MYOB and Small Wineries – Setting Up

Introduction

It hardly needs to be emphasised the most important part of the method being outlined in these documents is the setup. If the setup is correct, then most other tasks will become easy. Most bookkeepers (including myself) never seem to have time to set the accounts up properly. This method really does demand it, and a careful reading of this section is essential.

The Chart of Accounts

The most important aspect of the setup is getting your chart of accounts correct. We will be using account groups, with the appropriate header to divide our accounts up. MYOB do provide other methods, such as using Jobs or Categories, but this method does not use these. If you are starting out, you will find an example chart of accounts that you can import into your data file.

Full Absorption Method

Market forces will determine what a winery can sell their wine for, however it is still important to know how to calculate the cost price of your wine. We will use the Full Absorption method – that is all costs associated with making a wine, including indirect costs, are "absorbed" into the cost price of the wine.

During the year, a winery will purchase items for the winery. This can include bottles, labels, herbicides, labour, marketing, fuel, irrigation costs; an endless list really. If the expense is associated with producing the product (a bottle of wine), then we need to know how much it totals at the end of the year (30th June). That means we should divide our chart of accounts up into wine producing expenses and non-wine producing expenses. For example, costs associated in running cattle on the farm should be separated from wine, as should restaurant running costs. This is done using account headers in the chart of accounts in the method outlined here.

If you sale grapes as well as wine, then you need to determine the percentage of expenses that went to produce the grapes, and then on tonnage work out the percentage that went to your own wine (farm expenses).

What we are going to do (at the end of the year) is journal away the expenses associated with making the wine, to an asset account. Therefore, these expenses become zero. This is done once a year, sometime early in the year (August or September), once the years expenses are known, and the journal is dated 30/6/xx.

In the Chart of Accounts below we have a winery that runs cattle and has a restaurant associated with the winery. For space I have not put all the accounts you should have. Where an account can't be allocated to wine-making costs directly, such as administrative costs, then keep those together.

Notice that each section that deals with winemaking, at least partly, has an account called "**Return to Inventory**". This is a "Contra" account (it will be negative), and will represent the amount of those expenses (maybe 100%) that are going to be debited to the cost of inventory (an asset account).
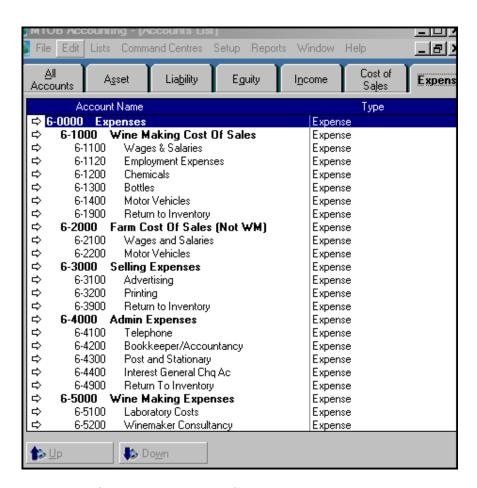

Figure 1 Chart of Accounts showing the use of headers

Other than obvious winemaking expenses there are various other expenses that should be added back to inventory to get a true cost of the wine, but may not be necessary to do so in the tax return. This is where the "Full" in the "Full Absorption Method" comes from.

They include:

- *Storage Expenses*
- *Laboratory Costs*
- *Depreciation of Barrels/Equipment*
- *Interest and Finance Costs*
- *Insurance*
- *Directors and Management Fees*
- *Salaries for Professionals (such as winemakers)*
- *Electricity /Water*

In other words we may want to "claim" these expenses in the tax return, but still include them as a cost of the wine. If you do so, you inform your accountant – he will need to journal these accounts back to expenses.

Other expenses such as office costs, computer hardware and software expenses, postage and printing, salaries (excluding cellar door sales costs, winemaking and sales and marketing salaries) and other general expenses should also be added back to Inventory at the percentage that they apply to winemaking.

Note that though the tax office expects you to try to work out what is a wine making expense (and therefore added back to an asset), they will not be too harsh on honest approximations. So, for example, if you say 30% of fuel is used for cattle and 70% for the winery, and that is not clearly wrong, then you have nothing to fear. No need to drive the tractor around with a log book. From the ATOs website:

> *"Although absorption cost principles require that a share of overhead costs, as well as direct costs, be brought into the valuation, it is not generally required for practical purposes that overhead costs be dissected in any great detail."*

It is desirable to assign **all** expenses associated with winemaking to Wine Inventory and allow the accountant to reverse some of these for the tax accounts. In other words it's more important the business owners have a true cost of their wines, rather than higher expenses for tax benefits: something that the Accountant will fix on the tax return anyway.

