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Restaurant Management
**Budgeting and Financial Statements:
Impact of the Pandemic on your Bottom Line**

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About KROST

- A full-service CPA & consulting firm with 21 partners and just under 200 team members firm-wide.
- Large niche in the foodservice industry for over 80 years. Presently consulting with approximately 120 restaurant companies.
- KROST's services include: Accounting, Assurance & Advisory, Mergers & Acquisitions, Tax Services, Corporate Tax Incentives, Wealth Management
- KBKG is our affiliated company that provides tax specialty services including Cost Segregation, Employment Tax Credits, Research & Development Tax Credits, and Energy Efficiency benefits to clients nationwide.
- KROST Restaurant services include: Site Assessment, Business Accounting, Consulting, Financial Reporting, Tax Consulting & Compliance, Assurance & Advisory

How to Budget for 2022 Coming out of the Covid Pandemic

Creating Operational Assumptions

What are Operational Assumptions based on?

- Hours of Operation
 - Narrow your focus on your most profitable Daypart(s).
- Projected Operating Mode
- Historical financial data
 - Reference similar time periods for the expected Operating Mode
- Key Performance Indicators (KPI's) from Business Intelligence or Point-of-Sale
 - Average Daily/Weekly Sales, Weekday vs. Weekend
 - Daypart Sales
 - Average Check
 - Daily/Weekly Check Count

Creating Operational Assumptions

What are Operational Assumptions based on?

- COGS
 - Most recent 2021 Financial Statement
 - Costed Menu Items, Product Sales Mix, Theoretical COGS
- Payroll
 - Salary – Fixed dollar amount
 - Hourly – Percentage based, Build in Wage Increases, Ideal Staffing Level
- Expenses
 - Fixed – Rent, Insurance, Outside Services – Calculated by \$
 - Controllable – R&M, Supplies, Utilities – Calculated by %

Creating Operational Assumptions

Important Considerations for 2022:

- 2021 saw a return to full restaurant operations for most locations. Identify what modes you were operating in, and when.
- If you were operating in a limited capacity for part of the year, use figures from full operations to create your revenue projections.
- If you were operating in a limited capacity for the entire year, reference the last time period you operated at full capacity as a guide- 2019
- Inflation and the impact on COGS.
- Minimum Wage increases, and the ideal staffing level for your location.

Calculating Sales Assumptions

Sales Calculations by Operating Mode

- First thing to consider, how were you operating in 2021?
 - Full, Limited, Takeout and Delivery?
 - Reference multiple time periods on Financial Statements, BI or POS data
- In the following example, we'll look at Sales data from two different time periods where the location was operating in full capacity, 2019 and 2021

Calculating Sales Assumptions

Sales Calculations

- Here we have 4 separate weeks that the location was operating at full capacity. The top is 2019, Lower is 2021
 - 2019 total for date range- \$157,369
 - 2021 total for date range- \$119,726
 - 2021** Sales are at **76%** of the 2019 Totals

KROST | Restaurant Management: Budgeting and Financial Statements: COVID-19 Edition

	Week 1		Week 2	
	10/29-11/4		11/5-11/11	
INCOME				
REVENUE				
FOOD	\$44,898	56.0%	\$44,796	58.1%
LIQUOR	\$3,199	4.0%	\$3,833	5.0%
BEER	\$2,577	3.2%	\$2,451	3.2%
WINE	\$4,774	6.0%	\$4,166	5.4%
NA BEVERAGES	\$19,209	23.9%	\$19,109	24.8%
RETAIL	\$762	1.0%	\$624	0.8%
BANQUET SALES	\$0	0.0%	\$0	0.0%
WHOLESALE COFFEE	\$4,829	6.0%	\$2,142	2.8%
TOTAL REVENUE	\$80,247	100.0%	\$77,121	100.0%
TOTAL INCOME	\$80,247	100.0%	\$77,121	100.0%

	Week 1 10/26-11/1		Week 2 11/2-11/8	
INCOME				
REVENUE				
FOOD	\$31,430	54.4%	\$33,259	53.7%
LIQUOR	\$2,924	5.1%	\$4,683	7.6%
BEER	\$1,311	2.3%	\$1,123	1.8%
WINE	\$1,179	2.0%	\$1,119	1.8%
NA BEVERAGES	\$20,840	36.1%	\$21,631	34.9%
RETAIL	\$110	0.2%	\$119	0.2%
BANQUET SALES	\$0	0.0%	\$0	0.0%
WHOLESALE COFFEE	\$0	0.0%	\$0	0.0%
TOTAL REVENUE	\$57,793	100.0%	\$61,933	100.0%
TOTAL INCOME	\$57,793	100.0%	\$61,933	100.0%

9

9

Calculating Sales Assumptions

Reading Between the Lines

- How do we break down Sales by category?
 - Using categorical percentages from the SAME operating modes and periods. It is important to remember that as your Operating Mode shifted, so did your Sales Mix!

