

## Inventory Setup and Maintenance

### Inventory Control

In an Inventory Control System we track the number of items we have left (unsold) and when we sell an item we automatically debit the cost of sales account. In other words we bring to account the cost of making the wine when we sell it.

### Working Out the Cost of Wine in Barrels

It is sensible to assume that all wine costs less the bottling cost (bottles, labels, boxes, and actual bottling) represent the cost of any wine in barrels. In this method we are not going to be too fussy in how we value the various wines when they are still in the barrel. That is because we are not using an inventory control for the barrel wines. So we have to come up with a wine per litre price in barrels.

**Step one.** Work out your total expenses for winemaking less bottling cost. This is the amount you made a journal/s for less bottling costs.

My example: \$400,000

**Step two.** Work out the total number of litres made in the financial year. It does not matter if some or even most of the wine went straight to bottles; we are going to assume it all went to barrels.

My example: 100,000 litres

**Step three.** Work out the cost per litre

My example: \$4 per litre.

**Step four.** Work out the total number of litres in barrels. This is the actual litres you have in barrels at 30<sup>th</sup> June and includes litres from previous years. It could be more than what you made if you produce a lot of fine wine, or less if you bottle more or less straight away.

My Example: 50,000 litres

**Step five.** Multiply step three and step four to get the value of wine in barrels. This is too easy! You need to force the account "Wine in Barrels" to this amount using the "Wine Inventory" account on the other side using a general journal entry. Depending on whether you have more or less Wine in Barrels than last time you have done an inventory will depend if you debit (increase) or credit (decrease) this account.

My example: \$4 x 50,000 litres = \$200,000

Note. This is a simple way of valuating your wine in barrels. It may be that some wine in barrels is worth more or less than our calculated cost. You could decide that this figure (\$4) was too high. In general, for tax accounts, we want this figure to be as low as possible, because what disbursement is

## MYOB and Small Wineries – Inventory Setup

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not an asset is an expense in this case. So it is generally better to have more value in the bottles, and less in the barrels. This is because we are going to sell the bottles (and thus bring to account “Cost of Sales”), but not the wine in barrels. My advice is once you have calculated the wine in barrels value, talk to the business owner and accountant to see if the figure can be decreased. For example they may say we can only get \$3 a litre for it bulk, so it’s perfectly reasonable to value it at that. However they should be aware that your figure (\$4) represents what it ACTUALLY cost to make.

If you want to be fussy about how you value your wine in barrels (and you might), then you can use the same methods as we used for valuing wine in bottles. That is a weighted average method, based on the various wines. So if you have some reserve cabernet you will eventually get \$40 a litre for, you might want it costing more than \$4 a litre.

### Assigning Value to Wine in Bottles

We have a Wine inventory Account with a value. This account is actually a clearing account – all wine is either in bottles or barrels, and we have an inventory asset account for each of these. So we need to make this account zero. However we have a problem – we have several different wines and we sell them for different amounts so they have (we may assume) different costs. In this method we are going to assume their costs is proportional to their selling price (any consistent selling price will do – wholesale or cellar door or whatever).

We do not use an exact method (for example working out how long each employee spent on each variety), for calculating the cost of the wine, though some wineries would calculate it this way.

So we have to use something called weighted averages. ☺

If you don’t want to use weighted averages, much of this section can be skipped. The cost price of your wine will merely be the total cost you have left after assigning value to the wine in barrels, divided by the number of bottles. So using the example below we have  $\$250000/51000 = \$4.902$ .

In this example we have bottled 3 wines. We want to assign cost prices associated with them proportional to their selling price. We have \$250,000 in wine value to allocate.

