

Financial Statements

Financial statements are the final rule books for restaurant management. Without accurate records, you will never know where you stand on any level of your food and beverage sales. It is critical that you approach this process with clarity and accuracy. If you cannot do it yourself, hire a professional immediately. The business is not just about serving food or drinks; it's about your ability to analyze and correct financial problems.

Income Statements

An **income statement** (also known as a profit & loss statement or P&L) is your written accounting system that balances your spending (expenditures) and your income (sales or revenue). This record will show whether your restaurant is making a profit or taking a loss. This P&L will show you monthly sales and expenses as well as annual variances.

All your expenses will be broken into categories, such as food, beverage, kitchen items, and labor. Within each category you will have subcategories describing each **expense**. Often, companies have accounting codes assigned to each item purchased so they can have a clear idea of where they are spending money to operate the business.



The restaurant business, like any business, depends on watching your financial statements closely.

After completing this lesson, you'll be able to:

- Use a declining budget for weekly expenses.
- Know when it's time to cut back and when it's time to control.
- Provide guest satisfaction that is never compromised.
- Read and interpret a P&L statement.
- Use technology to achieve instant answers for every dollar spent.

Using a Declining Budget for Weekly Expenditure

An excellent tool for monitoring expenses and staying within the guidelines of your monthly P&L is a declining budget worksheet. This allows you to track your total expenses for the month. Keeping track of your spending allows you to stay within **budget**.

DECLINING BUDGET	periods 1-4 2010												REMAINING BALANCE
	WEEK 1			WEEK 2			WEEK 3			WEEK 4			
OVERHEADS	Budgeted	Purchases	Remainder	Budgeted	Purchases	Remainder	Budgeted	Purchases	Remainder	Budgeted	Purchases	Remainder	
CLEANING SUPPLIES	\$400.00	\$300.00	\$100.00	\$400.00	\$39.00	\$361.00	\$400.00	\$333.00	\$67.00	\$400.00	\$311.00	\$89.00	\$617.00
EQUIPMENT RENTAL	\$300.00	\$300.00	\$0.00	\$300.00	\$215.00	\$85.00	\$300.00	\$216.00	\$84.00	\$300.00	\$234.00	\$66.00	\$235.00
FLOWERS	\$50.00	\$75.00	(\$25.00)	\$50.00	\$0.00	\$50.00	\$50.00	\$40.00	\$10.00	\$50.00	\$37.00	\$13.00	\$48.00
FREE MERCHANDISE	\$25.00	\$10.00	\$15.00	\$25.00	\$25.00	\$0.00	\$25.00	\$25.00	\$0.00	\$25.00	\$20.00	\$5.00	\$20.00
GLASSWARE	\$200.00	\$175.00	\$25.00	\$200.00	\$198.00	\$2.00	\$200.00	\$200.00	\$0.00	\$200.00	\$138.00	\$62.00	\$89.00
JANITORIAL SERVICE	\$600.00	\$610.00	(\$10.00)	\$600.00	\$545.00	\$55.00	\$600.00	\$500.00	\$100.00	\$600.00	\$555.00	\$45.00	\$190.00
KITCHEN UTENSILS	\$200.00	\$100.00	\$100.00	\$200.00	\$212.00	(\$12.00)	\$200.00	\$219.00	(\$19.00)	\$200.00	\$275.00	(\$75.00)	(\$6.00)
LINEN	\$200.00	\$179.00	\$21.00	\$200.00	\$250.00	(\$50.00)	\$200.00	\$136.00	\$64.00	\$200.00	\$190.00	\$10.00	\$45.00
MENUS	\$75.00	\$43.00	\$32.00	\$75.00	\$75.00	\$0.00	\$75.00	\$75.00	\$0.00	\$75.00	\$75.00	\$0.00	\$32.00
PAPER GOODS	\$825.00	\$799.00	\$26.00	\$825.00	\$818.00	\$7.00	\$825.00	\$801.00	\$24.00	\$825.00	\$800.00	\$25.00	\$82.00
PLATEWARE	\$90.00	\$80.00	\$10.00	\$90.00	\$89.00	\$1.00	\$90.00	\$80.00	\$10.00	\$90.00	\$75.00	\$15.00	\$36.00
POS SUPPLIES	\$150.00	\$0.00	\$150.00	\$150.00	\$100.00	\$50.00	\$150.00	\$99.00	\$51.00	\$150.00	\$136.00	\$14.00	\$265.00
SECURITY SERVICE	\$300.00	\$200.00	\$100.00	\$300.00	\$299.00	\$1.00	\$300.00	\$389.00	(\$89.00)	\$300.00	\$245.00	\$55.00	\$67.00
SILVERWARE	\$200.00	\$112.00	\$88.00	\$200.00	\$200.00	\$0.00	\$200.00	\$111.00	\$89.00	\$200.00	\$177.00	\$23.00	\$200.00
TABLETOP	\$200.00	\$79.00	\$121.00	\$200.00	\$167.00	\$33.00	\$200.00	\$203.00	(\$3.00)	\$200.00	\$189.00	\$11.00	\$162.00
UNIFORMS	\$55.00	\$55.00	\$0.00	\$55.00	\$50.00	\$5.00	\$55.00	\$76.00	(\$21.00)	\$55.00	\$55.00	\$0.00	(\$16.00)
TOTALS	\$3,870.00	\$3,117.00	\$753.00	\$3,870.00	\$3,282.00	\$588.00	\$3,870.00	\$3,503.00	\$367.00	\$3,870.00	\$3,512.00	\$358.00	\$2,066.00

