



WHITE PAPER

# The Complete Guide to Restaurant Accounting

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The U.S. food service industry was estimated to reach \$997 billion in sales in 2023. Many Americans regularly order and eat food outside of the home. In fact, 56% of overall food spending in 2022 was on eating out, a 16% increase from 2021.

But according to the National Restaurant Association, 50% of restaurant owners anticipated making less profit in 2023.

This highlights an extraordinary demand, competition, and opportunity for those who can run efficient operations while delighting customers.

Over the past few years, restaurant owners have faced a global pandemic, technology advancements, changing customer expectations, inflation, labor shortages, and supply chain disruptions. These factors make it challenging to be successful.

One thing restaurant owners can do to ensure longevity is effectively manage their finances. This guide will help you understand how restaurant accounting is different, key metrics to track, top trends, and how outsourcing can help.

## What is Restaurant Accounting?

Accounting involves the process of tracking, analyzing, and interpreting financial information, including transactions, expenses, and income. It's the process by which you manage and measure the financial health of your business.

Restaurant accounting is no different but includes a few unique components, like tips, perishable inventory, specialized reporting, and seasonality.

Most restaurant owners are chefs or entrepreneurs, not accountants. This means you either have to learn, hire, or outsource.

**You need an exceptional accountant with extensive knowledge of the restaurant industry's unique financial aspects. They also must understand emerging trends and technology for restaurants. A restaurant accountant's responsibilities may include:**

- ✓ Recording financial transactions
- ✓ Coding and categorizing transactions, including income and expenses
- ✓ Analyzing the general ledger and creating journal entries
- ✓ Processing invoices and paying vendors (accounts payable)
- ✓ Processing bills and incoming payments (accounts receivable)
- ✓ Processing payroll
- ✓ Reconciling bank statements
- ✓ Completing tax returns and offering tax and compliance support
- ✓ Auditing
- ✓ Creating financial statements and reports
- ✓ Defining budgets and forecasts
- ✓ Benchmarking KPIs against industry best practices
- ✓ Offering advice and cost-saving strategies to improve the business

It's important to note that "bookkeeping" and "accounting" are often used interchangeably but describe different roles. Bookkeepers generally record and code transactions, while accounting specialists and CFO-level financial professionals can handle the full scope of your accounting needs. The type of specialist you hire depends on the scope of your business needs.

When following accounting best practices, restaurateurs can control costs, make informed financial decisions, and ensure their business performs well.

## Unique Considerations in Restaurant Accounting

Restaurants have several variables that add to the complexity of accounting. These include seasonality, traffic patterns, perishable inventory, delivery logistics, high staff turnover, seasonal food prices, and balancing labor costs to customer preferences.

**Let's dive into a few areas:** expenses, reporting periods, inventory management, and labor management.

### Expenses

Like most businesses, restaurants have expenses, including rent, labor, food/ingredients, utilities, insurance, etc. Fixed costs are expenses that don't change, regardless of how busy you are, like rent and utilities. Variable costs, like labor and food costs, are less predictable.

What makes restaurants unique is how greatly these expenses impact profitability. Overstaffing or ordering too much food has a direct impact on your bottom line. This is why budgeting, forecasting, and frequent reporting are important.

A clear understanding of busy times, turnover rates, and staff efficiency can help manage expenses. Additionally, keeping a close watch on critical KPIs such as Prime Cost (staffing + food/beverage costs as a percentage of sales) contributes to strong restaurant management. Knowing that the Prime Cost metric needs to remain below 60% demonstrates the critical operational and financial expertise of the restaurant industry. Regular financial reviews help you analyze costs and implement cost-saving strategies.

### Reporting Periods

While most businesses run their books monthly, restaurants do daily, weekly, and monthly reconciliations. This practice is labor intensive but critical because of the variable and perishable nature of the business.

Many restaurants use a four-week accounting period rather than monthly. Restaurants often think of weeks from Monday to Sunday, and reporting should follow suit. This also helps with comparisons since days and weeks vary within months and years.

Weekly accounting periods help accurately forecast seasonal variances. It also aligns with bi-weekly payroll schedules for more efficiency.

### Inventory Management and Audits

Inventory management is important for many industries but critical for restaurants. All inventory—perishable and non-perishable—must be tracked to prevent waste. Most restaurants audit their inventory at least weekly. These raw materials are accounted for on your balance sheet and relate to your cost of goods sold.

Solid accounting practices are non-negotiable because of the fleeting nature of restaurant inventory and its impact on profits.

## Labor Management

Many businesses manage hourly employees. But restaurants have the unique challenge of employee scheduling—especially with fluctuating busy times and days—and tips.

Tips are considered employee income, not restaurant income. They aren't subject to withholding for the restaurant owner, but you must account for them in your reporting. Employees must report tips, and the employee and the business pay taxes on them.

Your accountant needs expertise in compliantly managing payroll, including wages, overtime pay, and taxes. But they must also understand how to account for tips and gratuities correctly.

