



**National
Restaurant
Properties**©

“The Restaurant Store”™
805 Woodland St. #319
Nashville, TN 37206

EACH OFFICE IS INDEPENDENTLY OWNED AND OPERATED

The Importance of the P&L

Considering the purchase of a restaurant, but you can't make heads or tails of the financial details? Although it may seem to require a private detective to determine the true income for a restaurant, a prudent buyer can usually get to the bottom line reasonably accurately if the financials have been professionally prepared. Any good CPA or accounting firm will structure the operation's income statement (P&L) to reflect the least amount of profit if the business is a closely held corporation, partnership or sole proprietorship. The buyer should also check the financials for the type of operation and management that will be injected into the operation after the purchase of the restaurant. The net profit will vary with menu and price changes, management structure and the concept that the new owner brings to the table. So, in your search for a more accurate bottom line, it will be necessary to reconstruct the financials in order to reflect what they might have been under different management.

Consider the following areas for adjustments and additions to your projected cash flow:

- ❑ **Interest Expense** – this is irrelevant to the computation of the reconstructed income statement, primarily because payments will eventually end and the collateral will belong to the business owner. Also, financing charges are based on the owner's personal capacity to carry the debt, and often have nothing to do with the operating of the restaurant.
- ❑ **Depreciation** – another “non-cash” expense item. Depreciation is removed from the income statement because depreciation schedules are somewhat flexible and, to some degree, can be tailored to fit the new owner's financial situation.
- ❑ **Taxes** – most taxes vary according to a specific owner's personal business. Of course, federal and state withholding, property, and sales taxes will be standard to every operation.
- ❑ **Food costs** – to see food and beverage costs in excess of 50 percent on income statements is not unusual. Determine what the food cost should be with proper management, and adjust.
- ❑ **Labor costs** – is the owner included on the payroll? Are the wages excessive? Are family members on the payroll? Are they paid market wages or is the mother-in-law being paid for a position that can be replaced by another employee for much less?



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- ❑ **Other income** – are there vending machines at the business? Ask for vendor records, and determine if they have been reported along with other sales.
- ❑ **Rebates** – vendor rebates are common. Are rebates reported under “other income”?
- ❑ **Catering** – are outside catering sales reported with restaurant sales or considered a separate business?
- ❑ **Tip income** – if the owner or a close family member a “tipped” employee?
- ❑ **Employee benefits** - health, officers’ life, disability income and auto insurance for the owner are pure discretionary income and should be added back to the bottom line.
- ❑ **Liability insurance** – review this for competitive rates. Many restaurant owners are too loyal to their agents and do not shop rates.
- ❑ **Auto expenses** – is the lease for the auto or truck necessary for the business, or is it for personal use?
- ❑ **Travel expenses** – personal or business?
- ❑ **Telephone and utilities** – are the long distance calls personal or business? Are the utility bills for the restaurant only?

When comparing businesses to buy, one glaring element stands out above the rest: the real bottom line! And I don’t mean the last line on the income statement – I mean reading between the lines. Most prospective buyers realize that sellers typically list on their tax returns expenses that are unrelated to the business. Remember that business owners live out of their businesses!