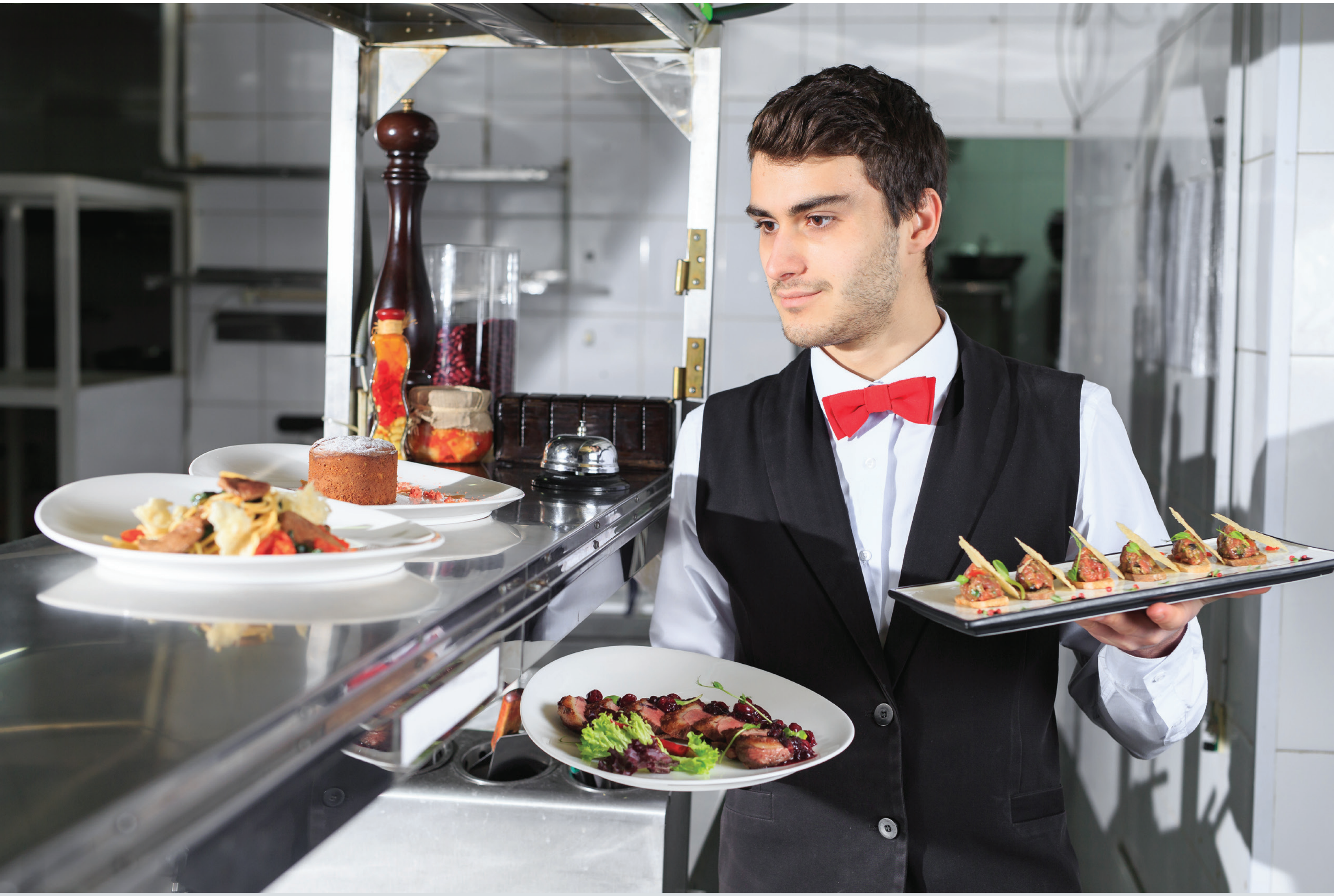


Restaurants Often Make These 7 Financial Mistakes

What You Can Do To Fix Them Today

Alan R. Bramson, CPA

Being a restaurant owner or operator is not easy. You have a large number of things that you must do to keep your business thriving. You must pick the right location, determine the type of food you will serve that will be popular but also be unique in some manner. You are dependent on outside changes that you often have little control over, whether the prices of your ingredients, frequently evolving customer tastes, and new competitors opening all the time.