Example of a declining budget spreadsheet.

The **declining budget** will provide you with a tool for success and allow you to keep track of your P&L. It will also allow you the opportunity to be successful and knowledgeable about your business. This is YOUR responsibility; no one else can do it.

When to Cut Back Versus When to Control

When a business is struggling, the owner will often make cuts rather than control and reorganize. You have to determine what is not working for you and cut back by controlling your costs. If you are still having trouble after a short period of reorganizing, you may actually have to make cuts.

An example of **control** is labor costs. Labor is most likely going to be your highest expense. You can control your labor costs by staffing accordingly and ensuring that people are working when they are on the clock rather than standing around talking.

As you look at your chart of expenses, some are investments that keep the sales in place. Advertising is one of the first expenses that an operator looks to cut, and often that cut reduces revenue and sales, which in turn causes a further erosion of profit. In the kitchen, ensure you are only buying what you need. Make sure your cooks are apportioning food properly and you are controlling waste. Anything wasted is an unnecessary expense.

Judging What to Cut

If you realize you are in a position that requires you to make cuts, try to do so without compromising the satisfaction of your guests! Remember, you are in the hospitality/service industry and people expect good service and satisfaction. Again, have a plan and create a program that allows you to clearly understand where to cut and where to control.

Clarity in the Statement

Keep your P&L statement simple if you are a small operation. If you are a larger operation, use an accountant who will help you create the right program. You will want to be sure that you are tracking all costs and sales for accuracy and ensure you are showing the right numbers within the right categories. Also, you must determine how often you want to run your P&L statement. With modern accounting software, you can view your P&L for any period of time. Typically, restaurants will look at many line items on the P&L weekly and look at the whole statement monthly.

Generate and Understand a P&L Statement

Your POS system can provide you with simple information to fill in the P&L statement easily and effectively. Keeping it simple allows you to have a better understanding and knowledge of where potential problems may arise and/or exist. Be sure that the POS system you choose has the capability to report all of the information necessary to construct a P&L statement.

If you are going to be successful in running your business, you must be able to read, understand, and interpret your P&L statement. The sample P&L statement below is a summary; an actual P&L statement will contain many subcategories and details for each cost. Remember that the **percentages** are important, and you can use them to compare changes from one period to another, budget to actual, or your performance to industry norms. Begin by looking at the total sales revenue [R]. This is the total amount of money collected on all sales for the period. By subtracting the cost of sales [C] from [R], we get the gross profit [GP]. This tells you how much you made before operating expenses and taxes. Operating expenses are typically comprised of marketing expenses [M] and administrative expenses [A]. Add the marketing and administrative expenses to get your total operating expenses [O]. Subtract total operating expenses [O] from gross profit [GP] to get the total income from operations [I]. This is how much you made after subtracting operating expenses but before taxes. Finally, subtract total taxes [T] from income from operations [I] to get your net profit [NP]. Your net profit is the amount you made after all costs, operating expenses, and taxes.

Notice that throughout the sample P&L statement, there are places where the budget was exceeded or not met, and there are

differences and similarities between this period and last. When you budget or estimate revenue and the budget is exceeded, this is a good thing because it means you made money. When you budget cost and the budget is exceeded this is a bad thing because it means you spent more than you wanted to. Another way to interpret the P&L is by comparing the current period to the prior period. Again, when it comes to revenue larger is better, but the opposite holds true for cost. The best way to analyze current period versus prior period is to look for large differences and try to explain them using the detailed numbers that went into the summary.

