New technology in the restaurant industry
By Brian Campbell, CPA

The "Cloud." We see this word everywhere. What is it really? Google defines "cloud" as a visible mass of condensed water vapor floating in the atmosphere. Not the definition I was expecting. I had to look up "cloud computing," which is the practice of using a network of remote servers hosted on the internet to store, manage and process data, rather than a local server or personal computer.

The term cloud computing can be traced back to maybe the late 90s (some may argue earlier) but it was really made popular in 2006 when Amazon created its subsidiary Amazon Web Services and introduced Elastic Compute Cloud. From 2006 to 2012, it seemed like every technology company was racing to create and introduce their products. Cloud computing has resulted in new technologies in the restaurant industry to help with the success of your restaurant.

Starting on the accounting side, most restaurant-specific accounting packages are more management focused, allowing you to perform your accounting, inventory management, labor management, food and menu costing all in the same software. These softwares also link electronically to your point of sale, to vendors for transmitting of invoices, payroll companies for importing payroll details and banks for transferring of money and importing of day to day transactions. This saves time from having to hand code all this information into a general ledger.

Artificial intelligence (AI) is another technology on the rise. I have seen numerous technologies that will scan an invoice and, using trained AI, automatically read it, determine who the vendor is, review the invoice for correct pricing and then link up to your general ledger accounting software to automatically record the transaction.

The use of mobile devices will continue to increase and any technologies that take advantage of them will have a direct impact on your bottom line. The use of loyalty programs and tracking of customer preferences is being used to customize offers, coupons, discounts and menus to send via text rather than email. Text messages have an open rate in the high 90th percentile versus emails and this results in increased opportunities for sales.

Online ordering is another key technology to consider implementing. This helps customers save time by avoiding long lines and because the customer is not rushed, there is the tendency to have larger takeout and delivery orders. Mobile apps and mobile wallet payment methods are also growing in popularity. More and more people prefer to pay in this manner versus pulling out a credit card which saves time for servers.

Finally, the mobile point of sale technology allows servers to transmit orders straight from a customer's table resulting in a savings of time and an increase in the accuracy of customer orders.

The technologies being developed are boundless and there will probably be 10 new ones developed by the time this article is published. The move to these technologies needs to happen to remain competitive in an environment of increasing operating cost and competition from other restaurants.

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

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The Main Dish

Tax rules on intangible assets
By Kelly Lynch, CPA

Restaurants encounter many federal tax-related issues in their operations. One issue is the treatment of intangible assets – long-term resources of an entity but have no physical existence. The tax treatment is generally consistent on these items. Here are some intangible assets typically recorded on a restaurant's financial statements and how to treat them for tax purposes.

Franchise costs. A good portion of the restaurant industry is made up of franchised restaurants. There are some real advantages to owning a franchise, especially one that has brand recognition and a strong marketing program.

Take a Subway franchise, for example. A Subway franchisee has instant brand recognition and gains the trust of customers that generally takes many years to build. Franchisees also have an advantage with the in-depth training process already in place and are turnkey ready.

Here are the tax rules you need to know related to franchise costs. The acquisition of a franchise is capitalized and can be amortized or written off over 15 years regardless of the actual useful life. Franchise renewals must be amortized over 15 years as well. Ongoing franchise fees, such as 8% of gross revenue, paid to the franchisor are deductible, however.

Liquor licenses. Most full-service restaurants typically have liquor licenses in one form or another. For tax purposes, liquor licenses are also amortized over 15 years. However, licenses purchased on or before August 10, 1993, are not amortizable.

Goodwill. Goodwill is generally created upon the acquisition of a restaurant's assets. The buyer and seller agree to allocate the purchase price over the various assets of the restaurant. This typically includes:

- Inventory
- Kitchen equipment
- Furniture and fixtures
- Computer equipment
- Leasehold improvements

Any additional amounts are allocated to goodwill, which represents the value of the restaurant name, brand, logo and recipes, just to name a few of the intangibles. Like the previous two intangible assets, goodwill is amortized over 15 years.

Finally, if the restaurant activity is abandoned, any remaining unamortized balance can be taken in the final year of operation. If you have any questions, contact your Henry+Horne tax advisor.

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

> *Henry+Horne has performed several audits of our annual financial statements, and each year they have submitted the reports on or before deadline. All members of the engagement team are very knowledgeable, extremely responsive and professional.*