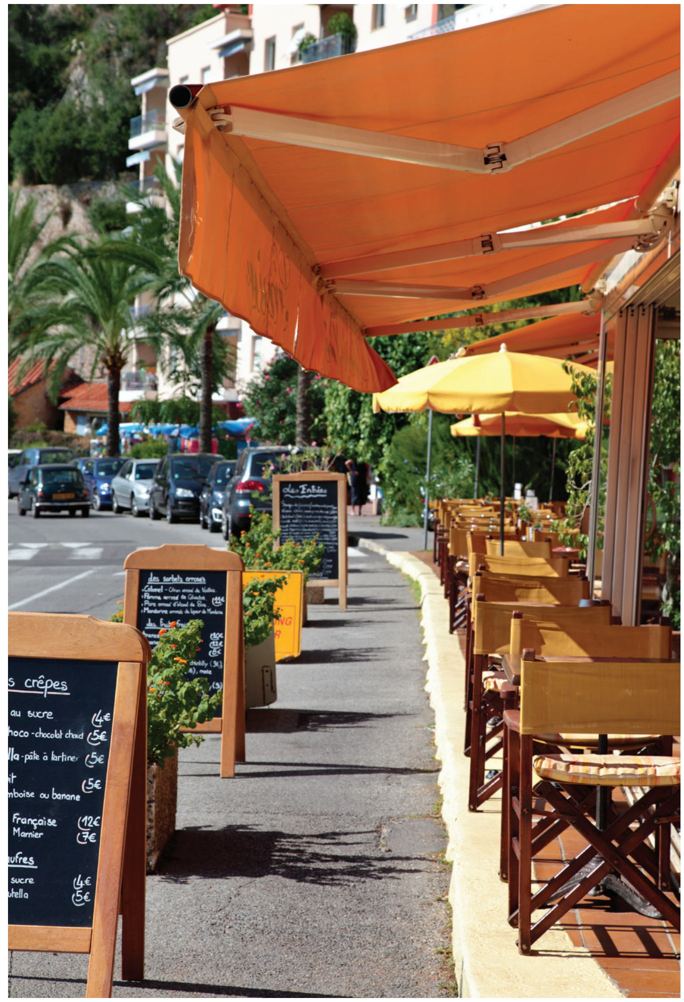
If you are managing the accounting yourself, you are aware of the fact that this pulls you away from what you should really be concentrating on. If you use an internal bookkeeper or outsource to other companies, you may find that although you receive financial reports each month, you don't have the data you really need and not when you need it.

This is an industry that can be financially rewarding for many. To others though, it can be much more challenging. With a 30% first year failure rate, this isn't an area that rewards good efforts alone. Running a successful business is about making smart business decisions based on the financial data in your hands. Having excellent food, a good location and a well-run operational team is necessary but alone isn't sufficient. If you do not know your numbers, you do not know your restaurant.

You need good financial data quickly and constantly. You need to be carefully tracking a number of key indicators. After all, what gets measured, gets managed. And what gets managed, improves. Perhaps in the past, operators could rely more on gut instinct rather than following the data closely, but those days have passed. Think of your financial numbers as the instruments for your restaurant as a plane's dashboard is for a pilot. Without it, you wouldn't really know your profitability, costs, whether you have sufficient cash, what your financial condition is or whether it is getting worse until perhaps it is too late.

I put together this eBook to describe a number of financial mistakes that I see Restaurant owners making, and provide suggestions on how to fix them. I hope you find it useful.

You Don’t Actively Manage the Financial Side



One of the biggest mistakes that a restaurant can make is to not actively manage the financial side of the business. This is an industry with typically thin margins. If you don’t know exactly where your money is going and why, you may be headed for some major issues.

Restaurant owners need to always know where they are financially at any point.   What is your the prime cost, labor cost and food cost separately, controllable income, or profit margin as a % of sales? Sales per square foot? Sales per customer? Your RevPASH (Revenue per Available Seat Hour) by day of the week? Table turn rate? Various measures will have different significance for each restaurant, but these are important to know.

