



BREWED FOR HER LEDGER, LLC



# ACCOUNTING 101: GETTING STARTED WITH YOUR NANO

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OWNER, BREWED FOR HER LEDGER LLC


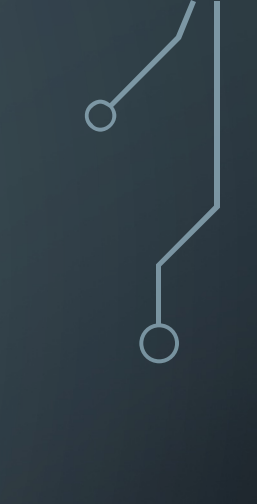

NOVEMBER 2022

# AGENDA

- Six common financial mistakes breweries make
- Key components of the Balance Sheet, Income Statement, Cash Flows
- Important ratios to track within each and why
- Cost accounting introduction
- Direct materials, direct labor, overhead
- Overhead calculation
- Recipe costing /bill of materials



# **MISTAKE 1: NOT CREATING AN ANNUAL BUDGET**

- **YOU CAN'T IMPROVE WHAT YOU DON'T MEASURE**
  - **YOU WON'T GET IT RIGHT THE FIRST TIME**
  - **IT'S NOT ABOUT THE RESULT, BUT THE PROCESS, AT FIRST**
  - **BE AS SPECIFIC AS POSSIBLE**
  - **COMPARE BUDGET TO ACTUAL AT REGULAR INTERVALS, UPDATE BUDGET**
  - **ASK FOR GUIDANCE FROM OTHERS IN YOUR ORGANIZATION**
  - **ENSURE ANYONE WITH PURCHASING POWER IS AWARE OF AND HAD ACCOUNTABILITY TO THE BUDGET**
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A decorative graphic consisting of thin, light blue lines that resemble a circuit board or a network diagram. These lines are positioned along the left and right edges of the slide, with some lines ending in small circles.

**MISTAKE 2:**  
**NOT PLANNING OUT INFORMATION SYSTEMS TO ALIGN**  
**WITH LONG-TERM GOALS/VISION**

**DEFINE**

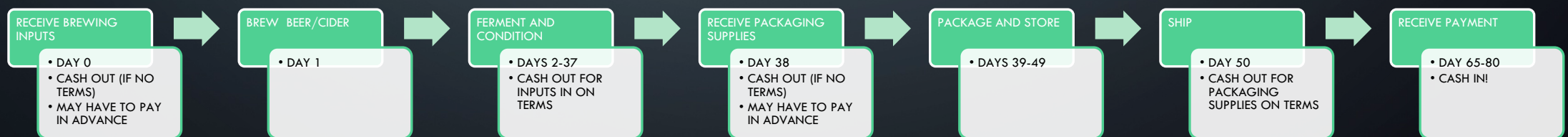
**DESIGN**

**GATHER**

**UNDERSTAND**



# MISTAKE 3: OPENING & OPERATING UNDERCAPITALIZED

- PROFITS ARE NICE, BUT YOU NEED CASH TO OPERATE
- KNOW YOUR BURN RATE
- PUSH FOR TERMS WITH SUPPLIERS
- WORK WITH WHOLESALERS ON TERMS AND CASHFLOW
- BULK PURCHASING CAN INCREASE PROFITS BUT LOCKS UP CASH, BE REALISTIC




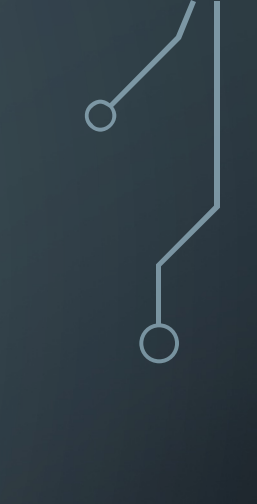



# MISTAKE 4: NOT UNDERSTANDING HOW COGS WORKS

- **THE COMPONENTS**
    - **DIRECT MATERIALS**
    - **DIRECT LABOR**
    - **OVERHEAD**
  - **CREATE OR USE A COSTING TEMPLATE UNTIL YOU UNDERSTAND HOW YOUR ACCOUNTING INFORMATION SYSTEMS CAPTURES THE DATA**
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## **MISTAKE 5: LACK OF EXPLICIT COMMUNICATION & SETTING EXPECTATIONS**

