THE MAIN DISH

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Managing Cash Flow

By Brian Campbell, CPA

Managing cash flow in your restaurant is probably one of the most important financial aspects of operating a restaurant. We talk a lot about reviewing weekly income statements in order to monitor food and labor costs, but just as important as monitoring your food and labor costs is managing cash flow.

You might ask: why is it important to manage my cash flow if my restaurant is generating net income each week? Doesn't positive net income mean that I am generating positive cash flow? Cash flow is not the same as net income. If you are keeping your books on a true cash basis, then your cash basis net income may approximate your cash flow for the month. However, I would not recommend you keep your accounting records on a cash basis. I recommend that you keep your accounting records on an accrual basis. The accrual basis will more accurately reflect what your true net income is for a given period, as all expenses incurred will be matched to the revenue generated for that period. For instance, if you are keeping your books on a cash basis, revenue will be recognized when customers pay for their check, but labor costs may not be recognized until the following period when employees receive their actual pay checks. Net income may not also equal cash if you have receivables, for example, from catering events. Catering services could result in you not being paid for these services until the following period and hence, another reason why net income is not the same as cash flow. The last major difference that could result between net income and cash flow is the purchase and depreciation of new equipment. Purchases of new equipment are not included in net income for a period but rather are recorded as a fixed asset and depreciated, and the depreciation of the fixed assets are included as an expense in net income but should not be included as a cash outflow.

You do not want to find yourself in a position with tight or negative cash flow. Cash flow issues can be a distraction to an owner and the operations of your restaurant. In addition, if there is a lack of cash flow you may have to push vendor payments and as a result, vendors may push back with delaying deliveries and services being provided, which may be essential to the day to day operations of the restaurant.

So, what are some key steps in managing cash flow? First, you should create some sort of cash flow projection for the year on a period by period basis. You can use prior year numbers as a base to create a current year projection. Next, you can use this to compare to actual cash flow and perform an analysis of why there are differences. Based on these differences, you can tweak your future cash flow projections for items that may have been missed and/or changes in operations that are resulting in changes in cash flows. Cash inflows are going to consist of cash received from customers, catering events, sale of assets, or financing received from loans. Cash outflows are going to consist of food, beverage and labor costs, utilities, rent, insurance and other operating costs, purchases of equipment that are recorded as a fixed asset, distributions/dividends to owners, and loan payments. One last thing to keep in mind is that most of your cash inflow needs to be coming from the actual operations of the restaurant. The purchase and sale of assets, loan proceeds and payments, and payment of distributions/dividends in your cash flow analysis will need to be backed out of your analysis so you can isolate actual cash flow from operations. The more cash flow from operations that you have the more assets you can buy, the more debt you can payoff and the more distributions/dividends you can pay to the owners.

If you need assistance with creating or tracking your cash flow, do not hesitate to reach out to one of Henry & Horne, LLP's restaurant professionals.

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

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

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Tappas

According to National Restaurant Association research and knowledge vice president Hudson Riehle, the green message is critical to attracting and retaining millennials' loyalty, so communicate the sustainable actions you take. It can have a positive retention factor.

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According to bonappetit.com, some of the worst restaurant trends of 2014 include not taking reservations, menus built entirely around small plates, pricey deviled eggs and unisex bathrooms.

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According to Nation's Restaurant News, carrots are taking root on restaurant menus thanks to renewed consumer interest in vegetables and the rising influence of New Nordic cuisine.

Arizona and Sales Tax Reform

By Kelly Lynch, CPA

In case you missed the notice, effective January 1, 2015, the Arizona Department of Revenue (ADOR) will become the single point of administration and collection of State, county and municipal transaction privilege tax (TPT). Taxpayers will be able to file and pay on one form for all jurisdictions. In addition, the website (AZTaxes.gov) will be upgraded and will allow taxpayers to file and pay online.

The Arizona TPT is commonly referred to as a sales tax. However, the tax is on the privilege of doing business in Arizona. Most restaurant owners file under the retail classification and may file a return with the State of Arizona and also a local return, such as the City of Tempe or Scottsdale. Currently, the State of Arizona administers TPT for seventy-three cities, while eighteen Arizona cities separately administer their own taxes. Due to the enactment of the TPT simplification bill, there will now be one location to file and pay your return.

Restaurants that file and pay TPT with the ADOR, and any city in Arizona, will now file their January TPT-1 in February 2015, reporting and paying for all jurisdictions to ADOR only. There are several other changes that restaurant owners should be aware of:

- If you file TPT for more than one location, the DOR will require you to e-file your TPT return rather than paper-file.
- The DOR will be sending out annual renewal notices this fall. If you conduct business in a city that has a renewal fee, you will now pay the DOR rather than the city.
- Penalties up to $25 may be incurred for not timely renewing a TPT license.
- Businesses with multiple locations or names that file a consolidated TPT return will only be required to pay one municipal renewal fee per jurisdiction.
- Businesses with multiple locations or names that do not file a consolidated TPT return will be required to pay the municipal renewal fee for each location within a jurisdiction.
- Due dates for TPT returns will change after January 1, 2015 for any taxpayers who elect not to e-file. The return and payment must now be received by the DOR on or before the second to last business day of the month.
- Filing frequencies may change for certain taxpayers with small tax liabilities. The DOR will be sending out notices regarding this change.

When completing the TPT form, keep in mind some of the rules that are specific to the restaurant industry. Gratuities (tips) separately charged on a patron's check are not subject to TPT providing: 1) you keep separate records of the gratuities for all employees providing the service; and 2) all of the gratuities are distributed directly to those employees who provided the service. Cover charges and other minimum charges made by a restaurant or bar are taxable under the restaurant classification. If there is a charge for employee meals, the meals are subject to the tax. If there is no value received by the employer and no charge for the meal and the employee consumes the food and drink on the premises during normal work hours, there is no transaction privilege or use tax.

Please do not hesitate to contact one of our restaurant professionals with questions.

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