Knowing these performance measures is critical but is only the first step. How are these compared to your targets? If your prime cost is over 70%, it may be hard to be profitable. Below 55% you are generally in good shape. Are these measures improving or deteriorating over the last week? Two weeks? Month? Last year? If they are getting worse, you must drill down to find out exactly what is causing it. For instance, if the prime cost increases 5% over the last two weeks, you must immediately identify the cause. Are there scheduling issues causing you to be overstaffed during some slow periods? Did some of the expensive ingredients increase significantly? Which ones? Was it a purchasing error, where too much was purchased and there was a lot of spoilage and waste? A vendor raising their prices far higher than other similar vendors? Was there a deviation from the portion control amounts due to new staff? Theft of the food? There could be many potential reasons – you need to identify the cause and take the appropriate action to either stop the problem or mitigate the damage.

The problem must be identified quickly. In many industries, financials are completed once the month ends, and shared with management on perhaps the 10th day of the following month. But if that is the first time these problems are uncovered, that means that the problem could have been festering for as long as 5 weeks without anyone noticing. In this business, not knowing (and therefore not fixing) a problem for such a lengthy period of time can be highly damaging. Imagine you had a leak in your house – would you want to wait until 5 weeks later to hopefully identify it, let alone then figure out where it was coming from and then finally fix it?

You Do Not Have a Strong Inventory Management Process

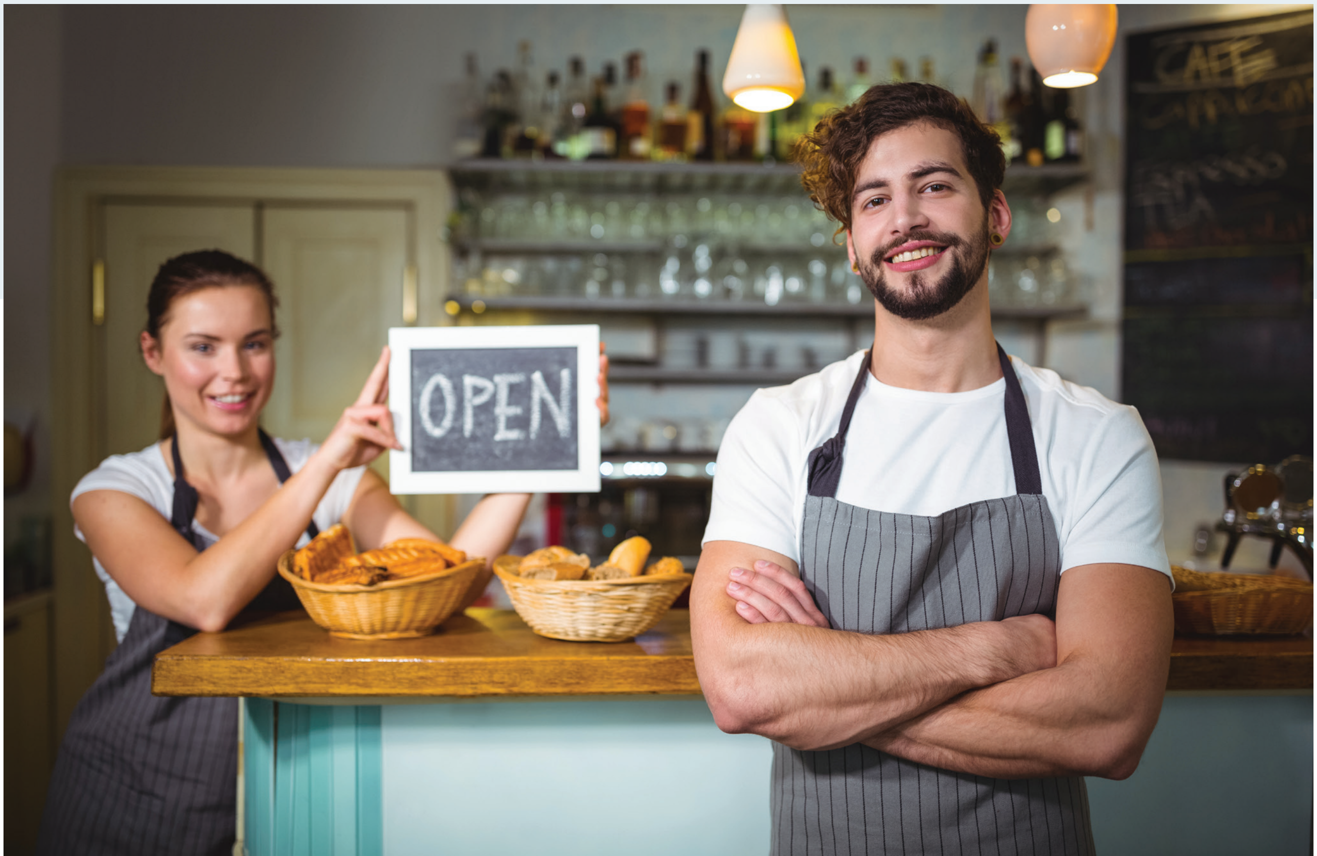
Given food & beverage costs make up the largest single piece of controllable expenses in a restaurant, strong control is critical. You must use strong inventory management processes to reduce these costs as much as possible.

