THE MAIN DISH

Fall 2016

ABOUT US

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How to Create a Budget for the New Year

By Brian Campbell, CPA

The New Year will be here before you know it. From an accounting perspective, one of the very first things you should have completed for 2017 is a budget. Budgeting helps with controlling restaurant resources while providing a plan on how a restaurant will achieve its goals for the upcoming year. You might ask, what are some key steps in creating a budget? Well, I am glad you asked, because I was about to provide you with a few of my thoughts and ideas!

- Typically, a budget is created sometime in November/early December. This time frame will allow you time to discuss the budget with management to ensure everyone is on the same page and expectations have been set prior to the start of the year.
- You need to brainstorm regarding your revenue and expense activity for the upcoming year. Do you feel you can increase your revenue 5%, 10%, 15% or even 20% from the prior year? The increasing cost of commodities and/or salaries and benefits may force you to charge more for menu items, which automatically will result in increased revenues. Perhaps, you will have more marketing efforts and expenses in the upcoming year that you hope will result in increased revenue.
- Do you have any one-time expenses in the prior year that you do not believe you will have in the current year or vice versa?
- After you have brainstormed on what you want to achieve in the upcoming year and how you will achieve it, it's time to start putting together your budget.
- Start with your prior year income statement presented on a monthly basis (if we are doing a budget for 2017, you would be using your 2016 income statement). Some accounting packages will allow you to create a budget template for the upcoming year based off the prior year's activity.
- Now, go line by line starting with revenue and adjust each month's revenue amounts from the prior year for what you want to achieve in the upcoming year. If you believe revenue will increase 5% over the prior year, then set your revenue budget at 105% of the prior year's amount.
- Next, budget your cost of goods sold (food, beverage and liquor costs). I would suggest you have a target of what these costs should be as a percentage of revenue. Using historical cost percentages, standards for the industry and maybe some negotiations with your vendors, come up with a realistic cost as a percentage of revenue for each of these items. It will take a lot of work to monitor these costs on a month-to-month basis to ensure actual costs stay in line with your budget.
- Payroll is probably the next major cost category to budget. As your revenue fluctuates, so should your labor costs. Budget your labor costs as a percentage of revenue for each month.
- General and administrative costs (I think of these as controllable and non-controllable costs) are the next area of costs to budget. Examples of your controllable costs are supplies, cleaning, linens, smallwares, uniforms, marketing, utilities, repairs and maintenance, administrative wages, etc. Examples of your non-controllable costs are occupancy costs, depreciation, equipment rentals, etc. Using your prior year costs in these areas should be a good indication of what to expect in the upcoming year. Controllable costs may fluctuate a bit based on what you budget for revenues, so keep this in mind. However, non-controllable costs should not fluctuate with revenue and should be pretty consistent with the prior year.

Once you have addressed the above revenue and expense items on a line by line, month by month basis, you will have a great start for your budget. You will need to review it and critically question line items to determine if they are realistic and achievable. Be sure to include management in the review process. They will be instrumental to the success of maintaining and sticking to the budget.

After your critical analysis is completed, your budget is final and you are ready to implement in the upcoming year. You will need to monitor your budget on a month by month basis. If you are not meeting your budget, you will quickly need to determine why so appropriate changes can be made.

If you have any questions, Brian can be reached at (480) 839-4900 or BrianC@hhcpa.com.



Tappas

OpenTable has unveiled the 100 Best Restaurants for Foodies in America for 2016. Two Arizona restaurants made the List: Kai at the Sheraton Grand at Wild Horse Pass in Chandler and Monarch in Scottsdale. The list is drawn from more than 5 million restaurant reviews.

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What do Americans love more than their iPhones or computers? Food apparently. According to a new Gallup poll, consumers voted restaurants as the top business sector, giving it a 66% positive rating. The poll ranks perceptions of 24 business sectors and the federal government. The computer industry came in second. The federal government ranked last.

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A study by Rutgers University is debunking the so-called five second rule. No matter how fast you pick up food that falls on the floor, you'll pick up bacteria with it.

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2016 Year-End Tax Planning

By Kelly Lynch, CPA

With football season now in full swing and the Presidential election just weeks away, the year is quickly coming to a close. Since this is an election year, not much in the way of new tax laws have been brought to the table. However, late last year, the Protecting Americans from Tax Hikes Act (PATH Act) was passed and extended the expiration dates of many depreciation provisions and made other expiring provisions permanent. This now paves the way to effectively plan for the year-end.

First and foremost, if any operator has opened a new location and has quite a bit of contracting costs, a cost segregation study could benefit in the way of larger deductions up front and increased cash flow. A cost segregation study involves analyzing all the costs that were spent in the construction and design of the new restaurant. Now would be the time to start reviewing those costs to determine what tax deductions can be taken for 2016.

The PATH Act also made changes to some of the depreciation expensing provisions that could help in the way of new asset purchases in 2016. Bonus depreciation was extended to apply to property placed in service through 2019. For 2016, the bonus percent rate is 50%. So for example, if there is kitchen equipment that was purchased for $10,000, the first year deduction would be $5,000. The key to taking bonus depreciation is that the asset purchased needs to be brand new and not used. Also, bonus depreciation generally does not apply to buildings or real property.

In addition to bonus depreciation, an operator could utilize an expensing election under Code Section 179. The PATH Act permanently extended the $500,000 annual cap and the $2 million investment limitation. In planning for the 2016 year-end, summarizing the purchases of restaurant equipment, furniture or other assets would provide a tax advisor information needed to let the owner know of the best use of these tax depreciation deductions.

Finally, the PATH Act permanently extends the 15-year recovery period for qualified restaurant property. Without the extension, a 39-year recovery period would have applied. Qualified restaurant property is broadly defined as any improvement to a restaurant and also includes a restaurant building.

There are other housekeeping items to follow up on before year-end. First, if an operator has a payroll provider, it may be a good idea to reach out to them and check to see if they are keeping track of the so called tip credit. This is a credit that is available to owners that could affect their tax liability.

Next, it would be a good idea to review payments made to any nonemployees for services rendered for the year. The IRS has changed some of the reporting dates for issuing Form 1099s, which reports these payments. In general, a Form W-9 should be completed by this nonemployee that provides basic information including a Social Security number or other tax identification number. Penalties for noncompliance can add up, so it is better to be on top of this now rather than later.

These are just a few reminders. There is plenty of time left to plan, but the key is to begin thinking now so you can rest easy going into 2017.

If you have any questions Kelly can be reached at (480) 839-4900 or KellyL@hhcpa.com.