- **DEVELOP AND MANAGE COMMUNICATION CHANNELS BETWEEN ALL BREWERY DEPARTMENTS VIA ORGANIZATION CHART, JOB DESCRIPTIONS**
    - **HOW, WHEN**
    - **TRIGGER EVENTS, MILESTONES**
  - **INCORPORATE FEEDBACK AND METRICS INVOLVING ALL KEY BREWERY DEPARTMENTS FOR ANNUAL PLAN**
    - **SALES: MIX, KEG TURNS, VOLUME**
    - **POS AND MARKETING SPEND**
    - **PRODUCTION: LOSSES, VARIANCES**
    - **GENERAL AND ADMINISTRATIVE OVERHEAD**
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## MISTAKE 6: LEASES

- OCCUPANCY COSTS SHOULDN'T EXCEED 10-12% OF YOUR TOTAL SALES, OR ELSE YOU MAY SHORT INVESTMENT BACK INTO YOUR BREWERY
- OCCUPANCY COSTS: NNN LEASE + UTILITIES
- OPPORTUNITY TO RENEGOTIATE TERMS?
- UNDERSTAND YOUR OBLIGATIONS
  - NNN? DON'T FORGET TO INCLUDE PROPERTY TAX, CAM, PROPERTY INSURANCE INTO YOUR BUDGET AND CASH FLOW



# THE BALANCE SHEET

- $\text{Assets} = \text{Liabilities} + \text{Equity (ALE)}$
- Key ratios to track
  - Working Capital:  $\text{Current assets} - \text{current liabilities}$
  - Current Ratio:  $\text{Current assets} / \text{current liabilities}$
  - Quick Ratio:  $\text{Current assets less inventory, prepaids} / \text{current liabilities}$
  - Inventory Turnover:  $\text{COGS for year} / \text{average inventory for year}$
  - Days' Sales in Inventory:  $365 \text{ days in year} / \text{inventory turnover for year}$
  - Debt to Equity:  $\text{Total liabilities} / \text{total stockholders' equity}$

**Example Company**  
**Balance Sheet**  
**December 31, 2018**

**ASSETS**

Current assets	
Cash	\$ 2,100
Petty cash	100
Temporary investments	10,000
Accounts receivable - net	40,500
Inventory	31,000
Supplies	3,800
Prepaid insurance	1,500
Total current assets	<u>89,000</u>
Investments	<u>36,000</u>
Property, plant & equipment	
Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accum depreciation	<u>(56,000)</u>
Prop, plant & equip - net	<u>337,000</u>
Intangible assets	
Goodwill	105,000
Trade names	200,000
Total intangible assets	<u>305,000</u>
Other assets	<u>3,000</u>
Total assets	<u><u>\$ 770,000</u></u>

**LIABILITIES**

Current liabilities	
Notes payable	\$ 5,000
Accounts payable	35,900
Wages payable	8,500
Interest payable	2,900
Taxes payable	6,100
Warranty liability	1,100
Unearned revenues	1,500
Total current liabilities	<u>61,000</u>
Long-term liabilities	
Notes payable	20,000
Bonds payable	<u>400,000</u>
Total long-term liabilities	<u>420,000</u>
Total liabilities	<u>481,000</u>

**STOCKHOLDERS' EQUITY**

Common stock	110,000
Retained earnings	229,000
Less: Treasury stock	<u>(50,000)</u>
Total stockholders' equity	<u>289,000</u>

Total liabilities & stockholders' equity	<u><u>\$ 770,000</u></u>
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# THE INCOME STATEMENT

- Use divisional accounting to track profitability by each arm of the brewery
- Design (or revise) your COA to track your success metrics
- Understand your fixed overhead
- Key ratios to track
  - Gross Margin:  $\text{gross profit} / \text{net sales}$
  - Net Income %:  $\text{net income after tax} / \text{net sales}$
  - Earnings per Share:  $\text{net income after tax} / \text{avg \# of common shares outstanding}$
  - Return on Equity:  $\text{net income after tax} / \text{avg stockholders equity}$



