

ACCOUNTING

CASE

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CPA

Written by

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The Bistro d'Ariane

Today is Monday, January 4, 2021. You, CPA, are a director of the consulting services department at the firm Bouchard & Bougie, CPA, LLP (B&B). A few days into your New Year's vacation, you turn on your computer from the improvised desk you made on your apartment's kitchen table. Here you receive an instant message from Maude Bougie, an associate you often collaborate with.



MB

Maude Bougie:
Good morning CPA. We have an urgent matter to handle. I will be waiting for you and your team in my virtual meeting room.

CPA:
Good morning Maude. OK! I'm sending an invitation to my colleagues and we will be there in about 20 minutes.

Maude Bougie:
Thank you!

You enter Maude's virtual meeting room with your colleagues.



Maude:

“Hello everyone. I hope you enjoyed the holidays. On my end, we ordered our traditional family Christmas dinner from a caterer. This year, we have selected the renowned Bistro d’Ariane. It was a huge success! As I picked up the meal, I had a chance to chat with Ariane Chouchoux, the chef and owner. She shared with me how difficult and overwhelming it felt navigating the changes due to the COVID-19 pandemic.

Five years ago, Ariane emigrated to Canada from France. Then she founded the Bistro d’Ariane, a very successful French bistro highly valued by business customers and international travellers. It used to be almost impossible to make a table reservation there. However, the current picture is quite different. I offered Ariane our services to help her through this hard patch, and she accepted. I would like to have you and your team handle this case.”

CPA:

“Of course, Maude, you can count on us. Can you expand on that a little bit?”

Maude:

“I’ve already met with Ariane twice during the holidays in order to calm the tensions and the collective sense of panic built up over that difficult time. Let me forward you the file I started working on. I have taken note of some general information about the Bistro (Appendix I) and I have written a report of my discussions with Ariane (Appendix II). I also received information on the Bistro’s financial situation (Appendix III).

According to Ariane, the Bistro is currently experiencing a serious cash shortage. I would like you to prepare a monthly cash budget (forecasted cash flow statement) for 2021 in order to determine the shortfall (in dollars) of the Bistro as of December 31, 2021. Then, I would like you to provide an analysis of possible funding alternatives to make up for this shortfall. I have done some research on the current support programs available to businesses in this sector to help you (Appendix IV).

Ariane has started the process to obtain a \$100,000 grant from the Metropolitan Development Bank (MDB). This funding is intended to help small and medium-sized businesses facing liquidity problems as a result of the pandemic. Part of the conditions of this grant is to provide financial statements in compliance with ASPE. Ariane asked for advice on the accounting treatment of



some particular transactions that occurred during the year (Appendix V). Could you have a look at it?"

CPA:

"Sure thing. Anything else?"

Maude:

"Yes. Ariane would like to increase her chances of receiving the MDB grant, as she expects a fierce competition. She asked if it was possible to certify the compliance with ASPE of the 2020 financial statements. I told her that the independence requirements are preventing us from realizing an assurance engagement for her company. I would still like you to take some time to explain to Ariane the assurance services that a CPA can provide to the Bistro in order to help increase the credibility of her financial statements, so as to make it easier for her to obtain this grant.

Finally, I would like you to analyze the two business restructuring options that Ariane has proposed (Appendix VI), looking for the most cost-effective one. I would also like to have qualitative analyses for both options and recommendations on your preference."

CPA:

"Perfect. My team and I will work on this. What are the deadlines?"

Maude:

"Given the urgency of the situation, I have planned a videoconference with Ariane in two days. I would like your work to be completed on Wednesday morning. I will see you at 9 a.m. in my virtual meeting room for your debriefing."



Appendix Summary

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Appendix I

General information about the Bistro d'Ariane

The Bistro d'Ariane is incorporated since March 15, 2016. Ariane Chouchoux currently holds the entire outstanding stock. The Bistro's fiscal year-end is December 31.

