

# Handling Purchases and Trade-in of Motor Vehicles in QuickBooks

## Aim

The aim of this paper is to give the reader an understanding of how to correctly record the purchase of a motor vehicle. To make the transaction as real as possible, the example I use involves a deposit, a trade-in, financing, and payout of an existing loan.

My aim is not to cover the full accounting treatment: your accountant will still need to do journal entries at the end of the year to cover depreciation, disposal of the asset at written-down value, etc. This treatment will do enough of the accounting to set up the accounts and to claim the GST Input Tax Credit, yet still make sense to your accountant.

## Versions

This paper was written using QuickBooks 2008-09. The procedures can be used in all versions of QuickBooks.

## The Transaction

My trusty Honda CR-V is starting to show its age, so I decide to trade it in on a new Honda Accord. I go down to Harry's Hondaworld and strike the following deal:

<b>New Vehicle</b>	<b>Price Incl GST</b>	<b>GST Amount</b>
Honda VTi Luxury	38,500	3,500
Stamp Duty	1,500	0
Rego (only a portion with GST)	500	25
Business Accessories (Roof-Mounted DVD)	495	45
<b>Sub-Total</b>	<b>40,995</b>	<b>3,570</b>
<b>Less Trade-In</b>		
Honda CR-V	5,500	500
Less Payout to Ozzie Loans (old CR-V loan)	2,500	0
<b>Net Trade In</b>	<b>3,000</b>	<b>500</b>
Less Deposit Paid via Cheque	500	
<b>Amount Financed by ABC Bank</b>	<b>37,495</b>	

The documents from ABC Bank show that I will pay \$6500 Interest over the term of the loan plus a Loan Establishment Fee of \$350. Total Loan commitment is \$44,345. Loan Repayment is \$923.85 over 48 monthly payments.

## Approach to the Transaction

Like many complex transactions involving multiple transactions, the best approach is to set up a dummy bank account called "Clearing Account" and enter the transaction through this account.

## Step 1 - Set up New Accounts

You will need to set up these Accounts via Lists > Chart of Accounts > Right Click > New. Accounts marked \* may already exist. If they don't, create them.

Account Name	Account Type	Purpose/Notes
Clearing Account	Bank	For our transactions
Motor Vehicles at Cost*	Fixed Asset	To record the new car.
Loan Honda CR-V*	Long Term Liability	IMPORTANT - DON'T ENTER AN OPENING BALANCE!
Loan Honda Accord	Long Term Liability	
Unexpired Interest	Long Term Liability	To record interest component of the loan
Proceeds of Asset Sales	Other Income	To record Trade-in Income
Borrowing Costs	Other Asset	To record Loan Fees
Motor Vehicles:Rego *	Expense	To record Rego Expenses

## Step 2 - Set up New Item for Trade-in

You will need to set up an item to record the trade-in income with GST via List > Items > Right Click > New. Note that Account equals "Proceeds from Asset Sales".

The screenshot shows the 'New Item' dialog box with the following fields and values:

- Type: Other Charge (Use for miscellaneous labour, material, or part charges, such as delivery charges, setup fees, and service charges.)
- Item Name/Number: Asset Sale
- Subitem of: (empty)
- This item is used in assemblies or is a reimbursable charge
- Description: Proceeds from Sale of Assets
- Amount or %: 0.00
- Tax Code: GST
- Account: Proceeds from Asset S
- Amt's Inc Tax

Buttons on the right: OK, Cancel, Next, Custom Fields, Spelling.

### Step 3 - Paying the Deposit

Write a cheque for the Deposit. Note - use Tax Code X or leave tax code blank.

Write Cheques - ABC Bank

Bank Account: ABC Bank Ending Balance: \$18,790.58

No. 1235  
Date 15/12/2009

Pay to the Order of Harrys Hondaworld \$ 500.00

Five hundred dollars and 0 cents\*\*\*\*\*

Address: Harrys Hondaworld

Memo: Deposit on Honda Accord

Expenses \$500.00 Items \$0.00

Account	Tax	Net Amt	Tax Amt	Memo
Clearing Account	X	500.00	0.00	Deposit on Honda Accord

Name	Balance
ABC Bank	18,290.58
Clearing Account	500.00

The Balance of the Clearing Account is now \$500,

### Step 4 - Recording the Trade-in

The trade-in needs to be recorded via a Sales Receipt (or Tax Invoice & Receive Payment). Enter as follows, using the Asset Sale item from Step 2.