Inventory should ideally be taken once a week. As previously mentioned, a restaurant owner or operator should understand each week their sales and prime costs. If inventory is performed once a month, then you cannot compute the prime cost weekly as ending inventory is part of the calculation. You will not be able to analyze the most important indicator in your business as often as you should, and this may delay you in identifying potentially significant increases in expense.

Fortunately, improvements in POS technology have simplified and sped up the process of managing and counting inventory. By completing this each week, you are more likely to identify the over purchase of certain items and can better fine-tune when stock should be reordered.

When taking inventory, it is important to keep a waste log to identify what was lost so management can continue to evaluate how this occurred and determine the best ways to reduce the loss. In addition, regular inventory counts make it more likely you can uncover employee theft, portion control standards not being followed, excessive comps or other issues that may occur.

A restaurant's food costs go up and down quickly – and management needs to be on top of these changes, which can't happen without good inventory practices.



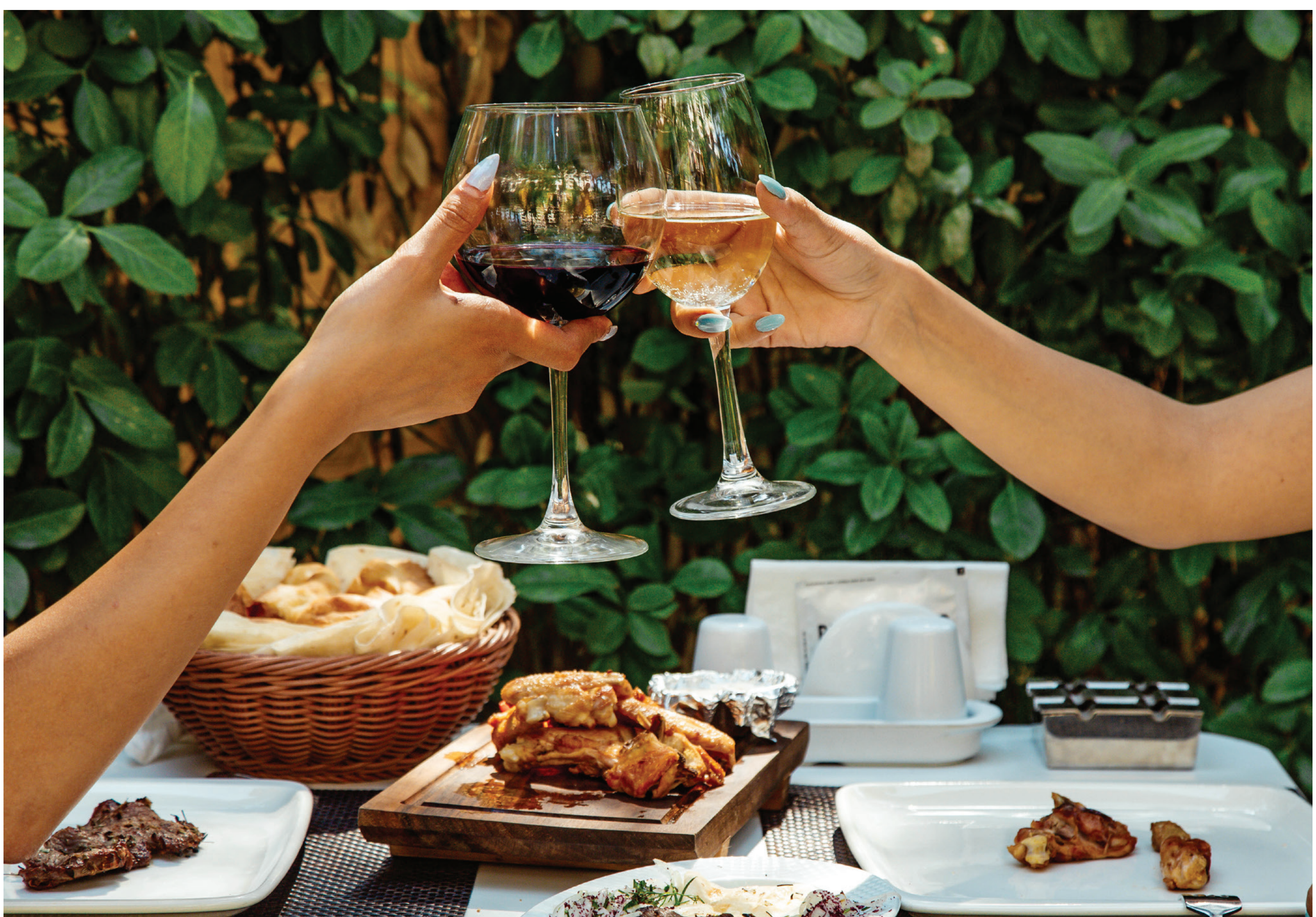
You Do Not Carefully Manage Your Vendors