Ariane is an internationally renowned chef. She started by operating two establishments; one in Paris and one on the French Riviera, and later sold them before immigrating to Quebec to open her Bistro.

Located in the heart of downtown Montreal, the Bistro has won over the hearts of both local business clients and international travellers. The restaurant has been extremely busy since its debut, in fact, it can take up to three to five months to book a table.

The Bistro specializes in fine gourmet cuisine. Ariane promotes local Quebec products, along with specialized products imported from various countries, which combined allow her to offer her guests the gourmet dining experience in a fine setting they sought for. Featuring one of the most beautiful wine cellars of Montreal and a wide selection of private imports, the Bistro draws in a lot of wine enthusiasts as well. The average bill at the Bistro is \$195 per guest.

Although, that was before the disruptions caused by the current pandemic on the Bistro's operations. The first three months of closure starting in March 2020 have left the Bistro on a very uncertain note. During summer 2020, the Bistro invested a lot to respect the current sanitary rules and to restart operations, but once the business reopened in the summer, the number of visits has significantly dropped. Much of the business clientele is now working from home and there are few international travellers. The Bistro was hit by the pandemic's second wave in fall 2020, which forced it to close doors once again. It hasn't reopened since. After months of closure and significantly reduced operations, the Bistro is accumulating delays in payments to its creditors.

To survive, the Bistro started to serve ready-to-eat meals for guests to enjoy at home. The profits generated by this approach are much lower than those earned from operating the restaurant normally, but it does provide some cash inflow that helps to pay for some of the fixed costs.

Appendix II

Summary of discussions between Maude and Ariane



Background Information

Ariane appeared in a state of panic and mentioned that she has been living in uncertainty for several months. Her phone rings a lot, but it is no longer from customers wanting to book a reservation, but from creditors wanting to get paid. Besides the sums due to the government (see below), Ariane reports having cumulated \$75,498 of payables to various creditors as of December 31, 2020.

Financial Position

Both Ariane's and the Bistro's financial situations are rather precarious. After paying taxes to the French state when she sold her two restaurants in France, she had the equivalent of CAD 750,000 left. The entire amount was invested in a condo in downtown Montreal, in equipment for the Bistro and in leasehold improvements for the commercial premise.

Since she moved to Quebec, Ariane was able to save \$35,000 in an RRSP. These are her only savings. As of December 31, 2020, her personal checking account balance was \$926.03 and she accumulated approximately \$17,000 in credit card debt.

The Bistro has a \$150,000 line of credit tied directly to her current bank account, bearing interest at an annual rate of 4%. The Bistro has no investments or passive assets.

In order to help the Bistro with the liquidity, Ariane decided to delay the payment of the amounts owed to the government. Thus, no payroll deductions, GST/QST, income tax payable and installments were paid to the government in 2020. These amounts have instead been used to pay creditors, mainly commercial rent, which is very expensive. As of December 31, 2020, the amounts due total \$125,000 and are broken down as follows:



Appendix II (continued)

Summary of discussions between Maude and Ariane

Payroll deductions	\$12,000
GST and QST payable (net of input tax credits)	\$17,000
Federal and provincial income tax payable for the year 2019 (net of tax instalments paid in 2019)	\$16,000
Federal and Provincial tax Instalments for the year 2020	\$80,000
Total	\$125,000



Appendix III

Financial Information for the Bistro d'Ariane

Banking information as of December 31, 2020

As of December 31, 2020, the bank account credit balance amounts to \$125,966, excluding outstanding cheques for \$23,497.

Early 2020, Ariane received a promotional offer from her bank. This offer stated that the Bistro had been pre-approved for an increase in the authorized line of credit limit of \$100,000. She has not accepted this offer since the authorized amount of \$150,000 was largely enough at that time.

