THE MAIN DISH

Spring 2011

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.

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Celebrating 50 Years Of Service

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What is New in the Restaurant Industry?

By Brian Campbell, CPA

We are one-quarter of the way through 2011 (sorry to have to remind you how time flies) and business is probably going fairly well compared to the first quarter of 2010. I am sure we are all holding our breath hoping for the trend to continue for the rest of 2011. So, for those curious minds out there wondering how the industry as a whole is doing and what to expect for the rest of 2011, I will provide a few things for you to ponder.

- According to a National Restaurant Association forecast, the restaurant industry is expected to see sales increase approximately 3.6%. In real, or inflation-adjusted terms, this is a 1.1% increase.
  - Full-service sales are projected to increase 3.1% in current dollars and 0.7% in real-growth terms.
  - Quick-service sales are projected to increase 3.3% in current dollars and 1.7% in real-growth terms.
  - Social caterers sales are projected to increase 6.2% in current dollars.
  - Over the next 10 years, Arizona is projected to have a restaurant job growth of 16%.

- Consumer spending habits are expected to increase within the industry throughout 2011, however the average check is expected to decrease. Along with this, you can expect carry-out orders to increase, taking away from the dining-in experience. There also appears to be a potential increasing trend towards more restaurant visits by families and/or parties with kids.

- Commodity costs are expected to continue to increase throughout 2011. Corn prices are expected to increase throughout 2011 along with increases in wheat prices and fuel costs, which in turn will lead to increases in all food costs. How will you respond? A strong, hard look at increasing menu prices sooner than later should be at the top of your mind. Over the past few years, many restaurants were forced to slash prices but with the increase in commodity costs those prices will need to be reviewed. Perhaps you should also look at decreasing portion sizes which could lead to reduced food costs. But don't wait until it's too late or else you will see profits going in the wrong direction.

- The U.S. Food and Drug Administration should be issuing its proposed menu-labeling regulations soon. Once these proposed rules are issued, there will be a comment period of three to six months. If you are affected by this potential regulation, this will be your last chance to let your voice be heard, so be sure to send your comment letter. The final regulations are targeted to be finalized by the end of 2011 with enforcement starting in mid 2012. The proposed regulations will affect restaurant chains with 20 or more outlets and will require calorie counts to be posted on menu and menu boards.

If you have any questions regarding any of the above items or need assistance with your day to day or monthly accounting responsibilities, do not hesitate to call your restaurant professionals at Henry & Horne, LLP.

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



Tappas

According to the NRN, frozen desserts are becoming more diverse. Frozen desserts in foodservice account for slightly less than half of total frozen dessert sales in the $13.3 billion-a-year industry

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According to the NRN, smoke, paprika, fine flours, ricotta and specialty fats are among the 2011 food trends for the second quarter of the year.

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According to the NRN, menus will start highlighting more "down-scale progressive" dishes like; basque, takoyaki, meatballs, oysters, low-brow chicken, pop-up restaurants, nordic foods and housemade carbonated beverages.

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Favorable New Gift Card Guidance for Goods and Services

By Dan Mace, CPA

Gift cards can be a great way to promote your business. Recently, the Internal Revenue Service (IRS) issued revised guidance on how these types of transactions can be accounted for. Revenue Procedure 2011-18 extends the advance payment deferral method of accounting to accrual method taxpayers who sell gift cards that may be redeemed by another entity. The biggest change is that the definition of a qualified advance payment transaction was broadened to include "eligible gift card sales". The Revenue Procedure defines an eligible gift card sale as one that:

1. the taxpayer is primarily liable to the customer (or holder of the gift card) for the value of the card until redemption or expiration, and
2. the gift card is redeemable by the taxpayer or by any other entity that is legally obligated to the tax payer to accept the gift card from a customer as payment.

This new IRS position essentially levels the playing field for taxpayers that issue gift cards directly as opposed to those that issue and redeem through separate legal entities or third parties. This new position allows taxpayers that issue gift cards that are redeemable at multiple entities (usually through franchisor, purchasing cooperative, or a gift card subsidiary) to defer the recognition of the revenue from the gift card until the year following the year the gift card is sold.

With the increase in the use of gift cards in the past few years, this news is great relief for taxpayers that sell large amounts of gift cards during the last quarter of the year. In the past, the sale of the gift cards in the last month of the year was required to be included in gross receipts. This resulted in revenues being recognized before the expenses were incurred, or worse yet, revenue recorded in a different entity than where the gift card was ultimately redeemed. In either situation, the expense of earning the revenue was recorded for tax purposes in the year after the revenue was recognized. Fortunately, the IRS reconsidered their position on this.

There are some additional rules that must be followed in order to report the gift cards under this new Revenue Procedure. Mainly, you must account for gift cards on your financial statements in this same manner. Luckily, most accrual basis taxpayers are already doing this, as it has long been a part of generally accepted accounting principles to account for gift cards as deferred revenue.

In addition, the IRS made a major concession to taxpayers that were already deferring gift card revenue recognition. The Revenue Procedure essentially precludes the service from pursuing any issues arising from the gift card deferrals. This is great news for any taxpayers that were already deferring revenue prior to the issuance of this revenue procedure, as the guidance indicates that the service will not audit this issue for either taxpayers currently under audit or that come under audit for years before December 31, 2010.

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