## Other Restaurant Accounting Challenges

Experienced restaurant accounting specialists will also help navigate:

### Menu oversight

While the menu is the chef's creation, it impacts profitability. By analyzing ingredient costs, prep time, required resources, and sale price, you can identify which items help or hurt your bottom line

### Third-party fees

You must know how to account for credit card or mobile payment fees and commissions, tips, or usage fees imposed by third-party delivery services. Consider these fees in your pricing strategy.

### Split checks

This is unique to restaurants. When distributing tips to staff, handling split checks can lead to accounting errors or confusion.

## Discounts

Restaurants commonly offer deals or promotions, but accounting for them can be difficult. Your accountant will help ensure your deals don't impact profitability.

## Cash flow

Daily and seasonal variances in restaurants make it difficult to account for cash flow. Experienced restaurant accountants understand these fluctuations and can help you manage cash during all seasons.

With challenges in mind, let's discuss critical KPIs and metrics to understand the business's health.

## Critical Financial Data, KPIs, and Metrics for Restaurants

To ensure they can monitor expenses, revenue, and cash flow, restaurant owners and accountants require accurate and timely access to financial reports and metrics. This access empowers them to forecast future sales and make informed decisions regarding their business.

## Balance Sheet

A balance sheet lists assets and liabilities and is a key financial statement for all companies. The balance sheet shows your net profits—or losses—at the end of each month and is a snapshot of your overall finances.

## Profit and Loss

A restaurant's profit and loss statement (P&L), or income statement, shows all your income and expenses over a defined period. It shows sales and cost trends, providing insights into the restaurant's performance.



## Cash Flow Statement

These statements show how much money flows in versus going out of the restaurant. Cash flow positive means you're earning more than you're spending. Cash flow negative means you're spending more than you're earning.

## Chart of Accounts

A chart of accounts (COA) is a list of all the accounts your business uses in its accounting, organized by assets, liabilities, income, and expenses. Think of it as an index or ledger for the whole company.

## Sales Reports

Sales or revenue reports show how much money you've brought in, often reviewed daily, weekly, and monthly. These help you see how you're doing on a granular level. This daily insight helps identify trends and make decisions like staffing changes or updates to next week's inventory order.

## Key Performance Indicators (KPIs)

Now let's dive into some of the KPIs specific to restaurants that impact revenue generation and customer experience:

### Prime Cost Ratio

This measures the cost of running your restaurant. First, find your prime cost by adding the total cost of labor and the total costs of food and beverages. To find the prime cost ratio, divide your prime cost by total sales.

### COGS Ratio

This ratio is the cost of goods sold to total sales. It tells you how much of your revenue is consumed by your items' costs.

### Food Cost Ratio

This is the cost of food sold to total sales. It measures the percentage of revenue spent on food.

### Revenue per Available Seating Hour

This metric shows the revenue generated per hour that your restaurant is open.

### Revenue per Diner

This measures the average revenue generated per diner and helps you understand your customers' spending patterns.

### Average Check Size

This is the average dollar amount a customer spends during a visit to your restaurant.

### Staff Labor Cost Ratio

This is the ratio of total labor costs to total sales. It tells how much of your revenue is consumed by the cost of staff.

### Management Labor Cost Ratio

Similar to above, this tells how much of your revenue goes to management staff.

### Inventory Loss Ratio

This shows how much inventory is lost or wasted as a percent of total inventory.

### Turnover Ratio

This shows how quickly inventory enters and leaves the restaurant.

### Server Benchmarks

Often a reporting capability of your POS, server benchmarks can include per person average, errors per guest, number of guests served per person per hour, etc.

## Net Profit Margin

This is your net profit as a percentage of total revenue. It helps understand profitability.

You need the right software, regular reporting, and an accountant with restaurant industry experience to monitor these KPIs and metrics consistently.

### Dive Deeper:

Download the full list of restaurant KPIs.



## Trends that Impact Restaurant Accounting

Now that you understand the complexities of restaurant accounting, let's discuss trends, including outsourcing, software, and innovation.

### Outsourcing

Many restaurant owners are starting to outsource their accounting, bookkeeping, or payroll functions, primarily for time and cost savings. With an outsourced restaurant accounting specialist, you can trust you've hired an experienced professional who understands the nuances of your business. It also decreases onboarding time and reduces turnover.

### Here are a few more benefits of hiring an accounting or finance partner:

#### Resource Allocation

By delegating accounting and finance tasks, you free up essential resources, enabling a sharper focus on your primary activities in the kitchen or front-of-house.

#### Cost Efficiency

Partnering with a financial specialist is economical. You pay only for the required hours without incurring additional employee benefits or payroll expenses, which are often more affordable than employing a full-time staff member.

### Technological Advantages

Engaging with strategic outsourcing firms offers access to specialized technology solutions, including POS systems, payment processing, and accounting software, which might otherwise be unfeasible or expensive for your business.

### Professional Expertise

Utilize professional skills on an as-needed basis. Whether it's a CFO for a specific fiscal period or bookkeeping throughout the year, a flexible partnership model provides the necessary expertise exactly when required.

