# Financial Control in Restaurants

## Overview

- This presentation gives information about the financial management of restaurants

## Goal

- To learn how to manage the financial resources in restaurants

# Objectives

- To learn how to maximize revenue and profit
- To learn four ratios used by restaurant management
- To learn some maintenance issues
- To learn the types of accounting statements
- To learn how to analyze financial statements
- To learn how to calculate food & beverage costs
- To learn how to make break even analysis
- To learn typical cost percentages for free-standing restaurants

# Four Financial Ratios used by Management

- Liquidity Ratios
  - can organization meet short-term commitments?
- Solvency Ratios
  - can organization meet long-term commitments?
- Activity Ratios
  - how effective is mgmt in using its assets?
- Profitability Ratios
  - how profitable is the business?

# Accounting Statements

- Balance Sheet
  - snapshot of business at a single point in time
    - assets, liabilities,owners equity
  - Assets - inventories, equipment, accounts receivable
- Income Statement (P&L)
  - Sales - Revenue
  - Variable Costs - Controllable Costs
  - Fixed Costs - Non-controllable Costs

# Systematic Approach

- Start at the bottom working upward
  - Profit
  - Controllable Expenses
  - Sales / Revenue
- Compare net income as a percentage of total revenue to standard.
  - comparison could be forecast, last-year's figure, or industry average.

# Analysis of Income Statement

- Sales
  - Are sale increasing or decreasing?
  - Why is this happening?
  - Is sales volume appropriate to the value, size, or investment of the business?
- Activity Ratios
  - average check
  - seat turnover
  - sales per square foot

# Analysis of Income Statement

- Expenses
  - cost of food sales
  - cost of beverage sales
  - labor cost
  - operating expenses - china and glassware, paper supplies, and cleaning chemicals

# Analysis of Financial Success

- Profit
  - is it enough?

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- Operating ratio
  net income before taxes / net sales
- Net profit to net equity
  net profit after taxes / net equity
- Management proficiency ratio
  net profit after taxes / total assets

# Cost of Goods Percentage
## (food, beverage, merchandise)

- Opening inventory
- Purchases are added to opening inventory
- Subtract returns, spoilage, complimentary meals
- Subtract closing inventory
- Final number = cost of goods sold

# Food Costs

- Beginning Inventory
  + Purchases
  - Issues
  = Ending Inventory

Beginning Inventory
+ Purchases
- Ending Inventory
= Issues

- Inventory Issues is the food cost
- Food Cost Ratio = $\frac{\text{Food Cost}}{\text{Food Sales}}$
- Typical food cost ratio is 28-32%

# Labor & Beverage Costs

- Labor Cost
  - highest single expense in the food & beverage division*
    - $ \frac{\text{\$ amount of \# employee hours}}{\text{total restaurant revenue}}$
- Beverage Cost (Pour Cost)
    - $ \frac{\text{beverage issues}}{\text{beverage revenues}}$

* When considering labor cost, you must also consider payroll taxes and benefits which often run 30-50% of labor $ spent

# Break Even Analysis

Before and during operation of a foodservice operation it is important that you understand what your

break-even point is.

- The point where the operation is breaking even financially, i.e. no profit; no loss

Break-even point =

Fixed Costs / (1 – Variable Costs / Sales)

# Contribution Margin

- Amount a menu item contributes to the gross profit
- Difference between cost of item and its sales price
- Example:
  - cost of chicken is $2.50
  - selling price is $6.75
  - contribution margin is $4.25

# Typical Cost Percentages for Free-Standing Restaurants

- Labor costs 20 to 24%*
- Food costs 28 to 32%
- Beverage costs 18 to 24%

* Please note that this is for labor $ only and does not include payroll taxes and benefits