

## **Brewery Financial Statements 101:**

### **How to use financial reports to improve results**

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Financial literacy is the ability to read and understand the numbers of your brewery business so that you can improve financial results. Improving financial results may include growing sales, improving gross margins or increasing cash flow. In today's uncertain times, financial literacy is more important than ever.

The numbers of your brewery business are reported on the financial statements – the income statement, balance sheet and statement of cash flows. Each of these reports provides vital financial information to understand what's going on in your business.

In this article, we'll review the basic components of brewery financial statements and provide examples of what these reports should look like. We'll also dig into the mysteries of the brewery chart of accounts – the building blocks of the financials – and provide tips to make sure your financial reporting is as good as it can be.

We'll close out with a list of best practices to follow so that your financial information is accurately reported. These best practices are summarized into a handy checklist of month end procedures to follow.

### **Brewery Financial Reports**

The numbers of your business are organized into reports called the financial statements: the income statement, balance sheet and statement of cash flows. Each statement provides useful information about a different part of your brewery business. Below is a brief review of each report.

#### **Income statement (Profit & Loss Statement or P&L)**

The brewery income statement reports on sales, margins, operating expenses and shows whether the business had a profit or loss. This statement measures results over a period of time – the month, the quarter, or year to date, for example.

It's important to understand that the income statement measures transactions but does not measure cash flow. The income statement records sales when earned, and expenses when incurred, regardless of whether cash was received or paid out.

#### **Balance sheet**

The brewery balance sheet lists assets, liabilities and equity. Assets are things you own, liabilities are things you owe, and equity is the difference between the two. If assets are larger than liabilities, you have equity. If liabilities are bigger, you have a deficit.

While the income statement measures results over a period of time, the balance sheet measures numbers as of a specific point in time – at month end, quarter end or year end, for example.

## Statement of cash flows

This financial report measures the flow of cash coming into and going out of the brewery business. It tells you where cash came from (collections on sales, for example) and where cash went (payments to vendors, for example). The income statement measures transactions, not cash. The statement of cash flows shows picks up where the income statement leaves off and records the flow of money through the business.

## Brewery Income Statement (P&L) Examples

Now that we've covered the basic financial reports, let's look at examples of what brewery income statements should look like.

We'll begin with a summarized version of the P&L. Shorter reports are easier to read and allow you to see important information quickly. The summary report includes sub-totals for each major P&L category: sales, margins, operating expenses and profit or loss.

<b>Simple Income Statement (P&amp;L)</b>		
	<b>Year to Date</b>	<b>% of Sales</b>
Sales	\$ 1,000,000	
Cost of Sales	<u>\$ 575,000</u>	57.5%
Gross Margin	\$ 425,000	42.5%
Operating Expenses	<u>\$ 275,000</u>	27.5%
Net Income (Loss)	\$ 150,000	15.0%

The simple P&L shows the summarized results for a period of time (Year to Date, in this example) and presents each category as a percentage of sales. P&Ls don't need to be five or ten pages long to be good. In fact, shorter is better. Shorter is easier to read and makes it more likely that you actually will read the report. Start with a summary P&L like this one, then expand the report by adding more details. Here's an example:

Sales		% of Sales
Keg Beer	\$ 350,000	35.0%
Package Beer - Cans	\$ 450,000	45.0%
Package Beer - Bottles	\$ 200,000	20.0%
<b>Total Sales</b>	<b>\$ 1,000,000</b>	
Cost of Sales		
Keg Beer	\$ 175,000	17.5%
Package Beer - Cans	\$ 292,500	29.3%
Package Beer - Bottles	\$ 107,100	10.7%
<b>Total Cost of Sales</b>	<b>\$ 574,600</b>	<b>57.5%</b>
Gross Margin		
Keg Beer	\$ 175,000	17.5%
Package Beer - Cans	\$ 157,500	15.8%
Package Beer - Bottles	\$ 92,900	9.3%
<b>Total Gross Margin</b>	<b>\$ 425,400</b>	<b>42.5%</b>

This P&L shows sales, cost of sales, and margins by package type. This type of presentation makes it easy to see the margin percentage by package type (kegs, cans or bottles) which is useful in analyzing portfolio profitability.