2021 Estimated Revenues and Expenses

Financial statements are not yet finalized as at December 31, 2020. However, Ariane indicated that they will not be sufficiently representative to make forecasts, as the Bistro's activities were too affected by the pandemic.

Estimated revenues

Estimating the Bistro's revenues for 2021 is very difficult for Ariane, as the Bistro is still closed. She also thinks that it would be too optimistic to consider going back to normal in 2021. Even if the restaurant gets the approval of the Public Health authorities to reopen, following the experience of summer 2020, Ariane doesn't think that her clientele would readily return. Successive closures and reopenings also greatly disrupted the Bistro's operations and were very complex to manage.

Given this climate of uncertainty, the fewer and fewer customers looking for luxury products and gourmet dining experiences, Ariane doesn't consider it viable to open the restaurant in the short term. She believes that hiring employees again and restarting operations without knowing if customers would show up is too risky. Ariane believes that the best she could hope for is to reopen the restaurant for the 2021 holiday season. As such, the most realistic revenue scenario for 2021 is the integration of only one of the two proposed restructuring options (ready-to-eat or ready-to-cook).



Appendix III (continued)

Financial Information for the Bistro d'Ariane

Estimated Expenses

Following my request, Ariane has prepared a list of fixed expenses payable for the year 2021. These expenses reflect the Bistro's history over the past few years.

Expenses	Frequency	Cost
Commercial premise rental fee	Monthly	\$19,500
Electricity	Monthly	\$1,100
Telecommunications	Monthly	\$575
Amortization (leasehold improvements and equipment)	Monthly	\$1,275
Interest and bank fees	Monthly	\$1,450
Insurance	Monthly	\$400
Payroll costs and taxes	Monthly	\$9,450
Delivery truck rental fee	Monthly	\$750
Website hosting and maintenance (payable on July 1 each year)	Annually	\$1,500
Professional fees (compilation engagement and income tax return)	Annually	\$5,675
Maintenance and repairs (year-round)	Annually	\$4,500
Taxes and licences (payable before June 30 of each year)	Annually	\$3,225

As the federal government's wage subsidy program ends in December 2020, Ariane made the very difficult decision to lay off all of her employees, apart from herself, a cook's helper and a delivery person. The estimate of the "Payroll costs and taxes" account reflects these layoffs. The amounts due to the employees who were laid off have been paid out in their last pay in December 2020.



Appendix IV

Business Assistance Programs

Following my internet research, here is a summary of the different assistance programs for businesses in tourism and food service industries.

Federal Government

Small Businesses Emergency Account¹

The program aims to provide financial support in the form of a \$40,000 loan, guaranteed by the Government of Canada. It is being used to fund the non-avoidable and non-deferrable expenses of companies trying to get through this downtime smoothly, helping them get off to a good start as the economy recovers. Assuming the balance is paid by December 31, 2022, 25% (up to \$10,000) of the loan amount may be written off.

Government of Quebec

Emergency assistance for small to medium-sized enterprises²

The program provides emergency assistance through a loan guarantee for a maximum of \$50,000. It is intended to compensate for the cash shortfall of small to medium-sized businesses caused by:

- Inability or significantly impaired ability to deliver products (goods or services) or goods;
- An issue regarding the supply of raw materials or products (goods or services).

Help for businesses in red alert zones³

This program provides refundable assistance for up to 80% of eligible fixed costs, to a maximum of \$15,000 for every month the business is closed.

Revenu Québec - Request for revocation of interest, penalties or fees⁴

A taxpayer may ask Revenu Québec to cancel interest, penalties or fees that you must pay under a tax law into following specific situations:

¹ <https://ceba-cueec.ca>

² <https://www.quebec.ca/entreprises-et-travailleurs-autonomes/aide-urgence-pme-covid-19/>

³ <https://www.quebec.ca/nouvelles/actualites/details/aide-aux-entreprises-en-regions-en-alerte-maximale/>

⁴ <https://www.revenuquebec.ca/fr/juste-pour-tous/assurer-la-conformite-fiscale/penalites-et-interets/demande-dannulation-dinterets-de-penalites-ou-de-frais/>



Appendix IV (continued)

Business Assistance Programs

- You are unable to pay a tax debt that is partly made up of interest, penalties or fees. This can be established through a complete financial analysis of your situation.
- You have been adversely affected by an error we made in the documentation or information we provided to you.
- You experienced a unique situation beyond your control, such as a flood, fire, serious illness, serious accident or death in your immediate family that prevented you from fulfilling your tax obligations.

