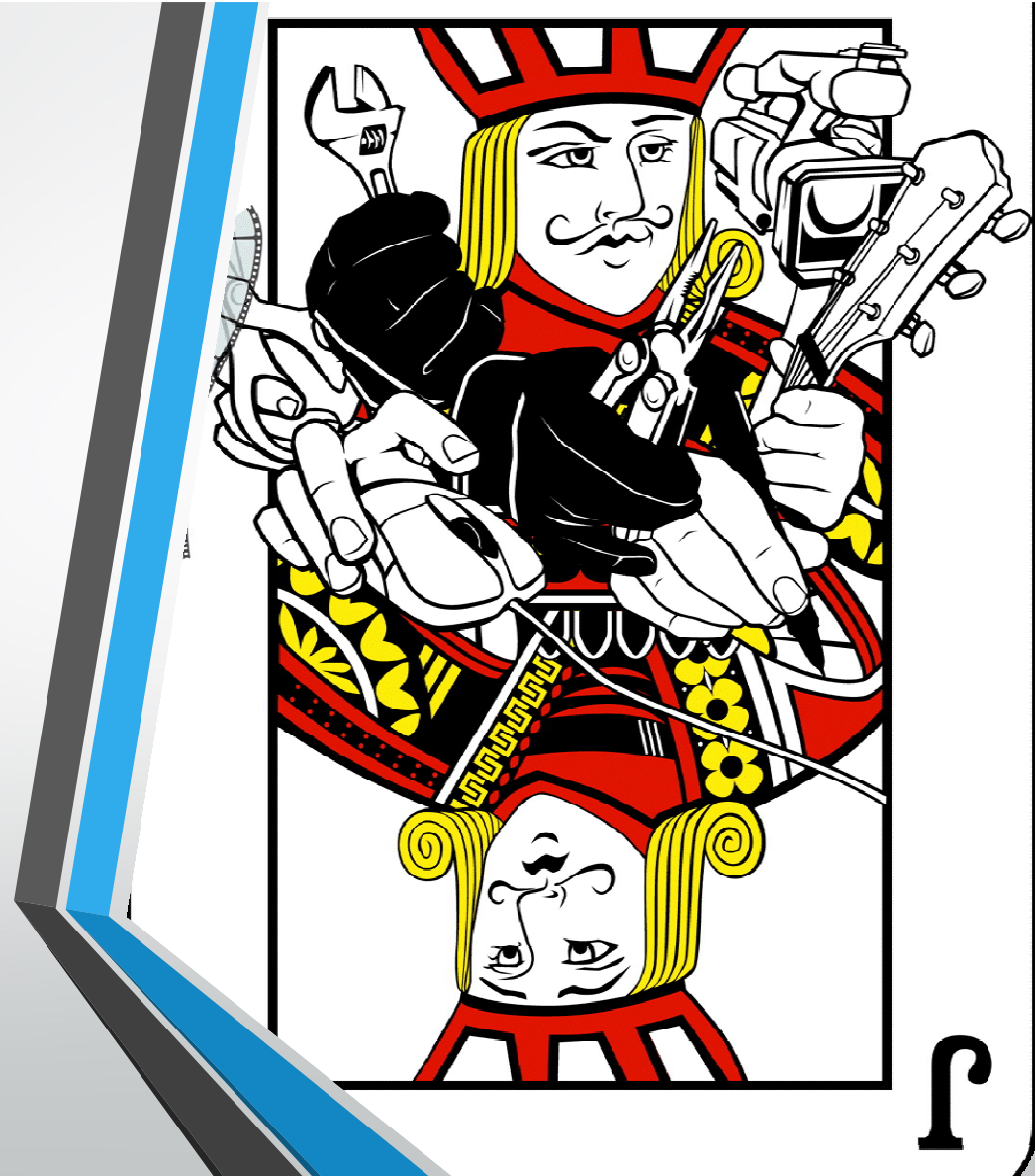


Presented by  
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# Dealership Fixed Assets