An alternative to this P&L is to present the information by line of business. This might include sales through the taproom, self-distribution and wholesale distribution. Regardless of which method you use, it's helpful to mirror the sales categories within the cost of sales and margins categories. For example, have a separate account for taproom sales, taproom cost of sales, and taproom margins.

Financial literacy is the ability to read and understand the numbers of your brewery business so that you can improve financial results. The income statement, balance sheet and statement of cash flows are reports that summarize those numbers. Each report gives you different information about the business, and each is important to review on a regular basis.

### **Brewery Chart of Accounts**

Accountants use the term Chart of Accounts to describe the listing of all the things you want to track and report on in your business. These include all of the assets, liabilities, revenue and expenses. The purpose of this listing is to provide organization and structure for your financial reporting. The Chart of Accounts serves as the building blocks of your financial statements.

The level of detail in your chart of accounts listing will depend on how much information you want to see on your financial reports. For example, you may have three different sales accounts, as shown earlier: Sales-Kegs, Sales-Cans, and Sales-Bottles. Each captures the sales specific to a type of package.

Alternatively, you may have any number of different sales accounts to show sales by market and package type. For example, Sales Self-Distribution Kegs, Sales Self-Distribution Cans, Sales Self-Distribution Kegs, etc.

Be purposeful about the level of detail in your chart of accounts. More detail may be preferable, however this will take more time for your bookkeeper to record the transactions into the proper accounts. Start with the kind of reporting you need to see in your financial statements and build the chart of accounts accordingly.

For an example of a full brewery chart of accounts, visit [www.craftbreweryfinance.com](http://www.craftbreweryfinance.com) and enter chart of accounts in the search box.

### Brewery Financial Month-end Process

We've covered the basics of how to read the financial statements and understand the chart of accounts. Next, we'll review a *month-end process* you can use to make sure your numbers are complete and accurate. A *process* is defined as a series of steps, followed in order, that will lead to the right outcome. In this case, the right outcome is accurate numbers in the financial reports.

The month-end process should be clearly written and used as a document to train your bookkeeping staff. An accounting manager should periodically audit the work of staff to ensure that the process is being followed.

The process can be presented in the form of a checklist, indicating what task to do, when to do it, and who is responsible for completion. Below is an example of a month-end financial checklist:

<b>Month End Checklist</b>			
<b>Date:</b>			
<u>To Do List</u>	<u>Due Date</u>	<u>Person Responsible</u>	<u>Check When Completed</u>
<b>Prepare and Record Journal Entries</b>			
Payroll Accrual	1st day of month		
Prepaid Expense Adjustment	1st day of month		
Depreciation Expense Adjustment	1st day of month		
Properly Record Fixed Asset Additions	1st day of month		
<b>Firm Cut-off Dates for Transactions</b>			
Invoicing Cut-off	2nd day of month		
Accounts Payable Cut-off	5th day of month		
Close General Ledger - No More Entries	10th day of month		
<b>Reconcile Bank Statements</b>			
Bank 1 - Checking	5th day of month		
Bank 2 - Checking	5th day of month		
Bank 3 - Checking	5th day of month		

The process checklist should contain all the necessary steps to close the books for the month in order to ensure the accuracy and completeness of the information. For example, all payroll journal entries should

be made on the 1<sup>st</sup> day of the new month and all bank statements should be reconciled by the 5<sup>th</sup> business day of the month.

To create your month-end process checklist, have your bookkeeper write down all the actions they take to close the month. Compile this list of actions and assign due dates and a responsible person. Each month when it's time to close the books, use the checklist as a guide to make sure each step is done and completed on time.

The best way to make sure you have good financial information is to follow a good process consistently. To download a full month-end process checklist, visit [www.craftbreweryfinance.com](http://www.craftbreweryfinance.com) and enter month-end process in the search box.

### **Wrap Up + Action Items**

Financial literacy is the ability to read and understand your financial statements so that you can improve results in your brewery business. Improved results may be sales growth, margin increases or positive cash flow. You define the result you want to achieve and use your financial literacy to make it happen.

Use the summary income statement templates presented here or create your own so that you can monitor financial outcomes. Review your chart of accounts and compare to the template at [www.craftbreweryfinance.com](http://www.craftbreweryfinance.com) to identify any needed changes.

In today's uncertain business environment, financial literacy is a competitive advantage. Use this advantage to drive increased financial performance in your brewery business today.