THE MAIN DISH

Spring 2014

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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Certified Public Accountants

GAAP Basis Accounting for Restaurants

By Brian Campbell, CPA

Most restaurants have a December 31st year end. What this means for me is that between January and April I am fairly busy helping my clients close out their books. Part of the year end process for many of my clients results in the preparation of compiled, reviewed and audited financial statements put together by an independent certified public accountant. These financial statements are usually given to bankers, investors, lessors, vendors or used in the sale of the restaurant.

The financial statements that I prepare typically are on a tax basis or a GAAP basis. You might ask…what does GAAP basis mean? GAAP stands for "generally accepted accounting principles". GAAP is a reporting framework that many restaurants use when they are distributing their financial statements to outside third parties. These two reporting frameworks are what most privately held companies use to prepare their financial statements.

Over the past several months, I have encountered several areas of accounting that are particular to restaurants that are not always recorded in a proper manner. Most of these accounting practices are specific to financial statements that are prepared on a GAAP basis.

The first accounting irregularity that I will discuss has to do with the depreciation of leasehold improvements. Leasehold improvements for GAAP purposes should be depreciated over the shorter of the life of the lease or the life of the leasehold improvements. Usually, this results in a 5 to 10 year life for leasehold improvements, which is the typical life of a lease. Most leases have renewal terms included in the original lease and these renewal periods should also be taken into consideration when assigning a life to leasehold improvements.

Many restaurants will receive tenant allowances from their landlords to assist with the cost of the build out of a restaurant. These tenant allowances are money received from landlords to assist with the cost of the build out and ultimately, if received from a landlord, results in an increase in lease payments received by the landlord over the life of the lease. Any money received from the landlord and spent on the build out of the restaurant is recorded as both an asset for the leasehold improvements incurred for the build out and as a liability for deferred rent on tenant allowances. The asset recorded in this situation is depreciated over the life of the leasehold improvements and the liability is amortized over the life of the lease as a reduction in rent expense.

Recording of deferred rent is another accounting practice that many restaurants do not know about and hence are not recording the liability and rent expense associated with deferred rent. For GAAP purposes, rent expense should be recognized on a straight line basis. Many leases have rent escalations from year to year. Straight lining the lease expense over the life of the lease typically results in additional rent expense in the early years of a lease and a liability for deferred rent, as the rent will be paid in a future year when rent payments start to escalate. Deferred rent should be calculated based on when the restaurant obtains control of the premises. Most of the time control of the premises is obtained prior to the commencement of the lease and prior to actual lease payments being due. Control of the premises is obtained prior to commencement of lease payments as the restaurants need to build out the restaurant prior to opening.

The above accounting practices can be difficult to understand and difficult to put in practice without consulting with your CPA. If you know you will need GAAP basis financial statements in the future, do not hesitate to reach out to one of Henry & Horne, LLP's restaurant professionals to assist you in making sure the above accounting practices are accurately recorded in your financial statements.

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



Tappas

According to the National Restaurant Association, Arizona will lead the nation in restaurant industry sales growth this year with $11 billion, up 4.9% over last year.

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According to the same National Restaurant Association report, Arizona is expected to set the pace in restaurant employment growth over the next decade, with 41,500 new jobs.

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According to the 2014 What's Hot Culinary Forecast, sustainability and sustainable practices rank among the top culinary trends for this year. The trends include locally sourced meats and seafood, locally grown produce, restaurant gardens, and reducing food waste by using the entire animal or plant.

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The Spring Tax Update: What Proposed Reforms Could Mean for Your Business

By Kelly Lynch, CPA

Spring time is great, especially in Arizona with the amazing weather and spring training baseball games. Hopefully, the tourist time is bringing increased sales to your restaurant. As people take advantage of the weather this time of year, I am sitting inside working on tax returns. I also monitor any tax-related changes that may affect restaurant owners. Below are a couple of updates to pass along.

Tax Reform

In early March, both President Obama and House Ways and Means Committee Chairman Dave Camp released proposed tax reform plans. Both call for a reduction in corporate tax rates. There are many other provisions in each proposal and the list is too extensive to describe in this article. The reality though, is that any significant tax reform would not take place until later this year, if it were to happen at all.

More critical for tax planning purposes for 2014 is to understand what tax provisions expired at the end of 2013. A couple of expired tax provisions relate to depreciation and the writing off of new and used fixed asset additions. First, bonus depreciation is not in play for 2014. In 2013, a taxpayer could write off 50% of the cost of a newly placed in service fixed asset. Also, for 2014, expensing of fixed assets under Code Sec. 179 is limited to $25,000. Contrast that to 2013, where you could write off up to $500,000 of fixed asset additions provided that the total additions did not meet a certain threshold. Finally, the 15-year straight line cost recovery for qualified restaurant improvements expired at the end of 2013. The bottom line is that restaurant owners who benefited from accelerated depreciation write-offs over the past several years could face a higher tax bill come April of 2015.

Healthcare Reform

The IRS has issued final regulations that provide guidance to employers that are subject to the employer mandate for health coverage enacted by the Affordable Care Act. Most notably, the final regulations give employers with 50 to 99 full-time workers until 2016 before they risk a federal penalty for not complying.

In addition, The Treasury Department clarified that seasonal employees in positions working six months or less in a year generally aren't considered full-time employees. The term full-time employee means with respect to any month, an employee who is employed on average at least 30 hours of service per week with an employer. The final regulations include an optional method to determine full-time employee status referred to as the look-back measurement method. This method can give employers more stability and predictability in knowing which employees are eligible for health care coverage under the law.

Keep in mind the employer reporting requirements. Reporting is required for employers with more than 50 full-time equivalent employees with full-insured or self-insured plans. It discloses each individual to whom minimal essential coverage has been provided. Employers also have to disclose to full-time employees the Affordable Care Act's shared responsibility provision listing the health care coverage options. As a restaurant owner, it is important to understand the reporting requirements to make sure everything is set up now to comply.

For questions regarding tax reform or health care reform, do not hesitate to contact a tax professional at Henry & Horne, LLP.

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