

COSTS OF DOING BUSINESS

For Different Sized Winery Operations

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Overview of Winery Accounting

- **General Cost Accounting Fundamentals**
- **Accounting for True Cost of Inventory**
- **Budgeting and Cash Flow**
- **Q&A and New Tax Issues**

Cash Basis Reporting

- Cash basis reporting is most common
- Report sales when cash is received
- Deduct expenses when paid
- Deferral of income

Accrual Basis Reporting

- Great for financials, not so much for taxes
- Report sales based on invoice date
- Deduct expenses when incurred
- Often required for larger operations

Gross Margin

- Revenue less cost of goods sold
- Could fluctuate from year to year
- Be wary of significant variances
- Not the same as profitability
- Typically 45% to 55%

Three Major Cost Buckets

Direct Inventory Costs

Indirect Inventory Costs

Sales and General/Administrative Costs (SGA)

Direct Inventory Costs

- Grapes
- Barrels
- Labeling
- Bottling Costs
- Bottles and Packaging
- TTB and State Wine Taxes
- Corks and Capsules or Screwcaps
- Direct Labor – Cellar or Consulting Winemaker

Indirect Inventory Costs

- Utilities
- Storage
- Insurance
- Property Taxes
- Interest Expense
- Repairs and Maintenance
- Depreciation of Equipment/Production Facility

Sales and General/Admin Costs

- Advertising and Marketing
- Commissions and Billbacks
- Shipping of Finished Product
- Tasting Room Expenses (Labor, Supplies)

How Do I Track My True Cost?

- Excel worksheets
- Robust vineyard to door software
- QuickBooks or other accounting software

What is My True Cost?

- Weighted Average – Simple, Most Common
- Specific Identification – Difficult, More Accurate

Weighted Average Method

- Less time consuming
- Often used by smaller producers
- Use when direct costs have no or little variance

Specific Identification

- More accurate
- Much more time consuming
- Use when direct costs vary per varietal

Weighted Average Example

• Grapes	\$100,000
• Labor	50,000
• Bottles	20,000
• Corks/Capsules	12,000
• Bottling Expense	7,000
• Labels	6,500
• Taxes	4,500
• Total Cost	<u>\$200,000</u>
• Ave Cost/Case (2,700)	\$ 74

Specific Identification

Costs	Cab Sauv (2700cs)	Chard (1200cs)
Grapes	\$100,000	\$30,000
Labor/Taxes	\$ 54,500	\$18,500
Bottles/Packaging	\$ 20,000	\$ 7,500
Labels/Bottling	\$ 13,500	\$ 6,000
Corks/Capsules	\$ 12,000	\$ 4,500
Ave Cost/Case	\$ 74	\$ 55

Previous Example Using Weighted Ave

• Grapes	\$130,000
• Labor	68,000
• Bottles	27,500
• Corks/Capsules	16,500
• Bottling Expense	10,000
• Labels	9,000
• Taxes	5,500
• Total Cost	<u>\$266,500</u>
• Ave Cost/Case (3,900)	\$ 68

Indirect Costs

• Depreciation	\$ 50,000
• Interest Expense	25,000
• Storage	10,500
• Repairs & Maintenance	9,000
• Insurance	5,500
• Utilities	4,500
• Property Taxes	3,500
• Total Indirect Costs	<u>\$108,000</u>
• Ave Cost/Case (2,700)	\$ 74
• Ave Cost Including Indirects	\$ 114

Sales, General, and Administrative

• Rent	\$18,000
• Labor – Tasting Room	13,500
• Advertising/Marketing	6,000
• Office – Labor & Supplies	4,000
• Commissions/Billbacks	3,500
• Employee Benefits	3,000
• Professional Fees	2,500
• Total Indirect Costs	<u>\$50,500</u>
• Ave Cost/Case (2,700)	\$ 74
• Ave Cost Including Indirects	\$ 114
• Ave Cost with Indirects & SGA	\$ 132

Budgeting and Cash Flow

- Helps management to make proactive decisions
- Use for determining production levels
- Must do for making pricing decisions
- Involve your whole team for buy in
- Sets goals for future years

Budgeting Process

- Export monthly Profit and Loss into excel
- Update sales and expenses using prior results
- Incorporate inventory expenditures
- Add back non-cash items such as depreciation
- Subtract principal payments on loans



	October	November	December
Sales	\$100,000	\$115,000	\$135,000
COGS	<u>\$ 55,000</u>	<u>\$ 63,000</u>	<u>\$ 74,000</u>
Gross Profit	\$ 45,000	\$ 52,000	\$61,000
Unallocated Overhead	\$ 15,000	\$ 17,000	\$ 20,000
SGA Expenses	<u>\$ 20,000</u>	<u>\$ 21,000</u>	<u>\$ 23,000</u>
Net Income	\$ 10,000	\$ 14,000	\$ 18,000
Add: Depreciation	\$ 4,200	\$ 4,200	\$ 4,200
COGS	55,000	63,000	74,000
Less: Debt Payments	\$ 10,000	\$ 10,000	\$ 10,000
Inventory Disbursements	<u>\$ 60,000</u>	<u>\$ 65,000</u>	<u>\$ 75,000</u>
Cash Available (Needed)	(\$ 800)	\$ 6,200	\$ 11,200

Other Budgeting Tools

- Leverage – mobile bottler full day charge
- Pricing breaks for volume purchases
- Plan to avoid costly expedited jobs
- Make more of what you sell out of
- Barrel financing plans vs LOC

Questions or Final Thoughts



2018 Tax Cuts and Jobs Act

- Convert from accrual to cash basis for tax
- Capitalize direct costs only
- Immediate expensing of new and used equipment

New TTB Excise Tax Rates

ABV	Former Tax Law	New Tax Law
14% and Under	\$1.07/gal with \$.90 credit on first 100,000 gal	\$1.07/gal with credits of: \$1.00 on first 30,000 gal \$.90 on next 100,000 gal \$.535 on next 620,000 gal
16% and Under	Did not exist	Same as above