Enter Sales Receipts

Customer: Job Harrys Hondaworld- Class

Date 15/12/2009 Sale No. 69

Sold To: Harrys Hondaworld- 1234 Old Highway

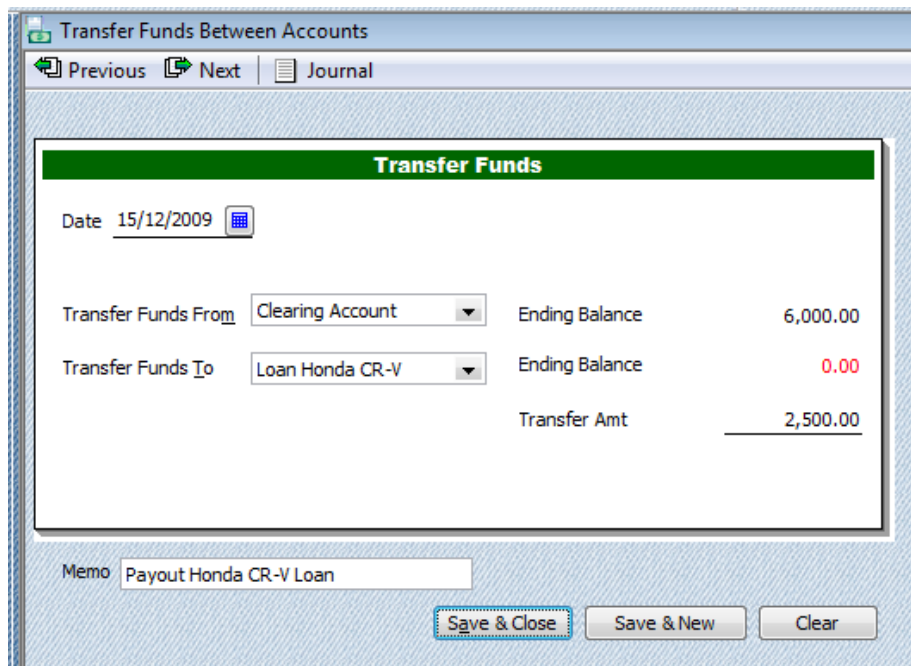
Item Description Qty Rate Tax TAX AMT Class Amount

Asset Sale	Proceeds from Sale of Assets - Trade-in Honda CR-V 2004 Rego ABC-123	1	5,500.00	GST	500.00		5,500.00
						Total Tax	500.00
						Total	5,500.00

Deposit To: Clearing Account

### Step 4 - Payout the Existing Loan on the Honda CR-V

The car dealer will normally payout the existing loan on your behalf. Record this via Banking > Transfer Funds.

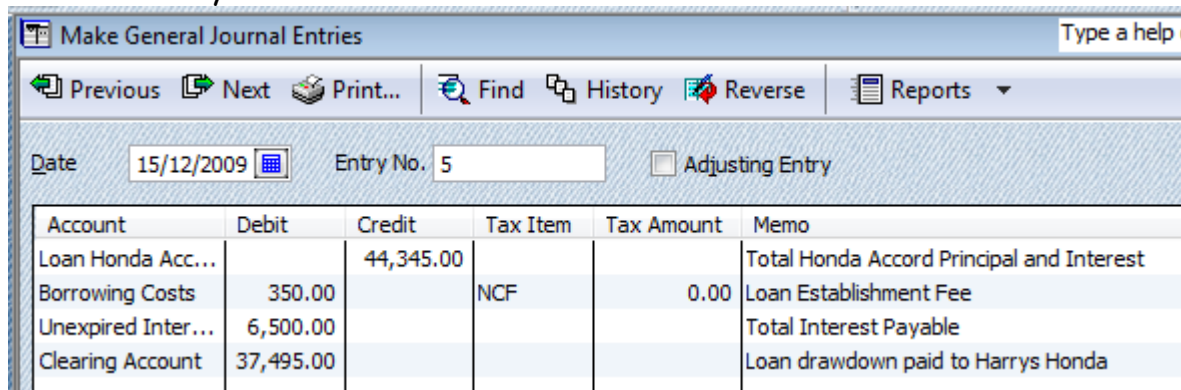


Balance \$6,000 equals \$5,500 Trade-in plus \$500 Deposit

Note that the QuickBooks balance of the CR-V Loan Account is unlikely to be exactly the amount of the payout. Don't worry about this for now. Balance of Clearing Account should now be \$3,500.

