

5-1933

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Recommended Citation

Thornton, F. W. (1933) "Brewery Accounts," *Journal of Accountancy*. Vol. 55 : Iss. 5 , Article 3.
Available at: <https://egrove.olemiss.edu/jofa/vol55/iss5/3>

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Brewery Accounts

BY F. W. THORNTON

With the return of the manufacture of malt liquor there will be a recrudescence of brewery auditing. The younger generation of accountants has little practical knowledge of such accounts—that, perhaps, is not to be deplored. While the accounting for manufacture will remain essentially unchanged, the accounting for selling and distribution is apt to be quite different from that of twenty years ago, when accounting with customers was complicated by consideration of large loans to saloon keepers, bad debts, unclassifiable payments for the benefit of customers, donations and purchases of tickets from reformers, ward politicians, police, firemen, customers, Sunday schools and others and unjustifiable exactions of customers, masquerading under the pretence of allowances, for sour beer and many other matters having little to do with the art of brewing. The brewery, especially the small local brewery, was looked upon as an institution upon which to sponge.

The accounting for manufacture is simple. Production of beer is accounted for on a "process" basis. Separate brewings are not separately costed and they do not entirely retain their physical identity. Some mixing occurs. All beer of similar age and quality is consolidated in the accounts. Upon setting a brew the brewmaster reports materials taken. The quantity brewed is shown by certain marks in the measured container and under regulations that may probably be revived the brewery must at once take up in a register prescribed by the revenue authorities the barrelage brewed, for all of which there must be account.

The materials so taken are charged to a manufacturing account. Labor, manufacturing expenses and depreciation are also charged to the manufacturing account, and at the end of the month the account is cleared, liquor stock being charged with the entire amount brewed, even including beer that has been set to brew but is not finished. This introduces a small error: liquor not finished is taken into stock as finished beer. The reason for this is that the brewery accounts are brought to agreement with the register prescribed by the government. There is an offset which roughly neutralizes this error.

When a brewing was set and the quantity brewed registered an allowance for loss by evaporation, evolution of CO_2 , waste and

leakage was made; this allowance so far exceeded usual losses that a surplus of actual beer over the book inventory accumulated. When it had accumulated to a certain extent it was the custom for breweries voluntarily to take it up in the government register and on the books.

Recent figures published by *The American Brewer* show alcoholic content of pre-prohibition brands of American lager as varying from 3.84 per cent. alcohol for Budweiser to 2.66 per cent. for Weiss Bier. The amount of unfermented extract is quite as important as the percentage of alcohol. Some foreign malt liquors contain:

Strong English ale.....	6.78 per cent. alcohol	6.23 per cent. extract
Dublin Stout, best.....	6.78 do	7.90 do
German—Tivoli.....	5.31 do	4.20 do
do Pilsen.....	3.29 do	3.64 do

The more celebrated brands of American beer contained less alcohol and less extract than most of the product of smaller and less known breweries.

Some wild statements as to content of fermented liquors are current; even 20 per cent. alcohol is mentioned. It is extremely difficult, even with the best malt, to obtain more than 14 per cent. beer. With the richest grape juice up to 17 per cent. has been obtained, but with difficulty.

The quantity of alcohol producing material needed per barrel to produce the given percentages of alcohol in lager beer, plus a satisfactory proportion of unfermented carbohydrates and albuminoid extract, is from one and one quarter bushels to one and one half bushels of malt or its equivalent. A bushel of malt is 34 pounds; if entirely fermented it should produce approximately 11½ pounds of alcohol, but little more than half of that amount is actually produced, the remainder of the material being left as unfermented extract and "brewers' grains," which is the insoluble residue of the malt.

Pre-war experience of cost of materials indicates that total cost of all material, including hops and sundries, will not exceed \$1.20 to \$1.50 a barrel. Manufacturing cost, including refrigeration should not exceed 65 cents. Distribution and selling expenses under the new laws can not be forecast.

It thus appears that the primary cost of manufacture will be a minor part of the cost of beer delivered at the brewery door. Taxes imposed will not be less than \$6 a barrel. In this country

no attempt has been made to tax malt liquor according to its strength, but in England tax is levied on the strength of the wort from which the ale is brewed. If, without change in the amount of tax, the addition of 50 cents a barrel to the cost of materials would suffice to change a poor beer to a very good one there would seem to be an inducement to manufacture strong beer as soon as the law permits. At present the cost of materials promises to be not much more than 15 per cent. of the total cost including tax. Then one wonders if under the income-tax law it will be proper to deduct from your income the tax paid on the beer you drink.

