Financial Management Best Practices/Guidelines

In order to qualify for or maintain registration as a motor vehicle dealer, dealers must conduct business in a financially responsible manner and the dealership must be financially stable.
Creating sound financial management allows dealers and managers to monitor and measure the performance of their dealership in order to ensure financial stability and to effectively and efficiently utilize resources. Dealers who regularly review financial reports, ensure internal audit controls are in place and actively review and evaluate trends are often able to ensure the success of their businesses.

The following guidelines are OMVIC's recommendations to assist dealers in meeting this standard. These "Best Practices" should not be construed as a legal opinion or financial advice. Dealerships are encouraged to speak with qualified financial experts and/or consult with legal representatives if questions arise.

Bookkeeper

If the size or complexity of a dealership is such that the dealer is not able to dedicate the appropriate amount of time or expertise needed to collect, organize and compile financial data, it is wise to retain the services of an accredited bookkeeper or accountant. These professionals are able to assist dealers with the posting and recording of transactions, complete financial statements and monitor employees with the authority to spend company money.

General Ledger

Bookkeeping begins with establishing and maintaining a chart of accounts; this will organize all money entering and leaving the dealership. A journal should be created to record transactions as they occur. A general ledger records all the financial transactions concerning the dealership. For example, the dealership acquires a vehicle (an asset) using money from its chequing account. The inventory would rise by the cost of the vehicle and the accounts payable (liability) would increase by the same amount.

The general ledger should be kept current by recording transactions daily. With an up-to-date general ledger, dealers are able to produce financial statements such as the bank reconciliations, Income Statements or Balance Sheets.
Depending on the size of the business and the complexity of financial transactions, dealers should consider using standard software (e.g. QuickBooks or Simply Accounting) to maintain the general ledger.

Bank Reconciliation

Dealers should regularly review bank statements, cancelled cheques and deposit slips and reconcile them with the cash balance in the general ledger account. Reconciliations should be done on a monthly basis. This monitoring is essential for maintaining a healthy cash flow and for helping the dealer identify any differences between the bank balance and the general ledger. It also allows for the opportunity to identify how money goes into (and comes out of) the dealership accounts in order to identify issues or concerns. This is particularly important for the dealer if there is a number of other individuals responsible for signing cheques, preparing bank deposits or complying with statutory filing obligations (e.g. harmonized sales tax, source withholdings etc.)

Financial Reports: Balance Sheet and Income Statement

Bookkeepers and accountants should annually prepare financial statements such as a Balance Sheet and Income Statement. These statements offer controllers of a business with accurate information detailing the flow of expenses and revenue as well as an up-to-date accounting of assets and liabilities. These statements should be shared with managers who may be able to assist in explaining trends or anomalies. If the dealership has investors or shareholders, financial reports illustrating the health of the business may be required.

Accounts

The MVDA requires that dealers establish a bank account in the name of the dealership and have that account with a bank, loan or trust corporation or a credit union licensed in Ontario. All transactions involving a trade (i.e., sale, lease, purchase, consignment etc.) in a motor vehicle must be processed through this account. The MVDA also requires dealers maintain payment records concerning payments to and from the dealership. Such records would include commission records, copies of cheques, receipts, invoices, bills of sale etc. Anyone having signing authority on the bank account should review this documentation before authorizing the release of funds from the bank account.

Deals/Trades

There are commercially available products such as deal jackets/folders that allow dealers to record and organize information and documents related to each sale or lease. Maintaining all records outlined in Section 3.05 is required by the MVDA, and the aforementioned products may assist dealers in meeting these requirements.

Responsibility of the Dealer

A dealer may delegate responsibility for financial management to a comptroller, bookkeeper or employees of the dealership. However, the dealer is ultimately responsible for ensuring the business is run in a financially responsible manner and for monitoring the financial position of the dealership. Accordingly, dealers should have a process for monitoring the performance of individuals who assist with financial management. As a minimum, dealers should review and sign off on financial statements. To the extent possible, dealers should segregate duties. For example, the person who prepares monthly bank reconciliations shouldn't be the same individual who has signing authority on the bank account. Dealers should also consider conducting periodic audits, such as taking a physical inventory of vehicles, to ensure they reconcile with what is recorded in the general ledger.