CPA
Practice Advisor

to-day operations, including some basic accounting tasks.

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As a franchise owner, you can run your own business without the risk of starting a brand new company. Like any business, you take on the many responsibilities of day-to-day operations, including some basic accounting tasks. Though franchise accounting is similar to accounting for other types of businesses, it includes a few extra steps.

Franchises

Each franchise location is owned by an individual. But, the entire franchise is run by a larger company. For example, someone in your town could own and operate a local fast food restaurant. But the entire restaurant brand is owned by one, superior entity.

Franchising helps market a brand to a large number of customers. The brand already

The franchisor owns all the franchise locations. They manage the big picture of the brand. The franchisor makes decisions about which products and services are sold. They also form an operating system and provide ongoing support to the franchise.

The franchisor needs individuals to operate each franchise location. For each location, the franchisor sells the rights to the franchise to individuals.

Franchisees

In franchise accounting, the franchisee owns an individual franchise location. They operate the franchise under the guidelines the franchisor sets. Buying a franchise can help you grow your business faster because of the recognizable brand. But, you don't get to make decisions about the business.

Fees and franchise accounting

To own a franchise, the franchisee must pay the franchisor certain fees. The fees allow the franchisee to own the rights to the business's brand, products, and services. The franchisor must make every fee known to the franchisee.

The franchisee pays an initial fee, which is like an entry charge to the franchise. To stay in the franchise, the franchisee pays an ongoing royalty fee. Sometimes, the franchisee pays additional fees.

Initial fees

The initial fee gives the franchisee the right to operate under the company's name, trademark, and operating systems. The fee also pays for training, equipment, renovations, and any other start-up costs to open the franchise.

The franchisee pays the fee up front as a lump sum. Before paying the fee, the franchisee needs to project how much business capital they will need.

Amortizing initial fees

Royalty fees

Once operating, the franchisee pays royalties each month, quarter, or year. Usually, the fee is a percentage of the gross sales. Sometimes, the fee is a percentage of the net sales or a flat dollar amount.

Franchisors earn their income through royalty fees. The fees also help pay for the franchise's fixed costs. The franchisee must pay the royalty fee no matter how much revenue they generate, unless specified otherwise in the franchise agreement.

Marketing fees

Some franchisors charge a marketing fee. The franchisee contributes to a marketing fund. The fee is often a small percentage of the gross sales. The franchisor uses the marketing fund for advertising materials that promote the entire franchise's brand.

Accounting for franchises

Franchisors and franchisees need to understand franchise accounting basics. A mistake in transaction records could result in the franchisee or the franchisor being paid incorrectly.

Using online accounting for small business can help franchise owners and franchisors communicate about the business's finances. They can access the software program from anywhere with an Internet connection so that both parties have instant access financial records. Using a single software provider for accounting and payroll for franchises could also lead to a volume discount for these services. Even if you decide to outsource your books to an accountant, payroll for accountants could drastically decrease the financial burden on your overhead.