Since food & beverage costs are so significant for restaurants, the importance of carefully managing your product vendors cannot be overstated.

This is why management must work closely with its suppliers. It should be constantly evaluating not only the quality and timeliness of the products they buy, but they should never blindly place orders with the same vendors without knowing whether the amount they are paying is appropriate. As prices can change significantly as well as quickly and unexpectedly, the owner must remain ever vigilant as to the cost. Different POS software packages and other tools can help you compare the price of the goods you need to purchase so you know what is being paid by your competitors.

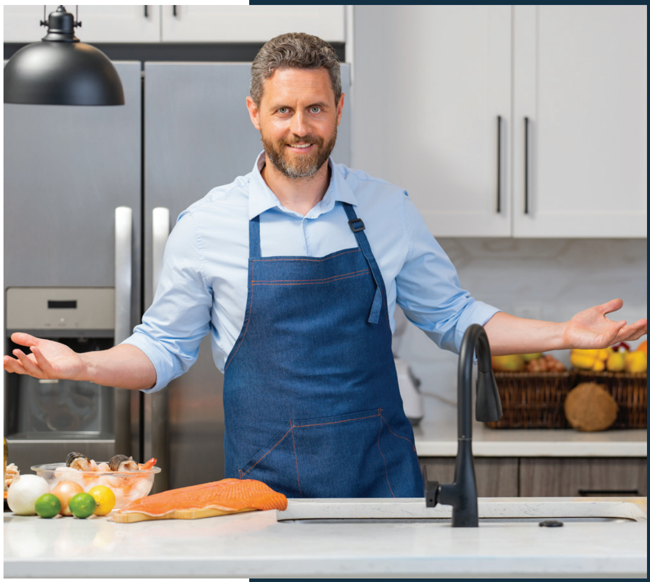
Make no mistake – vendors are also trying to maximize their sales revenue and will offer some clients good deals, but will try to make it up with higher prices for others who are less knowledgeable, diligent or willing to settle. You must know the prices in the market and must make your vendors compete for your business.

As a consultant in the restaurant industry commented concerning vendor relations, "There is a sucker in every negotiation. If you don't know who that is, it's you". OK, that IS a bit harsh, but I think it drives home the point. Do not take prices for granted, and fight for the price you should be paying.