	2019		2021	
	Week 1 10/29-11/4	Week 2 11/5-11/11	Week 1 10/26-11/1	Week 2 11/2-11/8
INCOME				
REVENUE				
FOOD	\$44,898 56.0%	\$44,796 58.1%	\$31,430 54.4%	\$33,259 53.7%
LIQUOR	\$3,199 4.0%	\$3,833 5.0%	\$2,924 5.1%	\$4,683 7.6%
BEER	\$2,577 3.2%	\$2,451 3.2%	\$1,311 2.3%	\$1,123 1.8%
WINE	\$4,774 6.0%	\$4,166 5.4%	\$1,179 2.0%	\$1,119 1.8%
NA BEVERAGES	\$19,209 23.9%	\$19,109 24.8%	\$20,840 36.1%	\$21,631 34.9%
RETAIL	\$762 1.0%	\$624 0.8%	\$110 0.2%	\$119 0.2%
BANQUET SALES	\$0 0.0%	\$0 0.0%	\$0 0.0%	\$0 0.0%
WHOLESALE COFFEE	\$4,829 6.0%	\$2,142 2.8%	\$0 0.0%	\$0 0.0%
TOTAL REVENUE	\$80,247 100.0%	\$77,121 100.0%	\$57,793 100.0%	\$61,933 100.0%
TOTAL INCOME	\$80,247 100.0%	\$77,121 100.0%	\$57,793 100.0%	\$61,933 100.0%

We can see an increase in Liquor Sales while Beer and Wine Sales have both trended downward

March 2022 10

10

Calculating Sales Assumptions

Reading Between the Lines

- Did you notice the difference in Sales Mix between the two data sets?
 - 2019 Wine sales were 5.7% of Total Sales, in 2021 just 1.9%
 - 2019 Beer sales were 3.2 % of Total Sales, in 2021 just 2.1%
- Takeaways;
 - Sales Mix shifted, heavier NA Beverage Sales
 - Reduced Beer and Wine Sales
 - Increased Liquor Sales
 - Baseline 2022 Revenue Goals should be around **76%** of 2019 Actual Revenue

Creating COGS, Payroll & Expense Assumptions

COST OF GOODS SOLD (COGS)

- COGS percentages can be pulled from your past Financial Statements
 - YTD numbers are a usually a good reference, however, the most recent completed period will be the most accurate given recent cost increases.
 - Recipe and Inventory Management software can also provide you with a costed Product Mix , this will give you a good theoretical target based on your actual sales mix for a given timeframe.
 - These costs will be applied on a percentage basis against sales from the SAME category or department.

Leveraging Technology to Control COGS

COGS- Well

We use technology like COGS-Well to create costed recipes that are tied to both the products you purchase and the items you prepare in-house.

	Item name	Recipe unit	Quantity	Unit cost	Total cost	% of total
	🔍	(All) ▼	🔍	🔍	🔍	🔍
::	Salmon Fillet Atl (Combined item)	Wz	6.5	\$0.658	\$4.274	83.10%
::	Prep-Cajon Spice (Recipe item)	Wz	0.5	\$1.552	\$0.776	15.09%
::	Grilled Broccolini (Recipe item)	Wz	5	\$0.016	\$0.082	1.59%
::	CIT- Lemons (Combined item)	Slice	1	\$0.011	\$0.011	0.22%

This gives us a clear view of ingredient cost down to the full plated recipe

Leveraging Technology to Control COGS

COGS- Well

Here we can see the item has a current cost percentage of 16% and our target it 18%

Sales Item

Recipe is sold: ☒

Current retail price:

Model price:

Theoretical cost:

Target cost %:

Target price:

Retail theo cost %:

Model theo cost %:

We can determine that this item is priced correctly and within our budgeted cost target.

Leveraging Technology to Control COGS

COGS-Well

- Cost Percentage warnings if an item goes above your expected cost
- Simplified Inventory recording for more accurate and consistent numbers
- Theoretical Inventory Numbers help to manage Shrinkage and Loss on a per item basis
- Same process can be applied for cocktails and drink recipes – **We see this is a big opportunity for most companies in 2022**

Creating COGS, Payroll & Expense Assumptions

PAYROLL

- There are 3 crucial categories to assess for labor, **Salaried**, **Hourly**, and **Other Payroll**.
- Hourly Labor – This should be analyzed by job with considerations for your **Ideal Staffing Level**. Using 2021 data can be tricky as many locations were operating with less staff. Cost out your ideal schedule with a full staff and base your budget on those projections.
- Salaried Labor – This is your management team. These figures are likely to remain consistent as a **dollar value**. We let the projected sales dictate the cost-percentage that this category carries. With that said, **10%** is a healthy target.
- Other Payroll – Payroll Tax, Workers Comp, Group Insurance, etc. Applied as a percentage to allow fluctuation when Sales and Labor increase start to increase.

Creating COGS, Payroll & Expense Assumptions

Direct Operating Expenses

- Direct Operating Expenses can be applied based on the overall cost percentage. However, there are some categories that will be further affected by inflation;
 - China, Silver, Smallwares
 - Laundry/Linen
 - R & M Lines
 - Supply Lines

These are just a few examples, but if your operation routinely had LARGE expenses in these categories, you should evaluate where you can reduce costs in other categories.

Creating COGS, Payroll & Expense Assumptions

General & Administrative and Occupancy Expenses

- **G&A** expenses tend to be consistent as a percentage for most operations. Thus, the percentage is applied to allow that dollar value to increase or decrease based on budgeted sales.
- **Occupancy** can include Fixed Rent, Percentage Rent, Property Tax, and CAM charges.
 - Fixed Rent – Consistent dollar amount each month
 - Percentage Rent – Percentage of sales the Operation had agreed to pay the landlord

** Now is a great time to speak to your landlord about renegotiating your lease!*

2022 Budgeting Take-Aways

- Be Prepared to adjust. If the last 2 years have taught us anything it's that we need to be prepared to modify the ways we operate to remain successful!
- Consider a Mid-Year budget review to ensure you operators have an effective budget to manage against.
- Build in room for growth. It looks like costs are going to continue to rise for the time being.

Questions? Contact Us for Assistance with Your Restaurant Operation



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Thank You!

Contact Us

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Locations

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