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**A GUIDE**  
**to the**  
**RESTAURANT INDUSTRY**

# **Restaurants Need to be Aware of their Profits**

There are two areas that can lead to the downfall of a restaurant:

- Food Cost
  - Too much food ordered and it perishes before it can be sold
  - Food not cut properly and good food ends up in the trash
  - Food cooked incorrectly and must be remade for customer
  
- Labor Costs
  - Over staffing results in employees not working but receiving a paycheck
  - Under staffing results in poor customer satisfaction
  - Both affect the bottom line, either too much expense or lost revenue

Once the two issues above are under control, the restaurant is well on their way to profitability. The key questions that affect a restaurant can now be addressed.

# **KEY QUESTIONS for the RESTAURANT INDUSTRY**

- Are the financial statements accurate?
- Do we track and report tips correctly?
- What is the best way to track inventory?
- How does the cost of goods and inventory tie in with each other?
- What is the best way to handle cash over/shortages?
- Are we using our point of sale system to its full potential?
- How are voids and complimentary meals handled?
- Are we calculating sales tax correctly?
- Are we staffed correctly based on sales figures?

# ***Are the financial statements accurate?***

Financial statements are only beneficial when they are received in a timely manner.

The data must be gathered, reconciled and reported within a very short period of time to identify problem areas for management to address.

Accounting systems, point of sales systems and well trained personnel can make reporting easy, accurate and most importantly, timely.

## *Do we track and report tips correctly?*

Tip reporting is the #1 issue that restaurants always struggle with.

Since we are in the age of technology, there are very easy ways to make your servers responsible for reporting exactly the tips they receive. The technology surrounding the point of sales systems makes it easy for anyone to see exactly what tips are collected by a restaurant.

A policy and system needs to be created to enforce compliance. Remember, as a restaurant, you have the ultimate financial responsibility. Don't risk your profits by non-compliance.

Annual tip reporting (Form 8027) is due every February. This form is more complicated than many realize and it is the key data sheet used by the IRS to schedule upcoming audits.

# *What is the best way to track inventory?*

Inventory needs to be assessed by type of restaurant.

If your inventory is expensive and quickly perishable, weekly inventory would be appropriate.

Monthly inventory can be used for restaurants that order more frequently and have food that does perish if not used the day received.

Strong systems in place will assure that employees are not:

- Wasting food by cutting it improperly and thus throwing away food that could be sold
- Cooking food improperly which leads to waste
- Stolen food/beverages by either employees or delivery personnel

## *How does the cost of goods and inventory tie in with each other?*

Inventory must be taken in a timely manner and by people that understand the process.

Correct inventory valuation is key to an accurate calculation of inventory.

Inventory should be taken in the same measurement that it is purchased in.

Someone other than the person responsible for ordering should take inventory.

If abnormal inventory is calculated at each month end, consider changing the inventory valuation to weekly. This will help to identify the problem quickly.

# *What is the best way to handle cash over/storages?*

Cash over/shortages can be eliminated all together by making the server responsible for their sales.

If a register is used, then each cashier must have their own drawer.

Implementing the proper systems and holding the employees accountable will reduce the cash over/shortage to near zero.

# *Are we using our point of sale system to its full potential?*

Point of sale systems provide useful information in a variety of areas:

- Sales by dish (which meals are the real sellers)
- Sales by server
- Server productivity
- Tip reporting
- Time clock for all employees

# **How are voids and complimentary meals handled?**

Voids and complimentary meals can be a costly expense.

Managers should be the only one with access to the point of sale system to authorize these voids or comps.

If servers have access to creating voids or comps then the volume tends to be much higher.

Sales tax is still due on all meals that are voided or given to customers complimentary.

The cost of voids and comps is the cost of the food as well as the sales tax on that cost.

# ***Are we calculating sales tax correctly?***

Sales tax can be very complicated in the restaurant industry because:

- Tax is due on in restaurant dining as well as to go items.
- Tax for drinks at a bar are generally included in the price but tax is added to drinks ordered in the main dining area.
- Tax for voids and comps must be tracked, reduced from a selling price to cost and thus taxed.
- Tax is due for restaurants that require mandatory gratuities.
- Tax is due on all employee meals.
- Tax is due on trade meals.
- Tax is due on promotional or discounted meals.
- Gift certificates are not taxable when first issued.

## **Are we staffed correctly based on sales figures?**

Over staffing is one of the most costly mistakes a restaurant can make.

Protect yourself against this costly expense by training your managers to schedule servers and kitchen staff appropriately.

The point of sale system and time clock system are key components in evaluating the appropriate staffing levels.

Labor costs should be carefully reviewed with the monthly financial statements with respect to the sales for the same time period. This can also be done during each pay cycle, in an effort to monitor costs more frequently.