You Do Not Record Your POS Sales Data Daily into the Accounting System

We have been discussing the importance of knowing the sales & prime costs of your financial data frequently, preferably weekly. But this assumes that the information is available in your financial systems. It is not an automatic process. You or your accountant or bookkeeper needs to ensure that the data is entered into the accounting system from your Point of Service software, and that it is correct and fully reconciled.



The POS reports will show what the sales information was for each day. In a perfect world, you would be able to enter this information into the accounting system (or it might sync automatically), and then you could soon observe that same sales amount appearing in the bank account with no problems.

In reality, many things can go wrong. Generally syncing the POS system is not advised. What might seem like a time-saver can be a nightmare if the POS system for instance dumps all of its data into the accounting system. I think we can all agree you don't need to have your accounting system show each cup of coffee sold that day! A good practice is for your accountant to manually enter once a week the POS summarized report by day. There are some automated systems that understand specifically what to load (and what not to load) to the accounting system, to make this process more automated. Just make sure it is entering only the correct information.

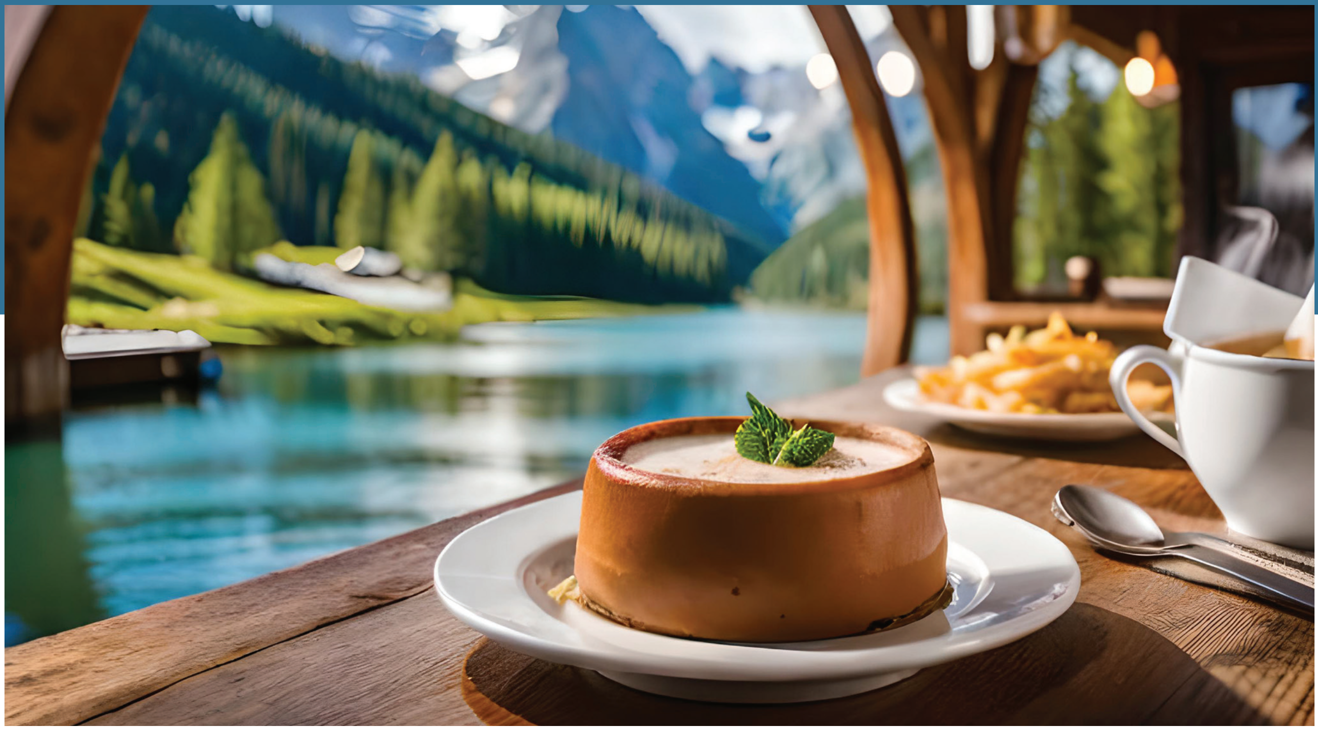
Loading the data is just part of the process. You must also make sure that the categorization is correct. For instance, sales tax and tips collected are not sales to the restaurant, they are liabilities. Comps or discounts given or delivery commissions or other fees must be carefully recorded as well. Reconciling the information so that the sales, liabilities, and other information are correctly captured in the books is critical.