Regional programs

Metropolitan Development Bank (MDB)

In order to stimulate business recovery in the tourism and food service industries of the Montreal urban community, the MDB offers operating grants that can reach \$100,000.

The MDB has a budget of \$2 million for this grant program. Organizations operating in the tourism and food service industries are eligible. Applications will be evaluated according to the following criteria:

- The submitted file quality;
- The accuracy of the financial information integrated to the application;
- A realistic and achievable business recovery plan;
- The company's level of need for liquidity;
- The positive impact of the recovery plan on the urban community of Montreal.



Appendix V

Special transactions during the last fiscal year

Payroll support

While the Bistro was closed, Ariane requested a wage subsidy from the federal government covering 75% of the employees' salaries. Qualified staff for a fine gourmet restaurant being hard to find, Ariane didn't want to risk losing any employees. The Bistro has been able to pay its staff full salary until December 1, 2020.

The Bistro was closed for a total of 25 weeks in 2020, 20 of which were covered by the wage subsidy. In mid-December, the Bistro was confirmed to be eligible for a \$78,750 grant by the government. The letter stated that the application met all criteria and that payment should be made in January 2021. This amount was recorded under accounts receivable, along with miscellaneous income. Ariane wondered if the grant could be recorded for 2020. She also wonders how the grant will be accrued when it's received.

Food Stocks

As of December 31, 2020, food inventories are valued at \$25,000, which reflects the acquisition cost of various food products. When the first closure happened in March 2020, Ariane donated \$5,000 worth of supplies that couldn't be kept to a local food bank in her neighbourhood. This amount was removed from the inventory and recorded as a loss. The most recent inventory list provided by Ariane indicates that \$4,500 of it is for non-perishable products and that \$9,500 is for ready-to-eat products. The balance (\$10,000) is mainly consisting of very expensive gourmet foods such as Wagyu beef, rare fish and various seafood. The poor attendance following the reopening in summer 2020 forced Ariane to vacuum-pack these products and put them in the freezer. Six months later, Ariane is now refusing to use them, even in ready-to-eat products, afraid to tarnish her reputation by using products that could have lost quality. She is thinking about donating these products to the same food bank.

Appendix V (continued)



Special transactions during the last fiscal year

Delivery Truck Rental

On December 1, 2020, Ariane signed an agreement with Le Spécialiste du camion for the rental of a truck to deliver ready-to-eat products. She initially considered buying the truck, but the purchase price (\$55,000) was too high for the Bistro to afford. The signed lease agreement is for 60 months and includes monthly payments of \$750 at an implicit rate of 5% annually. The average useful life of a delivery truck in the Montreal area is 7 years. The Bistro will have the option at the end of the lease to purchase the delivery truck for \$13,000, the estimated fair value of the delivery truck after 5 years. The first payment of \$750 on December 1, 2020, was recorded in the “Rental fees” account.



Appendix VI

Business Restructuring Options

According to Ariane, the bistro has two options for restructuring its operations to get through the next year. The Bistro can implement only one of these two options.

Option 1—Ready-to-Eat

A first attempt with the ready-to-eat option took place in the Bistro during April and May 2020. This option allows the customer to order a meal for two people, which is then delivered by the bistro's delivery man or it is picked up at the Bistro by the customer himself. A few minutes before eating, the client simply follows the instructions to reheat the meal (in the oven or pan, depending on the recipe) and serve.