Variety	Selling Price (weight)	Inventory Bottled	Step one	Step two	Step three	Step four
Merlot	\$10	20,000	200,000	.274	\$68,500	\$3.425
SSB	\$15	18,000	270,000	.370	\$92,500	\$5.139
Cabernet	\$20	13,000	260,000	.356	\$89,000	\$6.846
<b>Total</b>			<b>730,000</b>	<b>1</b>	<b>\$250,000</b>	

**Table 1** CALCULATING the cost price of wines using weighted averages

## MYOB and Small Wineries – Inventory Setup

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**Step one.** Make a little table like this. In this table the selling price (we are using cellar door price in this example) represents the “weight” we want to assign to the wines. In this example we want to say the merlot “costs” half the price of the cabernet, we could have used 1 and 2 rather than \$10 and \$20. We multiply the weights (selling price) with the amount bottled and put the total in step one column.

**Step two.** We divide the step one column amounts by the total and multiply by to get a proportional distribution of the value of our wine. So for Merlot  $200,000/730,000 = .2740$ . Make sure it all adds up to 1 - if not just round one of the figures.

**Step three.** We work out the value of each wine by multiplying the figure we arrived at in step two by the value of wine we actually have. So for merlot  $.274 \times \$250,000 = \$68500$ . Again make sure it adds up to the total value you need to allocate – in this case \$250 000. If not round a figure so it does.

**Step four.** Now divide the value of each wine into the number of bottles. So Merlot is  $\$68500/20,000 = \$3.425$  Notice that the cabernet is exactly double the Merlot – that’s the effect of the weight.

Instead of using selling price as your weight, you might want to try to work out an actual weight based on production costs. It does not matter too much what the weight is, as long it reflects, as best as you can make it, your actual costs. For example you might weight Merlot at 1, and Cabernet at 1.3 and SSB at .9, despite the fact we sell SSB for more than Merlot. In general you need to be able to justify it (to the tax office) by either production costs, or what it is worth. Discuss this with your Accountant.

## MYOB and Small Wineries – Inventory Setup

### Creating a bottle Item in MYOB

Command Centre >> Inventory >> Item List > >New will bring you to the window below. Fill it out for each sort of wine you sell as shown below.

The screenshot shows the 'Item Information' window with the 'Profile' tab selected. The item is 'Ruddy Wines Merlot 2007' with item number 93458215147. The 'Quantity On Hand' is 0 and 'Current Value' is \$0.00. There are checkboxes for 'I Buy This Item' (unchecked), 'I Sell This Item' (checked), and 'I Inventory This Item' (checked). Accounting accounts are set to 5-2000 for Cost of Sales, 4-2000 for Income, and 1-5500 for Asset. A 'Copy From' button and an 'Inactive Item' checkbox are also visible.

Figure 1 How to create a bottle of wine in MYOB

You could use your barcode number as your item number, but you would need a new barcode for each vintage. If you use the same barcode for different vintages use something sensible like mer07 (for merlot 2007). Put in the accounts as shown, making sure the Asset account is the “Wine in Bottles” account, not the “Wine Inventory” account. Note that we have left unchecked “I Buy This Item”.

In the selling details tab put the price of the wine you most generally sell it to retailers, and a tax code of GW. We will discuss GW tax code later on.

The screenshot shows the 'Item Information' window with the 'Selling Details' tab selected. The item is 'Ruddy Wines Merlot 2007'. The 'Base Selling Price' is \$7.519 and the 'Tax Code When Sold' is GW. The 'Selling Unit of Measure' is mls and the 'Number of Items per Selling Unit' is 750. The 'Calculate Sales Tax on' is set to 'Actual Selling Price'.

Figure 2 Entering Selling Details

In selling unit of measure put the number of mls. In Number Items in Selling Unit put 750 for a standard bottle, but might be 375 or 1500 (half bottle, flagon etc). This will be used later for the producers return.