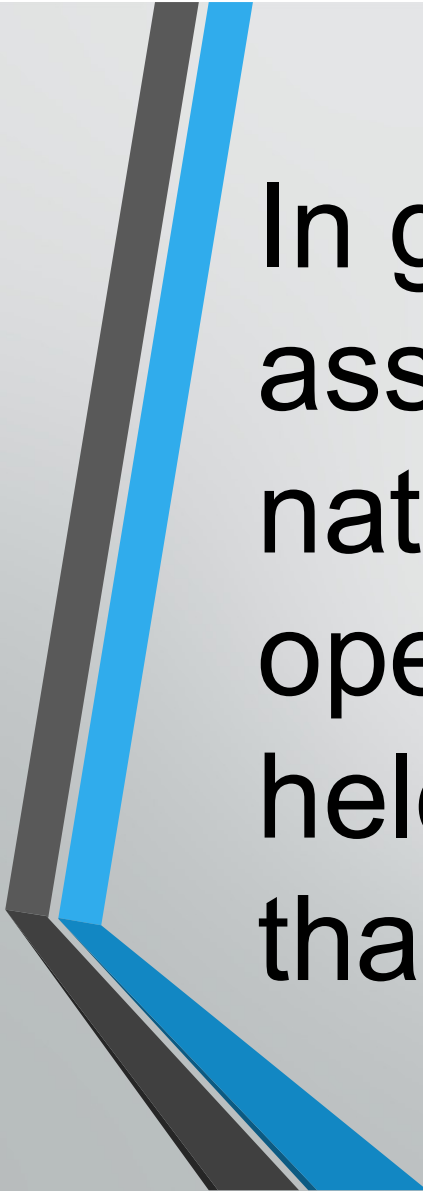
# About the Firm

- Rogers, Clem & Company a public accounting firm located in Covina, CA with a specialization in the automotive industry
- Clients in healthcare, agriculture, manufacturing, and professional services
- We offer assurance services such as audit including 401(k), tax preparation, tax planning, estate planning, business consultation, and payroll services
- The company has three partners with a combined experience of over 50 years in public accounting/automotive industry



# Fixed Assets

- What are they and why do I care?
- Life of a fixed asset
- Repairs & maintenance versus fixed assets
- GAAP versus Tax treatment



In general, a fixed asset is an asset of a durable, tangible nature that is used in the operations of the company, not held for resale, and lasts longer than one year



Identifying Fixed Assets



## Why do I care?

- Because your CPA told you so!
- Because the asset will be used in daily operations for several years, we want to spread the benefit of that asset over its life (like a prepaid) via depreciation.
- US GAAP
- Income tax consequences
- Unsecured (and secured) property taxes

# Life of the fixed asset

- Purchase (Acquisition)
- Getting ready to place in service
- Placing the asset in service (starting depreciation)
- Disposing of the asset

# Acquiring the fixed asset

- 1) When you get an invoice that looks like it could be a fixed asset, questions need to be asked
  - 1) Usually, the cost will be the first indication that you may have a fixed asset on your hands
  - 2) Is there anything else associated with this asset such as additional parts, labor, or installation?
  - 3) When did you start using the asset?





# Getting Ready to Place in Service

- After gathering the information from the previous slide, you'll want to include all the relevant costs incurred to acquire and place into service
- You'll include:
  - The cost of the asset
  - Sales tax
  - Freight/shipping
  - Insurance (if incurred during shipping)
  - Labor if installation was needed (whether an outside company or your own employee – will need good records to support this)
  - Cost of conducting trial runs
  - Interest? (maybe)
  - Less any discounts or returns

# Depreciation

- When the asset is ready to begin to be placed in service, depreciation begins
- What life shall I choose?
- ...depends on the asset! Also CPAs have a cheat sheet
- 5 Years for retail/service equipment
- The default for auto dealerships is the straight line, full month method (as it is with most companies). Although exceptions do exist

## Popular Depreciation Methods

1. Straight-line method
2. Double declining balance method
3. Units of production method
4. Sum of years digits method



# Disposition

- Assets can be disposed of by either throwing them away, abandoning them, or selling them
- And of course, your parts, service, or general manager keep you informed of such activities
- If throw away or abandoned, then you'll write off the Net Book Value (NBV) and recognize either no gain/loss or a loss in the income statement.
- If sold and proceeds are received, you will recognize a gain if the proceeds exceeds the NBV







**... OR IS IT?**



## Repairs & Maintenance

In general, repairs help maintain the normal day to day use of the asset. Think of oil changes on a truck

### BAR Rules

- B - Betterment
- A - Adaptation
- R - Restoration



## Betterment

- Increase capacity of asset or physical enlargement, expansion or extension

## Adaptation

- Change the use of the asset from its original purpose

## Restoration

- Returns the property to its ordinary efficient operating condition if the property has deteriorated to a state of disrepair and is no longer functional
- Roofs, Parking Lot

# IRS Regulations

- After decades of fighting taxpayers in tax court, the IRS issued new regulations surrounding fixed assets in 2014
- IRS set fixed dollar amount (safe harbor) of what could be capitalized and what could be expensed
- Threshold is \$2,500 for non-audited financials and \$5,000 for audited (applicable financial statement) on a PER UNIT BASIS
- Gave examples of what could be expensed or capitalized
- But what about unsecured property taxes? (Make sure to remove disposed of assets)





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Information

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