The ready-to-eat menu available to customers is based on the Bistro's menu but has fewer options. This allows the Bistro to live up to its brand identity and to serve gourmet meals at home, for less than you would pay in a restaurant. Customers' feedback has been very positive during this first two-month attempt in 2020. On average, 75 ready-to-eat orders were placed weekly.

When the second outbreak occurred this fall, many customers asked Ariane to bring back ready-to-eat meals. It has been offered again in November and December 2020. On average, 80 ready-to-eat orders were placed weekly during the month of November. Orders almost tripled to an average of 220 weekly in December.

Each order placed for the ready-to-eat option includes a gourmet dinner for two persons, which contains several services. The average cost for two people is \$150, and the contribution margin is 65% on average.

Given Ariane's experience in the food service industry and familiarity with her customer's habits, if this is the option selected for 2021, she expects a drop of about 50% on orders during January and February 2021 (the two hardest months of the year in this industry). However, she expects to see a return to normal from March to November, and to triple her orders in December 2021 with the holiday season.



Appendix VI (continued)

Business Restructuring Options

This would give Ariane sufficient staff to handle such orders per week. Given the significant increase in demand, two additional Kitchen Helpers are expected to be hired for December 2021.

Health regulations regarding ready-to-eat food are fairly simple and the Bistro is already fully equipped to guarantee the proper handling of meals under these rules. Hence this option would not require any upfront investment.

Option 2—Ready-to-Cook

Ariane's second option is to enter the increasingly popular ready-to-cook box market. The ready-to-cook option provides the customer with a box holding all the fresh ingredients needed to cook a meal, along with a detailed recipe sheet.

This option makes the most popular meals the simplest and quickest to cook, yet with a gourmet twist. This is a very popular market segment for families with young children running out of time at the end of the day. The typical customer would be a family of two parents and two children. Ready-to-cook customers are looking for variety, at reasonable cost. In order to offer this diversity to customers, ready-to-cook suppliers usually present around 10 to 20 different dishes per week.

Ariane has no experience with ready-to-cook, but feels that she has enough culinary experience to carry out this project. But she is well aware that if she chooses this option, her recipes will have to be seriously adapted, as customers don't have the same cooking techniques and equipment to prepare elaborate recipes. Ariane confesses being a bit less excited about this option, as it takes her away from her passion: fine gourmet cuisine. However, she is willing to do anything to get through this difficult time.

Competition in this market segment is quite strong. A few big players have big market shares. Some of these players are backed by skilled marketing teams, they are very active on social media and have websites and applications that allow real-time ordering and order management.

Appendix VI (continued)

Business Restructuring Options



Recently, Ariane met with a marketing consultant to obtain advice regarding the feasibility of this option. The consultant believes that the average selling price per serving in the ready-to-cook option would have to be fixed at \$10 per adult and \$5 per child to remain competitive. By renegotiating some supply agreements with suppliers, Ariane believes a 35% contribution margin could be realized. She expects to be able to produce approximately 1,500 servings each week with the current equipment and labour level she has. The consultant estimates that a 50% capacity for the first two months of operation would be a realistic expectation with the adjustment period, and then between 75% and 90% capacity for the rest of the year.

Under this option, January and February 2021 would be entirely dedicated to the development of this new product line, including developing recipes and recipe sheets. A communication campaign will be launched by the marketing consultant, incorporating the required updates to the website and developing an application for a lump sum of \$10,000.

The Food Safety regulation of Quebec for ready-to-cook boxes are very strict. As raw foods are involved and the high risk of cross-contamination, these foods have to be fresh, individually wrapped and meal boxes must be kept at a minimum temperature of 4 degrees Celsius. Accordingly, there would be a need to invest in reusable coolers and ice packs. Ariane got several quotes from suppliers, and the best one was for \$5,500, representing 500 units of coolers and 1,000 ice packs.