## MYOB and Small Wineries – Inventory Setup

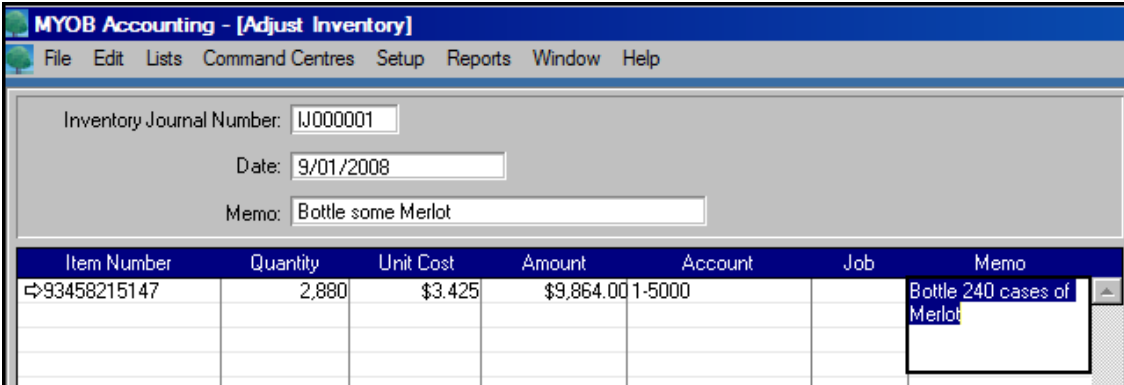
### Transferring the Wine in Bottles Value to Our Inventory

Before we can sell anything in MYOB using Inventory, we need to have some stock. That is because MYOB does not let you sell to negative quantities (in most versions anyway, and those that do it is awkward). It is quite clear that we need to do this straight after bottling, and that will not necessarily be after all accounts are in.

The good news is it does not matter if we don't EXACTLY know the price of producing our new wine. The exercise above, using the full absorption method, once done we be close enough to value the next vintage. Any discrepancies can be taken up later, or adjusted back to a Cost of Sales Account.

In the example we have been working through we have bottled a new vintage of Merlot. We have previously worked out the price of cabernet at \$3.425 a bottle, but what about this year? You may decide to increase this price by inflation or more or leave it alone. It does not matter too much; you as the bookkeeper are in the best position to know if prices have increased. In any event you will not get it exactly right anyway, and you will need to tidy up at the end of the year.

In the example below I have decided to leave the price as it is.



The screenshot shows the MYOB Accounting - [Adjust Inventory] window. The menu bar includes File, Edit, Lists, Command Centres, Setup, Reports, Window, and Help. The form contains the following fields:

- Inventory Journal Number: IJ000001
- Date: 9/01/2008
- Memo: Bottle some Merlot

Item Number	Quantity	Unit Cost	Amount	Account	Job	Memo
93458215147	2,880	\$3.425	\$9,864.00	1-5000		Bottle 240 cases of Merlot

Figure 3 Bringing Items into stock.

We use the Adjust Inventory window for this. We use it every time we have wine bottled. In other words we use it like we would use an "Item Purchase" except we are literally "purchasing" the wine from ourselves. Notice the use of Account 1-5000 which is our Wine Inventory clearing account. We DO NOT USE the "Wine in Barrel" Account – even though the wine came from the barrels. There are a couple of reasons for this – mostly involving the fact that we are trying to simplify things. We could devise a method where we track wines from barrels to bottles, but believe me; it is way too complex for most small wineries.

Once we do an "Adjust Inventory we can actually invoice the wines.