# EXAMPLE BREWING COMPANY

## INCOME STATEMENT

### JANUARY 1 – DECEMBER 31, 2021

Income	
<b>Gross Receipts</b>	
<b>Sales- Bar</b>	
Sale Bar Non-Alc	4,917.24
Sales Bar Guest Beer	7,771.74
Sales Bar Liquor	45,054.19
Sales Bar-Wine	11,209.18
<b>Total Sales- Bar</b>	<b>\$ 68,952.35</b>
<b>Sales- Beer Self Distribution</b>	
Festival Beer	485.32
Kegged Beer	28,982.94
Packaged Beer	31,046.04
<b>Total Sales- Beer Self Distribution</b>	<b>\$ 60,514.30</b>
<b>Sales- Beer to Wholesaler</b>	
Sales- Kegged Beer	6,488.24
Sales- Packaged Beer	46,724.98
<b>Total Sales- Beer to Wholesaler</b>	<b>\$ 53,213.22</b>
<b>Sales- Merchandise</b>	
Taproom Merchandise Sales	14,650.44
<b>Total Sales- Merchandise</b>	<b>\$ 14,650.44</b>
Sales- POS to Wholesaler	0.00
Sales- Rentals/Special Events	25.00
Sales- Restaurant	210,855.02
Sales- Taproom Beer	248,892.53
<b>Total Gross Receipts</b>	<b>\$ 657,102.86</b>
Taproom Discounts, Refunds, Comps	-40,957.90
<b>Total Income</b>	<b>\$ 616,144.96</b>

Cost of Goods Sold	
<b>Canning Contract</b>	10,801.63
<b>Cost of Goods Sold</b>	
<b>Bar</b>	12,329.56
<b>Cost of Goods Sold- Beer Self Distribution</b>	
Kegged Beer	3,702.25
Packaged Beer	9,790.42
<b>Total Cost of Goods Sold- Beer Self Distribution</b>	<b>\$ 13,492.67</b>
<b>Cost of Goods Sold- Beer to Wholesaler</b>	
COGS- Bulk Beer	1,085.00
COGS- Kegged Beer	2,276.04
COGS- Packaged Beer	23,930.79
<b>Total Cost of Goods Sold- Beer to Wholesaler</b>	<b>\$ 27,291.83</b>
Inventory Variance- Raw Materials	19.99
Restaurant	41,876.87
Taproom Transfer	13,578.74
<b>Total Cost of Goods Sold</b>	<b>\$ 108,589.66</b>
<b>Merchandise Cost</b>	
Merchandise Purchases	3,427.36
<b>Total Merchandise Cost</b>	<b>\$ 3,427.36</b>
<b>Other Brewery Production Costs</b>	
Production Repairs and Maintenance	2,684.25
Production Salaries and Wages	32,332.71
Production Supplies	60.00
<b>Total Other Brewery Production Costs</b>	<b>\$ 35,076.96</b>
Pilot Batches/Research & Development	1,723.32
<b>Restaurant Salaries and Wages</b>	
Back of House	69,968.42
Front of House	40,526.99
<b>Total Restaurant Salaries and Wages</b>	<b>\$ 110,495.41</b>
Taproom Event COGS	500.00
<b>Total Cost of Goods Sold</b>	<b>\$ 270,614.34</b>
<b>Gross Profit</b>	<b>\$ 345,530.62</b>