Before prohibition, costs were something like these:

Nominal sale price per barrel, \$8.00			
Discount allowed 25 per cent. to 40 per cent.			
Cost:			
Materials.....	\$1.00		
Manufacture.....	.60		
Delivery.....	.50		
Selling, including bad debts, loans, and various allowances	1.20		
General expenses.....	.20		
Excise tax.....	1.00		
		\$4.50	\$4.50
Discount.....	3.20	2.00	
Profit.....	.30	1.50	
		\$8.00	\$8.00

The accounting was most largely concerned with the accounts of customers. Breweries made large loans to customers to equip saloons with bar fittings, pianos, pool tables and other furnishings and for stocks of cigars and distilled liquors. Few saloon keepers ever paid any real money on these loans, but upon their paying for beer a part of the discount was applied against the loans, often without the knowledge of the saloon-keeper. Thus, the brewery may have deducted 35 per cent., allowing a deduction of 25 per cent. on the payment and applying the remaining ten per cent. on the loan.

Loans were made again when new fixtures were needed. If another brewery attempted to take the trade of a customer the loans were the means of retaining the business; any interloper must pay or assume the loans before the saloon-keeper could leave the old brewery. As much as \$4.50 a barrel of annual trade has been paid to take over the trade of saloons.

Sometimes loans were made for strange purposes. A relative or friend of a customer was arrested—the brewery was called upon. A saloon-keeper broke his leg—the brewery paid the hospital. A saloon-keeper's wife wanted a fur coat—on some pretext a loan was obtained from the brewery. In a specific case in New York a saloon-keeper's wife called upon a brewery manager saying that she needed help. The manager courteously said that the brewery would be glad to help if possible; what was the trouble? She replied: "Well, it's a week Wednesday when my husband came home one night—no it was three in the morning"—here the words began to gain speed—"three in the morning and who knows what company he keeps and him not half sober, and that's no time for a married man to be coming home not to speak of the whiskey and I told him it was no time for him to be coming home and told him what I thought of him and while I was telling him my artificial teeth flew out and him staggering about stepped on them and they was broken and now I want the brewery to lend me the cost of a new set." As the lady reached her peroration the rapidity of her utterance was such that the accident to the teeth seemed to have been inevitable. She got the loan. No punctuation appears in her speech reported above; punctuation marks represent pauses; there were no pauses.

It is improbable that future arrangements will be such as to permit results like that. There was trouble over the collecting; the worse class of saloons would not pay until the collector had spent a good percentage of the money over the bar; the collectors drank too much.

Licences were paid for by the breweries but made out in the names of the saloon-keepers, who had to pay for them by weekly or monthly instalments. These payments were generally made promptly. The reason for the practice was that any violation entailing forfeiture of licence was effective not against the premises but against the licence-holder, and if the brewery were the licensed party a violation by one saloon-keeper might cause cancellation of all the licences of the brewery.

It will be seen that brewery accounts, apart from the manufacturing accounts, may bear little resemblance to those of twenty years ago. Bottled beer is likely to be sold more largely, and new methods of accounting will have to be developed in accordance with the laws that will govern the trade. Losses of bottles were so great in the past that bottling was not very profitable.

If bottle trade is to grow, some method of preserving bottles from destruction will be needed.

All percentages given here are by weight; percentages by volume are unscientific and rather silly. If we mix 50 volumes of water with 50 volumes of alcohol we do not get 100 volumes of the mixture; there is condensation, and this condensation is not directly proportionate to the percentage of the constituents nor is it constant over variations of temperature.

Finally it may be said that fairly competent accountants need not fear to undertake audit of brewery accounts. If they have had a little experience of cost accounts they will find the manufacturing accounts exceedingly simple and the remainder of the work will probably not differ much from the accounting for other selling enterprises. In the past the accounting of breweries has been distinguished for frankness and honesty. Holding companies may have misrepresented some facts in their accounts, but the accounts of operating brewing companies have been among the best of corporate accounts.

Accountants have been known to verify physically the quality and condition of the inventories. That, of course, is to be mildly deprecated.