## MYOB and Small Wineries – Inventory Setup

### Clearing the Wine Inventory Account

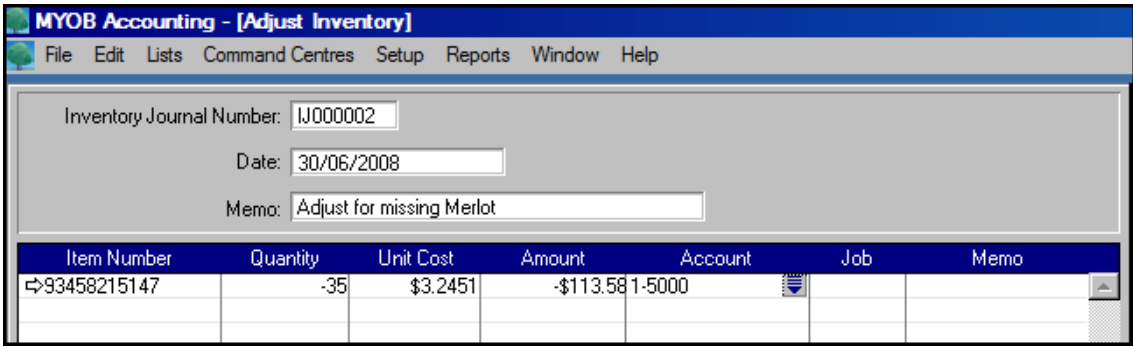
As mentioned earlier we only have “Wine in Bottles” and “Wine in Barrels”. Yet we have a Wine Inventory Account which will have a value – maybe a negative value. The good news is we only need to clear the account once a year – right before we submit our accounts to the accountant at tax time. By clearing the account I mean make it equal zero dollars.

**Step one.** On 30<sup>th</sup> June do a stock-take of all wine. We need the number of litres of wine in barrels, and the number of bottles of each item. Remember to count items on “consignment”, in remote warehouses – all uninvoiced stock. This is all normal so far – all businesses need to do a stock take.

**Step two.** Making sure all expenses for the year are entered (I would not do this till Sept or later), and then make the journals back to the Wine Inventory Account as explained in the section Making the Journal to Inventory.

**Step three.** Using the method explained in Working Out the Cost of Wine in Barrels work out the cost of making wine per litre for the financial year and then force the “Wine in Barrel” Account to be equal to the actual value of litres in barrel times that calculated price. You may need to debit this account or credit it, depending on whether we have more or less value than last time. If we have more we would debit the Wine in Barrels account and credit the Wine Inventory account.

**Step four.** Make the stock take adjustments for bottles. In other words make MYOB agree to what you have counted. If there are shortfalls that are due solely to breakages, corked or unsalable, stolen or miscounted last time, then use the “Adjust Inventory” window. In the example below we are adjusting for 35 bottles of Merlot that are missing.



The screenshot shows the MYOB Accounting - [Adjust Inventory] window. The window title is "MYOB Accounting - [Adjust Inventory]". The menu bar includes File, Edit, Lists, Command Centres, Setup, Reports, Window, and Help. The main area contains the following fields:

- Inventory Journal Number: IJ000002
- Date: 30/06/2008
- Memo: Adjust for missing Merlot

Below the fields is a table with the following columns: Item Number, Quantity, Unit Cost, Amount, Account, Job, and Memo. The table contains one row of data:

Item Number	Quantity	Unit Cost	Amount	Account	Job	Memo
93458215147	-35	\$3.2451	-\$113.58	1-5000		

Figure 4 Adjusting the Stock after a Stock Take

Note the negative 35. I have posted this to the Wine Inventory account again, as losing wine could be considered a cost of making it. However you may want to post directly to the Cost of Sales Account, or a special “Expense Account”. If you post to an Expense Account make sure it’s in a section that does not get added back to the “Wine Inventory” account.

If wine has been used for “Own Use” then you can’t adjust for it this way. See the section Dealing with Wine for Own Use.

## MYOB and Small Wineries – Inventory Setup

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**Step five.** We now have “Wine in Bottles” Account and the “Wine in Barrels” account exactly correct. However, because we have been bottling throughout the year, and using the calculated cost price we worked out 12 months ago, there is no chance at all that the “Wine Inventory” will be zero on the 30th of June. So we have to work out again what our wine is worth.

We do this using our weighted average method again. I know it’s painful, but is only once a year.

