



# THE MAIN DISH

Fall 2012

## ABOUT US

*Henry & Horne, LLP is one of the leading accounting firms in Arizona with offices in Tempe, Scottsdale and Casa Grande. We combine the knowledge and expertise of a premier consulting firm with the personal attention of a local CPA, meaning unmatched service to you.*

*Our services include: daily, monthly and annual bookkeeping and accounting; audit, review and compilation of company financial statements; audits of 401(k) plans; tax planning and compliance; tip reporting and compliance; cost segregation studies; internal control reviews; estate, trust & gift services; and valuation and litigation support services.*

### **Your Restaurant Team:**

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## Important Financial Ratios for Restaurants

**By Brian Campbell, CPA**

I am sure you have heard it over and over again but having a great set of financial statements (balance sheet, income statement and statement of cash flows) provides you the opportunity to know the financial health of your business. Knowing the financial health of your business in a timely (within days for weekly income statements and within a week for a set of month end financials) manner is one major key to success.

I am going to provide you some key ratios (all measured as a percentage of sales) to consider when reviewing your financial statements, specifically your weekly and monthly income statements.

- Food costs – 32% or less of food sales
  - o Fine dining establishments will be more than 32% and could be as high as 40%
- Liquor costs – 20% or less of liquor sales
- Bottled beer costs – 28% or less of bottled beer sales
- Draft beer costs – 18% or less draft beer sales
- Wine costs – 40% or less of wine sales
- Non-alcoholic beverage costs – 15% or less of non-alcoholic beverage sales
- Labor costs
  - o Wages (servers and administrative)
    - Full service restaurants – 20% or less
    - Quick service restaurants – 17% or less
  - o Management salaries – 10% or less
  - o Employee benefits
    - Full service restaurants – 6% or less
    - Quick service restaurants – 5% or less
- Prime cost equal total food and beverage cost and labor costs
  - o Full service restaurants – 65% or less
  - o Quick service restaurants – 60% or less
- Controllable expenses – 18% or less
- Non-controllable expenses – 12% or less
- Occupancy costs – 10% or less
  - o Rent costs – 6% or less
- Net income before taxes
  - o Full service restaurants – 6 to 8%
  - o Quick service restaurants – 8 to 10%

The above percentages are industry standards. Keep this in mind when comparing these ratios to your restaurant. The ratios can be affected by various factors including the type of restaurant, location of the restaurant, management of restaurant, labor cost and occupancy cost in a certain area or city and food cost in a certain area or city.

If you need assistance in analyzing your restaurants' financial statements, do not hesitate to call one of our restaurant professionals.

**If you have any questions Brian can be reached at (480) 839-4900 or [BrianC@hhcpa.com](mailto:BrianC@hhcpa.com).**



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## Tappas

*According to the National Restaurant News, fall menus will feature chicken, bold sauces and pumpkin flavored everything.*

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*According to Entrepreneur, five technologies changing the restaurant industry are: touchscreen food vendors, tablet restaurant management, automatic biodiesel converters, LED alert systems and webcam-enabled monitoring.*

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*According to the Nation's Restaurant News, restaurant chains are investing in digital signage and display cooking as they begin to focus on the customer's visual experience.*



## Tips On Implementing PPACA Reforms

By Kelly Lynch, CPA

The Supreme Court, by a margin of 5-4 has largely upheld the Patient Protection and Affordable Care Act (PPACA), including the individual mandate - the requirement that most Americans buy insurance or pay a penalty.

For restaurant operators, the time to take action has come. While many large companies have been studying the possible implications of reform for a while, it is time for smaller operators to get going as 2014 is not that far off.

Under the law, employers with 50 or more full-time or full-time equivalent employees are required to offer health insurance to those employees and their dependents or pay a penalty. The minimum penalty is \$2,000 per employee. The mandate to offer coverage goes into effect in 2014.

So, what should the smaller restaurant operator be doing in the meantime? Although the details surrounding many of the law's requirements are yet unknown, the following will help restaurant operators implement the reforms.

**1) Evaluate the size of the workforce.** An analysis of the workforce is necessary to determine if the mandate applies to you. A review of employment records will help evaluate how many part-time and full-time workers you have. A full-time employee is a person who works 30 hours or more per week on average in any given month. The Treasury Department has proposed defining a full-time employee as an individual who works 130 hours in a calendar month. Keeping accurate employee records is essential.

**2) Evaluate the business structure.** If you are a restaurant owner who operates several businesses, the IRS's common control rules will determine if the group falls in the mandate (50 or more full-time employees) or if they can be considered separate. These rules are complex to work through so be sure to consult with your tax advisor to determine if they apply to you.

**3) Evaluate what is being offered currently.** Typically, coverage may have only been available to owners and perhaps key employees, but that will not work under the new rules. Employers covered by the mandate must now offer full-time employees "affordable" health plans that meet a "minimum value" standard. The law considers a plan "affordable" if full-time employees are not required to spend more than 9.5% of their household income on monthly premiums. Given the difficulty of knowing what an employee's household income is, the employer could use the employee's W-2 wages as documentation.

**4) Prepare for new reporting requirements.** Employers subject to the mandate will be required to report to the IRS by January 31st each year detailed information about the plans they offer and to whom. Beginning in March 2013, employers will be required to educate employees about the state-based "exchanges" that are expected to become a primary marketplace for individuals and small businesses to buy insurance. Additional information is to be disclosed on W-2s depending on the number of employees you have.

These are just some of the steps that should be taken to implement the new health care reform law. However, keep an eye on the election. If Obama wins, the bill stays basically intact. If Romney wins and the Senate goes Republican as well, look for parts of the legislation to be modified. Our recommendation would be to discuss the costs of various alternative plans with your insurance broker.

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



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