

Important Accounting Concepts for the Start Up Brewery

Part 2

by Mary Brettmann, Beverage Business Builders

In the start-up phase, everything feels possible. You make really good beer/cider/spirits. All your friends are telling you that you should mass produce this really good beer/cider/spirit. So, you begin to dream. Is it fun to work in the beverage industry? Absolutely. The people are cool and the perks are excellent. But in the end, this is still a business. You have to make payroll and pay the bank back so it is important to know what you are doing and how you are going to open that taproom, production facility, brew pub, cocktail room, etc. This means that you have to create a kick-ass business plan and get all the components together before you open for business.

*Note: This article is a continuation of **Important Accounting Concepts for the Start Up Brewery - Part 1**, which covers Accounting Systems, Cash Forecasting, Cash/Accrual Basis, and Taxing Authorities.*

Cost - What Does it Really Cost to do Something?

That is one of the first questions that you will get and one of the last questions that you will try to answer. There is an inherent conflict between the need to fully cost a process and to obtain the lowest tax bill. That's because a fully costed product will move some costs from the income statement to the balance sheet. That is, if you include all of the direct and indirect costs in production as part of your inventory asset, then at the end of every reporting period there is a 'layer of cost' that will be trapped in inventory and hence the balance sheet. This is particularly true in the case of barrel-aging. Because a barrel can age for several years, several years of cost can be attributed to that work in process inventory. The best answer can be to create a standard cost of direct and indirect costs and, if you are not subject to UNICAP, then move those costs back to the income statement for tax purposes. Then leave them there for book purposes. It really helps the reader understand the cost of production.

Insurance - How and What Are We Really Insuring?

Insurance companies will regularly want to know what the company has in its possession. It's easy to export an inventory or fixed asset listing. The trick is to understand that the insurance company may value assets using a different formula than GAAP, tax, or cash. If that's the case, keep that value in a custom field in the accounting system. Then when you need to produce a report, you can report it with the correct basis.

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Who Are the Readers of Your Financials and What Do They Expect?

All systems start the same way with a basic chart of accounts. It is important to understand who the readers of your financials are and what they need from the system. It's important to take each reader's needs into consideration when drafting financials and corresponding reports.

- **Ownership:** Owners tend to have the most operational questions top of mind. Their reports are time sensitive. This allows for the company to make course corrections as needed.
- **Investors:** Investors take a longer-term view of the company. They want to see if the company is on track and is doing well. They are usually not involved in the day-to-day decision making, but they are very careful reviewers of the financial statements.
- **Bankers:** Bankers have a keen interest in the financials. They want to make sure that the company has the ability to repay loans and to stay in business. They also want to make sure that the company can produce according to a forecast.

Accounting and Tax Concepts

Accounting systems are built upon a foundation of accounting and tax concepts. It's important to understand the building blocks of both. Often one choice has two different answers depending upon your subject matter.

Will someone review your work one day? One result of growth is typically a larger investment. As the investment level grows, so does the level of accountability. As the accountability grows, so does the

need for an outside party to review the work of management. This is why banks and some investors ask for a restatement of financials by an independent party (a CPA). There are levels of assurance. A compilation is a restatement of management's financials. Oftentimes you will see a consolidation of all related entities along with a summarized financial statement. A review is the next level of statement. It requires the CPA to do certain tests on key accounts in the financial statements. Now the CPA is giving some level of assurance to the reader that the financials were prepared according to GAAP. An audit is the highest level of assurance. The CPA states that the financials are materially correct according to GAAP. That is the highest level of assurance that an outside party will give.

If you (or your investors or bank) are planning on presenting these reports, it's important to plan early. There are levels of infrastructure that the CPA will need in order to issue these kinds of reports. Working with a CPA for at least six months before the close of the first period will greatly lower your stress level.

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Timeline of Accounting Milestones

Everyone's journey is different, but typically I see the following:

- Simply Cash (auto-match the bank and credit card feed)
- Periodic Accrual (correct things at the date of the financials)
- Perpetual Accrual (there are levels of accrual)
- Standard Costing
- Variance Analysis
- Benchmarking/KPIs (key-performance indicators)

Once your company gets to the benchmarking point, then the goal of every manager is to manage by exception. We know what should happen and the discussion changes to why something happened out of the ordinary. That allows all managers (financial and operational) to take a wider view of the process and see the forest through the trees. Spotting trends is critical to future success.

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Mary Brettmann is an accounting professional with over 25 years of corporate experience. By combining corporate best practices with entrepreneurial spirit, Mary develops efficient, profitable solutions for her clients and guides their decisions with practical advice and clear financial metrics. Mary is an expert in financial and operational consulting for breweries and is President of [Beverage Business Builders](#), her company that guides breweries through any stage of their lifecycle: startup, established local, or expanding.