Variety	Selling Price	Inventory Bottled	Step one	Step two	Step three	Step four
Merlot	\$13	22,000	286000	.3481	\$107998	\$4.909
SSB	\$16	21,500	344000	.4187	\$129901	\$6.419
Cabernet	\$20	9580	191600	.2332	\$72351	\$7.55
<b>Total</b>			<b>821600</b>	<b>1</b>	<b>\$310250</b>	

**Table 2 Using Weighted Averages to calculate the cost price of wine.**

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In the above example we are using a different weight – still our Cellar door price, but those prices have changed. The Inventory Bottled is the quantity bottled throughout the year (till 30<sup>th</sup> June), and the total in step three is the total of the Wine in Bottles Account + Wine Inventory Account. We had a few high expenses this year so there was a positive amount in the Wine Inventory account. However it is possible (desirable even) that it is negative, in which case the Wine In Bottles account is going to be lower.

Because it is such a pain doing these weighted averages I have included a spreadsheet to allow you to calculate these cost prices easily.

### **Step 6** Putting the adjustment to MYOB.

The adjustment is put into the Inventory Adjustment window, and is dated 30<sup>th</sup> June EVEN if there are wines on your adjustment sheet (table above) that you never even had on 30<sup>th</sup> June.

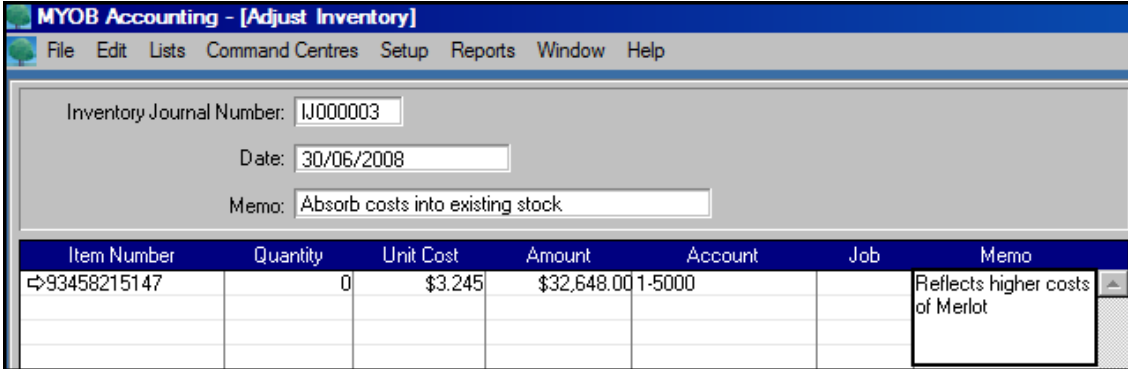
I will demonstrate with the Merlot (as usual)

First we have to work out what the adjustment is. We have 22,000 bottles @ \$3.425 which is \$75,350. However, because of rising costs and our decision to assign more weight to the Merlot (better Vintage?), the value is now (from the table above), \$107998. This means we have an increase in value of \$32648.

## MYOB and Small Wineries – Inventory Setup

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Note that when you add up all the increases (or decreases) it will be the same as the “Wine Inventory” account. If you are a dollar or two out, just arbitrarily change a value so it matches.



The screenshot shows the MYOB Accounting - [Adjust Inventory] window. The window title is "MYOB Accounting - [Adjust Inventory]". The menu bar includes File, Edit, Lists, Command Centres, Setup, Reports, Window, and Help. The main area contains the following fields:

- Inventory Journal Number: IJ000003
- Date: 30/06/2008
- Memo: Absorb costs into existing stock

Below the fields is a table with the following columns: Item Number, Quantity, Unit Cost, Amount, Account, Job, and Memo.

Item Number	Quantity	Unit Cost	Amount	Account	Job	Memo
93458215147	0	\$3.245	\$32,648.00	1-5000		Reflects higher costs of Merlot

*Figure 5 Changing the value of inventory, but not the quantity*

*I have made a spreadsheet that can simplify these calculations, and also performs a few other jobs.*