Once the daily entry is made, the bookkeeper then needs to ensure that the amount expected to be deposited in the bank actually arrives there. In any reconciliation process, there are almost always items to research and figure out how best to resolve. If this is done daily, it is typically relatively easy to handle. Carefully confirming that the expected funds make it to your bank account can help identify any bank errors or misappropriation of cash should it occur. If these items are not booked for a longer period, the process gets much more complicated and time-consuming and harder to resolve.

You Do Not Reconcile your Bank and Credit Card Accounts Monthly

Given the importance of understanding the financial results, one troubling problem that sometimes does occur is when the bookkeepers don't keep up with the bank and credit card account reconciliations.

These are not complicated processes but sometimes they can be somewhat time consuming. The purpose of reconciling your bank account to the accounting system is to ensure that all transactions that have occurred are captured. It's not the final step in the accounting process as it does not mean all transactions are categorized properly, but it means everything has been identified and the system is whole.



If the bookkeepers are behind on the bank & credit cards reconciliations, what it really means is you can't be confident that you have captured all the transactions, and you really don't know whether your financial statements are correct or not.

Other accounts, such as sales & payroll tax liabilities, employee benefits, tips payable and other liabilities also need to be reconciled, as if these are incorrect, it may mean your sales are misstated.

Your Financial Data is Not Reported in a Meaningful Manner

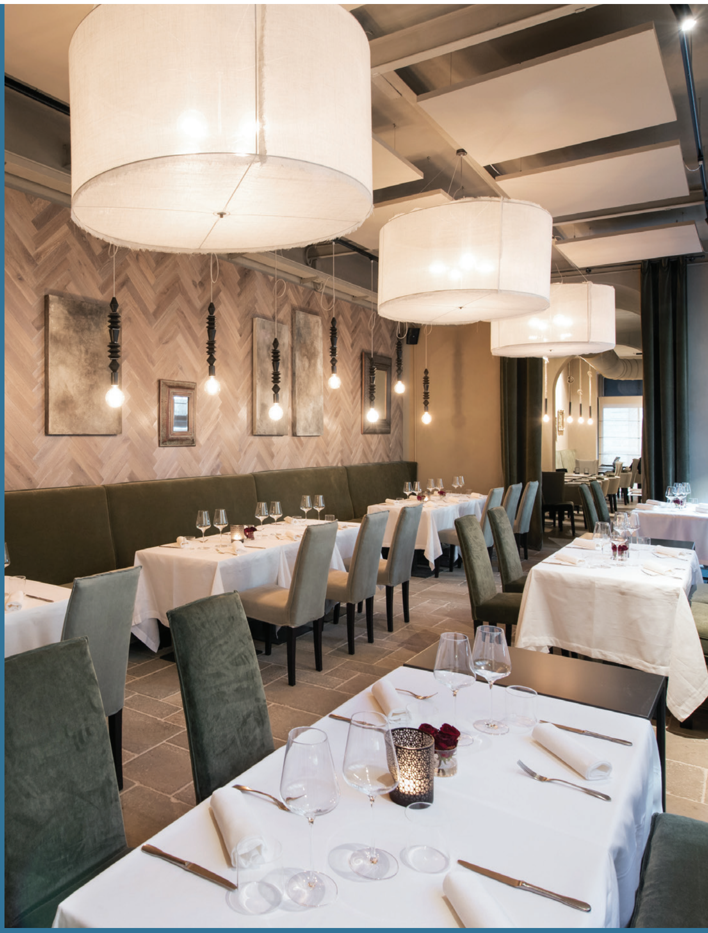
It is important to have captured all of your restaurant's financial data correctly. But the data must also be presented in a particular manner that is actionable, or the data will not be very useful.