### Growth Support

As your restaurant expands, so do your financial needs. A strategic financial partnership can provide the talent and technological support necessary to accommodate your growing business beyond what standard accounting or bookkeeping software can offer.

### Software and Automation

Restaurant owners have access to many modern software solutions to run their businesses. Part of the value is in automation, which streamlines processes and reduces the time needed to complete routine tasks.

Payroll is one example. After setting up the system and individual employees, the correct taxes, deductions, and other calculations reflect automatically.

According to restaurant owners, labor management tasks like payroll, labor compliance, managing overtime, employee scheduling, computing tips, and compensation take over eight hours per week. Automation completes these tasks in minutes or hours, not days.

### Other Opportunities Include:

- ✓ Restaurant accounting software automates transaction-related tasks, simplifying recording and reconciliation and reducing errors.
- ✓ POS software provides real-time access to sales reports, customer data, and staff benchmarks.
- ✓ Staff schedule software creates detailed schedules based on historical customer patterns.

A primary benefit of automation is time savings. Automation also helps reduce human error, increases productivity, and provides easier visibility through reports and dashboards.

Many restaurants see the value of automation and efficiency. Across all segments, 75% of restaurants said they were likely to adopt new technology systems in 2023.

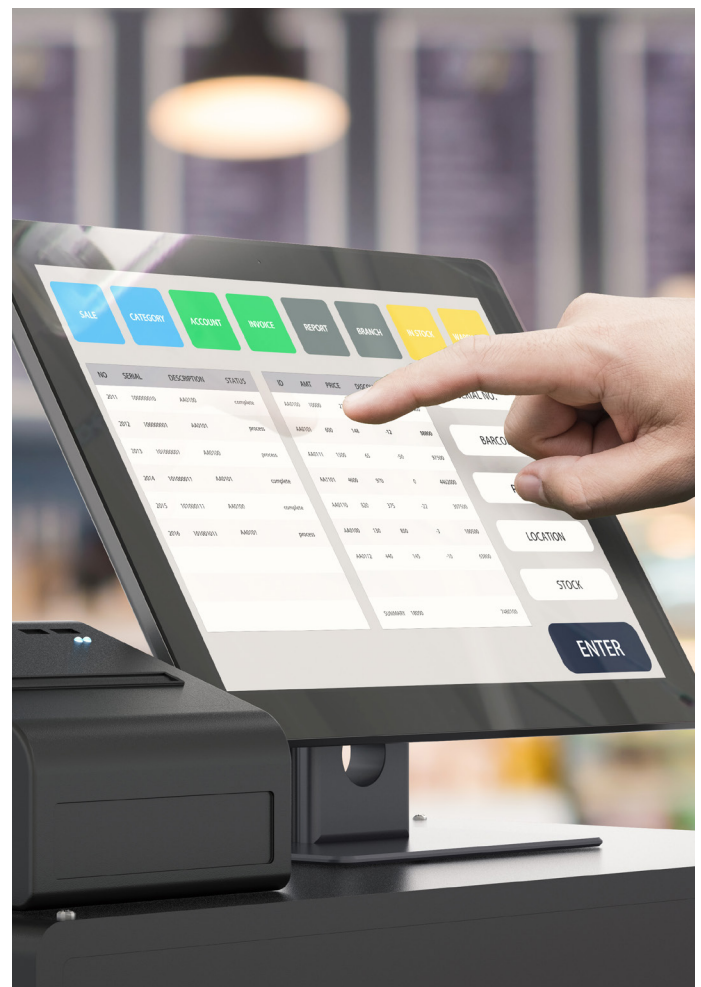
## Innovation

Like many other industries, restaurants are learning to adapt to changing customer preferences. Some advancements, like increased online orders and third-party delivery services, started during the pandemic but haven't gone away.

79% of consumers expect to be able to use technology to place orders at casual eateries. And 71% claim that restaurant technology, both online and in person, improves the visitor experience.

What we're talking about here is innovation in delivery models, such as Uber Eats. This includes POS ordering at the table, kiosk ordering, alternative payment processing options, and more.

It shows that technological innovation isn't optional. Operators who can adapt to innovation and build it into their other operational and financial processes will be well-positioned for growth.



## Get Started with Analytix for Restaurant Accounting

We've outlined what restaurant accounting is, how it's different from other industries, and presented the critical KPIs and metrics for restaurants. We then talked about some trends that impact restaurant accounting.

### The Two Primary Takeaways are:

1. Restaurant accounting is incredibly—and increasingly—complex.
2. Outsourcing your restaurant accounting is a cost-effective solution.

Analytix Solutions provides accounting, financial, or CFO services to the restaurant industry. Our accounting specialists have expertise with the critical benchmarks and KPIs that impact restaurants.

From daily bookkeeping to automating reporting, outsourcing can optimize your restaurant accounting and set your business up for maximum profitability.

We offer access to trained accounting specialists with a flexible and affordable cost structure for even the leanest budgets. Schedule a free audit and strategy session to see how you can optimize your accounting processes.

**Analytix Solutions offers a  
complimentary analysis of your  
Accounting System  
(\$1000 value)**

**Call us today to schedule an appointment**

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