# EXAMPLE BREWING COMPANY

## INCOME STATEMENT

### JANUARY 1 – DECEMBER 31, 2021

<b>Expenses</b>	
Advertising	9,576.89
Auto and Truck Expense (self distribution)	2,480.16
Bank Charges	135.48
Business Development	
Collaboration Expense	937.12
Competition Entry	275.00
Design Services	5,130.00
Label Art	2,500.00
<b>Total Business Development</b>	<b>\$ 8,842.12</b>
Cash Over/(Short)	-9.02
Commissions & Fees	0.00
Contributions- Charitable	6,139.17
Dues & Subscriptions	4,858.57
Employee Benefits	
Employee Appreciation/Engagement	2,898.76
Employment Taxes	24,891.05
Group Insurance	7,882.38
Worker's Comp Insurance	1,432.95
<b>Total Employee Benefits</b>	<b>\$ 37,105.14</b>
Gases	1,569.74
Insurance	
Insurance - Auto	694.66
Insurance- Liability	2,817.67
<b>Total Insurance</b>	<b>\$ 3,512.33</b>
Interest Expense	12,415.78
Keg Lease	5,543.13
Legal & Professional	23,190.45
Licenses and Permits	2,345.00
Linen Expense	9,506.52
Management- Guaranteed Payments	30,329.71
Meals and Entertainment	1,056.27
Miscellaneous Expense	1,785.16
Office Supplies and Expense	4,936.39
Operating Lease- Tank 2 Tap	19,208.00
Professional Development	3,217.48
QuickBooks Payments Fees	103.63
Recruiting	100.00
Rent or Lease	28,760.00
Repairs & Maintenance (Kitchen)	1,813.31
Repairs & Maintenance (Non-Production)	1,673.08
Salaries & Wages (Non-Production, Non-Restaurant)	26,244.54
Sales Team Expenses (excludes wages)	1,974.78
Festival Travel	76.36
<b>Total Sales Team Expenses (excludes wages)</b>	<b>\$ 2,051.14</b>

Supplies- Brewery	11,106.08
Supplies- Restaurant	2,281.57
Supplies- Taproom	5,763.62
Taproom Administrative Cost	117.98
Credit Card Processing Fees	12,483.40
POS Equipment Rental	958.04
POS Supplies	170.39
Taproom Entertainment	3,334.37
<b>Total Taproom Administrative Cost</b>	<b>\$ 17,064.18</b>
Tax- Excise	6,385.00
Tax- Property	1,671.84
Travel	2,287.25
Travel Meals	360.21
Uncategorized Expense	32.25
Utilities	19,132.79
Website Maintenance	683.96
<b>Total Expenses</b>	<b>\$ 315,258.92</b>
<b>Net Operating Income</b>	<b>\$ 30,271.70</b>
Other Income	
Interest Earned	4.13
Other Income	1,049.23
<b>Total Other Income</b>	<b>\$ 1,053.36</b>
Other Expenses	
Penalties & Settlements	30.00
<b>Total Other Expenses</b>	<b>\$ 30.00</b>
<b>Net Other Income</b>	<b>\$ 1,023.36</b>
<b>Net Income</b>	<b>\$ 31,295.06</b>

# WEIGHTED AVERAGE COST OF GOODS

- Versus regular average: don't want to undervalue inventory, short brewery on cash

[illegible]



# THE CASH FLOW STATEMENT

- Ties the balance sheet and income statement together; connects snapshot in time of what you own/how you financed what you own with the story
- Free Cash Flow: Cash from provided by operating activities – capital expenditures
- Used to assess quality of brewery's earnings
- Amount of cash flow from operating activities must exceed net income
- Debt service coverage ratio:  $\text{EBITDA} / \text{Total debt service}$ 
  - Measure of the cash flow available to pay current debt obligations
  - .95 DSCR means you can pay only 95% of your annual debt obligations
  - Most banks working with breweries look for a 1.2 DSCR to approve new loans
  - Some will accept 1 or slightly less than 1 if you have proven funding available elsewhere