Profit and Loss Statement

Restaurant

Gross margin [GP/R]	85.7%
Return on sales [NP/R]	68.3%

	Prior Period	Budget	Current Period	Current Period as % of Sales	% Change from Prior Period	% Change from Budget
Sales Revenue						
Total Sales Revenue [R]	\$ 62,321	\$ 60,000	\$ 65,366	100.0%	4.9%	8.9%
Total Cost of Sales [C]	\$ 9,000	\$ 10,000	\$ 9,322	14.3%	3.6%	-6.8%
Gross Profit [GP=R-C]	\$ 53,321	\$ 50,000	\$ 56,044	85.7%	5.1%	12.1%
Operating Expenses						
Total Marketing Expenses [M]	\$ 2,000	\$ 2,000	\$ 2,000	3.1%	0.0%	0.0%
Total Administrative Expenses [A]	\$ 8,861	\$ 9,500	\$ 8,473	13.0%	-4.4%	-10.8%
Total Operating Expenses [O=M+A]	\$ 10,861	\$ 11,500	\$ 10,473	16.0%	-3.6%	-8.9%
Income from Operations [I=GP-O]	\$ 42,460	\$ 38,500	\$ 45,571	69.7%	7.3%	18.4%
Taxes						
Total Taxes [T]	\$ 899	\$ 1,000	\$ 932	1.4%	3.7%	-6.8%
Net Profit [NP=I-T]	\$ 41,561	\$ 37,500	\$ 44,639	68.3%	7.4%	19.0%

The last two figures to interpret on the sample P&L are the gross margin and the return on sales. Gross margin is found by dividing gross profit [GP] by total sales revenue [R]. It is an expression, in percentage, of how much a company earns after the costs to produce its product(s), but it does not consider operating costs and taxes. Return on sales is found by dividing net profit [NP] by total sales revenue [R] and it shows, as a percentage, how much a company makes after all costs, including costs to produce product(s), operating costs, and taxes.

The Balance Sheet

Your **balance sheet** shows what your business owns (assets) and owes (liabilities) at a given point in time. The balance sheet shows important assets such as your cash balance, how much inventory you have, and the current value of equipment you've purchased.

It also shows key liabilities such as a bank loan you may have or money you owe to suppliers.

Unlike the income statement, which covers a period of time, the balance sheet is a snapshot of your business on a particular date.

The balance sheet also shows the difference between your assets and your liabilities, known as your equity. This figure, which is sometimes called “book value,” is one measure of the value of your business.

Using Technology

We are in the midst of amazing technological advancements that allow us to be better informed and more successful in business and



in life. Use **technology** where and when you can. Much of the information in your PC and POS are compatible and provide you with data.

You can also expand your POS/PC programs to include inventory programs. There are handheld scanners that can be programmed to run the bar codes on menu items for more precise counts. This provides you more detailed information.

Liquor control systems can also be used to ensure you are not overpouring alcohol and help you control measurements and waste.

Use technology to your advantage whenever and however you can, but you must still have a basic understanding of finances to be successful in the restaurant business.

Summary

Financial statements for your business must be maintained regularly—day by day, week by week, month by month. You must pay strict attention to everything to do with your finances, because this process controls your profits or losses. Food is not as important and décor is not as important. In the end, finances are the most important.

KEY MATH CONCEPTS

1. You can use basic addition, subtraction, multiplication and division to calculate many of the profit and expense figures that relate to your restaurant's budget.

Example A: All expenses for your restaurant for the quarter came to \$21,111. This figure represents about 25% of your profits. How much did you make that quarter?

$$\begin{aligned}25/100 &= \text{Expenses} \\ \$21,111 \times 4 &= \$84,444 \\ \text{Answer} &= \$84,444\end{aligned}$$

KEY TERMS

Income Statement

Statement showing your revenue (sales) and expenses for a given period of time.

Expense

An item you spend money on during a period. These are categorized to help you track them better.

Budget

The amount of money you plan to take in or spend during a certain period.

Declining Budget

The amount of money you have in your budget, expressed as how much you have left.

Control

The process of recognizing spending trends and adjusting them to achieve a profit.

Percentages

It is often useful to look at expenses and margins on your P&L as a percentage of total sales.

Balance Sheet

Statement showing what the business owns (assets) and owes (liabilities) at a given point in time.

Technology

The restaurant industry aggressively uses current technology in all phases of the business. Your Point-of-Sale (POS) is critical to operating the business.

Financial Statements

Financial statements are the road map to your business and can spell the difference between failure and success. The two most important statements are your income statement (P&L) and your balance sheet.