### Step 5 - Process the New Loan

This is best done via Journal Entry (Company > Make General Journal Entries). Be careful with this entry.



The Balance of the clearing account should now be equal to \$40,995 - the cost of the car.

Account Balances	
Name	Balance
ABC Bank	18,290.58
Clearing Account	40,995.00



## Step 6 - Record the Purchase

I can now "Write a cheque" from the clearing account to record the purchase.

Write Cheques - Clearing Account

Previous Next Print Find Journal


Bank Account **Clearing Account** Ending Balance \$0.00

No. 1  
 Date 15/12/2009  
 \$ 40,995.00

Pay to the Order of Harrys Hondaworld  
 Forty thousand nine hundred ninety-five dollars and 0 cents\*\*\*\*\*

Address Harrys Hondaworld

Memo



Expenses	\$40,995.00	Items	\$0.00	Cash/Cheque			
Account	Tax	Net Amt	Tax Amt	Memo	C.	B..	Class
Motor Vehicles at Cost	CAG	38,500.00	3,500.00	Honda Accord VTI 2009 Model Rego XYZ-123			
Motor Vehicles at Cost	X	1,500.00	0.00	Stamp Duty (note: Non-BAS Transaction)			
Motor Expense:Rego	NCG	275.00	25.00	Rego - GST Component			
Motor Expense:Rego	NCF	225.00	0.00	Rego - GST Free Component			
Motor Vehicles at Cost	CAG	495.00	45.00	Vehicle Assessories			

Supplier Tax Code   Amounts include tax Total Tax 3,570.00

Note that if your Vehicle exceeds the Luxury Car Limit (2008/09 currently \$57,180), then you will need to split the car purchase into a claimable component (57,180 inc, tax code CAG) and a non-claimable component (the amount over \$57,180 - tax code CAF).

Once you have recorded the transaction, check that the balance of the clearing account is zero.

Account Balances	
Name	Balance
ABC Bank	18,290.58
Clearing Account	0.00

The Tax Liability Report (Reports > Tax > Tax Liability) following shows that all GST has been accounted for:

**Stadium Construction & Hardware Pty Ltd**  
**Tax Liability Report**  
 December 15, 2009

	◇ Dec 15, 09 ◇		
<b>GOODS AND SERVICES TAX</b>			
GST due on sales	500.00	←	GST on Trade In
GST reclaimed from purchases	3,570.00	←	GST on Accord, DVD, & part Rego
Net GST to pay (or reclaim if negative)	-3,070.00		
Total net value of sales (ex GST)	5,000.00		
Total net value of purchases (ex GST)	35,700.00		
Total Input Taxed & GST Free Sales	0.00		
Total Input Taxed & GST Free Purchases	2,620.00		

**Balance of the Old Loan**

If the loan on your old vehicle was the type of loan where you are provided Bank Statements, then you should be able to reconcile the loan to a zero balance.

If not, either leave it for your accountant to handle, or transfer the QuickBooks balance of the account to a Suspense Account for the Accountant to handle later.

**Realised Gain or Loss on the Sale of Asset**

To calculate this, your Accountant will calculate depreciation up to the date of sale, and record this against accumulated depreciation for the old vehicle. This figure is deducted from the initial purchase price to give you the Written-Down Value (WDV).

The Original Cost and Accumulated Depreciation are then transferred to the "Proceeds from Asset Sales" Account via General Journal. This will offset against the Trade-in Price (Net of GST) already recorded to derive a gain/loss from sale.

Item	WDV is \$4,800	WDV is \$5,400
Trade-In	+\$ 5,000	+\$5,000
Less Original Cost	-\$32,000	-\$32,000
Plus Accumulated Depn	+\$27,200	+\$26,600
Realised Gain / Loss	\$200 Gain	\$ 400 Loss

-- End --