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
<b>Cash Flow From Operations</b>												
Net Income	\$12,106	\$14,462	\$15,959	\$15,477	\$14,486	\$12,418	\$13,356	\$13,364	\$12,539	\$12,548	\$13,389	\$5,398
Depreciation & Amortization	\$4,999	\$4,999	\$4,999	\$4,999	\$4,999	\$4,999	\$4,999	\$4,999	\$4,999	\$4,999	\$4,999	\$4,999
Interest Expense	\$7,121	\$7,113	\$7,105	\$7,097	\$7,089	\$7,081	\$7,073	\$7,064	\$7,056	\$7,048	\$7,039	\$7,031
(Additions)/Depletions of Inventory	\$0	\$0	\$3,412	\$1,444	\$306	\$414	\$2,022	\$0	\$514	\$0	\$0	\$1,743
<b>Net Cash From Operating Activities</b>	<b>\$24,226</b>	<b>\$26,573</b>	<b>\$24,650</b>	<b>\$26,128</b>	<b>\$26,879</b>	<b>\$24,911</b>	<b>\$23,405</b>	<b>\$25,427</b>	<b>\$24,080</b>	<b>\$24,594</b>	<b>\$25,427</b>	<b>\$15,684</b>
<b>Cash Flow from Investing Activities</b>												
Purchase of Property & Equipment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$216,885
Purchase of Distribution Vehicles	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Deposits on Kegs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Net Cash From Investing Activities</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$216,885</b>
<b>Cash Flow from Financing Activities</b>												
Line of Credit Borrowing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Long Term Liability Repay	\$8,346	\$8,346	\$8,346	\$8,346	\$8,346	\$8,346	\$8,346	\$8,346	\$8,346	\$8,346	\$8,346	\$8,346
<b>Net Cash From Financing Activities</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>	<b>\$8,346</b>
<b>NET CASH FLOW</b>	<b>\$15,879</b>	<b>\$18,227</b>	<b>\$16,304</b>	<b>\$17,782</b>	<b>\$18,533</b>	<b>\$16,565</b>	<b>\$15,059</b>	<b>\$17,081</b>	<b>\$15,734</b>	<b>\$16,248</b>	<b>\$17,081</b>	<b>\$209,547</b>
Beginning Cash	\$175,541	\$191,420	\$209,647	\$225,951	\$243,733	\$262,266	\$278,830	\$293,889	\$310,970	\$326,704	\$342,951	\$360,032
Ending Cash	\$191,420	\$209,647	\$225,951	\$243,733	\$262,266	\$278,830	\$293,889	\$310,970	\$326,704	\$342,951	\$360,032	\$150,485
<b>Months of Cash</b>	<b>5.3</b>	<b>6.1</b>	<b>6.8</b>	<b>7.3</b>	<b>7.6</b>	<b>7.7</b>	<b>8.2</b>	<b>8.7</b>	<b>9.0</b>	<b>9.4</b>	<b>10.1</b>	<b>3.4</b>

# FOUR TYPES OF COSTS A BREWERY ENCOUNTERS

- **Direct Costs**

Can be directly traced to the product. **Ex.: material, labor costs**

- **Indirect Costs**

Can't be directly traced to the product; costs are allocated, based on some level of activity. **Ex.: overhead costs**

- **Fixed Costs**

Don't vary with the level of production. **Ex.: a lease on a building, insurance, subscriptions**

- **Variable Costs**

Change with the level of production. **Ex.: materials used in production, labor hours spent kegging or canning beer**

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**NOTE:** Every cost can be defined with two of these four costs. **Ex.: The cost to repair machinery is an indirect variable cost.** You decide if the cost is direct or indirect, *and* if the cost is fixed or variable.



# COST COMPONENTS PER PRODUCT

- Direct Materials
- Direct Labor
- Overhead
  - Overhead is an accounting term that refers to all ongoing business expenses not including, or related to, direct labor, direct materials or third-party expenses that are billed directly to customers.
  - A brewery must pay overhead on an ongoing basis, regardless of whether the company is doing a high or low volume of business. It is important not just for budgeting purposes but for determining how much a brewery must charge for its products or services to make a profit.

# A CLOSER LOOK AT OVERHEAD

- Overhead expenses can be fixed or variable.
- Fixed overhead expenses are the same from month to month. **Ex. rent**
- Variable overhead expenses increase or decrease depending on the business's activity level.  
**Ex.: shipping and mailing**
- Overhead expenses can also be semi-variable.
- With semi-variable overhead expenses, the company incurs some portion of the expense no matter what, and some portion depends on the level of business activity.  
**Ex.: Many utility costs are actually semi-variable with a component existing as a base charge and the remainder of the charges being based on usage.**

# A CLOSER LOOK AT OVERHEAD

- Overhead can be general.
- General overhead is also referred to as company overhead. This overhead applies to the company's operations as a whole.
- A company can allocate overhead to a specific project or department as well.
- Overhead expenses may apply to a variety of operational categories.
  - Manufacturing overhead includes costs related to production. Ex. QA/QC/lab, CIP, keg cleaning
  - Administrative overhead most traditionally includes costs related to basic administration and general business operation. Ex. the need for accountants, attorneys, IT support
  - Selling overhead relates to activities involved in marketing. Ex. printed materials, social media campaigns, salaries of sales staff and their corresponding administrative-support professionals





## CONTACT INFO

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