Many industries structure their financial statements differently to provide the most relevant information to their users. Restaurants are no different with unique categories (prime costs, controllable income) not typically used for other industries. Given the importance of restaurants always monitoring their financial indicators, they need to be able to compare various industry targets and norms. Having the correct account structure is essential. It is important to ensure that the bookkeeper you use understands this and uses the correct accounts for this industry.

A second issue is whether the Restaurant uses Accrual or Cash accounting for its financial records. Using the cash basis of accounting may slightly simplify the work but comes at a significant cost. Only the accrual basis properly matches the revenues and expenses earned or incurred in the right time periods, which is exactly the information you need. The cash basis may be used by your tax accountant for tax purposes, but for your books, always use the accrual basis.

A third issue revolves around something that is quite unique to restaurants. Most industries report financial results by month. Yet for restaurants, monthly information is not often the best way to present the information. This is because restaurants have generally much more business on Friday & Saturday than they do the rest of the week. Each month will have a different combination of days. For instance, July and August 2023 each have 31 days, yet August has one less Saturday. Likewise, July in 2022 has one more Friday than in July 2023.

To allow for better analysis of the information, the industry often uses a different measurement of time other than a month. Many create 13 periods of 28 days each. Each period starts on a Monday, ends on a Sunday, and has exactly 4 Mondays, 4 Tuesdays etc. within the period. This way the data can be compared week to week, month to month, or year to year. This can be very helpful in understanding the comparative performance between different periods.



You Are Not Using Restaurant Bookkeeping Specialists

As seen in the prior sections, Restaurants have many significant differences than companies in other industries. Whether the difference in the Chart of Accounts, in the critical financial measures, the need for almost real-time financial reporting, consistent inventory counts, or even determining whether to use months or 13 periods, it can be a very different world.

Not all industries necessarily need an accountant or bookkeeper that is a specialist to that particular industry, and there are often a lot of similarities between different businesses. Restaurants, though, have unique needs, and really need someone who understands exactly where the owner is coming from, and exactly what they need to thrive.

Whoever you select as your bookkeeper or accountant, you should make sure you clearly communicate precisely what you are looking for and the specific items that are important to you (specific reporting, particular metrics, etc). Other industries will often have bookkeepers that stop by a day or two a week, complete month-end at least 10 days or so after the month is over, and then email the financials to the owner. The right restaurant bookkeeper or accountant is not simply reporting the financials, but is constantly analyzing the data, identifying issues and bringing these to the owner's attention promptly so that the problem can be immediately addressed before the damage is done. The right restaurant bookkeeper for your company will have a more proactive nature than perhaps common in other industries.

Your bookkeeper can work with you to implement accounting solutions to make the process more productive. For instance, tools exist now where for the most part, you or your bookkeeper would rarely need to manually enter invoices or receipts received which typically was a long and tedious process. Technology is available and easily accessed that will require you to only email your invoices to a particular email address, or even just take a picture of your invoice in a phone app. In a day or two, that invoice should be available in your system. Not only will this save time, but it will also give you much better control over what you owe your vendors, so you know where you are at all times, and are not hunting for old unentered past due invoices when a vendor calls looking for payment.

Most of all, the accountant or bookkeeper that is the best fit should effectively be a part of your team, not a neutral 'numbers-guy' off somewhere, but one easily accessible when you need them.

About The Author

Alan Bramson

Hello! My name is Alan Bramson. I am a Certified Public Accountant and an Advanced Certified QuickBooks ProAdvisor.

I created my company, Value Added Accounting Solutions, to provide top notch accounting services to our clients. We specialize in Restaurant and Catering businesses. We offer monthly bookkeeping services, payroll, accounts payable, analysis and extensive management reporting.

We don't simply close the books and then passively provide you with financial reports. We work with you to identify any issues uncovered immediately so that these can be isolated and fixed before they cause damage. We are always available whenever you need us.

We welcome you to set up a free meeting with us and we can discuss further. No obligation or cost. Just a chance to get together and see if we might be a good fit to work together.

I look forward to talking with you and learning more about you and your restaurant.
Feel free to look at our website to learn more