Inventory Setup

Because of the relative complexity of dealing with inventory in MYOB I have produced a separate document for this.

Setting up Tax Codes

This method uses various non-standard tax codes. We suggest you set all these up now – whether you think you need them or not.

You need these standard ones of course included in the table below.

Code	Description	Tax Type	Rate	Linked Account Collected	Linked Account Paid
GST	Goods & Services Tax	Good s & Services Tax	10%	2-xxxx GST Collected	2-xxxx GST Paid
CAP	Capital Acquisitions	Good s & Services Tax	10%	2-xxxx GST Collected	2-xxxx GST Paid
FRE	GST Free	Good s & Services Tax	0%	2-xxxx GST Collected	2-xxxx GST Paid
EXP	Export Sales	Good s & Services Tax	0%	2-xxxx GST Collected	2-xxxx GST Paid
WEG	GST on WET	Good s & Services Tax	12.9%	2-xxxx GST Collected	2-xxxx GST Paid
WET	Wine Equalisation Tax	Sales Tax	29%	2.xxxx WET Payable	N/A
GW	Consol WET + WEG	Consolidated	N/A	WET and WEG are the two taxes that make up the GW tax.	

Non reportable transactions (like transfers between accounts) have the N-T tax code. You may need the ABN – No ABN withholding if you have a supplier with no ABN (very rare), but we know of no circumstance where you need the GNR tax code – just use FRE for suppliers that are not registered for GST (but have an ABN).

Now set up the following tax codes. You do not have to worry yet how we are going to use them.

Lists>Tax Codes>New

Tax Code Information

Enter the tax code (up to three characters), a brief description of the tax and the rate of tax. Select an appropriate tax type and complete the links as necessary.

Tax Code: WED
Description: Wine Equalisation for Dist
Tax Type: Sales Tax
Rate: 29%

Linked Account for Tax Collected ⇨: 2-3040 WET Distributor

Linked Card for Tax Authority :

Figure 2

Tax Code Information

Enter the tax code (up to three characters), a brief description of the tax and the rate of tax. Select an appropriate tax type and complete the links as necessary.

Tax Code: RSW
Description: Retail Sales WET
Tax Type: Sales Tax
Rate: 18.9768%

Linked Account for Tax Collected ⇨: 2-3050 WET Payable

Linked Card for Tax Authority :
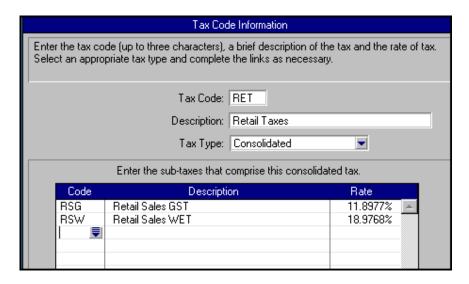
Help F1   New   OK

Figure 3

Figure 4

Figure 5

*The last three tax codes will be used for sales to end users – that is retail sales or cellar door sales.
There is no need to worry how we arrived at those figures; however they represent WET on half the
retail price. In other words we will be using the half price method to calculate are WET.*

Setting Up Items and Cards
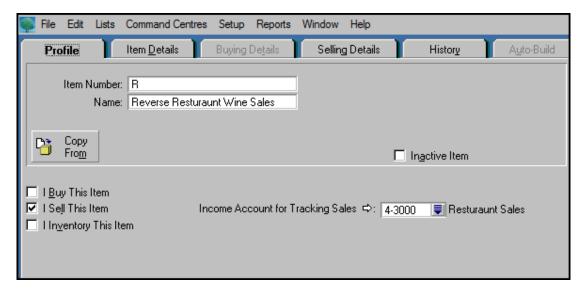
If you have a restaurant set up the following item.

Figure 6

Make a card for each of the following generic customers.

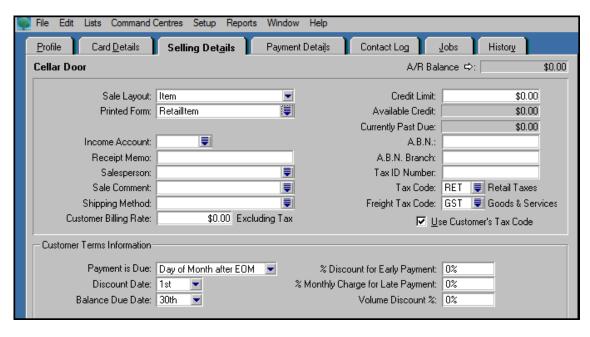| Customer Type	Tax Code
Resturant	GW
Cellar Door Sales	RET

Figure 7 Cellar Door Customer Card showing Tax Code