THE MAIN DISH

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ABOUT US

Henry & Horne 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, gift & trust services; real estate appraisal and consulting; and valuation and litigation support services.

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Accounting Standards Update for Leases

By Brian Campbell, CPA

For those of you that prepare your internal financial statements on a GAAP basis, or have an outside CPA that prepares your financial statements on a GAAP basis, the FASB has finalized the new accounting rules for accounting for leases. The new accounting standards update was released on February 25, 2016. Entities that currently have equipment and real estate leases that are treated as operating leases will probably be those most affected. As a result of the new accounting standard, many entities will need to add lease related assets and liabilities to their balance sheets. This could result in compliance issues with contract agreements and bank covenants.

Accounting Standards Update ("ASU") 2016-02 requires a lessee to recognize the assets and labilities that arise from a lease whether the lease is an operating or finance lease. If a lease term is 12 months or less, a lessee can adopt an accounting policy to not recognize the lease as an asset or liability and recognize the lease expense on a straight line basis.

To record the liability, an entity will follow a similar approach to recording a capital lease under current accounting standards. The liability will be equal to the present value of the lease payments and the asset will be the same amount, subject to certain minor adjustments. For income statement purposes, operating leases will be recognized on a straight line basis whereas finance leases will be front loaded (similar to capital leases currently).

Over the next year, companies will need to start thinking about and analyzing how this new ASU will affect their financial statements, especially when bank covenants are in place. Bank covenants will most likely be violated as a result of adopting this new ASU. Proactive communication with your bankers and modification of bank covenants prior to implementation is a must and will be important in ensuring a successful transition to the new accounting guidance.

The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for any of the following:

- A public business entity
- A not-for-profit entity that has issued, or is a conduit bond obligor for securities that are traded, listed, or quoted on an exchange or an over-the-counter market
- An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission

For all other entities, the ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

Early application of the ASU is permitted for all entities.

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

Tappas

Research Group NPD has named Tucson as the best medium-sized market to open a quick service restaurant. Tucson has an 8% forecast growth through 2020.

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Consumers view themselves as the reason for restaurants making menus "cleaner". According to a new study by Hill+Knowlton Strategies, 40% of consumers think fast food restaurants are making menus healthier because they have no choice but to follow the trend. Another 38% think it's because customers are demanding the change. Only 4% think restaurant leaders are doing it because a more healthful approach is the right thing to do.

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Visits to grocery stores for in-store dining or take-out prepared foods have grown 30% since 2008. Consumer Reports estimates that prepared meals purchased from grocery stores brings in $29 billion a year.

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New Overtime Rules for Salaried Employees Coming Soon

By Dan Mace, CPA

The U.S. Department of Labor (DOL) sent their new overtime rules to the Office of Management and Budget (OMB) in March. These new rules have been talked about a lot since President Obama targeted overtime compensation as a key area in need of reform in a memo to the DOL in March 2014. Well, after a couple of years of government in action, the new rules are now approaching. With the rules now submitted to the OMB, they will be reviewed within 30-90 days, which would put them being published no later than June. After they are published, employers will have 60-90 days to comply, which would mean that these new rules could be in effect and enforceable as soon as July, and as late as September. Regardless, these rules are coming and everyone needs to be sure that they are in compliance.

Who is affected?

These new rules affect executive, administrative, and professional employees that are paid a salary. The current rules require a minimum salary of $455 per week ($23,660 per year), that employees receive their full salary any week they perform work, regardless of the quality or quantity of work, and that certain criteria be met regarding their duties (depending on the job classification).

The new rules change only the minimum salary requirement by increasing it to $970 per week ($50,440 per year). Note that there is also a change for highly compensated employees that is not discussed in this article. In addition, there will be automatic updates to the salary threshold annually.

What should you do now?

There are a few steps that you should do right away. First of all, you should take a look at the compensation of your salaried managers. If you are above the new threshold, you will not have to do anything to remain in compliance. If you have exempt employees that are below the new threshold, you will need to make a decision on how you are going to get in compliance. In order to make that decision, you are going to need to get some information. Since there are still a few months before these new rules become effective, you can take this time to closely monitor your managers and employees to find out the best way for your business to comply. In order to make an informed decision, it will be vital to know exactly how many hours your exempt employees are working.

What are your options?

The first option is very straight forward. You can increase your exempt employees pay to at least the minimum threshold. If you have exempt employees that are very close to the threshold, this may make economic sense.

The second option is to convert the exempt employee to a non-exempt hourly employee. You will need the information you obtained about the hours the employee is working. You will need to take into account that any work performed over 40 hours each week will need to be paid at time and a half. This also means that these management employees who may not be accustomed to "clocking in and out" will now be required to record their time. This can become cumbersome and your management may lose some flexibility (for example, if you have a manager that does the schedule at home so they can spend some more time with their family, they would either not be able to perform that task at home, or they would have to keep track of any work they are performing while out of the office).

These rules can be burdensome and with the significant increase in the threshold, there are going to be a lot of restaurants that will be affected. We would be glad to meet with you to help you come up with a plan for complying with these new rules.

If you have any questions Dan can be reached at (520) 836-8201 or DanM@hhcpa.com.