Important Accounting Concepts for the Start Up Brewery
Part I

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.

We tend to think that our accounting system will give us all the answers, and for the most part that's true. However, your system will be called upon to answer many different types of questions–some of which have conflicting answers. The trick is knowing what to build in the system and what to build outside of the system.

Sometimes it's hard to believe that one accounting system has to solve all of the data needs of the company. Especially if the company is small and there aren't enough hands to keep separate books. This is why most accounting professionals maintain one set of books with a series of spreadsheets to answer specialty questions. It's a good idea to ensure that your accounting system keeps reality as tight as possible. That system should be open to some kind of database reporting tool that helps generate specialty analysis when needed. Keep these rules in mind as you are designing a system. The real art here is to know when to use what number, for what purpose. For example, most young breweries use tax depreciation as book depreciation. At this point, only the tax preparer is tracking fixed assets. A milestone of growth is to manage your own fixed assets.

Cash Forecasting

'Cash is King' is very true in just about any industry. Even though we will need to keep accurate books, there will always be a need to understand the current bank balance and the effect of business decisions on the bank account. Accounting systems are not the best place to understand your long-term cash needs (notice that did not say Statement of Cash Flows, this is a true cash forecast). Accounting systems are created to produce financial statements. While that is critical, it does not give a good reflection of cash in the long run. Often times cash decisions are split between the income statement and the balance sheet. You can maintain a separate cash forecast and reconciliation that way you can plan out for large income statement and balance sheet moves.

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It is important to forecast one account at a time. To keep yourself from going crazy, use checks mailed and bank debits for your outflows. DO NOT try to analyze float (unless that is material to your business).

Book - Standard GAAP Reporting

This is the most obvious master. All accounting systems are built to organize information according to an accrual or cash basis. Most companies start using the cash basis. That means that you account for something when you receive or pay the cash for it. Depending on the bank and credit card matching for your accounting system it's by default a cash basis system. Once you reach annual gross receipts of $1,000,000, most people convert to the accrual basis. What is the accrual basis? That means that activity is tracked when it occurred, NOT when you were compensated for it. That means that a sale could be recognized in one month, but the cash could be received in another month. It's important that once you make the move to accrual, everyone understands what that means to the organization. Inventory will need to be tracked and reconciled. You will need to pick an inventory costing method and reconciliation method:

- Cash-basis Inventory
- Periodic Accrual
- Perpetual Accrual

Each of those reconciliation methods will need to be monitored closely. A lot of the trust in the system comes from good and accurate inventory. Another main difference is in depreciation. GAAP depreciation generally uses the straight-line method based upon standard useful lives. Tax depreciation on the other hand is often accelerated. A major milestone in the accounting system is when the company begins to recognize book instead of tax deprecation.

Tax - The World According to the IRS (and other taxing authorities)

Each taxing authority has their own way of defining revenue and cost depending on what they are trying to accomplish. Sometimes book and tax methodologies agree, but not often. It's much easier in the early stages to recognize activity using a tax-basis methodology. That will change once the company grows and the readers of the financials will want to see GAAP produced financials. How do you keep track of the differences? Typically the tax preparer has sophisticated software that can easily keep track of asset balances.

*For additional information about Cost, Insurance, Accounting & Tax Concepts, and Accounting Milestones, look for **Important Accounting Concepts for the Start Up Brewery** - **Part 2**.*

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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.